

# Pirelli&C. S.p.A

## Conference Call FY2010 Financial Results

Milan – March 08, 2011

Good evening, ladies and gentlemen, and thank you for being connected with us to analyze the 2010 results approved today by the Board of Directors and especially discuss the 2011 outlook.

Before reviewing the economic and financial results of the fourth quarter 2010, I would like to briefly outline the current industry trends.

Moving to slide number 3.

Already last November we announced the three-year business plan with a vision to 2015, I pointed out how the tire industry is subject to different dynamics than the automotive. First of all, it is less cyclical: over 70% of the industry sales are linked to the replacement business, while for Pirelli its replacement business accounts for 75%. As a result, there is a reduced sensitivity to Original Equipment production, a better scheme in transferring input cost increases in higher profitability. The 2010 results so far disclosed by our motor peers prove once more how different we are from the automotive industry. This year the gap within the tire industry with its average 9% EBIT, that is the top 10 manufacturers' average, and the outer parts automotive industry was wider than ever, especially because of the tire business profitability that peaked versus the past 10 years. The tire industry proved its resilience versus input costs; in 2010 the cost of raw materials went up strongly, almost 90% year-on-year for natural rubber and over 50% for synthetic rubber. This was offset by an expanding demand up to 11% and the solid price discipline increases our fair value by approximately 6%. In this environment, Pirelli recorded an unprecedented peak of its profitability in the tire business, 10% EBIT before restructuring costs, through the price/mix lever, which is approximately 9%, where Pirelli was the best performer among its peers. The tire segment is more flexible than the automotive, because it has a linear cost structure. In this scenario, Pirelli shows all of its flexibility, originating from, first of all, its high localization rate, on average 76% of our production takes place in low-cost countries, where we are going to direct 80% of our investments in the next five years, and a sound financial structure, a gearing of 22%. Should an international crisis affect global demand substantially, Pirelli has already devised a contingency plan providing for the freezing of investment, careful/stringent management of working capital, more stringent cost-cutting actions. Experience gained during the 2008 and 2009 crisis will help us cope with any possible future downturn.

The main driver of development in the tire industry is the premium market growth. This market segment is positively impacted by two factors: first of all, the growing demand of premium cars in the rapidly developing economies and second the evolution of the premium car concept in mature economies. Here is the ratio that well describes the current trend. In 2011 the global car market will grow by approximately 5% and the premium segment will develop three times that same rate. Pirelli's focusing on the innovation of products, and its production capacity increased in this very segment. In the 2011-2015 period, Pirelli will increase its capacity to 26 million premium tires. The company intends to raise its level on total consumer sales outside Latin America from more than 60% in 2010 to 73% in 2015. One should not forget that those car markets that specialize in the premium segment, like BMW, Audi and Mercedes, are delocalizing to Asian countries where they are expected to produce 1 million cars in the next five years. Pirelli enjoys a great competitive edge, being the only company that has a production site specialized just in premium tires in China.

Finally, emerging markets are going to grow at three times the rate of mature markets in the next five years. Here Pirelli made over 50% of its sales already in 2010. This percentage will increase by more than 5 points in the industrial plan time horizon. Inflation-related concerns are growing in those markets, yet Pirelli has a strong track-record in business management in high-inflation countries. Pirelli has built up a long experience in countries with a high inflation rate like Brazil, Argentina, Venezuela and Turkey. Pirelli uses two fundamental levers: prices, transferring cost inflation on prices in the short term, control of its working capital, reduction of payment deadlines.

Moving to slide 5.

Pirelli closed its 2010 full year with results that have definitely improved on a year-on-year basis. Our targets, which went through several updates during the year, were exceeded three times because of the consistent resumed performance of our core business, which is confirmed to be among the best in our industry.

2010 was an important year for Pirelli. We have completed the separation of our real estate business and disposed of our well-known strategic assets and shareholdings.

Today Pirelli is a pure tire company with:

- a profitability close to a double-digit figure
- a level of indebtedness amongst the lowest in the industry, with a 22% gearing and a Net Debt/EBITDA ratio of 0.7
- a 12% Return On Investment and a dividend yield of 3% versus 2% in the industry.

Let us now discuss our operating performance in greater detail.

Our fourth quarter results confirm Pirelli's sound positioning in the market. Revenues grew by approximately 17% due to an effective pricing policy, and a good winter tire season.

High profitability despite the impact of raw materials, 270 million euro in 2010, of which 125 million euro just in the fourth quarter. This has been fully offset by price/mix.

Our corporate tax rate went significantly down because of the results made by our core business.

High cash generation, 249 million euro in the fourth quarter, despite the investment of 212 million euro.

Slide 7: the significantly improved results of the tire business in countries with lower taxation, such as Romania with 16%, and China with 12.5%, coupled with better results in Italy and the US, offset by past losses, brought down the group's tax rate to 38%, 35% for Pirelli Tyre.

Therefore, we achieved our business plan target for 2011 one year earlier, with a reduction of taxation by 1 or 2 percentage points compared to a 40% tax rate level.

Based on the 2011 business forecast, that we will discuss later, we believe we can bring the group's tax rate down to 38% or even lower in 2011.

Moving to slide number 8, Pirelli closes its 2010 financial year with a net financial position of 455.6 million euro, setting a 73 million euro improvement versus 2009, despite investments worth 438.6 million euro, 92% in the tire business, and a dividend distribution worth 85 million euro.

Net operating cash flow amounted to 107 million euro, 138 million euro in the fourth quarter.

Slide 9: so the Pirelli gross debt amounted to 1.1 billion euro at the end of 2010, minus 400 million euro year-on-year, due to the separation of our real estate business.

66% of gross debt is at fixed rate, 67% in Euro.

Since November 2010 we have substantially changed our debt structure.

We diversified our financial sources by accessing the capital market with a bond issue of 500 million euro, the majority of which was chosen by foreign investors. Part of it will go to repay the used portion of the current credit lines.

We extended the gross debt maturity to over 4 years, 44% of gross debt expiring from 2016. Beside using the bond issue, we signed a new credit line of 1.2 billion euro, that replaces the two current lines expiring in 2011 and 2012.

Finally, early in March this year we made the decision to optimize our debt structure by reducing Pirelli Tyre's gross indebtedness by 500 million euro with a capital increase financed by the parent company. At the group level, the total amount of debt remains unchanged. We believe that this action clearly shows Pirelli's commitment to its core business and investments envisaged in the next 3 to 5 years.

Going to slide number 10, Pirelli's group parent company closed its 2010 Fiscal Year with a net income of 87.4 million euro in spite of the separation of Pirelli Real Estate, 119.7 million euro, partly offset by the cash-in from the PBS sale, 16.1 million euro.

This result, combined with the market reduction in consolidated debt, led Pirelli & C. Board of Directors to propose for the next shareholders meeting a distribution of a 16.5 euro cent dividend for each ordinary share and 22.9 euro cent for each savings share. The dividend will be paid on May 26, 2011; Coupon detachment will be on May 23.

Based on the average market price from the beginning of the year, Pirelli has a 3% dividend yield on ordinary shares, and a 4.2% dividend yield on savings shares versus a 2% average of the three peers that pay out dividends: Michelin 3%, Nokian 2%, and Bridgestone 1%.

Now I'll leave the floor to Mr. Gori, who will discuss in greater detail Pirelli Tyre's performance.

Thank you, Mr. Tronchetti. Let's now review Pirelli Tyre's results from slide number 12.

Pirelli Tyre confirms a solid growth trend also in the last quarter of last year, with sales up by 17.3% year-on-year, a performance among the best in the industry.

This trend results from a value-oriented management policy constantly focused on the premium segment as well as a consistent and sound pricing policy.

Record profitability, with an EBIT margin of 10.7% despite a major increase in raw material cost. Once more, the drivers of these results are:

- ongoing improvement in price/mix
- effective cost management
- productivity gains

Operating performance and effective management of the working capital led to a solid cash generation in the fourth quarter with a net operating cash-flow of approximately 200 million euro, despite investments of 185 million euro, three times depreciation in the quarter.

Moving to slide 13.

In 2010 substantial quality-oriented results were achieved through our value-based strategy.

Double-digit growth of sales, both in the full year, +19.5%, and in the quarter, +17.3%, in all regions and both businesses, consumer and industrial.

Price/mix increased, +11.3% in quarter 4, a unique result in the industry through effective price increases and the success of our premium products, clear-cut quarter on quarter volume improvement, +3.4% in quarter 4 versus +15.6% in quarter 4 2009, driven by the positive trend of winter tire sales, record profitability with an EBIT of 129.6 million euro before restructuring costs: the top value in the year; a full-year net profit worth 253 million euro, up by 72% year-on-year.

Next slide 14, let us take a closer look to revenues by region.

The weight of emerging markets is growing and now they account for 50% of sales, 1 more percentage point than in 2009; within this area, Latin America shows the top growth, +26% year-on-year, thus consolidating our market leadership and benefiting from a double-digit margin in the region.

In Asia Pacific, +24% year-on-year, Pirelli the only player with a premium tire plant in China, started supplying the key OEMs in China.

Yet North America is the region with the highest growth, +32% year-on-year; here Pirelli, who is only active in the consumer segment, is indeed pushing a premium-oriented strategy with a line to increasing its market share.

In Europe 40% of sales, +13% of growth year-on-year, our sales were supported by premium products.

Moving to slide number 15.

Profitability is improving in 2010, +130 million euro, and in the fourth quarter 2010, +24 million euro, despite the raw material cost increase, which was more than offset by the price/mix.

Volume growth and efficiencies: 50 million euro in 2010, 23 million euro in quarter 4 2010, mainly connected to delocalizing production in low-cost countries, 71% of consumer business and 93% of the industrial, as well

as target cost management actions, like waste reduction and use of alternative raw materials, contribute to the good level of performance.

Slide 16: Pirelli Tyre closed its full year with a net debt of 1.1 billion euro, and an operating cash-flow in quarter 4 worth 197 million euro, 16% of sales, due to its solid profitability and an efficient working capital management.

In 2010, Pirelli invested 405 million euro, almost twice as much as in 2009, 70% of which to increase capacity in Latin America, China and Italy, where the new Settimo Torinese hub was completed. Works were also started to build new plants in Mexico for the production of car tyres and in China for motorbike tyres. The remaining 30% were invested in projects to improve the production mix and in the launch of new green performance products.

Slide 17: based on the market trends on this slide, quarter 4 2010 data confirms a recovery of mature markets in both the OE and the replacement segments.

Slide 18: Pirelli Tyre performance in the consumer segment has been characterized by

- a 16.2% growth in the top line, due to a strong price/mix variation, +9.3%, as a result of a better product/mix, in particular winter tires, and price increases in all markets
- an 11.9% EBIT margin setting a new historic record in the consumer business, with 36% EBIT growth year-on-year.

Slide 19: 2011 summer and winter seasons focused on innovations in both the car and motorbike segments.

The Cinturato family grows with P1, the green performance tire fully compliant with 2012 European legislation, being introduced now this month, and for the winter season Pirelli will introduce two new products: snowcontrol serie 3, a new generation of winter tires targeting Central European markets, and winter ICE Control, the new tire Pirelli has especially developed for the Nordic markets, from Scandinavia to Russia, from Japan to Canada, where winter is extreme and compact snow and ice covered surfaces are the standard. Almost 100 Swedish, Norwegian and Finnish customers tested the new tire in Northern Sweden, during the 4 days of tests organized for Pirelli along 60 km of ice and snow-covered roads. Finally, the motorbike tire range showcases a new prestige and sportive add-on Diablo Rosso 2.

Slide 20: the global economic recovery drives the industrial segment in the regions, with a significant increase in tire sales although at different speeds, the definitive rebound of the European OE market, +90% year-on-year in quarter 4 continues in quarter 4 at pre-crisis recovery rates, the +22% Mercosur growth keeps on being sustained.

Slide 21: industrial business results reflect a market recovery as well as a growing top line at 20% in quarter 4 and 26% over the full year.

Particularly strong is the price/mix element, +15.7% in quarter 4, while volume trends reflect our capacity constraints.

In quarter 4 2010, profitability was 8%, EBIT margin before restructuring, and 9.6 over the full year. Profitability was strongly affected by the substantial increase of natural rubber cost, accounting for around 30% of sales, 3 times versus the consumer segment.

Slide 22: for Pirelli green performance does not only mean a car tire, for many years the company has been committed to develop state-of-the-art technologies to meet the needs of fleets, such as an improved retreadability, mileage and fuel savings. The new series 01 product range, featuring high performance and reduced environmental impact, is expanding into other segments.

And now I'll leave the floor to Mr. Tronchetti who will detail 2011 outlook and targets update.

Thank you Mr. Gori, and let's move to slide number 24: the scenario forecasted for 2011 is slightly different from that we described last November.

Market trends make us more confident of demand for 2011, the truck segment keeps growing at a substantial rate, driven by the economic rebound, a double-digit growth in the replacement segment of all major markets in January and the ongoing rebound in the original equipment segment for the mature markets. For 2011, we therefore foresee a market growth by 8% compared with the 4% rate we indicated in November.

In the automotive industry there are good expectations for the replacement business, +5%, as confirmed by low inventories with the dealers and the orders received for the coming summer and winter season. All this allows a more effective production management.

From the last few months of 2010, however, we have experienced an unprecedented increase in the cost of raw materials: natural rubber was up 45%, oil at new highs, synthetic rubber +30% and so on and so forth, which has been a cause of legitimate concern.

In this scenario, our industry responded by leveraging prices. In the last few months there have been repeatedly reiterated announcements of price increases across the different regions of the world.

The market has been responsive: a strong demand in the consumer business and a recovery of production the drivers of the industrial segment allow to transfer the cost of raw materials over the final price.

Concurrently, the major players are increasing making the research and development efforts towards the identification of alternative sources and materials, other than natural rubber, to decrease their dependence on its availability and the speculations. The following measures were taken by Pirelli:

- a memorandum of understanding with Sibur signed last November on production of synthetic rubber derivatives;
- the recent agreement with Danish Company Genan covering the joint development of a technology to process natural rubber from used tires;
- development of new bio-materials.

These programs are part of a far-reaching project aimed at substantially reducing the cost and the weight of traditional raw materials in tire production.

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The slide summarizes our fresh view on 2011 market trends.

As anticipated, our forecasts for the consumer business are good, especially for the replacement channel of the mature markets, as well as for Asia Pacific. As to the premium segment, we redefine it compared with what we indicated on November 4 to include only the top of the range. Premium tires account for 12% of the global tire market and in 2011 will grow by 14%.

In the truck segment, growth is driven by Original Equipment in EMEA and North America and by replacement in the emerging markets.

Slide 26: to react to the current demand trends, Pirelli will make investments worth over 500 million euro in 2011, in line with its capex plan of 1.2 billion euro for the 2011-2013 period.

Over 70% of investments will go to increase its capacity and improve its mix, approximately 20% will go to maintenance and quality, the remaining 10% to health and safety, IT and logistics.

At the end of 2011, Pirelli will count on an installed capacity of 62 million pieces a year for the consumer business and of 5.8 million pieces per year for the industrial business.

By the end of 2011, the plant in Settimo Torinese will be fully operational; this is the most technologically-advanced hub Pirelli owns in the whole world, which will produce high-performance and ultra-high performance tires, as well as tires with a reduced environmental impact, in compliance with our green performance policy.

Approximately 80% of investments made in 2011 will be allocated in rapidly developing economies like Brazil, Argentina, China, Romania and Mexico.

The works to build a new plant in Guanajuato are progressing rapidly and the first tire will be produced in the second quarter of 2012.

I'd like to point out that once fully operational, this site will produce 5 million premium tires for the NAFTA region.

Slide 27: talking about raw materials, starting from November 2010, the strong and sudden rise of raw materials caused a review on our guidance.

Assuming an average cost of natural rubber of 4900 dollars per ton, and an oil price of 110 dollars per barrel, the estimated headwind of raw materials is of 580 million euro, entirely compensated by price increase and mix improvement. Price increase and mix improvement really cover 8% of the headwind. A further price increase in the order of 2 percentage points shall be made during the year.

On slide number 28, the efficiency plan: we confirm our guidance on our efficiency plan for the year 2011, as indicated on November 4, 2010, during our business plan presentation, 80 million euro, mostly in the consumer business, of which:

- 46% from a productivity improvement, fully operational plant of Settimo Torinese, optimization of manufacturing processes in other sites
- 25% to alternative raw materials, greater use of synthetic rubber and diversification of supply sources
- 16% linked to upscaling
- 13% to increase production in low-cost countries, mostly in China and Romania.

On slide 29, where you see the target update 2011: in 2011 full-year, based on a new scenario, we expect consolidated sales of over 5.55 billion euro versus a target which was 5 billion 150 million euro. Our profitability target is confirmed, with an EBIT margin of 8.5-9.5%.

In the tire business sales forecasts exceeded 5.55 billion euro, versus the previous target of over 5 billion 100 million euro, with a volume growth of over 6% and an approximate 12% positive price/mix.

Guidance on profitability is confirmed, with a 9-10% margin, a tax rate of 38% or lower, a net financial position of approximately -700 million euro, other investments worth over 500 million euro and dividend distribution of 81 million euro.

Thank you very much for your patience and attention and we are now ready to take your questions.  
Thank you.

## Q&A session:

1. Mr. Gaetan Toulemonde from Deutsche Bank:

*Yes, good afternoon, it's Gaetan Toulemonde from Deutsche Bank. I have two questions. The first one is: we monitor natural rubber and natural rubber price is starting to come up a little bit, what is the lag effect of natural rubber price on the spot market and the impact on the P&L? Is it three or four months like some of your competitors or a little bit longer than some other competitors? That's my first question.*

Here's the answer: three months.

*Three months. Okay. The second question: when we look at the guidance, let's concentrate on the tire operation, between 9 and 10% operating margin, what could be the difference coming from? Is it... 9-10% is approximately 50-60 million at the operating level. Why do you give that flexibility? Are you considering this a risk on the volume? Is it a risk on the raw material passed on to the customers? Can you summarize a little bit what that 60 million difference could come from?*

There are a number of reasons: first, price increase versus raw materials, we expect to cover, the mix could be the plus we have, so we leave a little bit of flexibility, because if we can improve the mix, the results can

be improved. What we analyze is that for sure between price and mix we will cover the effect of input costs and if the mix improves better than expected we could have room to have a better profitability.

*We are at the beginning of March, so you have a pretty good idea of the first quarter and eventually the trend of the second quarter, are we today on the high-end of that guidance or are we at the low-end of the guidance?*

We are at the high-end.

Okay.

Thank you.

2. Mr. Niels Fehre from HSBC:

*Yes, good afternoon, Niels Fehre from HSBC. I have a question on your price/mix effect that you expect at around 12% in 2011, that came pretty much as a surprise to me. Can you elaborate a bit more on this figure? How much of that is coming from an increase in price? Is it roughly half of that? And then on the remaining... so is it the same... half? So on the mix effect where is that exactly coming from? I thought that you have done a great job in 2010 already and we have seen a big rebound in the mix already. From this high level expecting a further... around 6% mix increase where is that exactly coming from? That's my first question and then maybe there's a second question: if you can give us a bit more light on the Brazilian truck markets you've guided for a truck replacement market growth of 9%, which is rather optimistic, how much is coming here also from the extended incentives in the Brazilian truck market which have been announced a couple of days ago? Thank you very much.*

Well, first part of the answer: mix. The mix improvement is better and better, I mean, we increased the capacity in Settimo Torinese, we increased the capacity in China, the level of mix is improving better than expected, that's why we expect also for 2011 a mix effect that will be higher, that is related to the answer I gave before that what we can expect in terms of profitability is that if the trends continue our mix will be better than expected. The effort the company is making now is to remain more and more focused on our mix, our policy to be premium means to cut the capacity in low-end faster and faster to deliver to our customers that are more and more demanding in terms of our high-end mix, so we are confident that this can be a positive surprise in the future. I'll leave the floor to Mr. Gori for the answer to the Brazilian questions.

About the South American market, especially truck tires we saw a strong start and we understand that there are a lot of activities in the area of infrastructure, industry trends are very positive so, frankly speaking, we see the truck markets booming, more on the replacement side than on the OEM, but definitely a strong market, so we have no... I mean, this is a forecast for the full year, but definitely the market is pretty strong.

*Okay. Thank you. Maybe one follow-up question, if I may. On top of this capacity increase on the mix effect, can we also expect a positive impact in terms of operating gearing? Or is it probably included to a high extent in this mix effect already?*

It is included now.

Okay. Thank you very much.

Thank you.

3. Ms. Monica Bosio from Banca IMI:

*Yes, good evening, everyone. I would have three questions. The first one is just a check. As for the guidance for 2011, did you account the forex effect? I imagine the answer is no, and in any case if you can give us a flavor on what you have accounted in your budget in terms of forex. And as for the second question, maybe you won't like to answer it but I'll try anyway. Could you please just give us an indication of the winter tire revenues in 2011? Or at least tell us if Pirelli gained in market share in Europe during 2010? And the third*

*question is: where exactly is the area where you see a more difficult execution in transferring the price increases to the final clients? Thank you.*

I'll answer to the first part of the question and to the last, and then for the winter tires Mr. Gori will give you the answer. Forex, yes, is in our forecast, our mix of currencies, as we mentioned in the past, is quite balanced between euro, dollars, reals, yen, so I mean we do not expect swings that could affect our results. Then, the last question was related to where we see problems to increase prices: for the time being, we don't see any regions that are not prepared to accept a price increase because we are short everywhere. So there is no region that, for the time being, is showing a slowdown in the demand. So, we feel comfortable that this trend will continue. Mr. Gori?

About the winter tire market in 2010 the market was strong but we outperformed the market, in terms of market share it's only a fraction of the points that we gained on the total market, but it was more consistent the gain in the premium winter market. What is also good news is that stocks are very low, probably at the lowest level ever recorded in this industry in the recent years, and this offers a very good opportunity for second half 2011 in terms of winter sales.

*Okay, thank you.*

4. Mr. Thomas Benson from Bank of America:

*Thank you, hi, it's Thomas Benson from Bank of America Merrill Lynch. I have three questions, if I may. Firstly, could you remind us of the share of what you call premium passenger-cars in the total of your passenger-car units in 2010? And where you see it go in 2011, please?*

Unchanged. 60%.

*Okay. Looking at your volume development, is it fair to say that you've overall given up some market share to make sure that you were ensuring the maximum possible price/mix effect in Q4?*

No, "we want to improve the mix" means we want to reduce our presence in the medium-low end, we will increase our presence in the high-end, which is increasing faster than expected, as we mentioned in our presentation.

*Sorry, did you lose market share? Your volume growth was 4.2% in the consumer business and 1.6% in the consumer business, so if we look at what you show us for the market growth by region and we apply your geographic mix, your volume growth seems to have been lower than your market growth, so is it a fair statement to say that you've lost market share overall. And did you lose share to protect pricing?*

No, no, no. We haven't lost anything in pricing. We are changing rapidly the mix, which is in dollars, we don't have a loss of not even a fraction.

*Okay. Last question, if I may. Could you comment on the magnitude of your increase in winter tire facilities getting into a strongly competitive winter tire season? Because it looks like every tire maker is preparing for a fantastic winter tire season and is adding a lot of capacity for the market.*

If you mean increased by price... or by volumes?

*No, I mean in unit (...) please.*

It will be a two-digit increase. Definitely.

Yes.

So, well above 10%, and we will see how much above 10%.

*Okay. Thank you very much.*



5. Mr. Martino De Ambroggi from Equita:

*Yes, good afternoon everybody. The first is on the output capacity and net working capital. If you could elaborate a bit more on these two main issues. On output capacity I was wondering if your full year guidance estimates are penalized by the capacity constraints you mentioned during the presentation particularly in the industrial segment, which were up only 1.6% and on net working capital management the efficiency shown in full-year 2010 what are your expectations for the current year in terms of net working capital and did you change any payment terms in order to have such an efficient management or what is the secret? And two more: one is just an update on the Russian deal, if any. And the tire on a stand alone basis, the tax rate was 35%, you mentioned the tax rate on a consolidated basis but if I take your statement of increasing output capacity in Romania and China, I should expect another 1-2% lower tax rate for tire business stand alone for the current year. Am I right?*

Starting from the last question: you are right, I mentioned in my presentation that we can have below 38% as percentage of fiscal rate in 2011 that includes what you underlined, so the improved capacity in areas where the profitability has lower taxation. Russia, by the end of March we should have a better, let's say... information, all in all, of the agreements we are going to set in Russia. They are all in line with what we mentioned in our last press release, so a joint venture will be set for the... under the control of Pirelli, for the after market in Russia and in the region CIS countries and Scandinavia. We expect to anticipate our investments that were expected between 2013 and 2015, but I do not want to go any further because I want to have fixed information after an agreement will be signed. So, we are still under discussion with our partners, but by the end of March I think we can disclose... and anyhow it will be in line with what we said during our last conference call and with the last press release we made. Mr. Gori?

From the point of view of working capital management, there has been no discontinuity. The only exception being that because market demand was very strong, we ended the year with record-low level inventories. And that helped, of course. But no other major action to improve working capital than these low inventory levels. The output in 2011 has been increasing day after day, every month we keep investing and increasing capacity, in all the factories we have already identified and we gave you a disclosure, on both car tires and truck tires. So, we hope that we will be able to improve the service level, that has been not the best in 2010.

*Okay. On output capacity is there any important figure penalizing the full-year guidance? For output capacity constraints?*

At the end of the presentation, you have two pages showing our new projects, and the volumes are the ones presented by Mr. Tronchetti at the beginning of his presentation and better shown in the three-year plan booklet.

*Okay. Thank you.*

6. Mr. Eduardo Spina from Morgan Stanley:

*Hello, good evening. I have a couple of questions. The first one would be on the group structure. Given that you get nearly 100% of the revenues from the tire business, why are you not considering moving, say, away from this type of reporting and just, you know, give group guidance and book numbers, what's in between the... below, the tire business and why are you not including it in the tires? And the second question is on restructuring costs: if we should assume that you have ongoing restructuring cost of approximately 20 million per year, is that a fair assumption? And the third question would be on the forex effect because I think on EBIT I see a negative effect, a currency effect, but on sales it's positive. So I was wondering how that works. And lastly on management compensation, I'm sorry if I'm mistaken, but I think in 2010 you booked 7 million per quarter, in... I don't know exactly what, but was related to management compensation, perhaps because it was linked to the target achievement. Is that something... first of all, am I correct in that? And should we expect the same amount in 2011 and 2012 or how can we model that? Thank you.*

Starting from the last question, of course, every three months we put in our results the LTI effect and if it's positive it means we are close to reach the targets. So it will be... we hope it will be also in 2011. That means that we are in line with the guidance. Second, always starting from your last question, the effect of currencies on EBIT until now is positive, slightly positive, but as I mentioned before, it has never been so material compared to our results because of the balance between the currencies that we have; restructuring costs in

2010 were mostly related to the reduction of the number of employees all around the world, this year we expect a lower level of restructuring costs than in 2010. In 2011 anyhow they are included in the targets that we set and the first question was... I can't remember the first question... group structure... the group structure. So the group structure is tire then we have a minor activity in filters, 60-70 million and then (...) is a small business, but tire is 99%. That's why the rest of the business is not significant. That's also why we made a capital increase of 500 million within the group for the tire company, in order to underline that we are a tire company. So there is no cash at the corporate level dedicated to anything else. Everything is focused on tire.

*Okay, can I have a last question, please?*

Of course.

*Thanks. I didn't know whether you'd heard me or not. The last question is more on the raw material side. So we saw rubber prices coming down in the last month, but oil price came up. So, if you had to... take a view... assuming that the spot price will stay as it is going forward, do you think for you is the same impact on your earnings or are you getting slightly more concerned on the volume? I say this because I think that higher supplies of course affect your customers and therefore might affect your demand. Are you getting more concerned now that you see the oil price coming up? Is that a level that you're watching? Or is it something that for now is not in the discussion?*

But for what we can foresee today, volumes are growing, the demand is strong in every region, so we have no worry about the price increase, so that's why we are confident that the trend will continue, today we see natural rubber going down, but the oil-related products going up, for us it's neutral what is happening today and unless there is something unexpected at the geopolitical level, which is not in our hands, for what we can foresee these trends do not affect our profitability, we can profit from the trend increasing our turnover and increasing proportionally our profitability. So that's the trend we see as of today.

*Thank you very much.*

7. Mr. Gabriele Gambarova from Banca Akros:

*Yes, good evening to everybody. I have just a few questions, if I may. The first one is on industrial production capacity. I mean, you have some constraints and you should increase your capacity by around half a million units this year. I wonder if this has to deal with your Alexandria plant in Egypt and if you could give me some update on it. How is the situation going on? Is the plant working? And so on. And then I would like to ask you if you have in mind after the broadband business disposal any further disposal of financial assets or something similar?*

So, for the first question you have the answer on page 26 of our presentation. Now, the growth is not 500,000 tires, it's 6 million tires the growth in 2011 consumer, and last year is 500,000, that is 500, from 5.8 to 6.3 million tires.

*Sorry... I would... sorry to interrupt you, I was referring to industrial. Sorry, industrial.*

So, for industrial we confirm 500, which is in line with the plan. In Alexandria we had a few weeks of slowdown, now the production is 90% of capacity, we have an agreement... we signed an agreement with personnel, which is in line with the contract we used to have, with some improvements, we have to say that mostly is for the export, the internal market is still very slow, but 90% is export and so we don't see any major effects coming from the Egyptian plants.

*PBS?*

PBS, sorry we sold it and so I don't have the answer.

*Sorry, I was asking if you are planning to sell any further financial stake you may have or are you satisfied with the disposals you already made, including PBS, of course?*

We have these shares that are still in our portfolio, we have an agreement whereby we already know the minimum price at which we are going to sell it. So that's why we feel comfortable and we do not follow the day-by-day business of the company, because we have a put-option in our hands.

Okay. Thanks.

Thank you.

8. Mr. Philippe Barrier from Société Générale:

*Yes, good afternoon, Philippe Barrier from Société Générale. I have three questions, if I may. The first question regards the relation with Original Equipment of (...) What kind of contract are you doing in terms of price increase? Shall we have view some close indication regarding the rubber price to increase the price? The second question is regarding the other businesses, actually, with a significant loss for the small businesses I think about maybe the (...) convergence: what is the trend at the moment regarding the other businesses? And the last point is also regarding... Hello?*

Yes, Gori speaking. About the OEMs, no news. We have with some of them cost matrix agreements that recover the higher raw material costs after some time, normally a quarter or two. With other OEMs we have to negotiate, and we are currently negotiating, but I understand we are in line with the industry, so it's a question of specific car-makers and specific regions where there are different, say commercial behaviors. So, of course, what we are going to execute in terms of price increase in the replacement also has to slightly... partially compensate for the OEMs that are delaying the acceptance of the price increase on the outside.

On small businesses, as I underlined before, they are not significantly affecting our results, the business of filters we have the homologation in every European country, we got the homologation in China, Beijing and now we are moving to all the other provinces in China. So we expect that the growth will come mostly from China. But the effect on our P&L will be much lower than in 2010. The other businesses is fashion: we have nice products, we made in sources of the licenses... it's really a fraction of medium effect on our P&L, we expect this business to grow nicely, mostly in terms of brand awareness related to products with materials that are close to our technological experience, so it's a niche of the market and a good business for our brand. That's it.

*And how many years to reach breakeven situation for the other businesses actually?*

The other businesses are only filters. Filters I mentioned China, we have a plant in China, and we expect this business to go close to breakeven thanks to the Chinese market. That is what we are targeting now, for the other businesses they do not have any effect on our P&L.

*Okay, and a last question, if I may, regarding inflation in emerging countries. Actually, I understand that the price increase are easier to pass in emerging countries but at the same time you have some inflation in terms of wages, production costs, do you see some risk which could affect the profitability in the coming years? On the emerging countries which represent 50%... 70% of your production costs all in all.*

In our plan we included the effect of inflation. And during the presentation it was underlined that we have some experience that last since many decades in handling with inflation, from Brazil to Argentina to Turkey so we have been making nice money when there was inflation. So, if the market, the world market, is not affected by major events that are not under our control, inflation is not an issue if it's related to a strong demand.

Okay. Thank you very much.

Thank you.

9. Mr. Gabriele Parini from Unicredit:

*Yes, good afternoon to everyone. I only have one question on the price discipline within the sector. I was wondering in particular if there are any geographical areas or business segments where you are a little bit concerned about the price discipline, or if the discipline is, let me say, not worse than usual across all the main geographical areas? Thank you.*

No, we have no signs of that kind. So we are confident that the trend will continue.

*Perfect. Thank you.*

10. Mr. Michele Baldelli from BNP Paribas:

*Good afternoon to everybody. I have a couple of questions. First of all, it's about price/mix, because in the press release you mentioned 12% for this year. I would like to know how much is mix and how much is price? And then I would also like to know, as you were mentioning 80% of the price/mix effect already implemented, how... how much at the group level... at the tire level, has the price been increased so far? Then the second question is regarding the capacity: I'm assuming that probably the increase in demand in the Latin American countries could be followed also thanks to the new capacity in China, and I was wondering if it's correct and what about the new capacity coming on stream next year thanks to the new plant in Mexico and also the new capacity that Michelin will establish in Latin America? Is it flat for the price competition and price discipline or not? And the last question is about the raw material increase: you are increasing the guidance for 2011 but I remember that there was also a guidance for 2012 or 2013, it was 100 million euro; should we increase by the same percentage these expectations? Thanks.*

First of all, price/mix. Price/mix is more price than mix, and when I mentioned the 80% that has already been covered by the announced price increase and by the price increase implemented, I was talking about the effect of only prices, so the 80% covers the raw materials, you have to add the mix to the 80%, that covers the mix, that's why we think we can cover 100% of the price increase also thanks to the mix. So, raw material price increase is not an issue as of today. Raw material price increase we foresee for year-end is covered 80%, as it has been mentioned during the presentation, and in case there will be the need for another increase, we don't see any problem in putting another 2-3 points of increases. So today we are in a position where our forecast in our presentation has a different mix of cost of raw materials of what it was one month ago, because there is an increase in the oil-related products and a decrease on raw materials... on natural rubber. So these two prices make us confident that the expectation of high natural rubber that we used to have until a month ago, in case it will be lower because it's going down, will be rebalanced by the increase in oil-related products. So the presentation of today takes into account the re-balance between the speculation that there was on natural rubber and the oil price increase. So that's why we are confident of the reliability of the figures.

As far as Latin America, we are increasing capacity also in Latin America, and China is not really supportive of Latin America markets NAFTA, Mexico, the new factory will be definitely helping Latin America to increase capacity for the local market, reduce exports to the NAFTA area. So the game is between the new factory in Mexico and Latin American operations.

So for 2012 and 2013 guidance of raw materials, we leave the guidance because we have seen what has happened in the last few months. Again, until the demand remains strong, there is no issue about raw materials. So, in the last 12 months we did show that the industry was able to profit from this strong demand if the demand will remain strong, even if these levels of raw materials do not have any effect on percentage of profitability on sales. So higher sales, higher profitability all in all, same percentage of growth.

*Yes. Thank you. And Just a follow-up... could you remind us what is the increase in capacity in Latin America and when it will become effective?*

Yes, the capacity increase is running now proportionally day after day and it is roughly 25% of the total capacity increase for both consumer tires and truck tires. So, 30% sales, sorry. 30%.

*And just the last one. And in Brazil you have already increased the prices since the start of the year, I suppose?*

We announced a price increase starting March 1<sup>st</sup>: 7% on truck and 3% car. So this covers 80% roughly of the expected total increase of input costs.

*Okay. Thank you very much.*

Thank you. So, if we have come to the end of our conference call, I want to underline that we are organizing a road show in Europe and the US, and I'll be pleased to meet you there.

Okay, so I wish to thank you all once more. Have a good evening.