

Piaggio Group

Q3 2012 Financial Results

CORPORATE PARTICIPANTS

Roberto Colaninno – Chairman and Chief Executive Officer

Gabriele Galli –Chief Financial Officer

Raffaele Lupotto –Head of Investor Relations

MANAGEMENT DISCUSSION

Raffaele Lupotto – Head of Investor Relations

Good afternoon and welcome to Piaggio's Third Quarter 2012 Conference Call. I'm sorry for the short delay. I do have here with me Mr. Roberto Colaninno, Piaggio Group Chairman and Chief Executive Officer; and Mr. Gabriele Galli, Piaggio Group Chief Financial Officer. The materials that we are using is available and downloadable from our website.

After the introductory remarks, we are available to answer the questions you may have.

And now, I'm glad to hand over the call to Mr. Gabriele Galli.

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Gabriele Galli – Chief Financial Officer

Hello. Good morning to everybody. So let's start with the Q3 presentation. On slide number 2, we are presenting the restatement we applied also in the first half 2012 restatement of the P&L applying the IAS 19.

Slide number 4, 5, 6 are the synthesis of the messages and the key items we had during the first nine months of 2012. So starting by slide 4, the demand has been very weak in all the key reference market.

The western market, as you can imagine, went down driven by Mediterranean countries, especially Italy, Spain, Greece.

Asia Pacific started to reduce a little bit the total performance, in terms of total market, of course, with Vietnam and Indonesia going down double digit, especially Indonesia.

Indian two-wheeler market also went down. Also the scooter performance has been good, compared to the motorbikes. And the Indian commercial vehicle as you know went down in the first part of the year and are showing some sort of recovery during the last months. In this deteriorated scenario, Piaggio is performing, we say, good because we are leveraging on our increased exposure to emerging markets and in our premium position.

In western markets, we are gaining market share for the six consecutive quarter. In North America, we are improving our volume and revenues by double digit. On Moto Guzzi side, so our key brand, we are increasing our revenue, again, in double digit. And our percentage gross margin is proving very much resilient. So despite the decrease in volume all our industrial operation have been able to keep the margin very constant compared to last year.

Asia Pacific, the volume and the revenues are growing double digits up as well in the past. And on top of that, we confirm a solid pricing and solid gross margin. So despite the expansion into countries other than Vietnam and improved products other than Vespa, the average pricing margin are still very much stronger.

India. India, as you know, in this commercial vehicle, the first months of the year has been very much down. We believe that August and September performance reversed this trend and if you look at the two-wheeler business, we've been able to gain market share compared to our competitors. Of course, the situation is not easy because, I mean, the – in some region, the market difficulties are still very high. And also, in some countries, it's not so easy to export, for example, Sri Lanka. But also, our competitors are affected by the same issue. In terms of pricing, we maintained the rigorous discipline and Vespa after a not good performance or negative performance during months of August and September, in October, as you will see in the next days after the publication of SIAM report, started again to go up. At the moment we are at 4,000 units sold in the first 25 days of October. Basically, because we launched an advertising campaign in order to make the product clear to the public. And we made some, I mean, small promotion on the market. So, Vespa, let's say, let's touch iron, but I mean the first 25 days of October, we can say that the trend is inverted.

Moving to slide page 5, in this kind of market, I mean, we can say that despite the decrease of net sales by 7.3%, we have been able to extract significant cost efficiencies at EBITDA and net EBITDA level. In fact, both of them are very resilient. The gross margin is still very much aligned, 30.3% versus 30.6% last year. And probably, if you – as you can imagine to a different product mix such as Cognisa, so the sale to Poste Italiane, of course, does not have the margin there with the retail vehicle.

In terms of EBITDA margin, we are at 14.0% versus 14.3% and also in terms of EBIT margin, we are very much aligned at 8.6% compared to last year. All the other, I mean, financials are I would say good.

OpEx are down, improving the profitability. Net financial position has been recovering during this quarter because, as you remember in June, we were €62 million behind last year due to strong investment plan and also due to some sort of increased inventory. Today, we are recovering because we are just €35 million behind last year without, of course, stopping the investment plan we are having in Asia Pacific.

Financial expenses are higher than last year, but this is due not only from – because of the increase of net debt, but also as you can imagine by the increase of cost of funding. Last year, we renegotiated everything. The deal we've been able to sign was very good, but nothing comparable to the former investment – sorry, the former credit lines that we are – because they have been – they were have been signed in very different years, so in year 2005 and 2010.

In terms of CapEx, the CapEx are still high. We are having 23% CapEx increase compared to last year. This is, I mean, to launch the Vespa in India in order to launch the new three-valve engine in Vietnam, and other projects for Europe such as the build-up of the worldwide warehouse for spare parts. And in terms of debt profile, we believe that it is very robust because we have more than three-year average life and an ample liquidity backup.

Moving to slide 6, fourth quarter. Fourth quarter, I mean, we have some introduction, a good number of vehicles to be introduced in India. Actually, I mean, we really have some expectation for the fourth quarter, but the full expectation will be for the next years. And the three vehicles are the new Apé City petrol. As you know in Apé City, the small Pax segment is accounting for about 50% of the total market. Today, we weren't playing in this market. Thanks to the introduction of the new Apé City petrol, we will be playing there. We will be launching also a 0.5 ton new four-wheeler in a very rapidly evolving segment in India. And the new 1 ton vehicle with the Apé – with the BNA diesel engine entirely produced in Piaggio.

In Asia Pacific, we are launching today the new Vespa equipped with a three-valve engine. And in western country, we launched in September the X10 500 and we will be presenting next – in 10 days the new California 1400.

Moving to slide 7, these are the key numbers. So, net sales down from €1,200 million to €1,112 million which is around minus 7%.

Gross margin, as we've said before, pretty constant at 30.6% – 30.3% versus 30.6% last year.

EBTIDA margin, 14% versus 14.3% last year. So, we have been able to make a very tough reduction of OpEx, around €20 million.

EBIT at 8.6% versus 8.7% last year so pretty constant. Then, as we've said before, an increase in financial expenses, but a strong reduction in terms of taxes.

The tax rate we are working for the remaining part of the year so, the full year is around 38%. All of that is providing a net result of €44.4 million, which is higher in percentage compared to revenues versus previous year and slightly below 2011.

Net financial position, already commented, so minus €35.2 million in reduction compared to June.

Moving to slide 8, we have the analysis of sales by business and by product. So, the total sales are down in terms of volumes by 7.2%, which is minus 14%, commercial vehicle India; minus 18%, commercial vehicles Europe; minus 13%, two-wheeler western countries, where, I mean, we have been able to decrease less than the market and that we have been recovering market share, going up from 28% to 28.6% in the scooter market. Asia Pacific high by 15%. So the momentum for Asia Pacific is still in place.

Moving to the right part, you can see that the scooter performance around the world is good because, I mean, the presence of market decreasing double digits, we are decreasing just by 1.9%. While in motorbikes, we are decreasing 17% and in commercial vehicles, 15%, as already commented.

Moving to slide 9, you can see the net evolution of turnover, minus 7.3%, so very much aligned to reduction of volumes. You can see that the two-wheeler western country went down just 7.6% versus the reduction in volume by 15%, so proving that we have been very firm in terms of pricing policies and proving that we have been improving our mix. So, I mean, key top sales, which is Vespa, are suffering less than sales of vehicle in the bottom of the market.

In Asia Pacific, we are increasing by 20% in terms of turnover. In commercial vehicle Europe, minus 23%, and in commercial vehicle India, minus 16.9%. If you exclude the foreign exchange difference, the reduction in terms of sales would have been only 11%.

Similar pattern you can see in the right part for the scooter. Today, the weight of Asia is still higher compared to last year. Last year, if you're adding up all the total Asia sales, we were at 35%. This year we are up 37%, so 2 points more.

Moving to slide 10, you can see the EBITDA evolution. Last year at 14.3%, this year 14%. We have been experiencing a reduction in gross margin because of reduced sales. But we have been reducing the cash OpEx by €14 million.

Slide 11, net income evolution. So, last year €47.1 million, 3.9%. This year €44.4 million, 4% compared to revenues. The change in EBITDA has been €15.7 million, as we said before. Then we have an increase in depreciation – sorry, an increase in the benefit from the depreciation because we are investing on the fixed asset, and fixed assets have, I mean, a longer period of depreciation. So, the depreciation improved our P&L by €7.5 million. Then the financial expenses have been higher by €7.5 million, out of which a couple of million because of the increased debt due to financing the international operations and the remaining part is due to the increase of cost advantage because we have been leveraging our subsidiary in local value and really negotiating the credit lines last year. Finally, the taxes, an improvement of about €13 million, partly because of reduced earnings before tax and partly because of an improved tax rate, thanks to the higher importance of Vietnamese operations which have a lower tax rate.

Moving to the following slide, you can appreciate the balance sheet. Very quickly then we will look at the evolution in the next slide. You can notice that we have been able to reduce very much the inventory compared to, I mean, last quarter where our inventory have been increasing very much compared to the previous year. Now, in September 2012, we have reduced inventory compared to September 2011. Of course, we have some more inventory compared to January and December 2011, but as you know, the business is seasonal.

The other significant part is that some of tangible, plus intangible fixed assets, you see that the sum of the two, €311 million plus €656 million is €967 million, which is €43 million higher compared to the beginning of the year and €60 million higher compared to the beginning of 2011, proving that we are investing in order to expand our operation.

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Basically, last slide, the net financial position at the beginning of the year was €335.9 million. We have been adding an operating cash flow of €103.5 million, which is very much aligned to last year, so positive generation of cash.

Then we have been generating €15 million from released working capital. Last year, it was €31 million. Then we have been investing €107 million, which is €20 million more compared to 2011. And we have been having a change of equity, €13 million higher compared to 2011, mostly because of increased dividend, around €4.2 million more, and increased buyback, around €3 million more.

So, also in terms of value to shareholders, we have been playing we believe better than last year with an increased total distribution dividend plus buyback, €7 million higher, €36 million versus €29 million. So, the resulting net financial position is €365.3 million, €35 million worse than last year but with a reduction compared to the June net financial position.

We are finished. We are open for questions.

QUESTION AND ANSWER SECTION

Mrs. Monica Bosio - Banca IMI.

Good morning, everyone. I would have a few question. The first one is a general one. My feeling is that the market scenario, both in Europe and in Asia Pacific, is getting tougher and tougher. Now, the market consensus has moved downward the projection for the full year and on average the analyst point are pointing to an EBITDA in the region of €190 million.

I know that the question could seem curious, but the question is, do you feel confident with this projection or do you see some further downside risk maybe because the European market could worsen further or maybe because the Asia Pacific is not expecting to improve?

And the second question is related to the emerging markets, both India and Asia Pacific. What do you expect for the next year and are you expecting a recovery? And if yes, can you give us the assumption behind this recovery?

With relation to India and this is the third question, I'm wondering if you have a target for Vespa for the full year 2012? And then last, I would – I see that the D&A in the third quarter were quite low despite the CapEx, which is went up? I'm wondering why and what do you expect by year-end? Thanks.

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Gabriele Galli -CFO

So, in terms of market scenario, of course, you are totally right. In terms of EBITDA, today, we are ranging around €13 million worse than last year. We are pretty confident we are able to maintain the gap or to arrive to €15 million so we will say that from €185 million to €190 million, this can be the good number for EBITDA.

In terms of D&A, we believe that D&A is really lower than what, today, the current consensus is saying. As we said before, we are investing in fixed assets. Fixed assets have a longer period of depreciation compared to what was reduced in the past year. So I'm pretty confident that at the EBIT level, we will be able to compensate with depreciation what we are – what we will be losing in the next quarter eventually in terms of EBITDA and then even recover. So today, in terms of EBIT, you see a reduction of around €9 million compared to last year. Probably the difference at the end of the year will be lower. I would say reduced to €4 million to 5million.

On top of that, we will have some higher financial expenses, but the difference should be pretty in line compared to the difference year-to-date because performance last year during the last quarter has already been increased compared to the first nine months of 2011. And for the tax rate, the estimate we can do is pretty difficult. So the net result level probably will be very much in line with last year having the same difference as we had today. Also if the EBITDA is around €185 million and €190 million.

Mrs. Monica Bosio - Banca IMI.

Okay.

Gabriele Galli -CFO

In terms of number of Vespa, so you say the – I mean, in the beginning, we started with 2.5 then 3.5, then 2.7 and then 1.7. This market performance is good, so yesterday we were at 4,000. For the next month, we hope that the pattern will prove during the October month is confirmed or enlarged. That's our expectation. Of course, I mean, we just launched the product and we thought that without limited advertising campaign, the products could jump. It's not the case it is not the case. We made some sort of correction and let's see.

In terms of next year, India and Asia Pacific, of course, I mean, the situation is tough also there. Asia Pacific, if you look at Indonesia this year, the market went down because at the beginning, they made – basically, last year, you could buy a vehicle without a very limited down payment. This year, they increased the down payment to 25%, and so the market went down by double-digit So this year the rule is in place for the market so also next year I don't see any difference. I see, basically, the market going up with the same pattern the market had before this environmental measure.

In India, in India, it's true that the motorbikes total went down but in the scooter area, I mean the market is still growing up by double-digit and so we are in this market. So we are confident about that.

In Vietnam, the reduction in this year is starting due to the economical momentum, but in terms of a normal trend, normal usage of the product, we don't see any change in the pattern. So, I mean I would say that we are positive also there. Of course, I mean the fight is in place as against the competition. So we have to build bigger every day, day after day, I mean, with a good complexity. But, I mean, this is our job.

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Mrs. Monica Bosio - Banca IMI.

Okay. Thank you very much

Mr. Stefano Lustig – Equita SIM

Yes, good morning. I will have a further question on the Asian development. If my calculation are right in Q3, you suffered a decline in volumes double-digit, 10% to 11% and a decline in sales by some 4%. So I was willing to understand the first. If you can argue a little more about different situation in Asia, so I imagine there is a slowdown in Vietnam, but if you can tell us the size of the slowdown.

And the second, which is the second question, an update about, let's say, difficulties in penetrating Indonesia with the same success you had in Vietnam. So if you can update on how many vehicles you sold after one year in Indonesia, how far we are from, let's say, the success in Vietnam? And what are the problems you face until today and most important, what can be the actions to solve this problem in the next quarters?

And then on India commercial vehicles, if I understood well, you were mentioning that the benefit of the launch of a new vehicles will be effective mostly in 2013. I was wondering, however, if you can tell us something about the rollout of the new Apè City or the two new four-wheels vehicles, when it's going to happen if it's already there, if you have already some indication of sales for this new vehicles. Thank you.

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Gabriele Galli -CFO

Okay. So, I mean, looking at third quarter in Asia, the dynamics of the market are reduction in Vietnam, reduction in Indonesia as we commented before. Our dynamic in terms of market share, we've been increasing our market share in Vietnam. So I mean, our performance in terms of sell out is still strong. What happened is that since we are launching this year – this month, tomorrow the new Vespa, we have been making some discussion of the network in order to have a good network without the old Vespa and to be able to launch the new Vespa without making discount on the old ones.

So a part of the – it's another reduction which is, of course, 10% of the sales in the third quarter is due to the distortion of the network. Another significant portion is that last year, Indonesia have been stronger because we have been entering the operation and so in entering the operation, we have been putting, I mean, vehicles also into dealers. This year, Indonesia has been performing in the first month not in a good way, as we said before. In terms of sellout, the performance in Indonesia is improving. One of the key reason is personal issues so basically, we didn't put the right management there and we already made the substitution. So we are changing all the structure because we are not satisfied about the people and the performance of these people.

The market is still good also if this year, I mean, we have been suffering because the market were down by 10% because of increase of down payment in consumer financing. But if you look at the sellout in the last month, we are finding the right path. In response, the sellout has been around 1,700, so we are not talking about 100,000 vehicle per year because I mean probably, we have to build up the ground in order to achieve this result. What I mean is some sort of speed at this moment around 20,000 is in our hands. Since we have been the destocking what the former management did in the past month – in the last month of the past year, but the new performance is lower and at the moment, we sold around 7,000 vehicle during the first nine month.

Going to India commercial vehicle, the introduction of product we will be making are very important. What I'm saying that most of the result will be in the next year is because, I mean, India is turning around 18,000, 19,000 units per month of three-wheeler. And also if we sell in November, December 1,000, 2,000 of new product, this really does not make a difference.

So, the entry would be this year but at the end of the year, you're going to have to imagine exploding volumes in terms of the introduction of this new vehicle. Next year, I mean the market is interesting. The kind of product are good and so we hope we will be able to leverage after a ramp-up about this new addition.

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Mr. Stefano Lustig – Equita SIM

Okay. May I have a follow-up question on Indonesia?

Gabriele Galli –CFO

Of course

Mr. Stefano Lustig – Equita SIM

If you can give us an idea, you said you took the decision to change also partly the management there. Can we have an idea of a summary, let's say, of what was wrong or what was not working? Was it the price? Was it the sales network, others?

Roberto Colaninno – Chairman and CEO

Yes. I want to say, primarily, Indonesia is a huge market, where the bigger competition is coming from Japan, from the Japanese companies, especially in Honda and Yamaha, and also from the other Korean companies. It's a huge market with a million of sales every year and with the specific vehicle and the specific customer orientation.

Probably, we have done and considered the difficulty that's coming on these markets in term of organization and in term of competition. But I think that, basically, we now estimate on the right way the time that we need to penetrate in the market where before we, practically, do not exist. So, we believe that with our products, it was more easy to make a competition and to have a win-win story for this year

So, we have decided that for that market, the management, the managing director, the executive manager and the management team probably for that market need to be more aggressive, needs to be more market-oriented, needs to know better the dealer philosophy.

And we have considered that the people that we send there was not wrong, but not so aggressive in their decision and not so oriented to have a stronger competition. So we have sent there new people, a new managing director and probably, we have to estimate better what is our capacity to compete with Honda and Yamaha and with the Korean companies and to follow much better the customer needs.

Generally speaking, what the customer wants from us is that they consider Piaggio luxury products in the bracket, let's say, in term of two-wheeler. They consider that Piaggio will be able to offer them products with premium price, yes, but not with a big difference with Honda and Yamaha.

After that, we have to consider another thing that we have, non-estimate in there in some way. Honda and Yamaha reacted after our penetration in Vietnam against to us in a different way. So they said on the first stage, they don't think on the successful story that we have built in Vietnam. Second one, as they begin to consider us a dangerous competitor in that market that before we weren't there and was totally controlled by them, so they changed their strategy on competition to us in term of pricing, in term of financial position, and in term of customer relation.

So, if you want, in some way, this is a negative and not a way it's positive, because – it's negative because we have obliged to reconsider some strategy there. It's positive because it means that Piaggio, with these

products is considered by them a dangerous competitor. So, if we are dangerous competitors means that we have some value to extract from our products and to offer to the customer.

We have done – if you want a mistake, when we started, we have made too much sell in. So, in a certain way, our dealer buy from us too much and consider the speed of the way of the sellout. So when the sellout was not in the same speed of sell in, they have considered a sort of destocking strategy before to rebuild again the stock.

So, we consider this year, we have now achieved a good destocking position, and we are ready to start again on the next year to approach the market in the proper way – and the proper win is better price, if you want, different, some different strategy because what they want is communication with a sort of promotion story, with a sort of promotion of the products that is probably of Indonesia and not the same from the other country of the Southeast Asia. And we have done this.

And also and there is not – this is a more difficult, if you want. We have to launch different products from Vespa there. Different in a way, we have more colors than them. So, they need a second – the further scooter that we are now looking to start this new launch for the next year – of the first quarter of the next year.

But anywhere the story that huge market is an easy market is not so. Huge market is a difficult market as is the other market. That is what we have learned from Indonesia.

Mr. Stefano Lustig – Equita SIM

Ok thank you very much

Mr. Gabriele Gambarova – Banca Akros

Yes, good morning to everybody. I have just two question. The first is on the Indian Vespa. Now it's clear that this volatility in your monthly sales – I mean, the question is, did you have any particular problem in managing this launch? It's the same question as for Indonesia? So, if there were any specific problems regarding, again, dealerships or prices, product positioning something of this kind? And what's your actions to manage these apart from the advertising, I mean? And then, do you have on this Indian Vespa a specific target, more or less, for 2013?

Second question, regards restructuring charges, I was wondering if you had any restructuring charges in Q3 and if you could refresh the guidance for restructuring charges for 2012.

And last question is on Indonesia, I'm not sure if you said how many scooters you would like to sell on that market in 2014. Do you have any idea? That's *it*

Gabriele Galli -CFO

So, Vespa launch. Vespa launch, I'm saying it's no particular issue but the issue are many times the expectation, so we enter in a very tough market, the market where – I mean, Honda is producing 1 million vehicle of a single item which is the Honda Activa or Yamaha is reacting, selling the new Ray up INR 46,000. And probably in our – since we were launching Vespa, we imagine we go there and we have immediately an outstanding performance.

The market, in my idea, should be created. And what we are doing now is in line to create the market. It should be created with a proper level of advertising. It should be created with the expansion of dealer network. It should be created with the customer cash and with good quality. So it's my idea – I mean, the pattern we are following now is proper and 4,000 units a month is a good level of sales, I would say, after five months of the launch.

What us – probably everybody with respect of reaching 10,000 units in three months, it probably was a little bit another estimation. So, we don't see that we made any particular mistake, if not in expectation.

By dealer network point of view, we have 50 dealers today. Just to give you an idea, Honda has 1,000. So, of course, I mean our business is completely different compared to Honda. We have our product placed 40% up in terms of pricing than Honda. And so our strategy in volume would be, of course, different for all the launch phase. So, in terms of dealer, we are correct. In terms of advertising, we are correct. In terms of pricing, we believe that although high is, I mean, properly positioned compared to the value that Honda delivers to the customers. And so, I mean, we are positive. In terms of total volume, I don't want to – I mean, say numbers at the moment. We are doing the budget. And so I'm telling you 100,000 next year will be unfair, okay? So, take it, this month we are making 4,000.

In terms of restructuring, we spent from January around €7 million; in the quarter, Q3 2012, a couple of million euros; and probably, we would end up around €8 million to €9 million over the course of 2012.

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Mr. Neall Hurley – Rab Capital

Hi. Good afternoon. Just one question in relation to the Italian market. I mean, it looks like sales peaked in the late 1990s thanks to government incentives, and now we're down to total sales of now 250,000 units per year. And what is the natural replacement demand each year, either through vehicles requiring repair, replacement through accidents, I mean, how low can this number go?

Gabriele Galli -CFO

So basically Italian market has been fluctuating very much in the past. If we look at a picture of the last 20, 40 years we had a peak in the 1980s at 1 million units then we had another peak in 1998 and 1999, 900,000 units. Today, it's at a very low of 250,000. So compared to 20 years ago, we are very much down. But if you look at year 1990s, the market was not so fast, so you can say that the cycle is around 20 years or something like that.

What is very important in our understanding is that we are not in a sector or we don't see a sector where behavior of consumer is changing. If you look at the consumers, every day, they pick up the scooters and they use it in order to go to the school, to go walking. So the basic driver of the demand for scooter are not changing because I mean the traffic is higher, cost of gasoline is higher, parking is most costing, and so on and so forth. What changed over the past three, four years is that because of economic crisis, people simply postpone, in my understanding, the purchase of the vehicle. So, I cannot tell you if – I mean, next year on a couple, we have – they will take the decision to change the scooter for another scooter because, I mean, I really don't know. But in terms of usage, the usage is still in place. It's not like, I mean, other product, whereas simply customers don't use anymore and use different substitute.

So, these – I mean, if you consider the fact that over the last couple of years, we have been reducing very much fixed cost in order to lower the breakeven, should be seen in my understanding as a positive view and so on. Sooner or later, the market will restart. I don't tell you 1 million units but I mean we will restart for sure because every day, people are using our products, and we have been able to reduce our cost base and increase our profitability.

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Mr. Luca Orsini- One Investment

Hello. Good morning, everyone. Just a couple of question. The first one is on the working capital. Looking at the numbers, I have seen that a proportion of your debt reduction, if not all your debt reduction, can be explained by the change in terms of payment versus your suppliers. So, and, essentially, you are paying your suppliers later than what you used to do when that is helping you in your debt, and despite as more deterioration of the inventories which is normal in this part of the cycle.

The question I have is how much room do you have to carry on passing on to the supplier this financial burden? And so are you thinking that you can increase – essentially, is that just a blip or it's just a new trend and where we should think you should be?

The second thing is since Indonesia is going, let's call it, below plan, this capacity that in – that you will set up in Vietnam to go to serve the Indonesia market, will it be redeployed in a different place or to a different market or you just slow down the production plans?

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Gabriele Galli -CFO

So I mean, looking at our working capital, I believe, that by one end, of course, we are working on every single lever. So we are working also on commercial payables. And our commercial payable we are putting in place some structural measures, such as reverse factoring. So it's not that we are not paying our supplier on time. It's that we are working to extend country after country and we are extending particularly to Asia, a reverse factor so that we are able to ask longer term of payment and there is still space in order to improve it.

On the other end, we are performing in a good way and we can improve, I agree with you, on inventory management. Inventory today is very much aligned or lower compared to last year, but we can improve even more if we are able to reduce a little bit of flexibility we want to add to our customer. At the moment,

we believe we are in the proper – in the right tradeoff point, but if we need some more cash, we can reduce a little bit by moving to a lower flexible point.

So I'm not really worried about the working capital also because, as you can notice, I mean, we have a negative working capital position by – so the working capital is generating €55 million which is not very common in an industrial business, which is expanding to other regions such as Asia, building up in new plants and some they need for inventories and new customers and so on and so forth.

Going to capacity in Vietnam. In Vietnam, we have industrial capacity to produce 150,000 vehicles. This year, they'd be closing at around 130,000, something like that and so we have spare capacity, with the current number of shifts to serve this year and next year as well. Also because some of the production we are selling in Asia Pacific is imported from Europe because we have to serve Japan and other countries. So, for next year, we don't see any need to enlarge production capacity. If we want to enlarge in any case, the kind of investments is on some bottlenecks so it would be very limited.

Mr. Luca Orsini- One Investment

Yes. Thank you. Just another question. Just for our models, you had – we've seen depreciation coming down in this quarter. Can you guide us for a number of – is that a running number of depreciation or will it be capped again? And what kind of numbers can we pencil in in our model for 2013?

Gabriele Galli -CFO

So, for this year, I confirm the trend. So this year, this trend of reduction and depreciation will be even higher next year, in the next quarter. So, I believe that at the end of the year, the depreciation will be down by €10 million to €12 million compared to past year.

For the next year I imagine depreciation to be in line with 2012 because I mean the kind of investments are already working because we're starting with the new plant on Vietnam, new plants on India and this kind of investment will be depreciated over those next 10 years. And so I really don't see the discontinuities next year compared to this year. This year is the year of discontinuity and you can imagine €12 to 13 million lower than last year.

Mr. Luca Orsini- One Investment

And to ask you about 2013 EBITDA guidance, is that too early?

Gabriele Galli -CFO

2013 is too early because I mean we are doing the budget up to this point. So, at the moment, I really do not have the numbers to tell you.

Mr. Luca Orsini- One Investment

Okay. It's always worth asking. Thank you

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Alberto Villa – Intermonte SIM

Yes, hi. A couple of questions on market's outlook. We have seen some weakness going through European markets after the collapse of Southern Europe markets in the car sales. And that's affecting now other markets, which were more resilient like Germany and previously France. I would like to ask you if you feel there is a risk that also for two-wheelers market in those countries could be affected by a slowdown in the next quarters and the UK has been a good market for you and for – in general, for cars as regard to expectations for resilient trend there for your sales.

And finally, on the Asia Pacific and specifically on Vietnam, what could we expect in the fourth quarter in terms of sales after a weaker third quarter for the region compared to the past trends? Thank you.

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Gabriele Galli -CFO

So basically, I mean, the European market, in total, are very much affected. So we don't see a worsening of this market in the fourth quarter compared to the third quarter. Actually, I mean, all the major markets are down, not of course as much as Italy but I mean, France is at minus 9.9%, So it is Germany, overall, also Germany in the motorbikes climbed a little bit up. As you said before, I mean, a slightly positive market was UK, but UK, as you can imagine, is much important for us. I mean, also with UK, it goes down a little bit more the difference for us in terms of total volume sold in western country isn't so tough, let's say. So we are not so negative because also last year, European market were down in the fourth quarter and so in terms of comparison really, we are not much – very worried.

In terms of Asia Pacific, the total sales should be increasing in the last quarter because, I mean, in the last quarter last year on the hand we had the introduction of Indonesia. But during this last quarter, Indonesia, in terms of sellout is performing better and the de stocking is already almost finished. So Indonesia should be performing in a good way. And by the other end, we have the introduction of the new Vespa, which will be launched today or tomorrow. And so the total number of vehicles sold in the fourth quarter should be very interesting, around 40,000, something like that, 39,000, 38,000, which is higher by 10%, compared to last year. Last year in the fourth quarter, we sold 36,000 – 37,000, okay? A couple of thousand units more than last year.

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Alberto Villa – Intermonte SIM

In terms of margin, the new Vespa should have any.

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Gabriele Galli -CFO

It's absolutely aligned to the old one. Actually, they changed the engine. But we're increasing a little bit the price, but not so much. But we are providing the customer with a much better engine in terms of fuel consumption, quality, noise and setp. And so, I mean, the cost is very much aligned to the old one, from the margin, was very similar. So, in between 14% and 15%

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Alberto Villa – Intermonte SIM

Just a last follow-up, in the last few months or the last two months, probably, we have seen your market share slightly deteriorating in Italy or at least you performing a little bit worse than the market, excluding Poste Italiane. Do you feel there is a sort of a stronger pricing pressure on the market, that's the reason, or anything else you can add on that?

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Gabriele Galli -CFO

I mean, for sure some competitor made some good launch and invested very much on this kind of launch. If the competitor – I'm talking about the Honda with the new SH. It's a very good product. They're spending a lot of money in order to push it. And so I think their performance is good at the moment. We have to see if after the first wave of old SH owner bying a new SH if this wave will go on and we have to see whether after they finish the push in the commercial advertising whether their performance will be so good.

In terms, I mean, of market share, we believe we had a good product. We have the new X10 500, which entered in the last part of the year. We have the new Fly. For next year, end of the year, we will be having the new Vespa LX. We have the California. We have the Capo Nord We have the Vespa 946. So, I mean in terms of market share, it's a tough game but I mean we go on playing.

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Michele Baldelli – Exane BNP Paribas

Good morning to everybody. I have a question on the dealer development. If you can give update on the numbers of dealers by country and I'm referring to India and Indonesia because there were press releases about these. So, if you can update on the targets in particular the one of – 150 in Indonesia by next year and also the one in India.

Then another question regards the magnitude of the destocking in Europe and in Vietnam. At the last quarterly conference call, you gave number on kind of the factor in terms of unit sales of the destocking in Europe. I was wondering if you can update on the number of units that you are, let's say, assuming that this year is usually destocking in Europe and also in Vietnam. Thank you.

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Gabriele Galli -CFO

So I mean, in terms of numbers of dealers, at the moment, we are at 35 in Indonesia, 50 in India and something like 80 in Vietnam. We are increasing at the total sales because, I mean, the tradeoff is very important. You cannot increase very fast the dealer number issue. I mean, the increase is much higher than

the increase of sales. Otherwise, the dealer cannot live. It's a complex situation about the place, the kind of position we want to have, in which cities because we are not planning to do that in the rural areas, of course, because of our price positioning. And the number of dealers you want to have in which cities, how much we are able to grow and everything, all of that should be managed very carefully. Otherwise, you open a dealer and then you are obliged to close.

In terms of destocking, I mean destocking is something which can, of course, in different moment, for example, if a market is going down, the dealer tend to have a coverage constant. And so, if the market goes down, you have a destocking of the dealer because if they want to maintain three months of stock coverage, they also have – they have to reduce their number of item stock. So, in moments such as the one we are experiencing in Italy, of course, apart the market decrease, you have a normal decrease of the stock of the dealer which has more than affected the number of sell-in compared to the sellout. So next year, the destocking will be around 10,000 units.

Going to Vietnam, the stock is something completely different, because we are discussing about the destock of a single model. So we are launching a new model. We have to reduce the stocks of the old model in order to launch the new one without having to push sales of the old one to discounts. So in this quarter, if I remember properly, we have been destocking Asia by around 3,000 to 4,000 units.

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Michele Baldelli – Exane BNP Paribas

Just one question more, on the restructuring, are you, let's say, looking to continue at the same pace of today or are you looking to think about something in terms of restructuring of your operation?

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Gabriele Galli -CFO

mean, of course, we're still partially pending the issue of National Motor, which should be addressed at the beginning – maybe at the beginning of next year. National Motor, we have been reducing also during the month of September because we reduced another 16 to 20 people in September. But there will be a moment when we will have to turn the key. And we have, at the moment, a negotiation with the workers that whenever we want to close the key – to turn the key, we can do that. Next year can be a right moment. This will be the good – there is a big discontinuity. For the other, I mean, since, I mean, volume are going down and markets are tough, we are trying to optimize month after month in order to increase the productivity on a daily basis. This is what we did during this first nine months of 2012 without doing any big discontinuity.

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Michele Baldelli – Exane BNP Paribas

And just for calculation, how many employees there are still in National Motors, roughly?

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Gabriele Galli -CFO

Around 130 at the moment.

Raffaele Lupotto – Head of Investor Relations

Okay. Thank you. I think that we have to close the call now. So thank you for attending the conference call and you can call me from now on if you need further information. Thank you very much.