Good evening, ladies and gentlemen. Welcome to Pirelli's conference call, in which the Chairman, Mr. Marco Tronchetti Provera, and the group's top management will comment the first quarter 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.

Good afternoon to everybody and welcome to our first quarter 2009 conference call. Although this first quarter was still strongly affected by the global economic crisis, we had foreseen this trend and had already included it in the estimates we communicated in our three-year plan on February 11. If we briefly focus on the macroeconomic scenario, to analyze data and opinions coming from the United States, Europe and other areas of the world, we can see that we are still in a deep economic downturn but with positive conditions for recovery: low raw material costs, low cost of money, low inflation with no deflation or depression risks; another positive condition is the general will amongst entrepreneurs, financial market players and the public opinion alike to wish to do one's share to restore the necessary climate of trust and make the development choices needed. The governments of the major countries are acting in a coordinated manner, although with differences and some contrasts; to create a sort of safety net, governments are proactively playing their role on the assumption that business competitiveness and openness must be safeguarded. Also the entrepreneur world is sending important signals. Everybody's well aware of the scope of this crisis and the need for a deep restructuring in the name of sustainability, competitiveness, new manufacturing processes and new products. Green performance is our catch phrase, but also more generally the session of a more responsible catcher. Both in Europe and in the United States the automotive world is at the forefront in this process, with products and processes with a lower environmental impact and reduced energy consumption. So far government aid for this sector has had very positive effects. In the real estate sector there are still elements that make the 2009 scenario complex: long transaction times, a much lower leverage, but we shouldn't overlook the opportunities that this economic crisis will bring about and that we are going to address shortly, in the section dedicated to Pirelli Real Estate. The deep restructuring activities that started last year, more than 140 million euros of expenses… costs, to boost the group's competitiveness allowed us to reduce the impact of the crisis and to close this first quarter, although with a decreasingly… decreasing year-on-year result, showing all the main business indicators on the upgraded versus first quarter 08. In 2009 the tire sector will post three major actions for efficiency that will lead to total savings of 200 million euros. First, a 15% headcount reduction in high-cost countries: in March 2009 we already reached 60% of the target. A deep review, renegotiation of raw material purchasing contracts and selective adoption of spot purchases; already in April we are witnessing a net reduction of our manufacturing costs. A crash program for the reduction of discretionary costs. In the real estate sector we launched a 50 million cost saving plan; in March 2009 we already reached 20% of the target.

Moving on to the implementation of the strategic guidelines of the 2009-2011 industrial plan, I'd like to highlight first that our focus on core businesses, tire and eco-technology, is confirmed. The new Pirelli Real Estate cycle has started and a strong commitment of the senior management for the implementation of the three-year plan is confirmed and even… and even stronger than two months ago. In the sector, I reckon that the most important message is that the price/mix in both segments held well, by absorbing the effect of the drop in volume, though partly offset by high raw material costs which are already decreasing but which will only show a new turn in the second quarter. The details will be explained by Mr. Gori in his presentation. In the first quarter, the eco-technology sector registered some important achievements: we sold and installed 900 systems, versus about 120 systems in the first quarter 08, confirming the competitiveness and robustness of our technology, thanks to important supply contracts with the Piedmont region for public transport buses, around 900 systems will be installed in 2009, in Milan, about 220 systems, in other western environments, Holland about 200 systems; and a complex procedure for filter homologation that differs from country to country because there are no common rules, not even within the EU, is about to be concluded both in Germany and China. After that we will start selling those systems also in these potentially high-growth markets. We finally got the ISO 9001 certification and started a fully automated production in Bumbesti-Jiu in Romania; this will allow us to serve all the already active markets and those still waiting for homologation with benefits deriving from the low-cost industrial production that we expect to see in the second half of 2009. Thanks to the new market scouting activities we are about to start acting in Brazil, Portugal and Spain, in partnership with municipalities for large metropolitan areas of those countries. The ongoing identification of low-emission zones throughout Europe and everywhere in the world confirms the development perspectives of this

market, which depend upon the speed with which traffic regulatory rules prescribing the adoption of operative systems to move from Euro 1-2-3 to Euro 4 will be enforced locally.

Let's now talk about Pirelli Real Estate that in our industrial plan represents both a challenge and a great opportunity for value increase. In February we illustrated the guidelines that will lead Pirelli Real Estate, the biggest Italian fund and asset management organization with a top quality portfolio, to a new business model based on three major pillars: first, to provide the company with a sound financial structure; second, to rapidly become a lean organization; third, to allow the real estate asset under management actual value to emerge both in Italy and abroad. The Pirelli group commitment to this turnaround project and firm belief that Pirelli Real Estate assets are top quality are witnessed by the 400 million euro capital increase approved last April 17 by Pirelli Real Estate's annual general meeting, that will be underwritten by Pirelli &Co. for the quarter pertaining to 56.45% and the one that might remain at the end of the offer procedure, converting part of each financial credit, which amounts to 491 million euros, of March 2009, vis-à-vis Pirelli Real Estate into equity. We should deposit a prospectus in the first few days of May to allow the offer procedure to start in June. The capital increase will give the company assets for over 700 million on a net invested capital of 1.1 billion, 72% concentrated in Italy, as Mr. De Conto will later explain. The capital increase will allow Pirelli Real Estate to continue along the deep restructuring process started in 2008 and to protect our real estate assets without having to sell them at a discount; given that they are valuable assets, we intend to manage alongside a project of growing our third party asset under management activity, increasing the leadership of our Italian fund and asset management company. This is perfectly in line with the recent change in our top management we announced just a few days ago. Mr. Puri has done a great job in developing Pirelli Real Estate that was mainly based on a trading model suitable for the real estate market expansion phases; now for the company revamping in a scenario currently characterized by dynamics that are totally different from those of the last expansion cycle, now we have called upon Mr. Giulio Malfatto, a manager with a thirty-year experience in the real estate sector who went through two important crises: the one in 1982-89 and the other one in 91-97, but also witnessed moments of strong growth, such as those at the end of the '90s until 2007. Mr. Malfatto was general manager for corporate development and services in Pirelli Real Estate until 2003 and has in-depth knowledge of our reality. He has structured all the main Pirelli Real Estate operations: amongst the most important ones I remember the launch and completion of the (…) union, Europe's largest cash deal at the time, and the subsequent formation of joint-ventures with our partners like Morgan Stanley, RREEF, Whitehall, JP Morgan, Soros, for the management of the same and for the company reorganization after the acquisition of a number of service companies. In addition, he set up and managed the group's fund management business Pirelli Real Estate S.G.A., serving as its Chief Executive Officer for its first three years of existence. Pirelli Real Estate S.G.A. soon became the undisputed leader of Italy's real estate fund industry, acting as a benchmark for the development of this market. Mr. Malfatto, whom I'd like to welcome, is now in charge of business management and with Mr. De Conto, who is going to be responsible for finance, he will guarantee the implementation of the three-year plan we presented on February 11. Again, talking about management, I think it is important to underline an important decision the Board of Directors took today, witnessing Pirelli group's strong commitment to its restructuring plan and the achievement of the 2008-2009 industrial plan targets. Today we approved the new incentive plan involving about 80 senior managers that strongly links their remuneration to the economic financial objectives announced in the three-year plan. According to the new incentive mechanism, managers will give up 50% of their yearly bonus that will be invested and will provide them with a bonus in March 2012 only if the three-year plan results will be attained. Should this not be the case, the investors' value will be significantly reduced. The bonus foreseen in the three-year industrial plan will not be paid until March 2012; in this manner, the managers' remuneration will be directly connected to the results and will, on average, be 40% higher than the global management's remuneration with peaks of 64% for top managers. About 75% of variable remuneration will be exclusively linked to the achievement of the three-year targets. Moreover, the plan guarantees that a higher percentage of incentives be based on 2011 total shareholders return to guarantee an even better alignment between management activities and shareholders' expectations.

On slide 4, to conclude, I'd like to highlight that, despite the still difficult macroeconomic scenario, in first quarter 09 we reached operating results in line with 2009 targets. At last, I wish to remind you all about our yearly target commitment to green revenues: 25% in 2009. In March we launched the Cinturato P7, the first high-performance environmental-friendly tire for the high-end segment that completes the Cinturato T4 and T6 product family of green products launched last year for mid- to high-end cars. I believe that the green revenues target is greatly important, not just because it represents a way to make business in a sustainable manner, but because it's a way of approaching the business with innovative ideas that will reflect on market premium and on our market share.

I'd like to thank you for your attention and leave the floor to my colleagues: Mr. De Conto, Mr. Malfatto, and Mr. Gori. After their presentation I will join them again to attend the Q&A session to try to answer all of your questions. Thank you again and please, Mr. De Conto.

Thank you, Mr. Tronchetti, and good evening to all of you. During the presentation we shall review the major group performance drivers of this first quarter 2009; the results of the first quarter are of course affected by the macroeconomic scenario we are living in; in the tire business, the continuing economic crisis resulted in a significant volume drop in the market that mainly affected the industrial segment, the most cyclical, whereas some early improvement signs started appearing in the replacement consumer segment in Mercosur and in Europe where the group is more exposed. As for real estate, despite the ongoing crisis, the results, even though negative, show an improvement compared with the fourth quarter of last year. The actions taken by the group in the second half of 2008 have produced a reversal of the profitability trend compared with the fourth quarter of last year, and an EBIT margin in line with the target set for the year. Alongside with the strategy presented to you on February 11, envisioning a stronger focus on core business and rationalization of the assets portfolios, we sold our 5% share in Alcatel-Lucent Submarine for 56 million euros with a gain against book value of 11 million euros. These results allow Pirelli to close the first quarter of the year with a positive outcome, having reversed the negative trend of the last three quarters in a row.
If we now switch to the next slide, to the group's net financial position, we can see, as is always been the case in the past, that in the first quarter of 2009 cash absorption, that is mainly due to working capital seasonality, has however grown less than in the first quarter 2008; the increase in debt was 251 million, roughly, against 314 of last year. Also to note that in the first quarter the reorganization actions taken by the group in 2008 have accounted for restructuring cash costs of 45.8 million euros, of which 39 relating to the tire business and 7 million to real estate. If we review the bridge of the first… of EBIT… of first quarter 2009 against 2008, we can see that in the first quarter EBIT post result from equity participation went down by 50 million euros year-on-year. In the tire business in particular, despite the positive contribution of the price/mix which will later be explained by Mr. Gori, operating results were affected by the year-on-year growth of production costs, mainly raw materials, and by the volume trend. I remind you that the price reduction of raw materials will start generating positive effects from the second quarter. As far as Eco-technology and real estate, we will produce the slides and comment them later on. As far as broadband, thanks to the strong trend in sales, +55%, also achieved through the widening of customer portfolio, now including Fastweb, Vodafone and BT Italy, Pirelli Broadband Solution posted a 5.6% EBIT margin with a growth of almost 2 percentage points and with a net profit amounting to 2.8 million euros. In the first quarter of 2009 the participation results amounted to 0.8 million euros against the 16.5 of previous years. The main variations are generated from the abovementioned Alcatel to CIT sale of 11 million and the Pirelli Real Estate negative result at equity participation level. The results are, of course, also affected by the fact that last year we posted a 16.5 million euro loss coming… originating from a 35 million devaluation of Telecom Italia participation. If we go to the attributable net income I would briefly comment on that, I would mainly underline the effect of the minorities, which is positive by 57 million euros and this reflects the acquisition of the tire minority acquired at the… last year.
If we go over to the next slide, where we describe the net financial position, we see that it's negative by 1.279; the abovementioned indebtedness increase of 250 million euros is essentially attributable to the seasonality of working capital, which in the first quarter of the year absorbs cash and this is mainly the result of different components, which could be summarized in: investments made in the previous quarter, meaning the last quarter of 2008, higher than the fourth quarter of 2007 and, in addition, the cash-out of two suppliers for purchases made at the end of 2008; you might remember that we were not able to stop in a proper way the supply chain and that we ended the year with higher stock. What is positive is that now this stock is starting to come down, and Mr. Gori will give you the details. As mentioned above, the net financial position's trend in the first quarter of 2009 is suffering from the cash impact deriving from the reorganization action and, to compensate that, as mentioned, we… the net balance of financial investment-divestment which, basically, for the quarter accounted for 20 million euros, which was the first tranche of cashing in the 56 million sale to Alcatel-Lucent Submarine and there are also included 15.8 million euros for the sale of 13.5 million shares of Telecom Italia, sold at a price of 1.15.
If we go over to chart 9, a brief comment: there is not much change in debt structure, vis-à-vis what was presented in February. I would just like to highlight two numbers: you see in the left corner down of the slide total committed lines not drawn; there's still an amount of 708 million euros all at corporate level and, as a note, on April 7 we redeemed the bonds expiring on the 7th of April.
If we move now to the real estate results, we can see on slide 12… sorry… first quarter is, generally speaking, a weak quarter for the entire real estate sector, not only for the current crisis but also for

the seasonality effect that normally characterizes the business itself. In the first quarter of 2009 results, although negative, improved in comparison with the ones of the last quarter of 2008. Revenues were 453.8 million euros versus approximately 75 million. I remind you that here we are mentioning consolidated levels; you might recall, and we'll see later, that the announced plan of sales including not only the pro-quota but the sale of assets of all vehicles for the plan amounted to 1 billion euros and you will see later on that the sales of the first quarter amounted to 177 million euros. This reduction at a consolidated level is mainly due to an asset sold last year in Poland which was owned at 100%. EBIT including income from equity participation was therefore negative for about 15 million euros versus a positive of 22.5 million of fourth quarter 2008.

If we go to the next slide, where we see the bridge of this EBIT including income from equity participation before restructuring costs, we would like to highlight that in 2008 there was an indemnity received related to the Berenice Fund transaction which amounted to 17 million euros and also a non-recurring income of 3.5 million which, of course, does not… is not recurrent and cannot be repeated this year. I would add, as a matter of fact, the structural saving costs of 10 million that we will see later on, are in line with our 15 million cost savings structure that we planned for the year. The other divisions mainly come from a lower result of non-performing loan service platform; this is due to a low level of proceeds of collection of the non-performing loan portfolio, but also from fees of due diligence and acquisition fees which, of course, have not been performed and this has also been partially influenced by the extraordinary transaction that we have in place on the non-performing loans business that is proceeding. But we are basically reshaping the structure and we expect to see improvements already from the second quarter.

If we go to the next slide, where we can see, as I mentioned before, that real estate sales amounted to 174 million, against, I repeat, a total year target of 1 billion. Something important to notice here is that we were able to achieve… of this 174 million, 80 million was sold… assets which are part of the so-called small office and residential portfolio, which is the one characterized by the lowest yield, a yield of about 2% on average, that of course were, as a target of the plan, to be sold as early as possible in order to improve the return on investment of the asset of the company. If we go to rents, the increase that you see is mainly due to a volume increase: it's the fact that we have Highstreet in our portfolio, which we didn't have in the first quarter last year, but the Pirelli Real Estate pro-quota share of rents for 47 million euros is basically in line with the passing rent that we presented to you, always on the 11th of February presentation.

If we go to the next slide, let me give you an update of the evolution of the cost saving program related to real estate. We have declared presenting the three-year plan as one of the main goals for the year to target approximately 50 million euros of savings. We already booked in the first quarter about 10 million; we expect additional savings for 40. The areas where we collected the 10 and we will collect the next 40 are basically related to labor costs and cost related items, costs of the headquarters of the company, meaning the offices, IT systems and other costs and also consulting and marketing. But, as a matter of fact, we will also continue to rationalize our processes in order to improve the efficiency of the activity.

If we go to the net financial position, we can see that the net financial position of the company was negative for 309 million compared to 289.5 at the end of December and if we look at the financial position excluding shareholder loans we can see that it was negative for 898 against 861.8, substantially stable against December 2008; the main variation, as you can see in the slide, are coming from an investment in DGAG for 5% because the strategic rationale of this investment was to basically have the same pro-quota of the vehicle as our partner RREEF both in the DGAG as in Baubecom and we will… Mr. Malfatto will elaborate on that later on. The equity injection that you see in the vehicle for 10 million is substantially in line with, or even lower than, the expected cash infusion that we were expecting to place in the vehicle in order to protect the value of the asset.

If you go to the next slide, we tried to summarize how the net capital of Pirelli Real Estate is allocated, where we have invested. You can see that it amounts to 1.3 billion euros, of which 0.2 billion is for NPL and 1.1 billion is for the real estate as a whole. You can see that it's split between Italy and Germany, 800 million and 300 million, and you can also notice… or I am telling you… that out of those 800 million of real estate in Italy 200 million is services and in Germany out of 300 million 100 is service platform. So, this is the exposure that we have in terms of invested capital in all our portfolios. As you look on the other side of sources, you can see that the net capital and funds amount to 400 million and the net financial position… and the financial position excluding shareholder loans amounts to 900. Post the capital increase, the situation will of course be rebalanced and we will basically find ourselves with a debt reduced by the 400 million that correspond… will increase the amount of the equity.

I would now pass the word to Mr.Malfatto. Thank you.

Good afternoon. Thank you, Mr. De Conto. First of all, I wish to thank Chairman Tronchetti for his words. As already mentioned, I have experience not only in periods of booming markets when it was important to grow and be innovative, but also in the downturn cycle, where it was I would say vital to regain efficiency and turn the business around. Actually, I have accepted this challenge because I'm convinced that this is a company capable of overcoming the current situation. And that is feasible not only because of the quality of its real estate portfolio but also, or mainly, because of the quality of its people. The forecasted main actions we are going to implement to meet the three-year business plan targets… let me first give a quick glance at the market scenario: all the companies in the sector have been penalized by the reduction in prices, the slowdown in transactions and above all the difficulties in accessing credit. I think that the real estate market of the future will be very different with respect to the last expansionary cycle. I see three items as the main bad news: first, the non-recourse debt will be significantly more limited and, due to this, the ability to generate income from real estate and the ability of development project managers will be the key factors of success. Second, fast trading activities will continue to experience a sharp downturn. Third, the current crisis will make the rental market even more competitive with tenants preferring buildings that offer best quality performance. In this sense, I think that eco-building could represent a key factor of this choice. On the other hand, we have some good opportunities: first, there will be a strong demand for a skilled management company capable of restructuring distressed portfolios; second, the commercial sector will see, on the buy side, the predominance of public and private pension funds looking for defensive allocation direct investment portfolios; third, the economic crisis will accelerate government programs, such as social housing projects and disposal by local entities. To mention our goals, we will focus on few, clear actions, which will be split into main categories: regaining efficiency and stabilizing recurring revenues. In order to regain efficiency, we will work on cost cutting and organization reshaping, already explained by Mr. De Conto, and strengthening of the equity of the structure. We have planned to dispose assets with limited upside potential in the short term and also non-core activities, like NPLs. We are also working on strengthening alliances mainly in Germany with the aim of an equity interest dilution, then we have also planned a capital increase of 400 million euros to be launched in June 2009. In order to increase and stabilize recurring revenues, we would like to act on: valorization of income-generating real estate portfolios, that means searching for better quality tenants for long-term partnerships using capex and environmental aspects like eco-building as a lever for improving performance; repositioning of properties with possible change in the uses, more direct and effective asset management. Then we have the key role of fund management companies in Italy and that means searching for alliances or partners to enhance the business; the presentation of the fund management company as a qualified solution for distressed portfolios; introducing Pirelli Real Estate as a potential manager for disposal programs by local entities or developer for socializing producers. We will pursue even the creation of new products, such as sector funds and umbrella funds and the management of real estate funds for third parties. The last point of our statement is reinforcing alliances made in Germany with equity interest dilution, while we are looking for a real estate partner in the joint-venture segment to create synergies between existing portfolios.
Let me now pass the word to Mr. Tronchetti.

I'll ask Mr. Gori to tell us something more about tire.

Thank you Mr. Tronchetti. Good evening to everybody. Chart number 20 is showing the full picture of the tire business in Q1 while price/mix variations were similar for both consumer and industrial segments, volume reductions were quite different. Overall, our sales reached 927 million euros, minus 11.2% organic, exchange rates negatively impacted both segments.
Next chart, 21, is showing the major variations on the operating margin. Price/mix contributed for 43 million euros positively, while volumes were negative for close to 29 million euros. Input costs were negative for nearly 54 million euros, of which the major part came from raw materials; and efficiency would have been positive but, because of slowdowns that were driven not only by a lower market demand, but also by the action to reduce inventories, were at the end slightly negative. And then you see the rest, exchange rate and depreciation is not really material.
Moving to page 22, you see the evolution of the net financial position, improving thanks to the sale of Central Tire, a distribution equity in UK and then the income… and then the income slightly reduced by the purchase of 4 million of Turkish minorities which complete the full control of the Turkish company; 39 million of cash-out for restructuring coming from the plan we approved last year, and then 227 million absorption from net cash-flows mainly from net working capital, even though the net working capital negative absorption was slightly better than the previous year, and mainly thanks to

the reduction in inventories. However, given that at the end of 2008 sales were lower than the previous year, also receivable cash-in was a bit lower in the first quarter of 2009, while, on the opposite, payables were slightly higher because of the strong investments that we performed in 2008.

Moving to the next page, our restructuring program is in progress: of the 1500 people we announced on February 11 we have done about 900, 60%; we announced the closing of the Spanish factory by year end; we are progressing on the transition from the old factory in Turin to the new factory next year; and, as I already told you, we sold this Central Tire distribution equity in UK. An additional downsizing of 400 blue collars, mainly temporary workers, has already been implemented in the first quarter.

Moving to the next page: consumer business in Q1 09; of course, volumes were lower, given the very strong reduction on the original equipment side, coming from the very low production of new vehicles, even worse than what happened in the fourth quarter 2008. However, replacement markets were not that negative; especially, they started very soft in January-February, but they improved in March. And in the case of Europe markets were positive versus the previous year, even though we have to consider that this year Easter was in April, so working days in March were a bit longer; nevertheless, it was a good sign. Also in North America the slowdown reduced and in South America markets were slightly positive. So, thanks to these performances in the markets where we probably gained some market share and a strong price/mix of 6.6% our EBIT resulted in 41.9 million before restructuring costs and the margin 6.2%.

Moving to the industrial business the picture is more critical because, on the OE side, the vehicle production is really very poor also in South America and replacement markets are very difficult, as you see from these numbers. Consequently, our volume reduction was stronger than in the consumer business: our volumes decreased by -25.7%. Nevertheless, thanks to a strong 7.2 price/mix improvement we were able to maintain a positive EBIT at the level of 19.1 million with a margin of 7.5. So, overall, the two businesses show that we are in line with the target of our three-year plan, or very close, given that the first quarter is probably the most difficult this year if the trends in raw materials keep at the current level of prices.

Page 26, I only want to show two highlights: the very good results on the summer tests of our tires by the leading German magazines with PZero and P7 and the agreement that we signed for the three-year sponsorship with the Chinese football league for the Chinese championship that we strongly believe will be instrumental to improve our brand awareness and recognition in very important markets. Finally, as already mentioned by Mr. Tronchetti, the introduction of the green performance tires P7 has been very well received and the concept of a tire that is not compromising green features with road safety has been very well accepted. Thank you.

Thank you, Mr. Gori; so now we enter into the Q&A session and we wait for your questions.

<u>Q&A session</u>:

1. Mr. **Martino De Ambroggi** from **Equita:**

Yes. Good afternoon everybody. My first question is on the tire business: if you could elaborate a bit more on the price/mix effect that was quite strong in order to understand if it's something that has to be considered as recurrent for the rest of the year or what's the tune for the rest of the year? The second question always on tires is on the raw material costs: you mentioned the effect will start in the second quarter; if it's possible to have a rough indication of what's your expected impact on both margin and net working capital of this… this effect. Lastly, I have a question on Pirelli Real Estate: if you want, I can split the three blocks?

(…)

Well, I can continue…

No, no go ahead.

Okay. On the Pirelli Real Estate an update on the divestiture program, to try to understand what are the negotiations… the ongoing negotiations on both assets and property assets and in the tire division like non-performing loans? And on the parent company the last question is on the guidance, full-year net debt guidance of 1 billion since we saw some sale of Telecom Italia shares at a price, well, lower, actually, than what I expected… actually the price book value… the book value was 1.14 if I'm not wrong, trying to understand if this guidance already includes the divestiture of Telecom Italia shares or not? Thank you very much.

Okay. Mr. Gori.

So, as far as price/mix is concerned, the good start in 2009 comes from the price increases we were able, in line with the industry, or a bit better, to implement over the year, and especially in the second half of 2008… now the question is: how long are they going to stay in 2009? And my answer is: definitely for the first half of the year we see our sales campaign as effective in terms of sales and market share and we are positive. In the second half it's a bit early to say, but I believe that it will not all go away, even though raw materials keep going at the current level we see today there is very interesting and lower… than the previous year. There's no reason why the industry should give away all the price benefit that it incorporated in the last few months. By the way, as far as consumer business is concerned, it's not just an issue of price, it's an issue of product mix and channel mix, lower sales to the original equipment and higher sales to the replacement markets in percentage imply an improvement of the price/mix effect. As far as raw material costs are concerned in the second quarter, we believe they should give something like… well, they should neutralize the negative effect, we have shown on page 21, of the first quarter, so, on the margin side, they should be beneficial, even though you have to remember that we produce in countries like South America and Turkey where the devaluation of the local currencies is more or less offsetting the good trend in the raw materials. So, the price reduction is not going directly to the bottom line, because there the local currencies are weak, much weaker than last year versus the US dollar. Nevertheless, we see a positive impact on the margins, no major impact on working capital, because we have been working already in the first quarter to reduce stocks of raw materials. There is still something to do, but not that much.

Okay. Thank you Mr. Gori.

So, going to the real estate, we confirm the target to sell 1 billion by year end, and then Mr. Malfatto will tell you about the sales that have been made and the products that he has in mind today. For the NPL, we have some contracts to see how to reduce our exposure to this business, improving our liquidity. And going to the corporate level, in our plan we have 80 million of disposals; this 80 million includes the Alcatel shares. In fact, we already sold them for a price that is over 50 million, and we sold another 54 million euros of Telecom Italia shares that's… all in all, we sold for about 90 million. We are 10 million over our year-end target. Anyhow, I'll leave the floor to Mr. Malfatto about the forecast for year end.

At the current day we have sold assets for a value of 174 million euros, we have signed binding preliminary contracts for about 219 million euros, we received offers for 180 million and we have deals under negotiation for about 700-800 million euros and, in our opinion, we could match the target of 2009 stated in the three-year business plan.

I can imagine with… not low… with prices not below the… on average not below the value you have in your appraisals?

As far as the assets already sold, we could reach a margin of about 17% and all the deals under negotiation are in line with our book value.

Okay. Thank you.

Thank you.

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

Thank you. Good evening everybody. I would have a couple of questions. One for Mr. Gori is a general question: as for the consumer tire segment, the incentives have been extended in Brazil and also in Germany; I was wondering if you don't believe that maybe there could be space for improvement in your targets for the consumer segment? Maybe because of a better trend in original equipment and which could be at the end off balanced by a worse than expected trend in the industrial segment? At the end, the balance should be equal, but the mix could be different. And the second question is related… is still related to raw materials: Mr. Gori told us that in the second quarter there should be a positive net impact from raw materials of around 38 million euros, which should compensate, off balance the negative one in the first quarter. I was wondering if you could give us some more details on the second part of the year. If it's possible to quantify the positive impact of raw materials. Thank you.

Okay. I'd like to start from the second question, because I gave, maybe, a too optimistic view. Remember that last year the second quarter prices of raw materials were higher than first quarter. So, I told you that in the second quarter we should have no negatives versus last year.

Okay.

This does not imply that we incorporate all the benefits of the previous quarter… of the difference … of the negative difference of the previous quarter. Of course, we are not going to pay this heavy difference that we show in the first quarter. So, I think you have to understand that it's going progressively better, assuming that raw material prices stay at this level, but not with such a discontinuity as you assumed. So… maybe I gave a wrong impression. So, it will improve, but probably not by the size of 38 million euros.

Okay. Thank you.

As far as the first question is concerned, I agree with you, consumer, for a reason or another, thanks to the, hopefully, good trend in replacement markets, may be slightly better over the year and this industrial business started so weak that I'm afraid it may be a bit worse than what we forecasted in our three-year plan. At least for the short term. So, overall, I am confident that they will balance… that they will overall balance one versus the other.

Okay. Thank you very much.

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

Good afternoon to everyone. Giuseppe Puglisi from Intermonte I have a couple of questions on the tire business. The first one regards the trend in sales in the last two weeks: do you see a continuous improvement with respect to March or do you see stabilization? I'd like to have more color on this. My second question regards Mercosur. Do you see market share gain for Pirelli due to lower import from… from competitors due to devaluation of local currencies? And my last question regards net cash-flow: for Pirelli Tire I would like to know if you confirm your guidance of breakeven at net cash-flow before the dividends' level for 2009? Thank you very much.

So, as far as the sales of the last two weeks, remember that there has been Easter during the two weeks, so you cannot compare them exactly with the previous year and OEM business is still down. It may be slightly improving, but it's still very low. So, what I can tell you, as far as the replacement markets, they seem to be in line with the good signs of March. Nothing spectacular, but they seem sticking to the trend started in March. Mercosur, yes, we target to recover the shares we lost over the last few years for two reasons: one because we were oversaturated in those good old times by the incredibly strong demand from the original equipment, so we were short of supply to replacement, and two because the strong real was inviting access to imports of tires from Asia. And today we see the possibility to recover share in those markets. As far as the net cash-flow, you said … and the

breakeven you mentioned, yes, we believe we are in a position, of course this is only a quarter, but we feel confident that we can achieve the target.

Thank you.

4. Mr. **Tim Rothery** from **Goldman Sachs**:

Thank you. Good afternoon. Just two questions, please. You mentioned that you brought inventories down in the tire business during the first quarter; would you be able to give some sort of quantification of that? And break down how much are they down due to raw materials? How much are they down due to volumes? That would just be the first question. And then secondly, in terms of the operating leverage that we've seen within the tire business during the quarter, it seems that you've had a contribution margin of around 15% during the quarter, which looks low versus your normal sort of 40-50%. Is this something in particular in the quarter which is helping there? Or is this something that potentially comes back as an incremental negative in later quarters? Thank you.

Okay. As far as your first question is concerned, the reduction in inventories has been mainly driven by volumes, more than prices. 90% is volume reduction, and it's been close to 100 million euros. However, let me make a joke, the level we reached at the end of 2008 was clearly too high. So, now the next step is to keep improving, but it's not going to be as easy, if you want, as the first step. On the second question Mr. Tronchetti will answer you.

It would be nice to have 50% of contribution margin, but this is another business. So, if you look at the first quarter 08, which was a very good quarter, out of revenues of 1 billion 76 million there was an EBIT of 151 million; if you look at first quarter 2009, out of 927 million euros there was an EBITDA of 108 million euros. That means that the margin was 14% in 2008 and 11.6% in 2009. So, these are the figures of the business.

So, just to come… so, just to come back here… maybe I should have been a bit clearer. I was talking just purely on the tire business. You've seen a volume impact on your revenue line of 195 million but a volume impact at the EBIT line of just 20… 28.7 million. Normally we'd think of a 40% contribution margin here. So, we should have seen something in the region of 78 million of negative EBIT. And then, secondly, if you're under-producing in the first quarter, then surely you should have also seen further fixed costs under-absorption in the quarter. So where was that under-absorption in your earnings walk during the quarter?

The result is always linked to volume and mix. If you see on chart… I don't have the number… oh, yes, chart 20, you see that the effect of price/mix was 6.9%, volume was down 18% and is having effects on revenues, and the delta revenue was worth 11.2 and the delta exchange rate was 2.7; so, these are the figures. Then, if you look at the…. I don't know if you have the charts… yes, chart number… 34 you see sales by channel: replacement this year was 82%, original equipment 18%; last year original equipment was 24%. And so the contribution margin between replacement and OE, as you know, has a great difference. So, this is probably the answer to your question. The mix channel and the mix between the original equipment and replacement.

Okay.

Thank you.

Thank you.

5. Ms. **Laura Pennino** from **Banca Leonardo:**

Hello, I'm Laura Pennino calling from Banca Leonardo. I have just a question regarding net working capital. You said that net working capital in this quarter was less than… absorption was less than the one registered last year. Can you give an explanation of how you calculated it and how much is inventories how much is credit receivables and indebtedness? Thank you.

Yes. Well, the way we calculated it is the delta stock, which amounted, in total, to a value of 251 million. The total working capital variation out of which stock 113 million… 113..

Yes.

Receivables about 90 million, suppliers is 344 million and other credits and debits for 63 million.

Okay.

And if you look at the working capital of last year…

Yes?

It was 314, stock 17, accounts receivable 200 and other credits and debits 36. This of course at the group level. You can find the tires in the enclosed, if you want to look specifically at that.

Okay. Just to know (…) financing your dealers or suppliers or some other players are doing?

No, absolutely not.

Okay. Thank you.

Thank you.

There are no more questions.

So, I thank you, everybody, and good evening.

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