Pirelli & C
Q1 2014 Conference Call
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Marco Tronchetti Provera - Pirelli & C. SpA - Chairman and CEO

SLIDE 2: KEY MESSAGES

Good evening ladies and gentlemen, and thank you for participating in Pirelli conference call on the 2014 first quarter results.

I believe that based on the First Quarter results just approved by the Board of Directors, we may extract the following three Key Messages:

- in Europe, where the full-year Consumer demand is stronger than expected, we have overperformed the market in the top value market segment and gained more than 1 percentage point of market share, both in the Car and Moto businesses;
- in Russia, our turnaround programme is progressing in line with plan; and
- in Emerging Countries, despite demand slowdown in Lat Am and MEA and foreign exchange volatility, profitability was resilient following our value strategy and our speed of action.

The outlook for 2014 is confirmed as positive for the entire Industry: we expect global Car Tyre Demand to be growing by 3.6% and Premium development rate is confirmed greater than three times the market average.

Value levers are by now well known to our Industry, as proven by the growing profitability rate and cash generation level.

In this context, Pirelli is structurally leveraging the following competitive edges:

- Product offering, sales and marketing, on the one side, and
- Gradual improvement and development of the long-term industrial efficiency programme, on the other.

SLIDE 4. PIRELLI KEY FINANCIAL RESULTS

Let’s start with a brief overview of Pirelli performance in the first quarter of 2014. Results are in line with our FY’14 targets and consistent with our value strategy.

We ended the first quarter with:

• A solid organic growth leveraging on our diversified geographical exposure. We took full advantage of the recovery in Europe, improved our position in Nafta and Apac, progressed with our turnaround in Russia and kept a sound organic growth rate in LatAm and MEAI despite the challenging currency environment.

• A Premium overperformance in all markets fully benefiting from our investments in OE and Retail. Our Premium volumes grew by more than 22% and Premium revenues now account for almost 57% of Consumer turnover and more than 80% of Consumer Ebit

• An unparalleled price/mix improvement in the sector: +4.6% in the quarter vs. a slightly negative peer average and in line with our FY target of between 4% and 5%.

• Strong efficiency gains: approximately 30% of our annual target as a first delivery of our de-complexity plan

• A double-digit growth of our profitability, with a 14% Ebit margin before restructuring costs, an improvement of 2 percentage points vs the first quarter 2013.

• A net income above 90 mln euro, + 27% yoy.

Finally, Net Debt trend in the quarter reflects the usual seasonality of the business with an increase of receivables due to summer season sales which are going to be cashed-in in the second quarter.

We confirm our FY target of a Net debt of approx. 1.2 bln euro which implies the usual strong cash flow generation in the next quarters.

We remind you that the sale of our steelcord business is not included in our net debt target

SLIDE 5. 1Q PERFORMANCE BY REGION

First quarter results showed a higher growth contribution coming from Europe which today accounts for 36% of total revenues and 35% of tyre profitability. This makes Europe the main contributor to our profitability. Performance was solid across our business units:

• In the Car, we ride the growth of Premium segment leveraging on a reinforced partnership with OEMs and reaping the benefits of the OE pull-through strategy. Today, Premium revenues account for 74% of Europe Car revenues, 4 percentage points more vs. the first quarter 2013

• In the Moto, we benefited from the recovery of the market, increasing our sales in the radial business with an improved market share and a positive impact on the price/mix component. In the last year, our product portfolio, prized by the major trade magazines, benefited from prestigious adds on, such as Angel GT and Metzeler Sportec M7, the latter was acknowledged as the best super sport tyre by the German trade magazine Motorrad.

• In the Truck, we outperformed market growth with a renewed product offering and wider market coverage through our Equities; this is the case of Germany, for example, where we increased our direct presence offering services to fleets. We made the most of our competitive cost base which contributed to produce a turnaround in our profitability in the 1st quarter.

Strong volume growth, combined with a mix improvement and efficiency gains brought about a significant profitability improvement in Europe, with an Ebit margin ranging from slightly negative to double digit positive.

In North America, despite the harsh weather, we recorded a solid performance in the consumer business with a 6% revenue growth – net of the exchange rate impact - and a profitability improvement. Our regional products made in Mexico are performing well and we will further expand our product portfolio during the year with the launch of Cinturato P1 plus. Our Mexican plant is ramping up and we expect it to reach 2 million pieces of capacity by the end of the year.

In Russia, turnaround is progressing in line with expectations. In a market scenario characterized by demand slowdown and customer trading down, we ended the first quarter with a sound revenue growth and a high single-digit profitability, above FY 2014 target.

The main profitability drivers were:

• mix improvement with a strong growth in the A and B segments through our Pirelli and Formula products and the improved product range as well as a closer relationship with our key customers

• efficiency gains through to higher saturation of plants and the first results of our de-complexity program.

Profitability advanced both in MEAI and in Asia Pacific, owing to a strong performance of our Premium offerings. Our partnerships with the best local OEMs contributed once again to advance brand recognition among top customers in Asia.

Market scenario was particularly challenging in South America in the first quarter:

• Main currencies devaluated vs both the Euro and Dollar with a negative impact on raw material costs

• demand slowed down in both car and truck OE channels while the trend in Replacement remains positive

In this scenario, we recorded an organic revenue growth of 9% driven by:

• mix improvement – given our higher focus on Car Premium and on radial truck, while proactively reducing our exposure to the conventional business ,

• initial price increase to cope with the forex devaluation, and

• volume growth was slightly negative overall; Car Replacement was up +5% while OE Car and Truck went down.

Profitability was impacted by the higher raw material costs in local currency and the above-mentioned lower contribution from volumes with a yoy decline in Ebit margin of more than 1 percentage points, more than compensated for the strong performance of Europe.

<u>SLIDE 6. PREMIUM: OUR GROWTH ENGINE ACROSS REGIONS</u>

Let’s now briefly review our Premium performance and implementation of our value strategy across Regions.

In Europe, which is our main Premium market, we reinforced our partnership with OEMs:

• 19 new homologations were added to our portfolio, which is made up of over 1,000 homologations, and among the most relevant, we have the exclusivity for Porsche 911 turbo with Pzero, Volvo S60 with Cinturato P7 and Alfa Romeo 4C; and we are co-supplyer for Audi A7 with our P7 All Season;

• our market share further increased, reaching 51% in the Prestige business, due to our increased exposure to both Maserati and Porsche, and over 22% in Premium business due to our higher exposure to Audi, BMW, Jaguar, Land Rover and Alfa Romeo.

OE Pull-trough is working well and we are benefitting from our past investment made in the Original Equipment channel:

• marked tyres sales increased by 21% yoy in the first quarter and now account for over 40% of Premium sales

• Premium replacement market share increased across countries especially in Super Premium in Germany, Italy, Austria, Switzerland and Sweden

This was also the result of both:

• A wide product range, the largest among peers, with 930 different Premium products, 76% in Super Premium and more than 50% marked OE

• The improved retail/equity coverage. In the last quarter of 2013 we acquired a small retail chain in Bavaria and we continuously expand our network through franchising agreements. In Europe , we have 2,300 points of sale of which ~10% Equity and hard Franchising.

In North America, we are reinforcing our partnership with Premium brands both European – such as BMW and Mercedes – as well as US – e.g. Cadillac and Lincoln.

We are widening our offer with the launch of specific products for the local market made in our high-mix Mexican plant. The advantage of local production will have a positive impact on our accounts considering:

• The lower cost of labor

• No duties

• Lower transportation costs and shorter shipments, with a positive impact on working capital management

In South America, we are driving the expansion of the Premium market leveraging on the evolution of rules and regulations with green products and an improving car parc.

Finally, in APAC we are reinforcing our link with European Premium brands where our market share reached almost 20% with an increasing presence in Mercedes, Audi and Volvo. We have also increased our retail business in China: in the first quarter, we added more than 200 shops reaching 2,100 points of sale, in line with our target of more 3,000 by the end of 2014.

SLIDE 7: REGION-SPECIFIC PRODUCT INNOVATION SUPPORTING PREMIUM GROWTH

Our product offering in support of our Premium strategy is developing along the following major market segments:

• In the OE channel, we are developing closer partnerships with Premium and Prestige European and non-European car makers;

• In the Replacement channel, our offering values and highlights our existing excellent products and adapts them to the specific needs of the new target markets

Our partnership with OEMs and our multi-regional strategy have a natural tendency to increase the level of complexity, which is widely mitigated by the growing specialization of plants, as well as by component rationalization and standardization, with an average reduction of 10% in the number of Ipcodes and of around 20% in the number of most significant basic components in each operational unit.

Some more detail about the individual Regions:

In South America, Pirelli is anticipating the imminent introduction of new rules and regulations for Car and Truck Radial Tyres, due to come into force in 2016. Approximately 80% of the homologations under way relate to green technology. In addition, we are introducing our advanced technology green product range, like Cinturato P1 and Cinturato P7 for Cars and the new Carrier for Light Trucks. We also announced the new ATR Street Tyre for pick-ups and our 01Series is proving to be very successful in the Truck and accounting for 15% of our volumes in LATAM one year after its launch.

The completion of our Winter range in Russia is progressing according to plans, with a strong acceleration in the last few months. Our best-seller, the studded Pirelli Ice Zero, which produced a beneficial technological fallout on the Formula and Amtel second lines, will be available in 71 sizes before the end of June, 56 of which are currently industrialised fully, well above our forecasts in the Plan.

At the same time, we are securing new partnerships in Russia with Premium and value Synergic OEMs, like Daimler, Ford, Renault, and we are shifting from legacy to Pirelli and Formula brands, now accounting for 25% of homologations, in line with the Plan.

SLIDE 8. EFFICIENCIES PROGRAM

Another pillar of our equity story is our efficiency plan.

The results achieved in the first quarter, almost 30% of the FY 2014 target, confirm our track record of the last few years.

Our long-term plan envisages savings of approximately 350 mln euro equally spread over 4 years.

Approximately 50% of the over 25 million savings achieved in the first quarter regarded raw materials, where we worked on:

- Decomplexity, with a raw mat portfolio streamlining and component standardization, and
- Waste/scrap reduction

The other 50% of savings were related to:

- Productivity improvement through de-complexity across plant, adoption of common best practices and cell organization
- Allocation to low cost countries by fully exploiting Truck delocalization and more competitive exports from locations with devaluated currencies.

SLIDE 9: PIRELLI NET INCOME 1Q’14 VS 1Q’13

Net income in the first three months of 2014 was positive for 91.5 million euro, or 18.4 cents per Share in terms of attributable income.

This is a growth of more than 19 million euro compared with Q1 2013, which is to say nearly 27% yoy, or twice as much as our percentage growth in Ebit.

Ebit was indeed the main driver of Net Income growth, adding more than 22 million euro.

Additionally, financial charges were lower by nearly 15 million euro year-on-year, as they compare with a 2013 figure which included one-off charges linked to Foreign Exchange devaluation for more than 8 million euro, and discount a slightly lower cost of debt, which now stands at approximately 6.1%.

Results from equity participations, negative 7.2 million euro year-on-year, include the residual valuation adjustment following Prelios Q4 2013 results; as you may remember, when we presented our FY 2013 accounts only part of Prelios’ net loss was disclosed to public, and this leads to additional charges worth 13.8 million euro.

Finally, we recorded higher tax charges for approximately 11 million euro; tax rate is stable year-on-year at a seasonally high 37.2%, in line with our full year target of 36%; excluding the impact of our participation in Prelios, tax rate was 34%.

SLIDE 10: PIRELLI DEBT STRUCTURE AS OF MAR 31, 2014

Pirelli's gross debt is worth 2.5 billion euro, around 50% of which maturing from 2016 onwards.

The liquidity margin of 0.8 bln euro includes 423 mln euro of cash and cash equivalents, which reflect the business seasonality.

Finally, cost of debt stood at 6.09%, in line with the target of "below 6.5%" announced to the market for the FY 2014.

SLIDE 11: PIRELLI Q1'14 NET FINANCIAL POSITION

Let us now turn to the evolution of our Net Financial Position. The first quarter of the year is highly seasonal and characterized by higher receivables which will be cashed in during Q2.

This is the main driver behind the growth of our net financial position to 1.97 billion euro; this value is however in line with our budget and will reverse back to meet our full-year target of approximately 1.2 billion euro at constant consolidation perimeter.

Additionally, the first quarter of 2014 was characterized by

- Higher sales yoy in Europe and Russia, which are highly seasonal markets and have an impact on receivables,
- Lower payables because of foreign exchange devaluations and lower cost of raw materials.

During Q1, we also recorded almost 59 million euro negative impact related to foreign exchange devaluations, mainly attributable to the different exchange rate used to translate the accounts of our subsidiary in Venezuela. We now use the SICAD 1 exchange rate, at 10.7 bolivares per dollar, in line with other international companies operating in the country and with government recommendation for the automotive sector.

Finally, we invested approximately 65 million euro during Q1, consistently with our capex plan which is more geared towards the second half of the year.

SLIDE 13 2014 PIRELLI OUTLOOK BY REGION

Let us now briefly review our expectations for the Tyre Market and our own results in 2014, on a regional basis.

I will concentrate on the new assumptions versus our FY 2013 presentation, even though the overall picture is unchanged and our targets confirmed.

In brief, we now expect a better environment in the European market, compensating for a slightly lower outlook for Russia and the Original Equipment market in Brazil.

We are slightly more optimistic about the European Car Tyre Market, up 4% yoy in 2014 with Premium up double-digit, as we continue to see a positive momentum into the year. Our revenues in the region are now seen up in the mid-single digit range with a pre-restructuring costs Ebit margin in the mid-teens range. Our strategy in Europe has not changed, and it revolves around a continuous push on Premium levers and efficiency gains.

Our expectations for North America are confirmed; in a positive market, Premium especially, we are set to grow revenues in the mid-single-digit range and deliver an Ebit margin in the mid-teens; our local industrial operations, tailored premium products and targeted distribution growth are working in conjunction to execute on our targets.

As for Russia, we now see a slightly more pronounced market contraction for FY2014; this notwithstanding, our turnaround plan is working well, as you can already see in Q1 results, and we confirm our target of double-digit revenue growth and mid-single digit profitability. Our Russian Plan does not rely on a booming market, but rather on internal value creation levers, so the slight downgrade in market expectations does not affect our numbers.

The South American market shows opposing trends between the OE channel, which we expect at minus 3% this year as automakers reduce their business, and the Replacement channel, growing at about 3 to 4 percent year on year.

Our top-line continues to perform well in organic terms, as we grow mix and execute price increases; this performance will be dented, however, by the devaluation of the region's key currencies and result in overall sales being down in the mid single-digit range this year.

Profitability in South America is proving to be resilient, owing to our timely reactions to forex volatility and increased efforts on the cost side. Additionally, we keep benefiting from unparalleled access to clients through our equity distribution network.

Our thinking around Asia Pacific and the Middle-East Africa region has not changed; tyre demand in both markets is supportive and Premium penetration is growing rapidly. We confirm our growth plan in both markets and are confident to end 2014 with profitability in the high-teens.

<u>SLIDE 14 FY 2014 TARGETS CONFIRMED</u>

The regional dynamics we just reviewed points to a complete reiteration of our full year 2014 targets.

Our commitment to create value translates into

• a revenue target of about 6.2 billion euro,

• profitability of around 850 million euro, and

• net financial position negative by 1.2 billion euro, with positive Net Cash flow before dividends above 250 million euro.

Volumes are still expected at +5% yoy, with premium above 14% which will sustain an improvement in price/mix to the tune of 4 to 5 percentage points. Organic growth will therefore be above 9% and up to 10% yoy.

I would like to remind you of our expectations of negative Forex impact by 9 to 10 percentage points which brings total revenue growth to about +1%. On this topic, we prefer to maintain our cautious stance although some current spot rates are slightly better than our assumptions

Our targets assume a constant consolidation perimeter. The time when the closing of our deal with Bekaert takes place will determine the amount of the SteelCord business result which will be actually discontinued. As of today, we can estimate an amount of approximately 10 million euro of third-party EBIT and net cash-in of more than 200 million euro, not currently factored in our Net Financial Position target.

SLIDE 15 FY 2014 CONSUMER AND INDUSTRIAL TARGETS

The breakdown by business of our 2014 targets is unchanged.

Consumer revenues will be at approximately 4.6 billion euro with profitability at around 15% Ebit margin before restructuring.

The Industrial business, at constant consolidation perimeter, is expected to end the year with 1.6 billion euro in sales and a 14% Ebit margin.

Thank you, Ladies and Gentlemen. I shall give the floor to Mr. Sala who will address in greater detail our economic performance.

SLIDE 17: KEY TYRE RESULTS

Maurizio Sala - Pirelli & C. SpA – Head of Group Planning and Control

Thank you Mr. Tronchetti, and good evening everyone.

I would like to start by reminding you that from Q1 2014, we will report the third-party results of our Steelcord business among discontinued operations, for a total of 22 million euro in sales and 2.4 million euro in Ebit.

In the Appendix, you will find our restated 2013 figures by quarter.

The tyre business delivered a solid first quarter of the year, starting off right on the path to achieving our full year targets with an organic growth of 8.4% and improving profitability.

• Our commercial levers and balanced geographic footprint worked well to compensate for the high Forex headwind on sales, -10.8% coming mostly from South America.

• In particular, volume growth was strong in mature markets, +11.7%, and in the Premium segment, +22.2%, both of which contributed to an industry leading price/mix increase at +4.6%.

Quality organic growth allowed us to increase profitability by almost 21 million euro bringing our margin to 13.9% of sales, 14.3% before restructuring.

SLIDE 18. PIRELLI TYRE FY13 OPERATING PERFORMANCE

Looking more closely at our profitability trend year on year, it is clear how our internal levers are being effective in creating value, despite an environment of volatile exchange rates.

Ebit improved by 20.6 million euro, or 1.7 percentage points on sales after restructuring costs, mainly on the back of:

• Rising volumes, worth 24 million euro, with a drop-through on Ebit of 42%, higher than in the past due to the performance of the consumer business, and

• price mix, for 39.3 million euro, with a drop-through on Ebit of 55%

These items more than compensated a 19.2 million euro headwind from foreign exchange as well as increased depreciation and other costs, including commercial & marketing.

Tangible progress in our efficiency program, worth 27.6 million euro in lower costs, together with a lower raw material burden by 7.9 million euro more than made up for the increase in input costs.

SLIDE 19: CONSUMER BUSINESS: PIRELLI PERFORMANCE

Our consumer business, worth 77% of tyre sales in the first quarter of 2014, performed particularly well and was responsible for the company's overall Ebit growth.

Revenues were up 1.1% despite a 9.2% negative impact from foreign exchange.

The business recorded a double-digit organic growth, with volumes up 5.9% and a price/mix improvement worth 4.4%.

As already commented, Premium volumes were particularly strong at 22.2%.

These variables, which testify to the success of our value proposition, led to an increase in Ebit margin worth 2 percentage points before restructuring, at 14.4% of sales.

SLIDE 20: INDUSTRIAL BUSINESS: PIRELLI PERFORMANCE

The results of our Industrial Business reflect an uneven performance of end-markets and a relevant impact of foreign exchange devaluation.

Revenues contracted by approximately 12% yoy, after a 15.4% negative impact of foreign exchange rates following the devaluation of currencies in our main markets, mainly South America and Middle East which account for approximately 80% of total revenues.

Despite the positive 3.2% organic growth, volumes contracted slightly owing to a challenging comparison base and a reduction in lower-value-added X-ply tires in favor of All Steel tires in the Truck business; this had a positive influence on mix improvement, for a total price/mix of 5.4%, in line with our Guidance.

The volume trend we experienced this quarter is in line with our expectations, and we do forecast higher growth in the coming quarters also helped by improving comparables.

Profitability was substantially stable year on year in absolute terms, despite the rising headwinds, and as a consequence Ebit margin before restructuring improved by 1.3 percentage points to 14%.

SLIDE 21. 2014 RAW MATERIALS GUIDANCE

Very briefly on raw materials, we confirm the Guidance we shared with you at the end of March. While visibility of the P&L impact improves, we cannot exclude additional volatility in the last part of the year and prefer to take a cautious view.

Natural Rubber prices are expected to average 2,250 dollars per tonne in 2014, implying an increase from current spot prices.

We still expect Brent oil at about 110 $/barrel, while butadiene is expected at an average of 1,100 euro per tonne.

The negative impact of Forex erodes the positive impact of overall lower raw material prices year on year, yielding a net figure of -75 million euro on 2014 Ebit.

SLIDE 22. FY 2014 MAIN PROFITABILITY DRIVERS

Finally, on our expectations for the full year 2014, the main assumptions that make us confident to reach about 850 million euro of Ebit are confirmed.

Questions and Answers:

Philip Watkins - Citi - Analyst

Good evening, and thank you for taking my questions. I just had two, please, firstly on the price mix. I can see it was a good quarter. For the remainder of the year -- I know you've confirmed your guidance on price mix -- I was wondering if you could perhaps give a flavor of the price element that you expect for consumer tires for the remainder of the year, percentage points.

And secondly, on South America it does seem, to me at least, that you're gaining market share there. I'm wondering if you would be able to give an indication perhaps of where you're taking that market share from, if I'm correct in my assessment. Thank you.

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman, CEO

Thank you. Price mix - we see the trend continue. On price side, we see quite a stable picture, in which Europe had a slight decrease in price that was compensated by the other regions.

And all in all, we see prices by year end being flat globally and mix continue to grow at the rate we have in our plan and in our targets that we confirmed.

For LatAm, we continue to exploit our structure in the replacement market, where we have mono-brand distribution, we have the strength of our equities that we strengthened lately.

And so we can continue to catch up with the market share we have and having a stronger presence in regions, mostly in the southern parts of the country.

And in the original-equipment market, as in the one we are forecasting, is in line with expectation of the automotive industry. We don't take into account possible rebounds related to incentives or things that can happen in the next months.

So the visibility we have by year end is the one I describe now. Thank you.

Philip Watkins - Citi - Analyst

That's great. Thank you.

Gaetan Toulemonde - Deutsche Bank - Analyst

I have a question. I hope I will be clear in raising my question. When we look at the organic growth of premiums, out of this ForEx impact, you mentioned that the growth rate is plus 16%. At the same time, you mentioned that the volume is up 22%. Can you explain me how we can reconcile those two numbers, between the 16% organic growth like for like of the premium and the plus 22% in volume?

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman, CEO

So price mix, reduction was concentrated in mature markets and due to:

- one-third to the original-equipment indexation clauses due to raw materials
- one-third to channel and regional mix, considered a high weight of both OE sales year on year - 30.2% in Q1 2014 versus 29% in Q1 2013 - and of emerging markets, characterized by lower average price compared with mature markets - 24% of volume in Q1 2014, versus 22% in quarter one 2013
- one-third to the benefit from lower raw-material costs, which was partially transferred to replacement customers.

Gaetan Toulemonde - Deutsche Bank - Analyst

If I understand well, in Europe you have a small decline in pricing because pass-through of raw material, negative-mix OE replacement.

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman, CEO

Perfect.

Gaetan Toulemonde - Deutsche Bank - Analyst

Okay. Thank you very much.

Philippe Barrier - Societe Generale - Analyst

Good evening. First question regarding the LatAm operations. Could you give today what part of the sales in LatAm is premium, how it could evolve in the first quarter, and what is the trend for the rest of the year and the coming years? Could we just have a view regarding the positioning of the group in terms of market share in the premium segment in South America?

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman, CEO

So in South America, premium is 5% of the EUR639 million overall -- that's the figure -- the precise figure. In Q1, you can see in slide number 6 where there is premium of the growth engine across regions -- slide number 6.

Organic growth is 23.2%, we have a negative impact of 25% related to the ForEx. It's okay?

Philippe Barrier - Societe Generale - Analyst

It's okay. Just a second question. In Russia, what is today's part of the legacy brands that you want to reduce? For the time being, what is the weight of these brands, and in term of profitability, what level could you reach on these brands in Russia?

Gregorio Borgo - Pirelli & C. SpA - General Manager Operations

Gregorio Borgo speaking. We are reducing the quantity of the legacy brand because, as mentioned before, we are gaining market share, mainly in the A and B segments, so with Pirelli brand and with Formula brand.

We are, as well, working to improve the profitability of Amtel. That is not really a legacy brand because it is a C-brand level

So as far as the legacy brand, the pure legacy brand with [out fountain], we reduce our volume by 50%, and they are still slightly negative, in terms of profitability, but, as I said, with the volume 50% lower than one year ago.

Philippe Barrier - Societe Generale - Analyst

Okay, thank you. And last question, on the pricing in Europe on mature markets, basically – we see some competitors reduce the pricing and just to know what is the impact on the market coming from the negative pricing?

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman, CEO

Looking to the replacement market in Europe official figures that are given by Michelin and Conti that are indicating a 2%, 3% price reduction, related to the raw-material effect. That's the -- what is happening in Europe.

In US, because of the currency effect, we don't see signs in that direction. In the rest of the market, there is a competition between price increase raw mats and exchange rate. We balance this, and we continue to profit on the better mix we have in every region.

The industry continues to be disciplined. I mean, we see that -- there are no signs of any strange action. In the original equipment, what happens in prices is only related to the cost matrix effect, so prices continue to be in line with our expectation and will continue, because there is no change in the attitude of the main players.

So what we have in our plan is absolutely in line with what is happening with our customers. We have with them contracts that are sometimes global contracts, and they are long-term contracts. So the forecast on prices is easy.

Philippe Barrier - Societe Generale - Analyst

Okay. Thank you very much.

Austin Earl - Marshall Wace - Analyst

Hi. Good evening, everyone. I just had a question regarding the FX and raw-material effect. In the past, you've split it into two, giving a gross impact on the raw materials and then the impact of currency, importing those raw materials into emerging markets. And I just wondered if you could give me the two gross numbers that come out at the net number of plus 7.9 in your bridge. If my question is a little bit confusing, if you could refer to the full-year-results presentation -- the slide 21 in the full-year-results presentation, where you provide guidance of EUR75 million net effect of raw materials, which is minus EUR175 million on currency, offset by EUR100 million positive on raw materials. It's that -- those two numbers that I'd like to get to.

Maurizio Sala - Pirelli & C. SpA - Head of Group Planning and Control Department

Okay. If we take the page of 21, the guidance for the full year is minus EUR75 million, out of which plus EUR100 million is related to the positive cost, in terms of market currency. And minus EUR175 million is related to the ForEx negative impact.

If we take the first-quarter trend, we registered a positive impact -- global positive impact by EUR 8 million, out of which the foreign-exchange rate was negative by EUR40 million. And the raw-material prices were positive by almost EUR50 million.

This is coming from the fact that -- if we can consider the basis, when we reported the cost of raw material versus the corresponding period of the 2013, the advantage is higher versus the average because the first quarter of 2013 was already -- was still with raw-material costs high.

The natural rubber was almost $3,000 per ton. Butadiene -- the Brent was $113 per barrel, and the butadiene was EUR1,400 per ton. So we are comparing the first quarter 2014 versus first quarter 2013 that was still high on raw-material costs.

In terms of exchange rate, the impact is lower versus the impact of the full year, because we have in our assumptions a further deterioration of the exchange rate versus the current situation.

Austin Earl - Marshall Wace - Analyst

Yes. Actually, on that currency issue -- the guidance that you provided at the beginning of the year on the revenues for both consumer and for industrial tires -- given what you've seen so far in the first quarter are you sticking with that, or do you think maybe the impact on revenues will be less negative than the guidance that you've originally provided?

Maurizio Sala - Pirelli & C. SpA - Head of Group Planning and Control Department

We confirmed the assumption of exchange rate versus also what we already believe that the end of March. So we are confident that the impact will be in line with what we already declared.

Austin Earl - Marshall Wace - Analyst

I mean -- well, yes. I mean, the worst case -- for example, for the consumer business, you expect the full-year impact on revenues to be minus 8% to 9%. And yet it was only 9% in the first quarter. And surely the second half is a much easier comparison base.

Maurizio Sala - Pirelli & C. SpA - Head of Group Planning and Control Department

Yes, but we included in our assumption a further devaluation on the Real because the average of the first quarter was 2.28 versus the dollar. I'm including our assumption to 2.40. We include a further devaluation of the Argentinian peso that is lower than 8 -- Argentinian peso for a $1, we included ARS 8.50.

So practically, we have in our assumption versus the current situation, further eventual devaluation of exchange rates in different countries and regions.

Austin Earl - Marshall Wace - Analyst

Understood. That's very helpful. Thank you very much.

Operator

As there are no further questions, I would now like to hand the call back to Mr. Marco Tronchetti Provera for any additional or closing remarks.

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman, CEO

I just want to thank you -- all of you for the attention, and good evening.