

**Pirelli&C. S.p.A**  
**Conference Call Q1 2012 Financial Results**  
**Milan – May 10, 2012**

**Marco Tronchetti Provera – Chairman & CEO: Good evening, ladies and gentlemen. Welcome and thank you for attending our conference call on Pirelli's first quarter 2012 results.**

In the first quarter, as you can see on slide number 3, Pirelli achieved a profitability record, 14% in tires and approximately 16% in consumer through its focus on premium and the pricing strategy adopted in 2011. The price/mix value driver proved to be the highest in the industry in the quarter, reaching 16.5%.

However, the context is changing and becoming more complex, on a global level, but there are opportunities to be seized. In order to effectively achieve the premium leadership by 2015, we have completed the evolution process of our organization model: governance streamlined, close function integration along the value chain, and tighter relations with markets and clients. In just two words: a lean company.

We are therefore facing the complex macroeconomic situation and the widening gap between mature and emerging market trends, leveraging on the excellent exposition to emerging markets, 54% of total revenues in 2012, our flexibility and our ability to deeply serve the main product segments, clients and markets. We are therefore revising demand and our mix in line with our increasingly selective approach to Premium and Medium, while keeping unchanged both the price/mix value driver and profitability, which will be at least 800 million euros in 2012. In Russia, where the market development is confirmed, they are perfectly on track in the execution of our business plan.

**Slide 4: The Organization of the global premium leader**

Our strategic objective is to become global premium leaders by 2015. To this end, three years ago we started a transformation process leading to progressive organizational changes. Today our global strategy requires:

- a strong relation between top management and clients and markets,
- new inter-functional processes with close coordination among key functions along the value chain,
- simplification and streamlining within the organization layers of the company.

The changes we introduced are:

- the governance structure is streamlined, the executive offices replaced by the CEO will lead in transformation process.
- The new roles: the Chief Technological Officer in charge of innovation and technology, the Chief Commercial Officer in charge of marketing sales and of the coordination in the various regions. The CTO and CCO together with operations, supply chain, and control functions, directly reporting to the CEO will take guidance and supervision roles in the car business, so replacing the car business unit.
- Industrial and motor business units will remain and make use of all the same kinds of operations, technological and control functions. The breakdown into regions has been revised and the markets have been grouped in 8 regions - Central Europe, Southern Europe, Northwest Europe, Russia and Northeast Africa, Middle East Africa, India, NAFTA, LatAm, APAC - that will report to the CCO for marketing and sales and to the CEO for governance and general coordination.

**Slide 5: Tyre industry in 2012**

Going to slide number 5, let's have a look at the current industry trends.

The scenario is very dynamic and shows patterns unlike those of the past. Quick responsiveness is crucial and reading market signs well in advance gave us an advantage. Our insight in market dynamics and our focus on premium delivered the benefits we are currently enjoying.

In recent weeks market pointers have shown a greater tendency of growth to be unevenly distributed among regions. This returns a 2012 picture with:

- A stark down market in Europe more evident in the southern countries and

- a vibrant outlook for regions like NAFTA, APAC and LatAm.
- Premium remains the engine of growth for this business supported by consumer preferences.

In this environment, Pirelli will capitalize on its distinctive features of flexibility and uncompromised focus on value. This will allow to tap into the most profitable growth pockets in the market, as our premium sales record is already showing.

Raw mat outlook in the industry remains cautious, as tension on oil and butadiene largely offset the decrease in the natural rubber price. While sharing this view, the increased visibility on the P&L prompted us to revise our November 2011 guidance. Our new assumptions on both natural rubber and oil reduced the headwind for the year down from 140 million to 90 million euros.

Profitability in the industry holds, in the face of the tough economic scenario, Pirelli is also counting on its fast-responsive organization that will support the deployment of the premium strategy.

The cash profile of the industry is set to remain positive, even though credit quality and inventory management require attention. Cash metrics are essential to our decision-making process as well as our incentive policies. We can also rely on a degree of flexibility on capex plans, modulating our investments according to the economic scenario and our priorities: premium, special projects in Romania, China, and Mexico, route to premium in Russia.

#### **Slide 6: 2012 Consumer volumes guidance**

Signs of economic deterioration especially in Europe led us to revise our assumptions for consumer volumes while confirming our view on the industrial business. In Europe, we expect our volumes to drop by a double digit rate as a consequence of:

- the exposure to southern markets which are in recession, and
- the continued reshaping of our product portfolio in terms of highly profitable tires.

On the contrary, in premium will grow by 6% with an increase of our market share. In NAFTA and LatAm we expect a mid-single digit growth with a strong performance of premium. APAC is buoyant with an average growth rate of over 30%. Premium underpinned these trends.

#### **Slide 7 Russia – Premium on the upsurge, trend confirmed**

Going to slide number 7, Russia: the demand by region that we have just discussed does not include our JV in Russia, which is in its early stages and should be reviewed separately. Let's now see how the market is doing and how Pirelli is positioned.

The Russian economy is experiencing a favorable economic phase, GDP is expected to increase by approximately 3.5% in 2012, and the first quarter confirms this trend, with a growth of approximately 4% year-on-year. Registrations posted a positive trend in the first quarter of 2012 with a year-on-year growth of 19%, or 614,000 units, of which 34% imported, 43% from local plants or foreign manufacturers and just 23% from Russian brands. Therefore, the main driver of the premium tire segment is progressing at a good pace.

For the time being, we'd better leave this figure unvaried at 2.8 million to be on the safe side. Instead, the mix of new car registrations is likely to change by the end of this year. Our estimates for the 2012 tire market are also confirmed, with a total of 37 million units, over half of which in the A segment, where the unit value is around 84 euros, and in the B segment 58 euros per unit on average.

In this positive scenario, Pirelli confirms its strong commitment to sales and marketing. We are fully on track with our business plan for our media and advertising activity, as well as in the setting up of our sales network for which we confirm our targets for 2012, as already announced in March:

- 800 points of sale covering over 40% of the Russian market,
- over 320 qualified stores, we are already operational in Moscow, Saint Petersburg and the 10 major cities with over 1 million people.
- Start-up of the premium car dealer business with the winter tires.

In the light of this positive situation, we are upgrading our manufacturing sites to A and B segments further than expected. We also decided to considerably reduce the sales of legacy brands and take a very selective approach to OE, reducing the sales volumes envisaged for 2012 by over 1.5 million units.

### **Slide 8 Russia Pirelli approach to value**

With regard to our plans, let me remind you that the Voronezh agreement has just been signed in March.

- We confirm our capex plan,
- we are in line with the technological upgrade and with the intensive staff training.
- We have already industrialized 8 Pirelli products.
- We confirm the capacity of 8.5 million pieces by 2012.

As for the products, we have a comprehensive portfolio for winter tires accounting for 60% of the Russian tire market. We also launched two new cutting-edge products in Saint Petersburg: Winter Scorpion and Winter Carving Edge. This was the first international launch of the tire in Russia and the dealers' feedback was very positive. The summer tyre line is well perceived and we wish to capitalize on the extensive presence of the European premium original equipment, the wide and diverse range of Pirelli's summer ultra-light performance tires and the undeniable strength of the Scorpion line for SUVs, a fast-growing market segment in Russia.

I think we have touched upon the most relevant aspects of our business in Russia. I confirm a mid-single digit EBIT on sales that we are reducing to approximately 250 million euros, due to our choice on low-value volumes. We are not revising our profitability targets upwards because we are focusing on seizing the premium development opportunities offered by the local market, which entails an acceleration on start-up costs.

### **Slide 9: Pirelli 2012 Targets Update**

Moving to slide number 9: we are revising our targets on the top line for 2012 from 6.6 to around 6.45 million euros. This is due to:

- our new strategy in Russia, where we choose to be more selective. Now we expect revenues from joint-venture production to reach in 2012 approximately 250 million euros, 50 million less than our previous guidance.
- Lower contribution of our minor businesses, 20 million euros,
- a revised outlook for consumer volumes: 60 million euros.

In the light of the recent economic trends, especially in Europe, we're revising our expectations for market growth in the consumer business by 1.5 percentage points, while we confirm our volume guidance on the industrial business.

As a consequence, we estimate that total volumes will go down by 1 to 2% in 2012. Premium is still resilient and will grow by approximately 20%. We also confirm our guidance on price/mix of 11-12%.

The more positive scenario on raw materials, combined with the confirmed focus on value will allow us to maintain our profitability guidance of an EBIT of "at least of 800 million euros". Indeed the lower raw material headwind will offset the impact of both volumes and costs related to restructuring and production reorganization. We are making the most of this period of lagging demand to get ready for the future. We are laying the basis for a more skilled manufacturing activity by spreading to an even greater extent the most successful and best products sizes in our plants. At the same time we are implementing our contingency plan by reducing our time, terms and agency and our flexibility levers. We are cutting our capex by 10%, keeping our priorities on premium, mix and special projects, such as China, Rumania and Russia. Finally, we confirm our net debt target below 1 billion before dividends, below 1.1 billion euros including 132 million euros of dividend payments. The target discounts a certain degree of flexibility we wish to retain in light of possible retail acquisitions in key markets.

### **Slide 10: Consumer Targets Update**

Just a few words on the targets by business. In consumer, as we already said, we are expecting a more severe outlook for the non-premium segment, with a decrease of volumes by 10-12%. The EBIT margin will be around 14% due to lower raw material headwind with a benefit of 30 million euros, which is almost offsetting the impact of volumes and higher costs.

### **Slide 11: Industrial Targets Update**

Slide number 11: the industrial business is also benefiting from the lower impact of natural rubber costs. The lower raw material headwind will allow us to reach a profitability of around 10%.

### **Slide 13: Pirelli Key Financial Results**

Let's now briefly review our major results in the first quarter of 2012 on slide 13. Our vision proved to be right in a difficult economic context, we were able to reach a good set of results, we envisaged the resilient nature of premium and we posted a significant growth both in mature and emerging markets.

The economic slump, severe in Europe and less so worldwide, is hitting the most cyclical businesses, and volumes went down 12% year-on-year and consumer non-premium recorded a drop of 9%.

Our long-sighted pricing policies allowed us to protect our profitability, as we more than offset raw material headwind.

The result of our value strategy is the best price/mix in the industry and a 13.5% EBIT margin, and for... the impact 5% EBIT margin, up over 3 percentage points compared with the first quarter of 2011.

We rounded off the quarter with an outstanding net income of 125 million euros, 54% higher than last year.

Net debt reached 1.3 billion euros, with an increase of 570 million euros due to the cash-out of the Russian JV, investments on premium capacity, working capital seasonality. Let's get into details and review our performance by region.

### **Slide 14: Performance by Region**

Slide number 14. At the regional level, Pirelli's performance was a steadfast growth in its premium segment. In a negative environment we recorded a double-digit growth of premium volumes and revenues that made Pirelli's market share in Europe exceed 15%, with a yearly increase of 1 percentage point.

The demand slowdown especially in Southern European countries constrained our growth. The truck and non-premium segments were particularly hit. In Russia our sales including imports were 54 million euros, with a premium weight of 26% on the car business. Profitability of the region is already at breakeven.

Signs of recovery characterized the Middle-Eastern and African regions and growth was almost equally split in both the consumer and industrial business. Our value strategy in NAFTA aims to the most selective approach in the original equipment channel and shows a remarkable +43% growth in premium; this leads to improved profitability.

Asia Pacific and LatAm share the same dynamics: our premium sales are growing, the truck business is slowing down because of the economic uncertainties and we made a selective strategic choice for more profitable sales.

### **Slide 15: Pirelli Net Income**

Moving to slide 15: focus on value across regions led to a significant operation performance. EBIT grew by 46% or 66 million euros year-on-year, due to a price/mix performance that more than offset input cost increases and efficiency gains, 25 million euros. The increasing contribution from low-tax countries, like Rumania and China, cause a reduction in the overall tax rate from 37 down to 34.5; all these factors cause a 50% improvement of our net profit.

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

A few words on net debt. The 568 million euro increase recorded in the quarter was due to the payment of the second and last installment for the acquisition of Russian joint-venture assets, 155 million euros, the investment agreement and mix 80 million, the seasonality of the working capital and the increase in finished products stocks. The net working capital trend also reflects the start of the commercial activities of the Russian JV. The negative trend will be absorbed during the year and we confirm the guidance of a negative net working capital variation of 100 million euros.

## **Slide 17: Pirelli Debt structure**

Finally our debt profile: by the end of March 2012 our gross debt amounted to 2 billion euros, 75% of which is maturing after 2014. Our liquidity margin built by committed undrawn credit lines for 525 million euros and cash-and-cash equivalent for approximately 300 million euros will grant coverage for approximately 3 years of debt maturities and grant adequate support for our industrial plan.

As a consequence of our financial strength, Pirelli will maintain a strategic approach to financial markets, aiming at preserving its financial flexibility and further diversifying its credit investor base, lengthening its maturities.

At the time being, I'll leave the floor to Mr. Sala, our Head of Planning and Control, who will comment the results of the tire business in Italy. Mr. Sala, the floor is yours.

## **Slide 19 – Key Tyre Results**

*Maurizio Sala – Group Controller:* Thank you, Mr. Tronchetti, and good evening everybody. Let's review Pirelli Tyre's results from slide 19. Pirelli Tyre, first quarter of 2012, shows:

- a double-digit revenue growth,
- a definite increase in profitability, EBIT was 215 million euros, 63 million euros higher than the first quarter of 2011 with a record 14% margin, up 3 percentage points year-on-year, one of the highest in the industry.

These results were mainly achieved through: price increases and a consistent focus on the premium segment, +15.8% volumes and +29.2% revenues, supporting the positive trend of the price/mix element, +15.5%, which more than offset the overall volume slowdown as well as the negative impact due to the cost of raw materials, and actions on processes and costs that produced 25.5 million euros worth of efficiencies.

The volume downward trend, -7.4%, reflects the tough macroeconomic scenario. Its impact was particularly evident in our industrial business, -12%, and in the non-premium consumer segment, -14.5% volumes, where we maintained a selective approach.

A tough comparison base must be added to all this, given the pre-buy spree, which was pervasive during the first quarter of 2011, in anticipation of the price increases that started from the end of March. The new joint-venture production in Russia, consolidated for the first time, provided a 2.2% contribution to revenues, equal to 30 million euros. This result cannot be taken as a pro-quota for the year, since we are still setting up our business.

## **Slide 20 – 1Q 2012 PIRELLI TYRE OPERATING PERFORMANCE**

Let's move to slide number 20. Let's now discuss our profitability drivers that improved year-on-year by 63 million euros in the first quarter of 2012.

Once more, results confirmed Pirelli's strong track record in the industry, which has appeared it can widely offset headwinds through: a market pricing power and the strengthening of the premium segment, which, as I wish to point out, has a 20% margin, at least 3 times higher than the standard segments.

Our price/mix was 1.5 times higher than the cost of input. Price/mix that hit its peak in the first quarter, +16.5%, will hedge down in the following quarters, because of our higher comparison base. This is in line with the yearly target of +11-12%.

Efficiencies in the quarter accounted for 25.5 million euros, 21% of our yearly target. This result was mainly achieved in the consumer business through: increased production in low-cost countries – China, Rumania

and South America – a reduction of raw material waste and weight, and productivity improvements, full-fledged production in Settimo Torinese and process streamlining in other plants.

### **Slide 21 - Consumer Business: Key Market trends**

Let's now address market dynamics in the different regions. The Southern European countries were the most affected by the macroeconomic downturn, particularly in the replacement business, although the premium business enjoyed an upward trend also in the first quarter of 2012. The North American OE channel reported a mid-teen growth, confirming previous quarter trends. Replacement was still negative, at -8%. Positive trends in the Mercosur replacement market, while OE remained negative. The positive quarterly trend showed by the Chinese OE channel is supported by the very sound premium business performance, replacement was slightly down.

### **Slide 22 - Consumer Business: Pirelli Performance**

Moving now to the consumer results: quarterly revenues in the consumer business grew by 17%. The significantly better price/mix, +18.8%, was due to the 2011 price increase benefits, as well as the upward premium business trend, which accounts for 52.6% of the car business revenues in the first quarter of 2012, 5% more compared to the first quarter of 2011. Volume-wise, the demand slowed down on the global markets and the high profitability product/mix reshuffling, which is part of Pirelli's value strategy, accounts for a 5% volume decrease in the first quarter of 2012.

### **Slide 23 - Premium: Speaks for itself**

Speaking of premium, let's briefly comment on the premium performance by region. In the first quarter, premium accounted for 584 million euros in revenues, +29% year-on-year. Europe, where premium mix was up 73% of car sales, progressed by 22%, confirming its strength as the largest market. A remarkable growth was obtained in NAFTA, +47%, showing the success of our products which ranked first at the GD Power OE Satisfaction award for the sports performance category. Premium performance in South America continues to gain momentum. The market is still in its early stages and Pirelli, through its product portfolio, leads its development. In the first quarter, premium revenues grew by +45%. In Asia Pacific, premium accounted for more than 60% of our sales. This impressive result shows, once more, our distinctive positioning in the marketplace.

### **Slide 24 - Industrial Business: Key Market Trends**

Let's now move on to discuss the industrial business. As already mentioned, the industrial business continues to suffer because of the deterioration of the macroeconomic situation. Some regional differences still remain in the OE channel and China, -24%, and Mercosur, -30%, show the sharpest drops. The production shift in Brazil between euro 3 and euro 5 must also be factored. The replacement channel slowdown hit almost all the regions.

### **Slide 25 - Industrial Business: Pirelli Performance**

Moving to slide 25, on the Pirelli industrial performance: market trends dominated the outcome of the industrial business in the first quarter with -2.6% revenues decrease compared to the first quarter of 2011. The positive contribution of the price/mix variance, +11%, mitigated the 12% volume reduction. Forex was negative by 1.5%, due to the evaluation of the Brazilian real, Argentinian peso and Turkish lira.

To react to market dynamics, we slowed down production to keep stocks under control. In line with Pirelli's value strategy, the result in production/mix is made of a slight reduction of All Steel and a higher proportion on conventional tires, which underwent a double-digit decrease. These choices allowed us to keep the industrial business profitability in the first quarter of 2012 in line with the first quarter of 2011, with a 33 million euro EBIT and an 8.5% margin on sales.

## **Slide 26 – Raw material Guidance**

Finally, just a few words on slide 26, on our updated raw material guidance. We have reduced our headwind assumptions by 50 million euros. This is the result of a lower price of natural rubber, expected to be at around 3800 dollars per ton as average cost-of-goods-sold of the year. At the same time, we have increased our assumptions on oil derivatives, in light of recent market trends, while we maintained our assumption on butadiene. Finally, the Forex impact on raw materials is expected to be negative for 130 million euros.

Thank you, and now I'll give the floor back to Mr. Tronchetti.

*Marco Tronchetti Provera – Chairman & CEO:* Thank you, Mr. Sala. We are... And thank you very much for your patience and attention. We are now ready to take your questions.

## **Q&A session:**

*Operator:* Ladies and gentlemen, the Q&A session is now open. I'd like to remind you that if you want to register for your questions, please press star followed by 1. To cancel the reservation, press star followed by 2. Thank you.

1. Mr. Gaetan Toulemond from Deutsche Bank:

*Q - Gaetan Toulemond:* Yes, good evening, it's Gaetan Toulemond from Deutsche Bank. I have a few questions. The first one: when we... I see that over the last few quarters, every quarter you have upgraded (...) the guidance for the next quarter and the full year. Now, when I look at the guidance for this year, more than 12% of operating margin, you made more than 13% in the first quarter. And the first quarter supported all the headwind of raw materials. So I don't see any reason why the next quarter should be lower than the first quarter. And therefore, the 12% guidance for the full year seems to be low somewhere, in the logic of the performance of the first quarter and the impact of the raw material in the coming quarters. That's my first question. Thank you.

*A - Marco Tronchetti Provera – Chairman & CEO:* So, we had last year, as you know, the effect of price that was very huge and we see the effect continue in the first quarter and will continue for the next quarters but with a, let's say, slightly lower effect, because last year prices were increasing and increasing, and so the effect of price... part of it... part of the reduction in the effect of price will be offset by mix that we confirm, thanks to the growth of the premium segment and the premium, let's say, sales on our side, so we feel comfortable providing this guidance.

*Q - Gaetan Toulemond:* Okay. I think it's very comfortable. The second point: when we look at the consumer business, which is making 16% operating margin, you mentioned that the premium was making approximately 80% of that, with underlying 25 operating margin, what is the limit? I mean, the premium segment is significantly more profitable than I thought, we have 25%, you still have a business in the OE, which is probably less profitable than the other market, can you help us to get an idea of what it would look like in 2-3 years' time?

*A - Marco Tronchetti Provera – Chairman & CEO:* I think that on the original equipment what we see today is a headwind thanks to the... with some clients the metrics agreement whereby last year we were penalized on prices. With the original equipment. Now the situation is back to normal and I think that, in the future, and we are already making these efforts, in line with agreements already reached with some customers, in order to reduce the headwind year after year, because of the volatility of raw materials. This is perceived as an issue also on our counterpart and so these two effects could remain more in line with the results we are obtaining this year, because I could say they're back to normal.

*Q - Gaetan Toulemond:* What does that mean in terms of margin in the coming years? Can you be as profitable as Nokian, for example? We're talking about something like 30% operating margin in the premium segment.

*A - Marco Tronchetti Provera – Chairman & CEO:* I like dreaming sometimes, but there are some realistic effects that can be achieved. We consider in our plan to have by 2013 between 14 and 15% EBIT margin in Russia. We see that the market for the time being is growing faster than expected in Russia, we are not ready yet to catch the opportunity, but we should be ready with Pirelli production starting year end-beginning of next year and growing fast, we will be ready to catch the opportunity of a sound market.

*Q - Gaetan Toulemond:* Okay. I have two more quick questions.

*A - Marco Tronchetti Provera – Chairman & CEO:* Sorry, just to... just to provide you with detailed information that was in our plan: the EBIT margin we expect on sales in 2014 is between 16.5 and 17.5% on the consumer business, including the effects of Russia that will come. So today we confirm the industrial plan we have given in November. So the three-year plan, also thanks to the Russian evolution... it seems to me it's more sound, because when I described the growth of registrations in Russia, I underlined the mix of these registrations. They're growing faster than expected.

*Q - Gaetan Toulemond:* Okay. Two quick questions. The first one is that we know that the replacement market is rather weak in Europe on truck and passenger tires, probably due to the base effect in inventory

*reduction from the dealers, did you see an uptake right now? Did you perceive that? Or is the market still pretty weak?*

*A - Marco Tronchetti Provera – Chairman & CEO:* No, I think that there has been a reduction in the stocks, I think that especially in Germany there has been in April a seasonality effect because of the cold wind in Central Germany. In Central Germany the replacement of winter tires was in delay... 40% less than last year, so just on... I'm talking about replacing winter with summer tires, so there is a delay. This effect I think is over. The season is back on track, the drop of April in the first 10 days of May seems to be over.

*Q - Gaetan Toulemond: Okay. And last question.*

*A - Marco Tronchetti Provera – Chairman & CEO:* In Northern Europe inventories are still higher but in Southern Europe there are other issues. I have to say that even in Southern Europe premium is not growing, it's resilient. We see in those days something quite comfortable.

*Q - Gaetan Toulemond: Okay. And in the truck market, which has nothing to do with the winter tires, is the end market recovering a little bit? Or is it still very weak?*

*A - Marco Tronchetti Provera – Chairman & CEO:* Markets where winter tires are not in... if we talk about Southern Europe, Southern Europe is still weak. We don't see Southern Europe recovering and in our targets and in the reduction of volumes we gave as a guideline, we consider that there will be no recovery in Southern Europe.

*Q - Gaetan Toulemond: Okay. Lastly another question: any concern from the comment from Bridgestone yesterday regarding Europe and the pricing?*

*A - Marco Tronchetti Provera – Chairman & CEO:* No, I don't see any concern, because we don't see any move on prices affecting the premium segment. What we see is normal, so the spending of people in Southern Europe is lower. And so price is the king. And the imports, if we look at figures from the Far East and China, are huge, because the spending of people is focused on savings. This, I believe, is creating some problems in this segment, but we are accelerating our presence in this segment.

*Q - Gaetan Toulemond: Okay. Thank you.*

*A - Marco Tronchetti Provera – Chairman & CEO:* Thank you.

2. Mr. Stephan Puetter from Goldman Sachs:

*Q - Stephan Puetter: Yes, thank you very much and good afternoon. Just two questions left on my side. The first one: you announced a reduction in capex. I was just wondering if you could explain what are you delaying and why is this possible? Is it a reaction to the slower end market demand? And then secondly, if we look at the current raw material price levels, and just assume that they stay where they are, does it suggest a raw material headwind in 2013? And, if so, do you expect further price increases to compensate this? Or on the flip side do you think that tire manufacturers now have to absorb this because overall price increases have already more than compensated for the raw material price increases over the past two years? Thank you.*

*A - Marco Tronchetti Provera – Chairman & CEO:* We... looking at raw materials, as we did in our plan in November, we put it flat compared to prices. The only headwind balancing natural rubber and the other raw materials this year we had in our plan was related to exchange rates. We see that the price level can be in line with the evolution of raw materials in the high segments, and so... and we consider that the level of natural rubber today is still on the low side, it will really depend on volumes, but as we did show last year, we can balance with prices any big swing in raw materials. On capex, we have the base load that accounts for around 10 million euros, then we have a delay on Argentina truck, because we are still dealing with the government, our investment in Argentina is linked to the authorization to export truck tires from Brazil, we are close to an agreement but the delay we had has already reduced by 3.8 million euros. Then we have a technical delay, which is not something we did in Mexico, which was 4 million. And then the other main points are: some cost reduction in logistics related to the lower volumes, so I think half of it is basically made by this, all the other are specific minor actions.

*Q - Stephan Puetter: Okay. Thank you very much.*

A - Marco Tronchetti Provera – Chairman & CEO: Anyhow, I want to underline that we still give absolute priority to premium special projects in Rumania, China, Mexico. Not a penny has been moved from the road to premium.

3. Ms. Monica Bosio from Banca IMI:

Q - Monica Bosio: Good afternoon, everyone. I would have three questions. The first one is on volumes: is it correct to assume that the second quarter might be the worst for the volumes downside for the group? And the second question is on the price/mix on the second quarter: I understood that the second quarter will have a worse price/mix than the first one because of an unfavorable basis comparison. But I was just wondering if you could give us a more detailed range. I know that for the full year it will be between 11 and 12, but I'm just wondering if you can give some precise indication on the second quarter. And then the third question is on the efficiency plan: could you please remind me the total impact for the year from efficiency actions, please? Thank you.

A - Marco Tronchetti Provera – Chairman & CEO: Okay, thank you. So, volumes: relatively we should say that first quarter was the worst, because the comparison base with the first quarter of last year was such that in this environment the difference was huge. Second quarter will be better, even if the seasonality in Germany has not been favorable, as the Euro pool did show today. The drop, never seen before, was around 12%, and so we cut more than this thanks to, let's say, the reduction in volumes of standards, that we did accelerate also in order to reduce the base load in volume costs of investments. So, all in all, we believe that the second quarter volume-wise will be better than the first quarter, but the comparison base is different if we look at different quarters. Then, talking about price/mix, price/mix will be more and more mix looking forward, because the price effects last year were growing alongside the different quarters, the upright increases went on and on, so the mix effect will continue to be there and the guideline we gave is confirmed. Then there was... the efficiency is confirmed, 120 euros, it's confirmed.

Q - Monica Bosio: Okay. Thank you very much.

A - Marco Tronchetti Provera – Chairman & CEO: Thank you.

4. Mr. Philip Watkins from Citi:

Q - Philip Watkins: Good evening. Thanks for taking my questions. I have another one, really, on the guidance you gave: and you're giving as numbers for raw materials 90 efficiency 120. I think previously for 2012 you were talking around 140-150 million of other costs, whatever that be a depreciation or some other costs. Is that still the number that you're going for for 2012? Thank you.

A - Marco Tronchetti Provera – Chairman & CEO: These are the costs related to cost of labor inflation.

Q - Philip Watkins: Labor inflation.

A - Marco Tronchetti Provera – Chairman & CEO: Energy, labor inflation and energy transportation. This is the main split of the figures.

Q - Philip Watkins: But that hasn't changed. Your estimates say they haven't changed for those additional costs. From the end of the year.

A - Marco Tronchetti Provera – Chairman & CEO: No, they are unchanged, and Mr. Sala, who is with me, confirms it. So, I'll give the floor to Mr. Sala, who has the details of each of these actions. Mr. Sala, please.

Q - Philip Watkins: Thanks.

A - Maurizio Sala – Group Controller: Thank you. The inflation cost for what concerns labor cost, energy cost and transportation cost, is equal to the guidance that we gave in the industrial plan. We have...

Q - Philip Watkins: Hello?

A - *Maurizio Sala – Group Controller*: ...we have a positive effect coming from raw materials versus the previous guidance of 50 million euros. We have a negative effect coming from volumes, which is 25 million euros, the reduction in volumes in the car business represents 25 million euros negative. Then we have 10 more million in terms of restructuring costs, because in the southern countries of Europe we are acting more in order to permit us to have more efficiencies for the future. And then we have a certain slowdown forecasted in our factories for the production for the second part of the year, due to the increase in stocks. We want to maintain absolutely under control the working capital and this accounts for 15 million euros.

Q - *Philip Watkins*: Okay.

A - *Maurizio Sala – Group Controller*: This is the impact of the current guidance.

Q - *Philip Watkins*: So the restructuring costs are going up to around 30 million? Is that right? Or...

A - *Maurizio Sala – Group Controller*: Yes. Yes.

Q - *Philip Watkins*: I mean, I'm not...

A - *Maurizio Sala – Group Controller*: The cost...

Q - *Philip Watkins*: I'm sorry, I'm interrupting, but I'm thinking any changes to how the price... how price and mix is feeling through to the operating profit? Because I just... maybe I'm massively wrong, it just feels... 800 feels low when a lot of these costs haven't changed. Is price... the impact of price/mix hasn't changed? How does that impact EBIT?

A - *Maurizio Sala – Group Controller*: For what concerns price/mix, the guidance that we gave in our industrial plan was +8%, now the guidance is +11-12%. In the first part of the year the most important component is price, because it's coming from different bases of comparison. We did increase prices progressively last year, so if we take the price/mix effect positive by 15.5% in the first quarter, it's divided between 50% price and 50% mix, going on, the price will be reduced because of the fact that last year we progressively increased the price. And so the impact of the price/mix effect in the net sales, in the profit & loss will account with a lower value.

Q - *Philip Watkins*: I see. Okay. So it's half price and half mix? And may I just add one more: you know, and I'm sorry I might have missed it, but when you talked on the tire bridge for Q1, the item of depreciation of others was a positive 16 million, and did you say that... could you... was the... the reason was positive because of Russia? It was on slide 20. It was depreciation and other cost of 16.7 million.

A - *Maurizio Sala – Group Controller*: Yes. This 16.7 million euros...

Q - *Philip Watkins*: Is that without anticipating depreciation? Being...

A - *Maurizio Sala – Group Controller*: This is coming... okay, this is coming from a variance from a positive element... a slightly positive element of this year and a negative element of the previous year. In the previous year in the first quarter we registered still some start-up costs in some industrial activities, like in Settimo Torinese. According to some test cost. Now, in the first quarter of 2012, we had some positive impact coming from lower restructuring costs, from a new law in Brazil for export incentives and then we also have some still positive effect coming from the JV in Russia, which is close to breakeven.

Q - *Philip Watkins*: Okay. So it's a different trade in start-up costs... sorry, lower restructuring costs. Okay. All right. Thanks.

5. Mr. Martino De Ambroggi from Equita SIM:

*Q - Martino De Ambroggi: Thank you. Good evening, everybody. I have a follow-up question on one of your last answers concerning the bridge for the changing guidance for the current year. Maybe I missed some... some figure, but did you quantify what the impact due to lower volumes impacting the raw material headwind?*

*A - Maurizio Sala – Group Controller: The variance of raw materials is based on the volume of purchasing of raw materials and the volume of consumption of raw materials done in the tires sold. If the volume is decreasing, the same impact in terms of percentage will account lower in terms of profit, in terms of EBIT margin, because it's based on lower purchasing costs in absolute value.*

*Q - Martino De Ambroggi: But we can say that only a small part of this 50 million change in raw materials is due to lower volumes? Or is it a significant part?*

*A - Maurizio Sala – Group Controller: A small part in this case.*

*Q - Martino De Ambroggi: Okay. The second question is on the full-year guidance. In one of the first questions, maybe, Mr. Tronchetti said "we are comfortable with our full-year guidance in terms of return on sales". But can you qualify a little bit more what you mean for in excess of 800 million? So is it just a minor range that you have in mind or it could be best case scenario something that is material?*

*A - Marco Tronchetti Provera – Chairman & CEO: Well, when I... if you look at the two guidance, it means that we are more comfortable today than we were on March 12 on the fact that we'll have an EBIT margin that will be higher than 12%. What I can say is that we are at least safe with the guidance we gave and that's, let's say, the floor.*

*Q - Martino De Ambroggi: Okay, and my last question was on the restructuring costs. You mentioned 13 instead of 20 million for the current year, but the new organization will generate additional costs going forward?*

*A - Marco Tronchetti Provera – Chairman & CEO: No, the new structure will generate the opposite, will have... having a shorter chain, we will have some savings. The central structure will be split and selected. When you eliminate a layer, you reduce costs. And it will happen centrally and it will happen regionally. And so what we see, as Mr. Sala was saying before, is really that the 10 million restructuring costs are related to South Europe, to reduce the volumes of standard tires. That's what we are doing: we are accelerating actions to reduce volumes.*

*Q - Martino De Ambroggi: Okay. And the last part of my question was on...*

*A - Maurizio Sala – Group Controller: Excuse me, we talked about 30 million instead of 20... not 13 million.*

*Q - Martino De Ambroggi: Yes. 30.*

*A - Marco Tronchetti Provera – Chairman & CEO: I was talking about 30.*

*Q - Martino De Ambroggi: Yes. Absolutely. 30. And we can assume another 20...*

*A - Marco Tronchetti Provera – Chairman & CEO: 30.*

*Q - Martino De Ambroggi: Yes, yes: 3-0. Can we assume what you mentioned in your previous conference call that 20 million is a reasonable level also going forward for restructuring costs?*

*A - Marco Tronchetti Provera – Chairman & CEO: Yes it is.*

*Q - Martino De Ambroggi: Okay, and referring to the savings that you mentioned: was this new organization already factored in your guidance of additional 80 million savings over the next two years? Or does this represent an additional buffer?*

*A - Marco Tronchetti Provera – Chairman & CEO: We consider to have all in... and if any good news comes, fine. What we confirm today is the guidance for the year end with a, let's say, more comfortable approach we can have today compared to November or March last. If you remember well, in November last we were*

providing a guidance in an environment that was really very volatile. In March we increased the guidance, and the environment we can say is not so consolidated, but even in this environment, not only we confirm but we feel more comfortable, we feel safe and we put this guidance as a floor.

*Q - Martino De Ambroggi: Okay, I was referring... thank you for your answer, but I was referring specifically to the cost savings efficiency plan that you presented in the last presentation: if it already includes the benefits of the new organization or not.*

*A - Marco Tronchetti Provera – Chairman & CEO: We confirm the figures we set, the new organization can provide some, let's say, opportunities to reduce costs. I think that the best side is the efficiency of the new structure. So the positive effect will be calculated much more on the results of having a different decision-making process, more transparent, without one layer at least and sometimes two layers. So, this is the real saving. Then there will be minor savings due to the efficiencies in Headquarters costs.*

*Q - Martino De Ambroggi: Okay. Thank you very much.*

*A - Marco Tronchetti Provera – Chairman & CEO: Thank you.*

6. Mr. Niels Fehre from HSBC:

*Q - Niels Fehre: Yes, hello. The first question is just an easy one. So, the Q1 has been better than expected. Is that right? Better than what you had expected, than what you had budgeted a few months ago, right?*

*A - Marco Tronchetti Provera – Chairman & CEO: It's true. Yes.*

*Q - Niels Fehre: Okay. So, going forward and given the fact that you haven't raised your EBIT guidance despite all your small cuts in your volumes guidance and a significant lower headwind from raw material costs and also stable pricing, what do you think is the biggest risk going forward for 2012? Is it that volumes might deteriorate further than what you have expected and that you face a negative fixed cost absorption? Or is it that you fear some price discounts or that you fear that the pricing might not be stable in standard tires in Europe or what do you think is the biggest risk that you'll achieve only the lower-end of the guidance for 2012? Thanks.*

*A - Marco Tronchetti Provera – Chairman & CEO: No, we don't see any specific threat on prices for the markets we are in and for the segments we are in. So, no volatility in prices in the premium segment and where we are in, including Latin America, China, NAFTA. So, we feel comfortable. We just set targets to give the same feeling to the market we... that we have, that, thanks to the results achieved in the first quarter and thanks to what we saw in January and February, we felt more comfortable with our guidance with 2 changes: one was in March to underline that we were targeting the highest targets of the industrial plan. And today putting the targets of the industrial plan as a floor. So, that's our perception today, taking into account a market where in Southern Europe volumes are down.*

*Q - Niels Fehre: Okay. So, right now you expect that the pricing also in standard tires remains stable sequentially or for the rest of the year. So, the absolute pricing level will stick, right?*

*A - Marco Tronchetti Provera – Chairman & CEO: Yes.*

*Q - Niels Fehre: Okay. And you also expect that Q1 was in terms of absolute volumes the reversed quota in 2012. Is it also correct?*

*A - Marco Tronchetti Provera – Chairman & CEO: As a variance, yes, definitely yes.*

*Q - Niels Fehre: On... okay, on an absolute level. I'm not talking about year-on-year... I'm not talking about year-on-year comparison, I'm talking about the absolute volume of what you say that the absolute volume of tire sales will be... lower, for example, in Q3, in your current view.*

*A - Marco Tronchetti Provera – Chairman & CEO: We expect the second quarter to be more or less in line with the first quarter, but the comparison base is far better. So that's why we say the worst has gone in terms of comparison... what we see, and it's very comfortable for us, it's that all the negative sides stay on the*

lower end of the market. We don't see any signs of weakness in the premium segment. And when there are some signs of weakness, because in Europe there is no bullish growth, now we see that we are able, thanks to our strategy, to rebalance it with the growth of our position in the market.

*Q - Niels Fehre: Okay. Thanks. And the last question is on Brazil: you mentioned that the margins are still at mid-teen levels, so may I assume that the margin is, on an absolute basis, constant with Q4 2011 levels? And also what do you expect further in the future? Do you see some margin pressure in industrial tires in Brazil? Or can you confirm also that the margin was relatively stable in Q1?*

*A - Marco Tronchetti Provera – Chairman & CEO: Yes, it's true also for the industrial.*

*Q - Niels Fehre: Okay. Okay. Thanks.*

*A - Marco Tronchetti Provera – Chairman & CEO: Thank you.*

7. Mr. Philippe Barrier from Société Générale:

*Q - Philippe Barrier: Yes, good evening. It's Philippe Barrier from Société Générale. Three questions, if I may. A question again on the commercial... industrial business. I see that you are more comfortable with the margin on full year, with a 10% target versus 8.5% achieved in Q1. What's the rationale behind this improvement? Do you expect some rebound in volume taking place in Brazil or Middle East? Or do you just expect some positive impact from lower natural rubber in the second half of the year? And the second question regards Russia: actually you've reduced the target of sales from 300 million euros to 250 million euros. What is actually... what did you do in order to change the mix of the products in the... from the start of the year? And will it have some impact in terms of ramp-up of this plant? And in terms of profitability will it be positive to reduce, actually, the volume expected in Russia in 2012 compared with the plan that has been given a few months ago? Thank you.*

*A - Marco Tronchetti Provera – Chairman & CEO: First of all, in industrial we are comfortable with the 10% and the figures we gave because of the headwind on natural rubber, that starts being capitalized in April, we will already see some results in April, because these are the prices of December last that are coming into the cost-of-goods-sold now, from mid-April on. And on volumes we didn't change the guidance we gave. So, the only guidance reduction was on volumes in passenger car tires mostly in Russia and then we confirmed the guidance on premium. So, we are still in the position to say that our strategy is providing us the... to be in the condition to deliver better than expected the results for 2012. And then in Russia the only reason for the reduction in volumes is because we anticipate a selective approach to the legacy brands and original equipment. So we bought two factories that are: one is very good, not yet in production, we produce only Pirelli brand, we are already starting production; the other in Kirov, is a good factory, with a bad compounding area that we are absolutely reshaping with new machinery and in that factory we reduced the volumes for the original equipment and legacy brands, because prices were such that were also affecting the legacy brands. So we have to avoid... for the existing volumes, we still have in standard... heritage for the previous ownership. We have to protect in the market the prices and the original equipment and legacy brands are really having today prices that are really cheap.*

*Q - Philippe Barrier: Okay. Does it mean that actually you should reduce the target within fixed in the mid-term from reaching operation or actually the total revenues will be a bit lower? Or at the end what is...*

*A - Marco Tronchetti Provera – Chairman & CEO: No, no, Russia... the only reduction is the revise from 300 million to 250 million in Russia. So it's only turnover, it's not profitability. Reducing the production of these products, we do it because the return is negative and that is why it's not affecting the EBIT margin.*

*Q - Philippe Barrier: Okay, thank you. Just a very last question regarding the reporting... you slightly changed reporting, including finance and services companies within the tire business. Does it change any item regarding profitability of the division or does it have no significant impact in terms of profit and so on?*

*A - Marco Tronchetti Provera – Chairman & CEO: Well, the selective cut of production and sales has no negative effect on our profitability, on our EBIT. We avoid negative effects cutting the production. That's what we are doing. And, so no impact.*

Q - *Philippe Barrier*: Sorry, just my question was regarding the reporting between tire and other, which was put on page 3 or 4 of the... of the press release. And just finance and services companies are now included in the tire business. Just do you have any impact or not on the figures?

A - *Marco Tronchetti Provera – Chairman & CEO*: But if you mention our slide number 8, I think that it's quite evident that... that there is no impact on profitability. We have no concern on profitability. We confirm the mid-single digit we declared in our plan. Can you please... if it's... if I didn't understand your question, could you please elaborate it a little bit?

Q - *Philippe Barrier*: Just my question was: will it hit to the... on the north... and the press release related to the write-down of operations between tire and other activities and in the north there is an inclusion now of finance and services companies transferred from the prime company to tire... to the tire business. Just... that are by business sector.

A - *Marco Tronchetti Provera – Chairman & CEO*: No, no, I understood. I understood. Absolutely no. We confirm what we said, small businesses do not change any guidance on the results.

Q - *Philippe Barrier*: Okay. Okay, thank you.

A - *Marco Tronchetti Provera – Chairman & CEO*: We say 20... -20 million EBIT the effect, as it is in the plan.

Q - *Philippe Barrier*: Okay. Okay. Thank you.

A - *Marco Tronchetti Provera – Chairman & CEO*: The fact is that having consolidated these figures, you don't see them split, probably, in our papers. It could be this. Because being a pure tire company we have this in our figures.

Q - *Philippe Barrier*: Okay.

A - *Marco Tronchetti Provera – Chairman & CEO*: But there is no relation, no link between the small activities and the tire activity.

Q - *Philippe Barrier*: Okay, I understand. Okay. Thank you very much.

A - *Marco Tronchetti Provera – Chairman & CEO*: Thank you.

8. Mr. Giuseppe Puglisi from Intermonte:

Q - *Giuseppe Puglisi*: Good afternoon. Giuseppe Puglisi from Intermonte. I have a few questions. The first regards inventories: I would just like to know the split between standard and premium... standard and premium. The second regards the margins: reducing inventories probably means that you are speeding up the shift from standard to premium. I would just like to know what is the impact on production capacity in terms of units and if this can have a positive impact on your margins from 2013. Thank you.

A - *Marco Tronchetti Provera – Chairman & CEO*: Thank you. Mr. Sala, could you answer the question?

A - *Maurizio Sala – Group Controller*: Normally, stocks are divided between standard and premium according to the sales that we are doing... to the weight of the sales that we are doing, taking into account that on premium we prefer to have more stocks in terms of service, because we want to deliver as quickly as possible all the orders that arrive. In this moment, we registered an increase in stocks, in particular taking into account the results on volume sales of the two different segments, premium and non-premium, we registered a growth in stock in particular in the standard segment. So, from this point of view, it's for this reason that we are going to take some actions in order to reduce some production in particular for the non-premium tires already currently and in the following months. We are also utilizing this period in order to do more industrialization in our factory in order to have a more complete possible production of premium tires in all our industrial facilities and in order to follow, as much as possible, the demand in the markets.

Q - *Giuseppe Puglisi: What about...*

A - *Marco Tronchetti Provera – Chairman & CEO:* The fact is... just to make a short comment, the fact is that in the premium segment we still have backorders. Because we can't serve the market in some segments because of the complexity of the industrialization. We are profiting from the reduction of the standard business to concentrate more strength and more people to accelerate the industrialization and to better serve the market. That's the... the more we are making inside using also in some areas social benefits or whatever in the standard area the whole focus remains on profit, on the good positioning we have in the premium segment.

Q - *Giuseppe Puglisi: Okay. If I may ask a quick follow-up. If I make a calculation of the implied margin for the remaining 9 months, I reach about 12%, that is about 150 basis points below the margin that you recorded in the first quarter. Also in light of the possible positive impact coming from the reduction of the raw material prices, my question is: what could be wrong? Because if only maintaining the margin you recorded in the first quarter you should achieve at least 900 million euros in terms of EBIT.*

A - *Marco Tronchetti Provera – Chairman & CEO:* As you can see, we improve our confidence on margins, and that is why I'm mentioning that now we consider the top of the targets we gave in November... today is the ceiling. That's why you are right: we feel more comfortable. We know that there will be less effect on prices for the next quarters, although down because of the comparison base, not because of prices, just because we consider quarter to quarter. But we see that we consolidated our confidence on results thanks to our first quarter results. You're right.

Q - *Giuseppe Puglisi: Yes, because if you say that the margin will go up it's wrong to assume that margins will go down in the next nine months. So, okay. You answered to my question. Thank you.*

A - *Marco Tronchetti Provera – Chairman & CEO:* No, no, no, you know better than I do that premium mix will remain very good, so margins will remain very good thanks to the premium. The 12 is even more solid today, more consistent. The effect of prices is the same that we had in the guidelines of the industrial plan, because the growth of prices in the second, third and fourth quarter was positively affecting the comparison base on the first quarter and then, as we go quarter by quarter down the price effect. But luckily the mix effect will continue to support the guidance we gave.

Q - *Giuseppe Puglisi: Okay. Thank you.*

A - *Marco Tronchetti Provera – Chairman & CEO:* Thank you.

9. Mr. Edoardo Spina from Morgan Stanley:

Q - *Edoardo Spina: Hello, good evening. Thanks for taking my questions. I have four questions, but quick. Firstly on the capacity utilization: if you could give us an update on the consumer and industrial businesses today and how the utilization has been trending compared to the first three months of this year? Secondly, on working capital: I appreciate the answer you gave on the inventory levels, but I was also noticing that the receivables have been trending up from 2010 and the payables have been trending down. So I wanted to ask if this is a structural move in working capital? If you have a target number of working capital as a percentage of sales and when you think we can see a reduction in working capital? Thirdly on seasonality: last year your EBIT has been fairly stable through the year with a peak in the third quarter. Given potential start-up costs for new plants, working capital reduction measures, winter tires perhaps being lower than last year, should we expect any quarter showing unusual seasonal behavior in 2012? And very lastly on Latin American OE consumer production... more, for, say, a bit across for the industry: have you seen any order cancellation in the car production? Any slowdown in momentum for Brazil and Latin America? Thank you.*

A - *Marco Tronchetti Provera – Chairman & CEO:* In Latin America, starting from the last question, in Latin America the original equipment is low. It's already low in quarter 1, we do not expect original equipment to improve. The replacement market is good, and will continue to be good. That's worth for Brazil and it's also worth for the rest of Latin America. In the next quarter we see EBIT quite stable and putting together all

seasonality, the effects will be more or less the same in the different quarters. That means that lower prices... going down and mix going up on a comparison base compared to last year. Then there was capacity. Capacity in passenger car tires is around 87% in the first quarter and then we expect it to continue more or less this way with some slowdown for passenger in Europe but only for the standard mix. And then we have the (...), so the high-end is 96% so it's working... working at full capacity. All the other... new winter... the plants we have in Italy, the new plants in Italy, the one in the UK and Germany for the ultra-high-end, and then we have... the motor is a bit low, around 90%, lower than last year. And then truck is around, for the radial truck tires it remains around 85% and what is dropping more is the cross fly, which is around 70%, but this is the part we want to drop, because it's the one with lower marginality. It's like standard and passenger car tires.

*Q - Edoardo Spina: Okay. Thank you.*

*A - Maurizio Sala – Group Controller:* On page... for what concerns receivables, and stocks and payables, so the movements of working capital, on page 16 we present 513 million euros of growth of working capital. The growth is coming 318 million euros from receivables 85 million euros from stock and the remaining part, 100 million euros, from less payables. For what concerns receivables, the situation is growing versus the previous year but all the indications are in line with the target, so it's coming from the seasonality aspects and from the growth in the sales. You have to take into account that we also consolidated the Russian activities in our... JV activities in our results, so we consolidated the receivables from the first months coming from the Russian sales. For what concerns stocks, there is a growth, 85 million. This is higher than the growth of the previous year and we are already addressing this growth. For what concerns payables, the value is lower coming also from the lower purchasing costs at the end of the first quarter versus the purchasing costs at the end of the last quarter 2011 and lower investments made in the first quarter versus the last quarter of 2011. This is also coming from seasonality of investments. Normally investments are in particular in the central months of the year, July, August, when some activities are stopped in the factories or at the end of the year. But we are confirming our guidance, so the working capital will be reduced and the guidance is of an increase in working capital of 100 million euros within the end of the year.

*Q - Edoardo Spina: Okay. Thank you very much.*

10. Mr. Michele Baldelli from Exane BNP Paribas:

*Q - Michele Baldelli: Good evening to everybody. I have a few questions. First of all, I would like to understand the reason why you decided to cut the capex and if it's just a delay or a cut also with respect to the business plan targets. The second question is about the reasons why you should see a decline of the EBIT margin in the consumer division from the 16 to the below 14% which is the annual target, given the trends of raw materials, mix and so on for the rest of the year, I would like to understand. The other point is about Latin America: if you are losing market share. This is the question. And on... the last one is about the premium volumes that you expect to have, +20%, you are, let's say, confident and in this guidance I think that the winter tires in H2 should be down for you. Thank you.*

*A - Marco Tronchetti Provera – Chairman & CEO:* Thank you. So, first of all, in the consumer business the effect of raw materials is negative, as Mr. Sala was mentioning before. Butadiene has a higher price than what was in the plan, and so this is the effect... and oil also... so this is one of the reasons why it's slowing down a bit compared to the excellent results in the first quarter. Then Latin America: no, we are gaining, not losing, market share in Latin America. So, all in all, the car tire business is doing very well, truck business, except for Argentina – where there are limitations on imports that we hope we are going to overcome in April – we did something better than previous months. And so winter tires: the reduction in winter tires is already in the plan. I think that there will be an earlier seasonality also in part of Europe on winter tires. So, I don't see any change on market guidance, except for the standard business, which is visible in the Euro pool, it's slowing down. It's not the case for premium. For premium we confirm a growth over 20%.

*Q - Michele Baldelli: There was also a question about the evolution of the capex.*

*A - Marco Tronchetti Provera – Chairman & CEO:* Capex. Yes, you're right. Sorry. Sorry about that. You're right. Partly it's because of delays due not to our will, as in the case of Argentinian truck, it's a question of negotiation with the government and then there is a delay, a delay due to technical reasons is Gravatai radial

motor due to the surprise... it's worth 3 million, Mexico is a technical delay, 4 million, so this is due to technical reasons. The only, say, sizable part of the reduction, that has been decided by us is the base low that is down around 10 million related to the low-end products... production. So these are the main figures.

*Q - Michele Baldelli: It is not just (...) in the mid-term?*

*A - Marco Tronchetti Provera – Chairman & CEO: No, this is not mid-term. This is now. This is an effect that is related to... the only reduction that is, let's say, based on our will, is the base low, base low that is due to the existing reduction in volumes in the low-end of the market. As you know, we planned a reduction two-digit in the standard production. We are accelerating it.*

*Q - Michele Baldelli: Okay. I just have a final question about the Brazilian real: are you concerned about the recent depreciation? Or do you have a (...) of profitability from this depreciation?*

*A - Marco Tronchetti Provera – Chairman & CEO: We know that in Brazil now there is a strong fight between the government and private banks, private banks are very restrictive in providing consumer credit, the government is pushing hard and so I think that, as it happens when economy in Brazil slows down, the government puts and is already putting in place actions in order to support consumption. So, I think that we won't see any effect in the next 30-60 days, but something will happen in favor of the local producers. In the automotive industry there are some effective actions I think they will also affect the tire industry, where the level of imports has grown to a level that is not natural. So this is an environment in which I see some opportunities. Back to your previous question, I want to underline once again that there is pressure we are making on investments related to the premium segment. The effort we are making now is on industrialization. We are investing to train people, because we have a mix that is more and more promising because of the complexity and the technological content. And it's happening everywhere. It starts happening in Russia also. So, that is why we are preparing ourselves for a continuous flow of premium growing faster than expected in some regions.*

*Q - Michele Baldelli: Thank you very much.*

*A - Marco Tronchetti Provera – Chairman & CEO: Thank you.*

11. Ms. Kristina Church from Barclays:

*Q - Kristina Church: Hi, yes, thanks for taking my question. I've just got one final question left. Coming back to the capex: I just wondered what your level is, if you could remind me what your level of maintenance capex is. And therefore if you wouldn't need to cut capex there and how quickly that could happen. Thank you.*

*A - Marco Tronchetti Provera – Chairman & CEO: Sorry. I didn't get the line. So, Mr. Sala will provide you the answer.*

*A - Maurizio Sala – Group Controller: We presented in the industrial plan the budget of capex for 2012 which accounted for 560 million euros, 110 million euros was Russia, 380 million euros was capacity mix quality, in particular for special projects in Rumania and China in terms of growth, and 70 million euros was the part related to maintenance, IT, logistics and so on. This was the budget, and now we are reducing by 50 million in particular on a certain part of the maintenance, a certain part of the growth in the project, in particular for the delay in terms of months for the Argentinian products... projects.*

*Q - Kristina Church: Thank you.*

*A - Marco Tronchetti Provera – Chairman & CEO: So, if there are no further questions... sorry, are there any other questions?*

12. Mr. Philip Watkins from Citi:

*Q - Philip Watkins: Thanks for taking me again. I just... there's one question I didn't ask, which is around the organization changes. Are those coming into place immediately in terms of reporting to you, Mr. Tronchetti, the CTO and the CCO? And I wanted to ask... because I've been asked by many investors today, Mr. Gori is leaving... I don't know if you can elaborate at all on... give more color on why he's moving? Thank you.*

*A - Marco Tronchetti Provera – Chairman & CEO: Definitely yes. I mean, these changes are already in place. As you know, I was already taking care of the business, of the passenger car tire business directly, not only as the CEO but directly as the Chief of the passenger car tire business unit. And in that function Mr. Boiocchi, who today becomes the CTO, was reporting directly to me, as all the regions were coordinated by myself. So, this role of coordination was in my duty not only since October last, but it was also before in my role of CEO of Pirelli Tyre. And today, after the last few months, we experienced this lean organization and we saw how effective it was, we decided to eliminate the layers in between, including the layer of the business unit and we eliminate the region... the Europe region. In this way we can work in a much more coordinated way like... like it happens in the frontline of the German companies. So we have a CTO, we have a CCO, we have a responsible of the industrial, and then we have logistics and control. These five people are running the company together with me. These people have the responsibility of the function alongside any level of the company and the people responsible for countries, regions report directly to them. In this way this organization will put us in the position to be more efficient. I'll give you a simple example. We are repeating many times that we are short in capacity on the premium side. We cannot deliver to our customers our tires but, in fact, we have the elements to know what happens tomorrow. Because in our business when we get a homologation we know the registration of the cars, we know how many cars are around with Pirelli tires. We should know where they are. If we are all on board since day one... when the homologation is get and if Mr. Boiocchi works directly with Mr. Pirondini, who is Chief of Commercial and Marketing, and then the industrial side with Mr. Pomati is on board, we can plan our investments in a way to be ready to catch the replacement when it comes to the market. And we know that after the registration of a car, 18 months later, 20 months later, we have a replacement of Pirelli tires. We cannot serve our customers properly today, we are making an effort to serve our customers of the past that we know are coming but we didn't consider and there was no function inside the company that was getting this opportunity to have visibility on the future. And thanks to this I think we'll be more efficient in making our investments, more efficient in the market, taking care of our customers to be a premium company. All the people of the frontline, the five people, are people who are very knowledgeable, they are respected, they have an experience in the company since decades, they are young, the only two old guys are Mr. Boiocchi and myself, but I think it's a good team and so we are quite motivated doing this. The fact that Mr. Gori was in the position to take care of the truck and motor business, he helped me in the last few months in order to keep control of these two businesses, and then, after having cooperated in changing the company, because it's what we have done in the last year and a half, because when we presented the new organization in October last we already had realized some of the main actions and you can believe that we cannot increase volumes in premium in months if we have not prepared this for many, many months. So, we did it. We're getting the first benefits from the actions, taken with a model that is increasingly simple and makes people work together. And it's also better for our people, they have more visibility, they are frontline, they have to run, they have to deliver, they have to work together. And this will be also good for the other people in the regions. They will have immediate answers. The Chief of a country today in the passenger car tire business to have an authorization used to talk with the Regional Chief and then with the Business Unit Chief. So, the reaction was not fast enough. With that structure, people around will come on board and will see the effects of more efficiency, direct contact, immediate reaction, better flows of information. And so I thank Mr. Gori for the support he gave me and it is evident that he made a choice that is a personal choice but he has been supportive of Pirelli since... until the very last minute. So, thank you... I thank him again. I think there is one more... I think there is one more question coming from an investor. Am I right?*

13. Mr. Austin Heuer from Marshall Wace:

*Q - Austin Heuer: Hi, go ahead. Sorry, all my questions have been answered. Thank you very much.*

*A - Marco Tronchetti Provera – Chairman & CEO:* Thank you. Thank you to all of you. If there are no further questions, I thank you for the time you have devoted to us and use this opportunity to warmly thank again Mr. Gori for his commitment to our company and I wish all the best to our young first line managers who through teamwork pursued the ambitious goal of ensuring our premium global leadership. Have a nice evening.

*Operator:* Ladies and gentlemen, the conference call is over. Thank you for calling.