

Piaggio Group

H1 2013 Financial Results

CORPORATE PARTICIPANTS

ROBERTO COLANINNO – CHAIRMAN AND CHIEF EXECUTIVE OFFICER

GABRIELE GALLI –GENERAL FINANCE MANAGER

RAFFAELE LUPOTTO –HEAD OF INVESTOR RELATIONS

MANAGEMENT DISCUSSION

Raffaele Lupotto – Head of Investor Relations

Good afternoon. First of all, my apologies for the delayed start of the conference call. We are now ready to analyze Piaggio's First Half 2013 Result. Here with me are Mr. Roberto Colaninno, Piaggio Group's Chairman and Chief Executive Officer; and Mr. Gabriele Galli, Piaggio Group's of General Finance Manager. We will use the material that you can download from our website under the link "investors" and after introductory remarks; we are available to answer the questions you may have.

Before going ahead, I remind you that during today's conference call, we can use forward-looking statements that are subject to risks that could cause actual results to be materially different.

And now I'm ready to turn the call to Mr. Galli.

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Gabriele Galli - General Finance Manager

Hello, good morning to everybody. I will start with presentation. We have a couple of synthesis slide as usual. So starting from slide 3, you can or I mean basically the H1 market has been very much affected by the prolonged macroeconomic crisis, especially in Western countries, while in emerging market, the situation was ups and downs.

Basically I mean the Western market is going down by the fifth consecutive year. Italy is today down by 70% compared to 2007. Asia-Pacific was ups and downs, but has been improving during the last month. Indian two-wheeler have diverging trend, bikes are down and are substituted by scooters, which are steadily growing.

Indian three-wheeler are going up in general with a slight 1% increase and the decline in the sub 1 ton 4 wheeler is going on.

So the scenario has been very difficult and indeed scenario will move with our focus on premium products, on price discipline and on efficiency initiatives. So in the Western countries, as we said the market was down by 20%, but we have been able to keep constant market share, and we have been able to confirm our

leadership in the market, which is even more and more competitive.

In terms of pricing, we have been increasing our price, both on single item and also because the market shifted toward high displacement segments. In North America, we still are growing well and the revenue are increasing. Moto Guzzi performance is very good and we have been able to grow by 11%.

And on top of that, which is probably the most significant message of this conference call, we have been able to keep our profitability at the same level as last year. In fact the gross margin is 30.9%. So we have been able to absorb volume decrease, thanks to efficiency on our production plants and pricing policies.

Asia-Pacific I mean in first quarter was negative, second quarter was flat compared to last year. So we are improving, especially the good performance of the second quarter has been driven by Indonesia, Thailand, Taiwan, and Philippines. The prices are still up and a little bit higher compared to last year, as well as the percentage gross margins.

In India we are improving our performance. The market environment is not so easy but thanks to the introduction of the new vehicle Apé City Pax we have been able to have volume in line with the previous year. And we have been able to keep constant market share or to gain a little bit and we have been able to start our export path growth.

In terms of pricing in India we have been increasing in order to recover inflation. The point is that I mean the forex was negative since the rupee went down very much compared to the euro. But in any case, I mean India – only India the performance was good. The Vespa is still going on with 4000 units per month. We've been launching the new version with this quarter and the last month we have been presenting the new product range which will be launched month after month in the next year, in order to enlarge the current products offer.

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All of that, moving to Slide 4, allows us to maintain profitability also after a decline of revenues, which was around 12.1%. In Europe, the sales went down double-digit, reflecting macro-economic crisis, the most affected countries were Italy and France. In North America, as we said before, the revenue are pretty good. In Asia-Pacific, there was a slight decline, around 4%, mainly driven by Vietnam but other countries' performance such as Thailand, Taiwan and Philippines were able to partially offset this volume decrease. Commercial Vehicles in India were in line with the previous year if we exclude the forex effect.

In terms of EBITDA, EBIT and net result ratio, we have been very much in line with previous year. The effect, as we said before, gross margin was 30.9%, which is the same number as in 2012. And also in terms of EBITDA margin, we have been able to maintain 15%, even after €7 million of restructuring. So I mean the performance in terms of OpEx reduction was very effective. The financial expenses was a little bit higher, driven by higher level of debt, but in absolute terms, we are around ultimately half a million compared to last year, so the difference is not so big. This CapEx again contained very much, last year was €78 million, this year we spent €43 million, after the completion of the investment cycle we had during 2011, 2012. The net debt increased during this quarter going up to €458 million, reflecting the working capital cash absorption, but in terms of credit lines, I mean our profile is still very robust.

Moving quickly to slide number 5, you can have a look at the P&L, so sales are down by €92 million minus 12%, gross margin ratio as we said before is 30.9% has previous year, so in numbers absolute value we have decreased around about €29 million, EBITDA margin after a strong OpEx reduction activity is still at the same level as last year, so 15%, and in absolute term it is €100.6 million compared to €114.4 million last year.

Depreciation is very much aligned €43 million versus €42.7 million so in terms of EBIT today we have a decrease of around €14 million, and we are €57.6 million versus €71.7 million with an incidence ratio on sales of around 8.6% versus 9.4% last year. The financial expenses are up by €0.6 million and so the income before tax is €14.7 million lower compared to last year and we are at €41.6 million versus €56.3 million. The tax rate is the same as last year, 40%, so the net income is €25 million versus €33.8 million or 3.7% versus 4.4%. In terms of net financial position as we said before, last year we were at €384 million, this year, we are at €458.2 million last year.

Moving to Slide number 6, you can have a view on volumes, the total volumes went down by 5.4% from 315,000 units to 298,500 units. Commercial vehicles in India went down by 0.6%, commercial vehicles in Europe went down by 26%. Net sales of Vespa went ,Vespa in India, went up from 4.9 thousand units to 25.4 thousand units, so an increase of around 20,000 units. Of course, last year, we had been operating during two months, this year for the full semester.

Two Wheeler Asia Pacific are down by 4.6% from 50.8 thousand units to 48.5 thousand units and two wheeler western countries are down by 20% from 161,000 to 128,000. During this quarter, I mean, the weight of some countries, which they are considered, for example, Italy went down very much. So today just to give you an idea the total volume we are selling in Italy, accounted for 8.4% compared to the total volume we are selling around the world. So I mean also in terms of future development in your model, you have to keep into – you have to know this kind let's say good news. So our exposure to Asia and the emerging countries is becoming more-and-more in total.

Moving to Slide 7 we can have a look at the capital turnover because the turnover has gone down by 12%. So if you look at the price in this single region the prices went up. So just to give an example we have been able to increase the prices in other, in Western countries by 3.8%. But since the mix is changing and also the introduction of India Vespa, which has a much lower average price instead, after a volume decrease of 5.4% the turnover decrease was 12%.

India was an important negative contribution from forex, since the Indian rupee depreciated versus Euro, the impact of forex on India is around €11 million and so following a volume decrease of only 0.6% of the turnover is down by 7.1%. The commercial vehicle in Europe are going down some 22% from €40 million or €31.9 million, the Indian Vespa is going up from €3.7 million to €16 million while the two wheel Asia-Pacific turnover is decreasing by 4% from €95.6 million to €91.7 million and the two wheel in Western Countries has gone down by 17.4% from €462 million to €382 million.

Moving to Slide number 8, you can appreciate the mix of turnover by business, so the scooters are going down by 14%, the bikes when it comes to contribution basically is the same as of last year, it had a decrease of 0.6%, the commercial vehicle have gone down by 10%, while the spare parts have gone down by 12%.

Moving to Slide 9, have a look at the composition of EBITDA, so important, probably the most important message of the conference call is that, we have been able to keep our profitability, so 15% is the same figure as previous year, and in absolute terms EBITDA is going down by €14 million which is composed by a reduction of gross margin proportional to reduction in volume minus €27.8 million and this contraction of operating expenses on which we have been saving around €14 million.

Slide 10, you can see the net income ratio, so last year we were at €33.8 million. As we said before, we lost around €14 million EBITDA. We have a change in depreciation of around €0.3 million and a change in

financial expenses by €0.6 million. And then we are saving of course with a tax rate of 40% around €5.9 million in taxes. Leading to net result of €25 million or 3.7% versus 4.4% last year.

Moving to Slide 11, you can see the net financial position. So during the half, we have been generating €66 million of operating cash flow. We have been absorbing €60 million of working capital and this absorption is due basically to a couple of factors. First of all, we had to finalize the payment of strong CapEx plan we made during the second half of last year. Second, as you know, we are a negative working capital company, meaning that every time we grow, we generate cash, every time we reduce the turnover we absorb cash. So divide these two basis item which led us to a contraction or worsening in working capital. In terms of CapEx, we have been investing €43 million with a big saving compared to last year of around €35 million, so we are saving around 75% compared to last year. And in terms of equity, we have been absorbing €28.6 million, after a payment of €33.1 million dividend and €1 million buybacks. So the final net financial position at the half is €458.2 million.

On the following slide, you had a look at detail of different composition in terms of trade receivable and inventory on which we have been saving some money according to the reduction of turnover. Commercial payable on which you can see the lower cash generation compared to last year and then other assets and liabilities on which we have, let's say, seen some sort of cash absorption due to higher deferred tax assets and lower effect of liabilities compared to last year.

In terms of working capital, we still are generating cash because we had a negative position of around €20 million. So although, we just compare 2012, we still are generating cash, thanks to working capital. Tangible Fixed Assets show a situation with – from also total fixed asset in tangible and intangible show a situation of the higher investment compared to last year in terms of capital base. So the sum of the two is €974 million versus €954 million last year, so this is the consequence of the strong CapEx plan we had during the past two years. And then I mean I'll go directly to the net invested capital, which is about €887 million around €50 million higher compared to last year. So net debt, we already comment in terms of equity after distribution of dividend and share buyback, we are €430 million versus €444 million last year. We have a ratio of 1.07 versus 0.86 last year.

So now we are ready to your questions.

QUESTION AND ANSWER SECTION

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Mrs. Monica Bosio - Banca IMI.

Yes, good afternoon everyone. Can you hear me?

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Gabriele Galli - General Finance Manager

Yes

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Mrs. Monica Bosio - Banca IMI.

Okay, thanks. I have three questions; the first one is the usual question. Okay, the first half was weak due to the macroeconomic condition. In the previous conference call, I remember that you gave a target in term of EBITDA between €180 million and €190 million, then market consensus is now pointing to €180 million, about my feeling is that these targets might be challenging, basically on the back of the effects of the first part of the year is the strongest one. So do you feel confident on this number or you would see more reasonable something in the range of €170 million for full year 2013?

And the second question is regarding the volumes in India, could you please give me the volumes net of the exportation for commercial in India and if you can give me, give us an indication on the monthly run rate that you are expecting in India for the commercial vehicles?

And the third and last question is on Vietnam. The trend in Vietnam looks to me a bit concerning. What are you expecting for the next month? I know that it's a market with high volatility, but it seems that never is – nothing is progressing and that the market could remain weaker also for the second part of the year and may be for the next one. Thank you very much.

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Gabriele Galli - General Finance Manager

So, let's start from the EBITDA. So sales in the second quarter were improving, in fact if you look at the ratio – the ratio in terms of reduction compared to last year is very much aligned with the first quarter. So, in term of EBITDA of course if we are looking back on full year EBITDA. During the first quarter, we were up €2 or €3 million lower compared to previous year, now we lost around €10 million during the quarter, and so we believe EBITDA around €170, €175 is much more reasonable.

Of course, this EBITDA should be obtained by our recovery of sales and the – going on with the policy of OpEx compression and cost savings. So it will be mixed and will be obtained, thanks to the – I mean the two exchange combined.

In terms of India performance, I didn't understand the question about the export, so – if I properly understood, you are asking about export.

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Mrs. Monica Bosio - Banca IMI.

Yes, the volumes flow down in India for commercial vehicles was a minor – minus 0.6%, but does this number include the exports volumes, I would like to know if you can give me the figure ex.

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Gabriele Galli - General Finance Manager

Yeah, yeah the export is really in the sixth month of around 6.5 thousand units so being improving compared to last year and last year, it was around 6.4 thousand units, so let's say in line or a bit improved. What happened is that last year we had a very strong first quarter with a good performance of Sri Lanka, after the first three months of the government decided to increase the custom duty, so the export to Sri

Lanka dramatically decreased, and so during this year, I mean we had to substitute the export to these countries, leveraging on other countries such as Nigeria, for example, and Kenya and so on and so for.

The other question was about Vietnam, so the situation in Vietnam is that, I mean the competition was tough, with Honda in particular. So we have been creating the market for I mean luxury vehicles and basically we have been alone in this part of the market for two, three years, so, let's say, a vehicle with a price above \$1,500, was only in Vespa. Honda followed us and launched the SH, and last month launched a new vehicle, SH Mode is the name. So they quickly gained some market share.

So now we have a couple of products on which we use to compete, which is I mean Vespa and Liberty and we will have – we will be able to present some new products in the fourth quarter thanks to this product we will be will be able to, I mean, gain market share. This product will be presented to the Milan show and Paris show in November. So, for the moment, so third quarter we have to, I mean, counteract against Honda using the Vespa that we have at the moment and Liberty, but then we have some novelties in the fourth quarter.

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Mrs. Monica Bosio - Banca IMI.

Okay, thank you very much

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Mr. Alberto Villa – Intermonte SIM

Hi, good afternoon, couple of questions. One is related to the – I didn't understand because I've been cut off from the conference call – on the reasons why the net working capital and especially for payables was affecting the cash generation in the first half. If you can repeat that for me, please?

And, secondly, I just wanted to go through the OpEx efficiencies once again after the very positive results in the first quarter. Even in the second quarter you are continuing to show very strong improvement there despite the utilization rate of plants is obviously subdued due to the volumes decline. So I wanted to again try to understand what is the potential there, what are you doing specifically to improve the efficiency and why you didn't do it before? So what is the – trying to understand if once the volumes will grow again there is full operating leverage or costs have to increase again? Thank you.

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Gabriele Galli - General Finance Manager

So let's start from the working capital, as you know, I mean we are a company working with negative working capital. So that means that when you have a contraction in business, you absorb cash. The factor I mean we have our credit time recovery much earlier than the payable time.

So if you look at the whole working capital, basically started from trade receivables. This year we have been increasing during the first six months due to the seasonality and we have been improving each region by €65.6 million versus €77 million last year. So let's say that it has been a good performance because it generated – or it absorbed a lower amount of money by €12 million. The same has been with inventory, so inventory last year was particularly high if you remember, €288 million. This year we are at €257 million, so €30 million better. And if you compare the cash absorption of the inventory we absorbed €35 million versus €50 million last year. So let's say lower cash absorption of around €50 million a year.

The point is the payable, the payable were generating last year €110 million, this year are generating €35 million. So let's say the lower cash generation by around €76 million. It depends very much on the amount of purchasing we did during the first half of the year. So first of all, having reduced this amount by €93 million, we were able to purchase much less compared to last year.

Second of all, we have been able to reduce inventory and so inventory reduction by these €15 million, requested a lower amount of external purchasing. Thirdly, we have been investing much less compared to last year, so the reduction of CapEx from €78 million to €43 million also put – caused a lower amount of purchasing to be sustained. So if you add up these three components, we had a lower volume of purchasing and also general expenses compared to last year of around €100 million and you can see the impact on the lower generation of commercial payable.

So this is basically, I mean, the reason of the cash absorption. The last part of this reason is that last year during the second half, we have been investing very much because we moved from €78 million in the first half to €146 million at the end of the year, meaning that we invested around €70 million and we had to partially pay this kind of investment during the first half of year for 2013. So these are basically the reasons behind the working capital absorption.

The last reason is the other assets, as you can see, this year we have other assets and liabilities at €21.1 million. Last year we were at €1.7 million. So during this 12 months we basically had to accrue for some deferred tax assets. And on top of that, we had VAT credit which would be recovered during the second part of the year.

Moving to your second question on OpEx, we're going on with our path of saving off the share quarter-after-quarter. The action I mean started a long time ago because I mean on this full year for example if you look at 2008 we had total operating base of around €374 million and last year we had €318 million so we saved over four years €55 million.

On top of that, this year we are pushing even further because I think revenues and the market contraction commands it to be even stronger. So we are adding a next step to what we already did in the past full year. And if you compare the first half of 2008 with the first half of 2013, we are saving basically €31 million – sorry, €41 million because we spent five years ago €190 million, and this year we are spending €149 million. And this is despite the geographic enlargement in Asia and in India because for example we were to invest in order to build up Vespa in India and we have a construction in order to centralize there. So off this contraction currently we are doing – we will go on doing and a similar effect is also on the production side where we are able to maintain a gross margin aligned or higher competitive percent despite volume decrease, so lower plant capacity utilization.

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Alberto Villa – Intermonte SIM

Okay. Just to understand, the OpEx base that you reduced already to €318 million, how much you feel is the maximum of reduction you might be achieving after the leaning of all processes within the Group?

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Gabriele Galli - General Finance Manager

I mean the reduction we achieved during this quarter was high. Actually there was an increase also in – and reduction of costs. So I believe that I mean, keeping the same path during third and fourth quarter would

be very tough. But we can move a little bit, we are going to save something compared to last year. So maybe not the full amount of €15 million, let's say something around about €5/€10 million of savings

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Alberto Villa – Intermonte SIM

Thank you. If I can just for the final question on Western Europe, how do you see July developing, and do you plan any major product launch for Europe in the second half of this year?

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Gabriele Galli - General Finance Manager

So the second half of this year there will be a very important product launch, it will be during the Eicma fair in Milan, and we cannot disclose what kind of product it will be of course ,but it will be a very important one. So these should help to recover partially the volume and improving our market share.

In terms of the market dynamics it is very hard to predict, very hard. What I can tell you is that during the second part of the year last year the market contraction already started very strong. So we will hope that going forward probably this kind of ratio of reduction will decrease because, at least because that we are comparing versus tougher months.

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Alberto Villa – Intermonte SIM

Okay, on July do you have any feeling on how July is performing?

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Gabriele Galli - General Finance Manager

Again, of course we are still in July – because we are... we are at the 28th of the month. I mean the last week 26th, the last week is very important.

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Alberto Villa – Intermonte SIM

Okay, Thank you very much

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Nicolo Storer – Mediobanca

Hi, good afternoon to everybody. I have just couple of questions. The first is regarding the Apè Pax, are you happy with the development of the vehicle in the internal market, because – and could you please disclose how many units did you sell in the last month, because it seems that passenger vehicles are always underperforming the cargo vehicles in terms of units also, I would like to understand more in depth this issue?

The second question concern the indication you gave on expected EBITDA for a full-year 2013. If I got you well, you said that €170 million to €175 million is, depends on the recovery of sales and on the continuation of the OpEx reduction, could you be more precise in what you mean by recovery of sales, please? Thank you.

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Gabriele Galli - General Finance Manager

I mean, the recovery of sales means that, if you look at the first half, after first half we have been cutting Opex very strongly, but we weren't able to have an EBITDA similar to last year. So for the second half if we want to achieve a result of around €170 million to €175 million basically it mean that we have to recover around €10 million EBITDA. So in order to recover around €10 million EBITDA we will be acting on cost reduction of the year, so we view this in the first half , so this is something we can do, something we can manage, but in terms of sales of course we should push on that in order to reduce the gap compared to last year, because I mean if the gap is minus 12% and the cut of OpEx similar compared to this year of course we will not be able to generate cash. So I see, I mean probably, sales are little bit lower compared to last year, but the ratio should be reduced single digit decrease. In terms of Ape Pax, the total, we have sold around 2,000 units a month from the beginning of the year, so around 6,000, so there was a ramp-up.

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Roberto Colaninno – Chairman and Chief Executive Officer

Roberto Colaninno speaking. I want also to introduce a very important decision that we have taken regarding India, that is already done, so we hired three top managers, that will be the devoted to two wheelers, three wheelers, and four wheelers. Two of these are already on track, the other one will be at the end of August: one will be devoted to export for three wheeler, the other one will be devoted to develop a strategy and sales on two-wheeler and the other one will be concentrated on three and four-wheeler in Indian market.

The background of these three people is quite important. I cannot disclose from where they come, but: one today is successfully involved in the exports market of three-wheelers, the second one is totally dedicated to the launch of two-wheeler that are new products for India/ a new trade name for India, the third one is coming from a huge company that is involved in the car/four-wheeler businesses. So we believe that these three people that will be dedicated 100% on the export of three-wheeler, development of two-wheeler, and the other one on four-wheeler, can help us to improve and give the possibility to grow up.

One can bring is experience in two wheelers; Vespa India is quite good product that is recognized from everybody, in terms of quality, in term of price, probably we need a better sales organization and need to develop the number of our dealers.

The other one can bring to us all the experience on export of the three-wheelers, especially to the Africa, and the third one devoted on the four-wheeler that is where we believe Piaggio can have a good result, based on the point that should be able to organize and to focus on the customer request all over India.

I think that is quite important, because these three people, they are really top level and with high experience can improve and can help us to reach our

goal.....
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Nicolo Storer – Mediobanca

Okay. Thank you and just a clarification will these three new manager, managers replace the existing top management or are just joining?

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Roberto Colaninno – Chairman and Chief executive Officer

No, no. I want to say that this three people don't replace anybody. They will be on top and will be, due to the experience of these people: in two-wheeler products, not only for scooter models but also for bikes, in four-wheeler where we need big experience on the sales point of view, and we need somebody that will be totally dedicated on export, because is quite important as we see by the good results of competitors.

But let's say, we're not replacing anybody because this type of figure are not existing today.

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Nicolo Storer – Mediobanca

And if I may, just two additional questions. Following the rise in tariff to Sri Lanka where is your exports mainly directed to? And the second question is an update on the number of Vespa dealers in India.

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Roberto Colaninno – Chairman and Chief executive Officer

I want to keep your attention that Africa, that means Nigeria, with some others such as Angola, is a huge market for Three Wheeler, where competitors have a very good position. And we believe that our products can compete successfully and it's a question to have people that are devoted and that are experienced for that type of country, as I mentioned to you before. So we don't want just to find a solution for Sri Lanka - because I believe that with duties which are 100% will be difficult to have result there- but to explore new market, new market where export can have good results.

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Gabriele Galli - General Finance Manager

Like other countries: Bangladesh, Kenya, Nigeria, also Egypt was very interesting during the first part of the year. So, I mean it was easy to replace. And in terms of dealers, your second question, today we have 81.

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Mr. Michele Baldelli – Exane BNP Paribas

Good afternoon to everybody. I have a follow-up question. First of all, I would like to understand better the performance in Europe in the sense that I saw your volumes going down by 20%, and I look to the statistics of the market and sincerely it is more than what I see as the decline of the European market. So I was just wondering to understand how much is weighted the geographical mix or if there is a destocking effect so

the dealers reducing inventory and brought your volumes down more than the market?

The second point is about Southeast Asia. I would like to understand what is your expectation in this area about the volumes, if you expect the volumes at the end of the year to be stable or to decline? And some flavor about Indonesia, how it's going on the outlook for the country, the improvements and your expectation of this country? Thank you.

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Gabriele Galli - General Finance Manager

So I mean, Europe, there was of course some destocking of the dealer network, because in order to maintain the same coverage in terms of stock to net sales if the total market is going down, we have to reduce by the reduction of the total market and on top of that we have to destock a little bit the dealer network. So this is, I mean, the reason behind and I mean this is of course one of the reason because we are reducing our turnover so fast. So just to finish this concept, if we assume that, sooner or later, the market will stop reducing and for example, if we are assuming the market will be like the dealer. So the selling will be higher because you have to replace the stock. And then if the market starts to go up, the restocking of the dealer will be some sort of multiplier of market performance.

In terms of volume of Southeast Asia, we are today behind 4% compared to last year. In our plan, we have to grow by around 4% to 5%, also leveraging on these new products we have during the last quarter.

In terms of Indonesia, the performance is good, especially in terms of sell out. If you look at the performance of last year, Indonesia was very good the first quarter but then the demand stopped in second quarter on. We had to completely renew the dealer network, change people, we had to destock dealer network, changing model year. This year the situation is much more clean, so the sell-in is in line with sell-out in the first quarter, sorry the first quarter the sell-in has been much lower than the sell-out, because I mean clean of the dealer network I mean that change in the model year. In the second quarter the sell-in and the sell-out had been very much aligned, and so we can see that the situation is improving. We also changed a little bit the strategy and we are focusing much more on our key value which is Vespa. And so we are working much more focusing on Vespa LX than on other models, which proved to be in the past no so successful and we expect to give us much better margins.

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Mr. Raffaele Lupotto – Head of Investor Relations

Okay. Thank you very much for attending our conference call, we can stop now, if you need more info you can call me later. Okay, thank you, bye.