Pirelli&C. S.p.A

Conference Call 1H ‘2010 Financial Results

Milan - July 29, 2010

Good evening, ladies and gentlemen, and thank you for being connected to our conference call. We shall analyze the results achieved in the first half of 2010 and just approved by the Board of Directors. We will also give you a feel on the six months to come.

Moving to slide number 3.

Over these last few months, Pirelli reached important results. Not only did we record a strong operating performance, but we also made remarkable progress towards the creation of value in the Real Estate business and in our future “pure tyre company”.
Pirelli Real Estate’s separation is proceeding according to schedule. The assignment of shares shall take place by the end of October. The separation will produce several advantages for the new company to be called Prelios. Shares will be more easily tradable with a 70% floating capital, approximately 85% of the capital will be held by shareholders who own stakes lower than 3%. We raised strategic flexibility to set up a platform for future industrial aggregations. In contrast, the overhang reached should not exceed 15% of the capital or a maximum of 15 trading days. Shareholders will be able to decide whether to sell or keep their shares in their portfolios, knowing that their shares are strongly undervalued compared with the net asset value. If we also take into account the value of the service and the non-performing loans platforms, the net asset value net of debt is stable and approximately 1 million euros at the end of first half 2010. All of this in a real estate market that has already reached the bottom and can still be hit by the devaluation backlashes that in my view cannot exceed 1%. And the results of the first six months are proving it. The management team is doing an extremely good job, since managers and the marketing first appear to be fully fine-tuned to the 2010-2011 long-term incentive plan approved by the Board of Directors in March 2010. All operating levels are under control and management results are gradually improving. This makes us confident to be fully compliant with all the targets announced to the market. This is to point out that Pirelli is alive and well determined to develop the Italian market; Pirelli Real Estate’s leadership in the Italian real estate funds can therefore be confirmed. Indeed projects worth approximately 2 billion euros were launched in only six months, as Mr. Malfatto will tell you later.

Pirelli Tire did even better. In a market where the demand recovery has been much higher than expected, Pirelli constantly worked at full capacity, yet opting for a strategy focus on high-value mix. This is the path along which we are working to develop our new Industrial Plan to be announced in November.

Utmost commitment and focus on:

- high-end premium products;
- markets where we are leaders;
- selected opportunities in the high-growth markets, particularly in those segments where Pirelli can expect to achieve the lead.

This scenario explains why we have expedited investments to over 350 million euro already during this financial year.

Good operating trends and an effective working capital management enable us to stabilize the consolidated debt at approximately 700 million euro with a consolidated Ebitda ratio slightly exceeding 1 which is the lowest of the sector after Nokian Tyres.

In addition, we have undrawn committed credit lines worth over 1 billion euro and the BoD gave us a mandate to proceed to a bond issue, based on market conditions, for a maximum amount of 800 million euro to ensure the company has maximum flexibility in the core business development and to optimize the debt structure in terms of sources and duration.

Such strategic approach together with a focused management policy and the full commitment of each and every manager enable us to raise the target for the second time in a row in the 1H2010.

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I just said that the essence of the Plan which we are going to introduce to you in November is focused on Product and Market Value.

For this to translate into a more ambitious long-term outcome, we must exploit to a fuller extent an asset we already own and must “fuel” more the industrial drivers where we invest.

And by this, I mean focusing on our Brand.

Based on the latest Interbrand survey, our brand is worth 1.5 billion euro, the top value in the whole Tyre Industry.

Our challenge now is to keep on feeding our brand value to support the success of our price mix policy and to win the adhesion of all our stakeholders.

To do so, we can count upon the following three levers:

- the seducing power of 'The Cal', our Calendar;
- the Pzero industrial design fashion concept;
- the F1 Championship creating a virtuous circle with Pirelli.

F1 racing and Pirelli values perfectly match out positioning:

- Our technology and innovations make us the ideal F1 supplier;
- Our design methods, simulation models, physical and chemical laboratories, innovative compound and tyre manufacturing processes, just to mention a few, are elements we developed to the highest level over the years;
- We are the Tyre Player with the top R&D spending in the world (approx. 3.5% of our sales)!

Basically, we already have the skills needed to partner with first-in-class car-makers, such as Porsche, Ferrari, Lamborghini, McLaren, Maserati, Aston Martin, etc.

Through its technology and co-operation with the F1 racing teams, Pirelli has not only met the FIA and F1 teams requirements, but was also able to agree upon a switch of business model between F1 teams and their tyre supplier.

This is why the impact on our P&L will be virtually nihl.

Cost of supply, logistics and overheads will be borne by the racing-teams, while advertising costs will be met by Pirelli by reallocating resources from other projects and optimizing the sponsorships to some rally competitions to fund the most popular TV and media event in the world.

If we consider that in 2009 1.5 billion people watched the F1 Championship races on TV and apply the growth rate recorded over the past few years to the 20 races in 2011, we can expect an audience of 2 billion people.

What is important for Pirelli is that approximately 50% of the global audience is from the emerging countries where we are strengthening our position.

The value of Pirelli brand TV exposure, measured in advertising fees, is of approximately 200 million euro.

Therefore, the F1 business has a return equal to 25 times the cost of advertising, bearing in mind that the sponsorship return that Pirelli deems interesting is greater than 5 the investment.

In conclusion, I wish to point out that in order to insure the top skills and management focus, we have set up an ad-hoc Business Unit with some 50 specialists with a international background and have chosen a top production department in our Turkish plant at Izmit where the latest breakthroughs can be turned into top products to be used by the F1 teams.

Let us now move to the financial performance, slide 6.

Following the high-standard operating performance of these core businesses, Pirelli &Co. closes the second quarter of 2010 with remarkable results: 22% of revenues growth combined with a high profitability, 8.5% EBIT margin, back to pre-crisis levels. Adjusted net income, income from discontinued operations, 3 times higher than 2009.
Net debt almost stable quarter-on-quarter, despite increasing investment activities and dividend payment.

Following the approval of Pirelli Real Estate’s separation at the extraordinary shareholders meeting, Pirelli Real Estate’s net result is included into the discontinued operations that also contain the accounting effects of the separation. We aligned the shareholding value - 0.75 shares is the book value - to the June 30 market price 0.33 euro per share and we wrote off the goodwill for the purchase of 2.6 million shares made in 2007 and 2008. The accounting impact amounts to 236 million euros and does not cause any cash-out. The impact will be readjusted when the transaction is completed by the end of October.

Let us skip the following two slides and move to slide number 9.
We ended the second quarter of 2010 with a net debt of 696 million - 635.1 if we exclude Pirelli Real Estate - almost stable quarter-on-quarter, due to the sound cash-flow generation of Tire, as a result of the solid operating performance and efficient working capital management. The quarter was characterized by an increasing investment activity, 84 million euros for tire versus 50 million in Q1 2010, with a capex depreciation rate of 1.5. Payment of dividends for 85.1 million euros, cash-out for restructuring costs was 10.4 million euros.

Moving to slide number 10

Pirelli Real Estate’s separation had an impact on Pirelli’s gross debt for around 420 million euros. As of June 30, 2010, Pirelli & Co. gross debt for continued operations amounts to 1.3 billion euros, 73% of which will start maturing from 2012. Pirelli can count on more than 1 billion euro of committed credit lines not drawn, which have increased by 150 million euros compared to the end of March 2010. That variation is mainly due to the EIB second tranche financing loan for the support of projects like the Pirelli Tire Group research & development for 2009-2012.

Slide 11: following the strong performance of Pirelli Tire in the first half of 2010 we are raising our 2010 full-year targets for the second time. We forecast revenues between 4.8 and 4.9 billion euros versus 4.6 and 4.7 billion euros, an EBIT margin after restructuring costs of around 7%, and we upgrade our guidance on capital expenditure, 350 million euros, to better catch market opportunities for Tire and further strengthen our position both in emerging markets and the high-end products. Despite this increase we keep our net debt target of approximately 700 million Euros.

And now I thank you for your attention and I leave the floor to my colleagues who will discuss in greater detail the results reached in the second quarter 2010 in each business. Later on, during the Q&A session, I will be available to answer your questions. So, thank you very much and I’ll leave the floor to Mr. Gori.

Thank you, Mr. Tronchetti and good evening to all of you. If you go to slide 13, you can see that Q2 market trends confirm the recovery of the industry, with double-digit volumes in both the consumer and industrial segments. Within this scenario and driven by the impact of our restructuring plan, which consisted in closing two factories, one in Spain and one in Italy, in last December 2009, Pirelli focus on value creation with a priority to price/mix improvements. We are of course carrying out those actions needed to increase our production capacity. During the second half of this year, operations with the new technology advanced Settimo Torinese plant will be started, while keeping on increasing capacity in South America, Eastern Europe, Middle East, Africa and China.
We sped up our 2010 investment plan and raised it to over 350 million euros compared to the initial investment guidance of over 300 million euros. Our value strategy led to the closing of this second quarter with remarkable quality-oriented results. A 22.9 top-line growth, 17.6% net of exchange rate effect,

supported by a constrained volume growth at 7.5% and a strong price/mix at 10.1%, driven by the high ratings obtained by our new green performance products from the press, the OEMs and the market. The 10% profitability and the highest ever EBIT recorded, despite the fact that this quarter was negatively impacted by raw materials for 62 million euros, a 50 million euro net profit with an year-on-year growth of over 50%.

Moving to slide 14, let us take a closer look at performance by region. The weight of emerging markets is growing, since they account for 52% of the sales, 2 percentage points more than in Q2 2009. Within this area, Latin America has the top growth, 37% year-on-year, however reduced down to 27% if net from the exchange rate impact, thus consolidating our market leadership in this region. In Europe 39% sales, 14% year-on-year growth, our sales were supported by our new green performance products. At the OEM channel, we increased our market share in the premium and prestige carmakers, while reducing our share within the mass manufacturers, at the replacement channel again focusing on premium segments only. North America, where Pirelli's present in the consumer segment, is one of the areas where we keep expanding our sales; we also opened an office in New York City to be close to the market, we have a value-based strategy in the US with a selective approach both in terms of distribution network and partnership with the OEMs. Our key clients are the European premium and prestige OEMs with their transplants in the US and the top-of-the-range platforms of the big three US customers.

Let's now move to slide number 15, with due account to the profitability trend in Q2 2010, it is immediately apparent that the year-on-year improvement drivers are the positive contribution from the price/mix, 87 million euros, while volume growth only accounts for 25.2 million euros. Both positive variations more than offset the raw materials impact, 62 million euros, as well as the inflation in other costs.

Moving to the next slide number 16: Pirelli Tire closes its second quarter with a net debt of 1 billion 213 million euros and a cash generation worth 130 million euros, 10% of revenues, due to its solid operating performance and an efficient management of the working capital. Investments, 84.5 million euros, were mainly made in Brazil and Europe, mainly with the Settimo Torinese project as well as the expansion of our production capacity in Romania.

Slide 17: the market data of Q2, confirms a general market recovery across the regions in the replacement channel; car production also recovers worldwide and North America leads the way with a 74% increase in volume growth year-on-year.

Slide 18: our performance in the consumer segment, which is characterized by the following: a 20% growth in the top line due to a volume recovery, +6.2, and a strong price/mix variation at +8.7% as a result of a better product/ mix and initial price increases introduced in Q2 2010 and a 10% profitability setting a new record in the consumer business with 55% EBIT growth year-on-year.

We now move to slide 19: we see that the economy recovery, although not homogeneous in the different regions, is positively impacting our industrial segment with a significant increase in tire sales year-on-year. Mercosur shows a sustained growth and Europe's recovering from the crisis levels of last year with a 67% growth in the OE business in Q2.

Moving to slide number 20: the sound position we enjoy in the emerging markets, such as Mercosur, Middle East and Africa, made it possible for Pirelli to close this quarter with a 32% revenue growth and an improving level of profitability, which is now at 11.2%, +2.5 percentage points quarter-on-quarter, notwithstanding the negative impact of raw material costs, namely natural rubber. Revenue performance drivers being 13.7% price/mix improvement and a double-digit volume growth at 10%.

Moving now to slide number 21: the industry prospect improvements prompted us to speed up investments, and our present investment targets worth over 350 million euros was increased versus the original threshold of over 300 million euros to ensure +20 capacity achievement by 2011.

Slide 22: the improvements in the reference scenario characterized by market recovery and our price/mix improvements led us to update the current year targets. We now forecast the following: top-line growth up to 15%, net of exchange rate, versus the 10% target announced on May 5, 2010, a profitability floor value worth now 360 million euros, assuming a raw material impact of 250 million euros, and an increase in capex spending with no major impact on group 700 million euros full-year debt target.

We now close the Tire business. If we move to slide number 23 we show you the Eco Technology results, sales growth being driven by retrofit filters and profitability negatively affected by the Chinese start-up, where

the filters plant construction is almost completed and production is scheduled to begin in Q4 this year. The plant is located in Yanzhou in the Shandong region, where Pirelli is already present with its two tire plants for truck and car tires. The plant will produce silicon carbide filters for the local market.
Debt reduction continues, with a -21%, compared to December 2009, through a careful working capital management policy and based on the first-half trends, the breakeven target for 2010 is most probably not achievable, while a strong focus will be maintained on cash generation in order to improve net financial position at year-end by some 10 million euros year-on-year.
Thank you for your attention and now I'll leave the floor to Mr. Malfatto. Please.

Thank you Mr. Gori, good evening everyone; before analyzing the numbers in detail, let me give you some general indications of the real estate market. After the first six months of this year, the market confirmed the trend to stability shown in the first quarter 2010. This led us to believe that the worse is over and that the recovery, although a slow one, has started in terms of volumes. Pending the solution of the capital requirements in the banking industry, real estate transactions involved deals with a limited size. Jumbo deals, or larger transactions still depend on the availability of credit.

Let's move to slide 25: this slide shows the 2010 first-half results compared with the same period of last year, and the full-year target. In the first half of 2010, all key performance indicators showed a substantial improvement versus the same period of last year, validating all the actions taken by the company in the last 18 months. As to real estate sales, at the end of 2010 first half total sales amounted to 562.1 million euros versus 351.9 million euros of the same period of last year. As you can see from note number 1 at the bottom of this slide, if we include the placement of Anastasia, sales would be approximately 770 million euros. This proves that the market is recovering, although slowly, and it shows that Pirelli Real Estate is back to business, fighting again on the market with its people, its know-how and leveraging on its competitive advantage, and needs relative size and integrated business model. Today we confirm we are reaching the target 1.3-1.5 billion euros for the full year 2010.

In terms of EBIT related to the services platform including G&A, the number for the first half is positive, 11.2 million euros, and shows a strong improvement, 14.4 million euros, compared to the same period of last year, -3.1 million euros. On this basis we are confident to deliver results in the upper side of the range, 20-30 million euros. As for cost savings, our target was to achieve 100 million euros worth in cost savings for the year 2009 and 2010. Last year we reached 68 million euros; in the first half of 2010 we achieved 25.4 million euros of savings, thereby meeting the full-year goal. However, going forward the contribution of the cost saving to EBIT will slow down. In the next few slides we will show you the result of the actions taken by the company to boost the business. As to the net financial position, the net financial position is substantially in line, -452.3 million euros, with our 2009 announcement, -445.8 million euros, and is showing a small deleverage versus the number reported at the end of the first quarter, -458.6 million euros, gearing remains at around 0.7, in line with December 2009.

Moving to slide 26, in this slide the numbers for 2010 first half show a remarkable improvement both in services and investment platforms. At the end of the first six months of the year, EBIT including income from equity participation and interest income from shareholder loans to funds and vehicle companies amounted to 17.9 million euros, with an improvement of 27.1 million euros compared to the same period of last year. The main drivers of this improvement are attributable to the company's ordinary operations. At the end of June, independent evaluators updated their market appraisal and this impacted our P&L for a total of 18.3 million euros: 13 million euros Italy, 5.3 million euros Germany, for 0.6% of assets at market value. Because of this, we ended the first six months of this year with a net income after minority interest of -21 million euros, having the loss compared to the same period of last year.

Coming to slide 27: this slide shows EBIT contribution by country. Italy, our core market, is the main contributor to this result with 18 million euros and also posted the largest improvement, 21.6 million euros, compared to the same period of last year, -3.6 million euros. Germany delivered a solid set of results, showing a growing trend versus the same period of last year. Holland closed the first half at breakeven, while working to obtain the change of destination of use of the Lucchini site. As you know, in the NPLs, credit servicing revenues are entirely success-driven, according to the volume and loans collected. Despite the investment platform, results are negatively affected by the general conditions of the lending market, the service platform closes at around breakeven due to the efficiency measures implemented.

Moving to slide 28: this slide shows the trend in sales development. At the end of the first half, sales were around 562 million euros compared with 351 million euros in the same period of last year. If we include the Anastasia sale, worth approximately 209 million euros, we reach a value exceeding 770 million euros. These are encouraging signs that make us confident we can meet the target also through the contribution of our sales network. You may remember that our sales price was in line with the market value, with a gross margin of 5%. We keep to our strategy of freeing up capital allocated to no longer strategic investments and rebalancing our portfolio with higher quality assets in Italy.

Coming to slide 29: this is an update on cost savings. In the first half we made over 25 million euros worth of savings, half of which from labor cost and the rest from overheads. I wish to remind you that our target for the full year is to achieve savings ranging between 25 and 30 million euros.

Slide 30: as already said, at the end of June, independent evaluators updated their market appraisal and this impacted our P&L for a total of 18.3 million euros: 13 million euros in Italy and 5.3 million euros in Germany, for 0.6% of assets at market value. If we track back the trend of real estate devaluation we find that the speed of the fall in asset value has been consistent; this suggest that the market is finding its own balance at around this level.

Coming to slide 31: this is the trend of our managed portfolio. At the end of last year, December 2009, our real estate asset under management was 14.4 billion euros, of which 14 billion euros co-invested with our partner; at the end of June 2010, taking capex, acquisitions, sales and write-downs into account, our real estate portfolio was worth 14.1 billion euros, of which 13.1 co-invested with our partner. As you can see in this footnote, Highstreet real estate market value has been conventionally estimated according to the expected recovery of the remaining investment in capital worth 35.5 million euros, pending the solution of the ongoing negotiation concerning the restructuring of the Karstdat group.

Moving to slide 32: our managed portfolio on behalf of third parties shows a very promising pattern. In the last six months, our company signed bills worth more than 2 billion euros. I'm referring to the 0.6 billion euro portfolio acquired in the first quarter 2010, as disclosed to the market, to the business with the Enasarco, 0.61 billion euros, to Anastasia, 0.3 billion euros, a new fund and a new product structured internally by our fund management company, to Fedora, 0.1-0.3 billion, a tailor-made product for the pension fund of industrial experts, biologists and psychologists. After over three years from the launching of our last fund, this deal proves that our company is not only back to business, but also very active on the market, due to its size, its know-how and its people. This enabled the company to fully exploit its competitive advantage. I wish to remind you that we are the largest fund management company in the Italian market, with an integrated business model providing specialist services. Some of these deals are already generating fees and will lay the new foundation for the next few years.

Moving to slide 33: in this slide we show the key data of our managed portfolio by country. I remind you that appraisals are made by independent evaluators every six months in June and December. At the end of June 2010, the pro-quota net asset value amounts to 1.15 billion euros, with unrealized capital gains worth 157 million euros. The total net invested capital is approximately 1.14 billion euros, of which 822 million euros pertain to our real estate portfolio and the remaining share to the NPLs and services.

I'll now leave the floor to Mr. Enrico Parazzini, who will give you an update on the net financial position at the corporate level of the real estate and will summarize the financial situation of participated vehicles and funds.

Thank you, Giulio. Good afternoon, everybody.

On chart 34 you see the detail of the evolution of the net financial position, as anticipated on chart 25 before by Giulio. You will see that the amount of the net financial position remains pretty stable, in accordance with our targets, at 452.3 million at the end of June, moving down from 458 million at the end of March and increasing slightly from 445 at the end of 2009. You see in the chart the main drivers of the evolution. The debt reduction was mainly due to the sales and distribution for 43.4 million, while equity contribution contributed for 10 million, increasing debt; 7.5 cash expenses for cost restructuring evenly accrued in our P&L of the previous years, the financial charges accounted for 11 million and the capex and other for 21.1.

Next chart, 35, shows the corporate group lines. The current situation is shown there; the total is 440 million; the Club Deal with a major Italian bank accounting for 320 million; then Unicredit, Banca Popolare di Milano and Royal Bank of Scotland. The situation after the spin-off should remain pretty much the same, with Pirelli contribution for 150 million of credit lines. The expiration date remains the same, with the exception of Unicredit, moving from December 10 to February 11. The average residual life remains pretty stable at 22 months and this is consistent with what we said before.

On chart 36 you will see the financial situation of participated vehicles and funds. The assets under management amount to 14.6 billion euros and the rated debt is 10.5. Our portion of debt is 2.8 billion, of which 400 million is due to non-performing loans and 2.4 to real estate. The refinancing needs are shown on the right side of the chart and are pretty small: 0.1 in 2010 and 0.4 in 2011 and the spread over the time, the major part is after 2012.
The financial situation, the characteristics of the bank loan, is shown on page 37; where you see that the loan to value amounts to 67% of which 56 in Italy, 80% in Germany and 38 in Poland. The average duration is close to 2.2 years, the Pirelli Real Estate pro-quota is 3 years, Italy 2.7, Germany 3.6 and Poland 1.8. The average spread is 222 basis points and the pro-quota is 177. More than 80%, 83%, is our interest rate hedged and our pro-quota is 77. The pro-quota recourse guarantees amount to approximately 29 million.

Now, on chart 38 you see the consolidated balance sheet that just reflects what we said up to now. The reduction in the fixed assets is mainly due to the devaluation and to the sales, affecting the participation, of course. Working capital increased from December 2009 to June 2010 by about 16.9 million; this is mainly due to the work in progress of the developments and the combined effect of the account payables payment that was pretty higher than the account receivable inflow. The net equity reflects the fixed assets evolution and the net result of less than 20 million net income, net loss, mainly due to the devaluation, as we said before. The funds reduction is mainly due to the utilization of the funds accrued in the previous years, and other, and the net financial position analysis reflects what we said before: the increase, the portion of increase is due to the working capital evolution while the shareholders loans decrease is due to the sales and offset by the equity contribution. As a result, as I said before, the net financial position moves from 4.5 to 4.2 is stable and reconfirms our target of stability by the end of the year.

Now I reached the end of my presentation and I hand over to the Chairman, Mr. Tronchetti Provera.

So, thank you. I think we can open the Q&A session. And we are ready to answer to your questions.

Q&A session:

1. Mr. Giuseppe Puglisi from Intermonte:

Good afternoon to everybody. Giuseppe Puglisi from Intermonte. First of all, congratulations for your results. I have a couple of questions on tires. I would like to have a feeling on 2011 in terms of volumes and prices after the strong increase in volumes in 2010 do you think 2011 will be a strong year like this one or will you see a slowdown in terms of growth? My second question regards your guidance: if I take your indications, so 360 million euros in terms of EBIT, the implied second-half EBIT is roughly 114 million euros, it means roughly 75 million euros less than the first-half results. I would like to understand why this difference. Thank you.

So, for the first answer, the guidance on 2011: we expect volumes to stay high. What we expect is to have a higher capacity. So the volumes this year were, in our case, stressed. I mean we had a lot of backorders because we shut down a plant in Spain last year and we shut down a plant in Italy. Next year we will have a new plant in Italy ready and some investments that are taking place will be effective starting next year, so we expect all in all that volumes will remain high, but more than this we expect us to have a higher capacity with also a better mix of sources, so with sources that are at a lower cost than the sources we had last year. So that's why we expect 2011, except macro-scenarios that we cannot foresee today, to continue to be positive for us. I leave to Mr. Gori the answer to the second question.

Yes. About the guidance for 2010, you have to consider that in the second half of this year the trend of raw materials will go up, while last year it was going down. So, last year we did enjoy a very good second half also because raw materials were going down very fast, while this year unfortunately they're going in the opposite direction. Also in the second half, if you look at the pages where we show the market trends, the comparison basis is getting tough, meaning that last year second half was also from the volume point of view a positive one, so we will not enjoy much of the volume while enjoying of course the price/mix variation we were able to implement. So, we say that 360 is the floor but that's it. I mean, and let's stay for the time being at a floor of 360.

Okay. Thank you.

Good answer.

Thank you.

2. Mr. Fabio Iannelli from Kepler Capital Markets:

Yes, hi. Good afternoon this is Fabio Iannelli from Kepler Capital Markets. Just a couple of questions. Number 1 on tires: I have heard some of your competitors guiding, already guiding for a very strong winter tire, as inventories seem to be pretty much deflated due to the past harsh winter season. So my question is whether you share this view. Second question on disposal of non-core assets. I was wondering whether there's any flow regarding, let's say, Broadband and Claro? And a very last question on the tax rate: if there is any update on the chance to carry forward past losses. Thank you. That's all.

About the first question on winter tires, of course we are looking forward to a good winter, a very good winter season for the same reason that the stocks of the trade are very low and definitely Q3 and also Q4 is going to show a good trend in winter tires. So we confirm what our competitors expect. No difference. I'll leave now to Mr. Tronchetti to answer.

Thank you Mr. Gori. For the fiscal losses carried forward, they are concentrated in Italy, as you know. So we don't see for the time being a way to profit from it. We are working on it and we expect that something can happen, starting next year, to profit at least from part of these fiscal advantages. Then the disposals of the Broadband: so we continue the negotiation with potential buyers and partners. We have seen a major transaction going on very successfully in the last weeks. This is affecting the market. So now we do not want to accelerate in order just to sell it because we expect we can sell a bit better than what is the offer today and that is also why we are ready even to partner with third parties remaining for some time as shareholders, because the concentration we were talking about in the past is taking place now. And we don't want to sell at a too cheap price. And now we expect a combination or a sale will be finalized before year-end.

Okay. Thank you.

3. Mr. Edoardo Spina from Morgan Stanley:

I have a couple of questions as well on the tires. The first one is on price/mix. I'll try to make it simple because it might sound a bit complex. When I look at price/mix I think of 4 drivers: price, of course, the geographical mix, the channel mix, so OE versus replacement, and then the product/mix, high-performance tires, winter tires or high value-added tires in general. So, looking at your price, I am assuming that the geographical component and the channel component were not very meaningful this quarter, so that leaves price and product/mix being very strong. So, I was wondering first of all if this is the correct way to look at this, or if I'm missing anything, and secondly, if between price and product/mix, which was the highest component and also more specifically on the winter tires in Europe we heard from Continental that this quarter was not a meaningful quarter for winter tires, while Goodyear said something different, like "it was a strong quarter". So I was wondering where you stand, if there has been a meaningful contribution from the winter tires this quarter already, if not on sales at least on production? And thirdly on the pricing if you were to say, like, the best-performing region and the worst, in terms of prices, which would they be? Thank you.

So, answering your first question, you're right. The components, the most important components in the price/mix variations are price and product/mix. With a higher contribution from the product/mix in the case of consumer tires, cars and motorcycles, and with a higher contribution from price in the case of truck tires, even though also in the truck business the introduction of green performance products is giving a boost to the value of our sales. Moving to the winter issue, well, listening to you, I can tell you that as far as Pirelli is concerned, we traditionally start selling winter tires in Q3. Full stop. We are not advancing sales in Q2 and we cannot delay, of course, because we have to fill in the dealers' stocks in the right season. So for us the winter season starts in July in Central Europe and in September in Southern Europe, more or less. Your third question is more difficult, but you see that given the price/mix variation is a strong one, I can tell you that in all regions we have been able to increase prices. And clearly in the case of truck tires the fear and the visibility on the increasing costs of natural rubber have helped us in pushing prices up, also because in a way we have been somehow limited and constrained in the volume growth by the current capacity, a problem that we are addressing by investing and adding capacity right now and in the next year.

Okay. Very clear, thank you. So I'm assuming that for industrial tires it's Latin America and on that I have a follow-up, because Goodyear mentioned that they surpassed a key competitor on the truck tires, as the market moved to radial. So I was wondering do you sell any non-radial tires in Latin America or any other region? And also on the winter tires if you could tell us if you produced any winter tires in the quarter already or production starts later?

So, as far as Latin America and in general the world of truck tires has been moving to radial for 25 years, so we have clearly a much higher content of radial tires in our sales than conventional tires that are limited to some areas of South America. In the rest of the world we only sell radial tires. So, I'm not sure I understood the competitor's position, and as far as winter tires, as I told you, we normally follow this seasonality. Customers are asking for winter tires starting from July. Not earlier.

But did you produce… manufacture any winter tires already? Did you help the utilization of the plants?

Yes, of course we started but we are not building up big stocks. So we started maybe in June and we will keep producing now in summertime.

Okay. Very clear. Thank you.

4. Mr. Martino DeAmbroggi from Equita:

Yes, good afternoon everybody. Still a question on this implicit second-half performance: focusing on the volume side, what is your expectation for the market in the second half overall? Single-digit up? Double-digit up? Just overall.

If you go to page 17 and page 19, it's useful to compare the market dynamics in Q3 and Q4 09 to understand what I'm going to tell you now. I believe that overall the yearly trend will be somehow 50% of the growth of the first half, simply because the comparison base of 2009 is substantial. So with a different mix, probably with a better product/mix than last year, when it was still suffering from the crisis, we see a volume trend that is relatively flat in Q3 in terms of market, I'm not telling you of Pirelli, and possibly negative in Q4. At least this is the forecast from the Original Equipment manufacturers worldwide. Pirelli has a different focus, either in terms of Replacement and in terms of carmakers, so we are slightly more optimistic, but I think the market will not be clearly as positive as in the first half.

Okay, perfect, because the follow-up was concerning the implicit growth you expect in the second half for total sales. It's about 9%, and 9% is basically the price/mix effect you had in the second quarter. If I'm not wrong, this started not at the end of last year but it's more recent, and has a positive effect going forward. So probably growth in the second half is mainly related to or basically entirely related to price and mix?

The point is that price/mix is for us a strong base on which to build for the future. I mean, we don't expect raw materials to go down, unfortunately they're going up in the short term for sure and in the second half of this year. And in 2011 we don't see any reason why raw materials should… at least our raw materials, should go down. So I think we are well maybe better than our competitors in advancing price increases and then the market will drive the volumes. But definitely we feel confident, as far as price/mix is concerned. If that's your question.

Yes, thank you. And then the final question on volumes concerns the performance in Q2. Because volumes were up only 7.5%, and I can assume this was an underperformance versus the market. I understand that you are building up new capacity, but it will take time. So, do you see the possibility of outperforming the market going forward? Or at least shortly before the arrival of some additional capacity?

I think that in the second quarter we suffered a bit of capacity constraints, while we believe that we will be able to recover in the second half of the year. So, overall, we are okay with the volume capacity as far as the second half of the year is concerned, also because the investments start to give some more capacity and clearly we are optimistic about 2011 thanks to the accelerated investment plan.

Okay, if I may, a very last question on the tax rate for the tire business normalized. Thank you.

We are in line with last year but we are planning and we are implementing an improvement in our fiscal policy inside the group and so we expect that next year we can reduce a bit this quarter of taxation that is around 38%. So that is the situation. Action is in place, we have to rebalance some regions where we are overcapitalized and other regions that are undercapitalized in order to be more effective. So we have given a mandate or so to a consultant who is working with us. So we expect to have some improvement but the real effects will be seen next year.

Okay, perfect. Thank you.

Thank you.

5. Mr. Niels Fehre from HSBC:

Yes good afternoon, Niels Fehre from HSBC. I have two or three questions in total. First of all, on the utilization rate you've said you fully utilized it as a tire business as a tool for consumer and industrial tires. Then second question is a follow-up on the price/mix effect because that was the largest part of your EBIT increase year-on-year in the second quarter; so can you give us at least an idea of how much of the 87 million increase from the price/mix is coming from price and how much is coming from mix? Then I'm interested in the sustainability of this. in fact is it coming from a better pricing policy in certain markets like Latin America, Brazil? Or is it really coming from a mix effect from one region to another region? Or is it coming from… mostly coming from the mix effect in terms of green tires? Obviously green tires have better margins than non-premium or non-green tires so I'm interested in more details on that. And the last question on the raw material impact guidance for 250 million for full year: my question is how much of that was included already in the first half results, how much of that total impact? Thank you.

So, starting with your first question, the utilization rate is maximum. Very high. Because, as you see, the market is very strong so we are utilizing our capacity worldwide in all factories in truck and car across the regions. Price/mix: again, I repeat, the price/mix component is roughly 50-50 in the car business, maybe a bit more of mix and a bit less of price, and it's the opposite in the truck business, where price is heavier than mix. Third question: sustainability. This is a very important question. And we believe that the mix component is sustainable. Our factories are producing more and more premium high-end products, green performance products, and our customers are definitely focusing their requests on these products. So we see in Europe, in China, in the US, so in the different regions of the world, a strong demand of these products. And, of course, our investments are exactly in the same direction. So we believe it is sustainable. Pirelli is moving up its mix of sales in both categories, early in the car category, in the car segment the dynamics are faster, the product life cycles are faster, and the product/mix effect is stronger. But also in the truck business, green performance products and new technologies able to reduce fuel consumption and to increase mileage and the consequence is to reduce cost per mile, are supportive of our sales. Finally, raw materials. You see on page 15 the effect of the raw materials, that is very little in Q1, it starts to be stronger in Q2 and becomes clearly 3 times bigger… twice, 3 times bigger in Q3 and Q4. So also because the comparison base, as I explained before, is totally different. Last year second half had a very good, for us, reduction in the cost of raw materials. So that's why the even though prices are not dramatically increasing, the comparison has a very strong effect on our P&L in the second half.

Okay. Just a follow-up. One last question from my side on the capacity increase. When does this capacity increase come into place in Europe? Is it only 2011?

The capacity increase is not only in Europe. It's everywhere.

Yes.

The flexibility of our plans is key in our growth strategy and in our investment strategy, because we cannot predict what is going to be the market in a region or in another. We have to have in each factory the possibility to export tires across the world. So we are introducing the same technology everywhere, both on car and truck tires, we hope we have a higher local-for-local content, but in the case that the region is slowing down we will be able to move tires in other regions. So it's not an issue about Europe, it's an issue where the growth and the investments are spread over our key markets: South America, Europe, Asia Pacific, Middle East, Africa and also from the different regions filling the requests in the US.

Okay. So when will the new capacity be ramped up in Brazil?

It's a linear growth. We show on page… .

Okay.

The best answer is that it’s a linear growth.

Okay. Okay.

The one that is shown on page 21 let’s see, starting from 100 in 2009, we will be at 50% of the growth at the end of 2010; we will try and speed up with the extra investments accelerating the growth in 2011.

Okay. Okay. I understand. Thank you.

So, if there are no new questions, together with the top management we wish to thank you for your time and I wish you all the best for this summer. In September we have organized a road show in the major financial markets both in Europe and the US. In November we will meet again for the announcement of our industrial plan. So thank you once more and enjoy your summer.