

Piaggio Group

Q1 2012 Financial Results

CORPORATE PARTICIPANTS

Roberto Colaninno – Chairman and CEO

Gabriele Galli -CFO

Raffaele Lupotto –Head of Investor Relations

MANAGEMENT DISCUSSION

Raffaele Lupotto – Head of Investor Relations

Welcome and thank you all for joining the First Quarter 2012 Conference Call. As usual with me there are Mr. Roberto Colaninno, Piaggio Group Chairman and CEO and Mr. Gabriele Galli, Piaggio Group CFO.

They will use the material that you can download from our website under the link, Investor, Presentations. After the presentation, we will be available for questions you may have.

Before moving ahead, let me just remind you that our comments today may include forward-looking statements that are subject to risks that could cause actual results to be materially different.

And now I am pleased to handover to Mr. Gabriele Galli.

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Okay, so good afternoon to everybody. I will start from the first three slides, showing the key results of the quarter.

So basically 2011 key market trends have been confirmed also in Q1 2012, meaning that the 2 wheel global market is growing and it is sustained by emerging economies.

In particular, Asia markets are growing at a double-digit rate. India market is growing at 11% and the growth is driven by scooters, which grew 30% confirming the actual shift from motorbikes to scooters. Western markets are mixed, meaning that there was a decline in Spain and Italy, while North America and Northern European countries confirmed their growth trends.

Going to three-wheeler, three-wheeler situation was not so good. In terms of market, the Indian market started declining in the three-wheeler business by 9%, while the four-wheeler business went up by 26%. And the same happened in the European markets.

In this market scenario, Piaggio performed very well. So in our western countries market we showed a very resilient business. We have been increasing market share for the fourth consecutive quarter in the scooter market.

We have been pleased with a very good policy in terms of pricing and it happened a very good switching from scooter to motorbikes and scooter to scooter with higher displacement, meaning that the revenues went up more than the volumes.

Then we have been seeing some growth in volume in Northern European countries and in U.S. And in our very good brand, Moto Guzzi, we show the increase in terms of turnover of more than 50%.

India performance, that we've been discussing also during the last conference call, discussing about January and February result. The performance of the market was negative, so the market went down 9% and we've been experiencing also some loss in terms of market share, resulting in a reduction of turnover. The market is very competitive, and other player are playing very hardly, while we are trying to keep our pricing policy in order to keep profitability. In particular, the market situation was very tough in some region where we are very strong by a competitive point of view, such as Andhra Pradesh and Tamil Nadu where the market went down by more than 90% in the first one, and in the second one went down by 35%.

Asia Pacific, very outstanding performance. We have been growing more than 50% in Vietnam, which is our key market, and despite the introduction of new pricing, of new products and new countries, the gross margin peaked at 39%. So, I mean the forecasted dilution in terms of gross margin didn't take place other market.

All of that, moving to slide three, resulted in a slight reduction in terms of net revenues, gone down by 2.4%. It would have been 1.4% at constant exchange rate. This was characterized by increase of two-wheeler turnover in Asia-Pacific going up by over 55% and Western Country growing up by 0.4%, especially thanks to North America and Northern European Countries. And there was a decline in Commercial Vehicles, especially driven by India, as we said before, going down by almost 18%.

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All of that in any case didn't impact the profitability, so this is the very good news. With 8 million lower turnover, we have been experiencing an improvement of both EBIT and EBT level. In fact, I mean despite the reduction in sale, the gross margin ratio went up by 0.2 percentage point from 29.2% to 29.4%. And this resulted, despite increased financial expenses, in higher EBT level and also in higher net income compared to Q1 2011.

Net debt has been increasing a little bit from €406 million in March last year to €422 million, meaning an increase of €16 million. This is especially due to an increase in CapEx to foster expansion in international markets. In fact, we have been investing €9 million more than last year, especially in international markets such as India and Vietnam to complete the Vespa and the three-valve engine.

On top of that, just to assure you about the debt, I want to remark that we have been spending the revolving credit facility. We have been signing that at the end of 2011 by 130 million and we have been extending by another 70 million, meaning that our finance situation would be – I mean good up to 2016.

Going to slide four, talking a little bit about the future, I mean, we have been reentering the Vespa market in India. As we said before, the scooter market in India is booming 30% plus during the first quarter. Starting from the 28 of April, we started the sale of Vespa. Today the production is 150,000 vehicle, and as soon as the market would acquire it we have – able to double the production. Then on top of that we will be launching the new Apé Pax vehicle starting from July-August 2012. This will allow us to enter a very important market segment, accounting for almost 200,000 vehicle in India and almost 200,000 vehicle in the export market such as Africa.

Going to Asia-Pacific, we have been launching the new Fly and in the next month we will be introducing the new engine which is I mean a very low consumption engine which will give us a competitive advantage over the competition. And in the Western Countries we have been launching three very important vehicle; the Aprilia SRV 850, the Piaggio X10 for the GT scooter which we were lacking in the past and which is very important in countries such as France, and the new Moto Guzzi V7. This is only the first part of the launches for the next part of the year, which will have also the launch of California in October, November and many other products.

On top of that, starting from May, we started providing vehicle to the Poste Italiane. And as you know, we won the tender, which will account for almost 18,000 vehicle in the Q2 and Q3. So these are the key points of the presentation. I will go very quickly through numbers and then you can ask us question.

Page six. So we said, net sales down by 2.4% – would have been 1.4% without the foreign exchange effect, gross margin going up in terms of contribution 0.3 percentage point, EBITDA slightly negative, but would have been positive flat 3.3% excluding the exchange rate effect. EBIT, positive €0.9 million, 7.3%, would have been 20.3% including the – excluding the ForEx effect. Net income positive by €0.2 million from €3.0 million to €3.2 million, and net financial position worsened by €16 million compared to last year.

Moving to slide seven, I would comment there, the central column, so the one by Business; you can see that the volume went down by 4.5% from 149,000 to 142,000. India went down by 17.8%, driven by the decline of the market by 9%, and the very tough competition we are experiencing there.

Commercial vehicle, Europe went down by 17.9%. Two-wheeler Asia Pacific went up by 58%, from 17,000 to 27,000, while two-wheeler Western country went down by 7.7% in volume. As you will see, the situation is going to be different in terms of turnover.

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Moving to the following slide and commenting the same column. You can appreciate that despite the decrease of volume in European markets by 7.7%, the total net sale went up by 0.4%, confirming the switch toward motorbikes and higher displacement scooter and confirming that we are not competing on pricing, and with, I said, of course profitability. The similar evolution to volume was in the net sales in two wheeler, Asia-Pacific, which went up by almost 55%, while in terms of turnover, we have commercial vehicle, India going down by 18.7%, excluding the ForEx would have been 13.4%, and commercial vehicle Europe went down by 24%.

Moving to the left – to the right column, you can appreciate that the motorbikes went up very much despite the decrease in volume by 8.2%. The total revenues went up by 10.4%, confirming that our strategy on motorbike is working.

I'll switch to slide number nine, commenting EBITDA. EBITDA last year was 33.7. We have been reducing the cash gross margin by €2 million, driven down by the reduction in turnover, partially compensated from the abovementioned increase in percent of gross margin by 0.3 percentage point. Then we have a reduction of cash OpEx, showing that the work will be the last year in terms of containment of fixed expenses – I mean gave a good result. So the EBITDA is €33 million, with the same incidents in – on top of stage, 9.6%, the larger last year.

Moving to slide 10, you can appreciate the evolution of the net result, last year €3 million. There is a negative change in EBITDA, already commented in the previous slide by €0.7 million. Depreciation is lower than last year.

So again, a positive contribution by €1.6 million. We had a negative contribution from financial expenses, due to especially the higher cost of debt and some higher debt compared to last year.

Tax, similar, the tax rate last year was 47%, this year we made an estimate of 45%. And so the net result is positive by €0.2 million compared to last year with an increase in the percentage of sales by 0.1 – I mean, 1.1%, that's percent.

Moving to Slide 11, I would comment here – I mean, the very good job on the working capital side, last year their total working capital was in March, €66.5 million; this year we have been able to reduce to €37.7 million. This partially finance the increase in the fixed asset. If you add up the tangible plus and intangible, we – last year we had total of €900 million, this year we have a total of €933. I remember that the full – all of the increasing investments have been made in Asia in order to force the Asian operations. The net financial position is therefore resulting in a slight increase from €406 million to €422 million, while the equity increased by almost €8 million –€9 million from 439 to 448 with a ratio of net financial position. Other very much aligned to last year, 0.93 last year, 0.94 this year.

To appreciate the movement in the cash flow compared to last year, you can go to slide 12. You have, I mean in comparison, the situation at the end of 2011 with the situation at the end of first quarter 2012. You can see that this year – I mean we started with trade restriction in euros. We had a positive operating cash flow of €23 million, higher compared to last year operating cash flow which was €21 million. Then we had an absorption, higher of about 20 million in terms of working capital. This was not because of the worst performance this year, because as we saw in the previous slide we are in a very much better position compared to last year but – because we started the year at the 1, January 2012 in a much better position compare to beginning of 2011.

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Then in terms of CapEx, you see that we have an increase from €22 million to €30 million of CapEx, around 37% and this totally due Asia, almost 50% of that is related to Vespa India plant. The other 50% is related to the three-valve engine in Asia, and then there is no differences in change of equity related to some buyback of shares we made this year and some exchange rate differences.

So basically believe we have finished there. Please, we can go with questions.

QUESTION AND ANSWER SECTION

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Mrs. Monica Bosio - Banca IMI.

Good afternoon everyone. I would have a few question. The first one is just a check, on the back of the weakness in volumes in India as for commercial vehicles, do you still confirm your target in term of revenues and EBITDA margin for 2012? And within this context, I would like to know if you can give us some – roughly indication on the total volumes in – that you are still expecting as for India or at least the monthly volumes rate in India.

The second question regards the Vespa in India. The price launch was a little bit better than my expectation. I am wondering if you – this would give some boost on the profitability of the Vespa in India and this you expect something better than what you are reporting in Vietnam, as for the two-wheeler in terms of EBITDA margin.

And the third question is regarding the evolution of D&A. the first quarter was a little bit better – lower than my expectation in term of D&A. I am just wondering if the wake of the G&A is going to increase over this next quarters? Thank you.

Gabriele Galli -CFO

Okay. So starting from the weakness in India. So we have I mean some good news, so we will be launching the new vehicle in September – August/September 2012. This new vehicle will allow us to enter in a completely new segment. This segment is the segment of the Small Apé City Pax , so the TuK Tuk used in big cities. And this will allow us also to have a good vehicle for export. Just to give you an idea, this market, where today we have zero volume is accounting in India for 200,000 vehicle, which is I mean the half of the total market. And one of our competitor, very strong in export, is having 200,000 units of export. So is a huge market for us, is a huge opportunity for us. Of course, I mean we are not in the market at the moment, although the expectation are very good. So confirming now, the total number is not I mean 100% sure, given that I mean the situation in the market during the first three months in India was not good in terms of total market, and that also April is showing some weakness. So the official April data are not available yet, will be available in a couple of days. But will show that there is a reduction of the total market level and also Bajaj experienced a reduction in total sales of around 15%. So the situation is better. Also some sort of market slowdown is taking place in Asia market. In any case, I mean the total sales we had, so of something around 1.630, 1.650 billion are still reachable. Okay?

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Mrs. Monica Bosio - Banca IMI.

Okay.

Gabriele Galli -CFO

Then going to the Vespa price launch, I mean we have been increasing. This was one of the big strategic question, as you remember. I mean, we are selling Vespa at the retail price of €2.3 thousand in Vietnam and I mean the former price that we had in the plan, something around €800, €850 was considered a little bit low. Now the price is around 951 or 1000 depending on the ForEx, and of course you should be able to increase a bit the marginality of a single Vespa.

In terms of D&A, I mean D&A is this year a little bit lower than last year. As you know, I mean quarter-by-quarter the D&A are also increasing, because of I mean how U.S. counts depreciation. I mean, if you have entering the fourth quarter, you have to account for the full year depreciation. And the target of depreciation we will be having at the end of day here is not very much, they just can be some million less but I mean is not because of this first quarter and this will imagine, I don't know, a 5 million, 6 million, 7 million, 8 million lower depreciation

Mrs. Monica Bosio - Banca IMI.

Okay. Thank you very much

Mr. Niccolò Storer- Mediobanca

Yes, good afternoon to everybody. I have three questions if I may. The first is related to the European two-wheel market. Could you please comment a little bit more on, let's say, single market as the trends appear to be very different between countries? I'm referring especially to Italy, France, Germany and the UK.

The second question relates to Indian three-wheel market, and I was wondering how much the problems in the two regions that you mentioned before impacted on the minus 9% figure of the overall market? So which is the weight of these two regions on the total three-wheelers market?

And my last question is related to tax rate. Given the poor performance of the Indian market, I would have expected a slightly better figure. Are you still confident with your indication for full year of a tax rate around 43%? Thank you very much

Gabriele Galli -CFO

Okay, so the European market, as we said, are performing in a very different way. So as you can imagine, we have Italian market and Spanish market performing not in a good way, so the total market in Italy went down by around 15%, the total market in Spain went down by around 18%. Other markets such as France are going a little bit down, but still are down minus 8.9%, while other market such as Deutschland, Germany and UK are positive, around 2% for Germany and 3% for UK. The total two-wheeler European market is going down by around 8.1%, made of minus 8.3% in scooter market, minus 7.7% in the bikes

Piaggio Group has been performing very well, I would say, because I mean for the fourth consecutive quarter we have been increasing our market share, especially in the scooters, our core market, which went up from the 25.7% last year to 26.3% this year quarter-versus-quarter. So, if you look – this was the market. If you look at the sales in the different market, again, we have been increasing our total sale in the western countries by around €1 million from €183 million to €184 million. This was done of around plus €10 million in U.S., which is growing by 150%, a reduction of around €9 million in Italy and a reduction of around € 1 million in all the other countries. So we can say that EMEA, minus €10 million, Americas, plus €10 million, plus decimal, and the total is plus €1 million.

India's three-wheeler, the – what is – I mean, these two region, important and are very, very important for us especially. The market in these two region went down by 6,000 on a total of 11,000, so meaning that more than 50% of the market decrease is related to these two region. The point is that in these two region we are having a very good market share, much above then the average of the total India. So it affected us. Of course, I mean, the reduction in market share is not only linked to this market, but also to the very fierce competition we are having during these days in the three-wheeler segment.

Going to the tax rate, I believe that – I mean, 43% is physical, we – I mean, our calculation of course, day after day, I mean can be affected by the one phenomenon or another phenomenon, but I believe that, I mean, 43% as feasible. At the moment we prefer to stay on the safe side and make an estimation of 45%, which is much more sure.

Mr. Niccolo Storer- Mediobanca

Okay. Thank you very much

Mr. Niccolo Storer- Mediobanca

Okay. Thank you very much

Mr. Alberto Villa- Intermonte

Good afternoon. A couple of questions if I may. If we go to the – this still very positive trend in sales in two-wheeler, Asia-Pacific, can you give us an idea of how, apart from Vietnam the other markets are performing, if you are happy with the current plans and if you expect the evolution of the – of your growth in these markets to be in line or better than what you gave us targets? And second on the motorbikes, I guess out of the plus 50% of growth which was very positive, the other brands like Aprilia were not performing particularly well. I was just wondering if you can give us an idea of what will be the overall performance of this segment in the future. Thank you. Hello?

Roberto Colaninno – Chairman and CEO

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[translation from Italian]

I'm Mr Colaninno. I'll give you an answer on Indonesia and then I will hand over to Mr. Galli to give other info/numbers. You know that Indonesia for 2 wheels is a very big market. Just the market of the city of Jakarta is big as Europe. The two player that now dominate the market are Yamaha and Honda that produce more than 4 m units each there and that have a combined market share of around 90%. Our strategy is not to enter, if possible, in direct competition with this two player, because that will be situation of "Davide against Golia". So our strategy is to introduce the Vespa in Indonesia, because the Vespa is a unique product in terms of design and so doesn't enter in direct competition with "traditional" vehicles produced by Honda and Yamaya. The Vespa we introduced in Indonesia found the favor of the critics, also in term of response from the web and the number of calls received. Now our strategy is to verify in which way -not creating problems for the Vietnamese Vespa, where we sell the traditional Vespa with great success- how we can bring the Indian Vespa to Indonesia. From a market perspective this will represent a very important success we believe, because we will sell an extraordinary product at an extraordinary price, if we think at the price of the Indian Vespa. For sure we can't send the Indian Vespa to Indonesia, because we will pay a very high custom duty; so we are thinking of how to assemble, in CKD, the Vespa in Indonesia. As you know the distance between India and Indonesia is huge, so this represents important logistic issue. But we are sure that the market will respond very well and, above all, this will make very difficult to reply for Honda and Yamaya. Another hypothesis is that bypassing Vietnam, so avoiding shipping from India to Vietnam and then from Vietnam to India, because that will create big logistic problems, I s to assemble the Vespa in Indonesia buying the engine from India and to buy other pieces from the same suppliers used in India-these suppliers are based in India but also in other Asian countries such as Taiwan, Thailand, so we

will concentrate the purchases on the same supplier, which thus will benefit from higher logistic efficiency. We are thinking very carefully because we want to avoid creating problems with the Indian Vespa in other markets in term of prices and results, but at the same time we would like to take advantage from the Indian Vespa in other market.

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Mr. Alberto Villa- Intermonte

[translation from Italian]

Thank you. I would just understand that given the great success of Vespa in Vietnam, why just not selling the Vietnamese Vespa in Indonesia

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Roberto Colaninno – Chairman and CEO

[translation from Italian]

Because from a logistic point of view it is quite difficult to send from Hanoi the “whole” Vespa to Jakarta and then because the price of the Vietnamese Vespa is very high, therefore is difficult to launch the vehicle in a market in which the competition is based on very low prices; if you think that in Vietnam we sell the Vespa at the same price of Europe and that the pay-back had been 8 months. Now we have basically amortized all the investment made. We would like not to “break the spell” in Vietnam.

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Mr. Alberto Villa- Intermonte

[translation from Italian]

Thank you. In any case can you quantify the contribution of Indonesia sales to the sales of that geographical area?

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Gabriele Galli -CFO

Yes, so I mean in terms of the contribution, as we said before, the total volume went up by 17.4% to 27.5 million plus 58%. Indonesia last year was around zero, because there was an importer. This year is around 5. – 4.500 meaning in percentage absolutely. An absolute infinite increase, but in total units, around 4000 because last year it was 4.300 units.

Vietnam went up from 13.5 to 18.5 million, plus 37%. Hybrid volume, so I mean in Australia, Japan went up from 3.36 to 4.700 unit, meaning plus 32%.

Going to your second question which was in the composition of motorbikes, the total volume went up by – sorry, it went down by around 0.9000. Out of this, Moto Guzzi went up by 57%, 500 units, while Aprilia went down by 0.4 kunits and Derbi went down for 0.9. All of that resulted in a higher contribution of high displacement scooter.

And if you look at total sales – I mean, the total sales went up by 10.4% from €40.2 million to €44.4 million, with Piaggio going down, so we have some of small motorbikes in Piaggio going down by €0.6 million, Derbi going down by €1.5 million, Aprilia going up, thanks to higher displacement on average, by €2.1 million, meaning plus 8.4%. And Moto Guzzi went up by 51.1% with total sales of around €13 million.

So I mean, volume down, but good mix both, because Moto Guzzi substituted Derbi, and also within the different brand, because higher displacement substituted lower displacement motorbikes.

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Mr. Alberto Villa- Intermonte

I guess this is a trend that will continue in the – for the upcoming quarter?

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Gabriele Galli -CFO

We hope so. For Moto Guzzi, for sure, because I mean we are renewing the product range, we are launching California. So for Moto Guzzi, for sure. The trend within all the brands of higher displacement is very much linked to the market trend. And these market trend of reduction of 50cc motorbike or 125 took place since some years ago, so I mean is a consistent trend.

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Mr. Alberto Villa- Intermonte

Thank you

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Michele Baldelli- Exane BNP Paribas

Good evening to everybody. I have a question about the restructuring costs because I would like to know if there is any restructuring cost in the quarter, and your strategy on restructuring, if you have in mind something else on Europe. Then I would like also to know the evolution of the project for the engines in Vietnam, what is the date of the start of operation and where we could see the breakeven point for these plant which will equip the vehicles in the Southeast Asia? Thank you.

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Gabriele Galli -CFO

Okay. So starting from the restructuring, in this quarter we have a part of the 2012 restructuring program around €3 million, which is I mean the last part of the restructuring “mobilità” started last year. Of course, I mean the program does not end up with the first quarter. We have still to manage the situation in Derbi and we are still concentrated in reducing fixed cost in European structure.

Going to engine in Vietnam, they are almost ready. Better. I mean the engine – the same engine can be produced in Vietnam and in Europe. Is a completely new engine with reduced consumption and the engines in Europe has already being produced, and will be equipping some new product in the next month, while in Vietnam we start assembling the engine during next month and would be equipping the new Vespa in

Vietnam, if I remember well, in September or late September or beginning of October. So, the product is done, the plant is almost done, and all the technical feature and the cost of the product has been matched.

In terms of breakeven, of course is a big investment because we are building plants, enough plants to make another saving the market, but plants in order to substitute the – an external supplier. So it has also strategic reason for us building up a new plant. So the total breakeven point, that would be around the normal two to three years depending on the volume. Is of course longer than the Vespa breakeven point, where we entered a new market and had new revenues. Although, I mean since the good technical characteristics of the engine, these engine can give a contribution of course also to gain market share thanks to the reduction in consumption.

Michele Baldelli- Exane BNP Paribas

Thank you

Flavio Cereda- BofA Merrill Lynch

Hi, good afternoon. I have just two questions please. Can you give us little bit more an understanding on what happened to the price mix for two-wheels in Europe, because it was up sharply year-on-year? I appreciate what's happening on bikes, but if you could give us a little bit more of a color there? And the other thing is, if you could give us more detail in terms of the breakdown of what happened in the commercial payables year-on-year with a quite significant increase? Thank you.

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Gabriele Galli -CFO

So I mean, price mix in Europe as we see, the total volume went down by 7.7%, while the total sales went up by 4.4%. This means that the average vehicle has been sold by an 8% price increase, more or less. Meaning that if you consider that our average price is around €2.2000, the average price moved by, let's say €200 after. Of course, this is not very difficult to explain because we had an higher contribution of higher displacement, both in scooters and the – in motorbike. Especially motorbikes, this contribution is given for example by a reduction of Derbi stage by 1.4 – 1.5 k units – sorry, now 0.9 kunits with an increase of Moto Guzzi by 0.5 k units which you think that – I mean Derbi has a average price of 2.5000, while Moto Guzzi has an average price of €8,000 to €10,000. I mean this switch can really cause a big increase of volume – a big increase of turnover compared to volume.

Other effects are price increase. Starting from January 1, we increased the average price for each single vehicle by 1% to 1.5%, and also a good performance in terms of spare part. Just to give you an idea of key product being sold more, Vespa went up by 10% compared to last year, MP3 went up by 17% compared to last year and Moto Guzzi went up by 50% compared to last year. So I mean these are three products driving up the turnover.

The second question?

Flavio Cereda- BofA Merrill Lynch

The payables

Gabriele Galli -CFO

Okay. Of course, we are doing a big program in order to finance our investment. As we said during the strategic plan, we'd say that the Piaggio needs to do some investment, more compared to the past, and these investment are devoted to expansion in Asia. We don't want to lower very much the net financial position. Therefore, we are undertaking some action with supplier in order to enlarge payment, and also in the future to finance the payable through reverse factoring. The reverse factoring program will take place especially in the second part of 2012. At the moment, we are working the project, is a very complex project, because I mean, it's a worldwide project.

At the moment, we work more on the payment terms. These, due to the date payable outstanding, the other reason is that during the first quarter, we invested more than last year and so we had also some farther registration of accounts payable. Of course, let's say, cost on the CapEx say, compared to last year. So longer DPO and some more higher mass of cost during the first quarter.

Flavio Cereda- BofA Merrill Lynch

Thank you

Raffaele Lupotto – Head of Investor Relations

Okay. There are no more questions. I think that we can close the call now. And in any case if you need more info, you can call me from now on. Thank you very much, bye.