

CONFERENCE CALL 1st NINE MONTHS 2008 RESULTS

Good afternoon and good morning, and welcome to everybody.

I remind you that our presentation is available on our website.

We believe that the results we are going to show today are confirming that the course we are holding is the right one, considering the critical scenario of the financial markets and the macroeconomic situation. I wish to summarize and remind you the main points of our strategy:

- We want to preserve the value of the market, so we never considered lowering the price just to defend market share sacrificing our margins;
- The diversification of our product portfolio and geographic footprint allows us to keep a lower risk level, having the opportunity to recover a possible low performance from a single business or geographic area with an upside opportunity coming from another market, as we will see further on;
- The strong focus upon the industrial efficiency allowed us to reduce the average industrial cost per unit and to have a little, but significant growth of the Group Gross Margin, from 30,1% to 30,3%;
- The management of the financial structure and the preserving of its solidity can be considered at the moment as one of our most valuable asset, allowing our efforts to be fully focused on the commercial and industrial issues.

Now we can start directly from the 2nd slide of our presentation, that shows the main highlights in the six little charts.

Our consolidated P/L as of 30th September 2008 shows a total level of revenues of 1.289,3 ML Euros, with a 5,9% decrease over last year; the difference in the exchange rates accounted for about 34 ML, so that the change in revenues would have been -3,4% at the same rates.

The Ebitda was 179,4 ML Euros, 10,5% less than last year, with an Ebitda margin of 13,9% versus 14,6% in 2007; the Ebit margin was 8,5% versus 10,1% of previous year, accounting for a total level of 110,1 ML Euros, 20,3% less over last year.

The income before tax was 83,8 ML, about 27% less over last year. As we already mentioned in the 1st H Financial Results conference call, the current year expected tax rate is 26%, versus 42% of 2007, because of Moto Guzzi Company's losses carried forward, which will be available after the ongoing process of merging. Consequently, the Net Income was 62 ML Euros, 4,4 ML less than last year, that means a 6,6% reduction.

The debt level was 327,4 ML, 68 ML higher over September last year, after having paid 63,9 ML warrant by cash rather than by shares, after the buy back of shares for 19 ML in the past rolling 12 months and the 23,5 ML dividends payment.

Net Sales Trend

In the next slide we can see the net sales trend by **geographic area**.

European sales were affected by the decrease in the 2W market, that registered in the first nine months a 4,6% reduction cumulatively for scooter and motorcycle; the scooter segment reduction, in particular, was 2,3%. The total level of sales was 972,5 ML Euros, representing 75,4% over total revenues, with a 10,3 % decrease over last year, when they accounted for the 79,1% over last total revenues. The major differences were in Spain (- 33%), France and UK (-15%), having on the opposite side some positive performances like Germany for example (+6%).

The **extra European sales** accounted for 316,8 ML Euros, with a contribution to total sales that grew from the 20,9% in the last year up to 24,6% in 2008, with a total increase by almost 11%, which would have been 22% at the same exchange rate. More in detail, looking at the different regions, **Indian sales** were 189,2 ML Euros, with a 15 ML increase that means 8,6% more over last year. Without change in the exchange rate, such increase would have been 22%, that is 39 ML more. The overall

light commercial Vehicle Indian market was approximately stable, with an internal negative trend for the 3W market and a positive trend for the 4W one; our 4W monthly sales reached recently the 1.000 units per month.

The **American sales** were 78 ML Euros, with an almost 22% increase that means 14 ML. Also in this case, at the same exchange rate of 2007, the change would have been significantly higher, 8 ML Euros more, that means +34%.

The **Asia Pacific sales** showed a slow down in the 3rd Q after a positive 1H. As a result, sales were slightly down to 35,7 ML Euros, 1,4 ML less, that means -3,6%, completely due to exchange rate.

The following slide shows the net sales in terms of **business segment and brands**.

Scooter sales were about 668 ML, with a 7% decrease, with a slight reduction in terms of total revenues contribution, from 52,4% to 51,8%. The best performances in terms of growth came from the brand Derbi (+28%), Gilera (+24%), and Vespa (+5%). The global average price had an increase by 1,6%.

The **Motorcycle** sales were lower by almost 11%, that means 22,6 ML less than previous year, mainly coming from Guzzi brand.

The **Light Commercial Vehicles** revenues reached 272,2 ML Euros with a 6,5% increase, with a contribution to total sales that grew from the 18,7% in the last year to 21,1% in 2008.

In addition to Indian sales, also European sales registered a 2,6% increase.

The **Spare Parts** sales were 146,7 ML Euros, with a 3,7 ML decrease, with a slight growth in terms of percentage over total sales, from 11,0% to 11,4%. Other revenues were 18,1 ML, with a 21 ML decrease, almost entirely due to the decreased volumes of BMW contract.

In terms of brands, Piaggio sales registered a 2,0% lower level over previous year, that means 18,8 ML less; Aprilia was 23 ML lower than 2007, that means -9% excluding the above mentioned BMW contract reduction for 18 ML. Guzzi's sales had a 19 ML decrease, out of which 15 ML coming from the 1st H.

Total Volumes Trend

The next slide shows the trend of sales in terms of volumes. The overall units sold were 537,9k, decreasing by 5,5%. The **scooter** units sold decreased to 342,7k, that means -8,4%, with a growth for Vespa (almost 4k units more) and Derbi. In terms of displacement, the 50 cc scooters accounted for 45,3%, 0,2% more than 2007 units mix.

Motorcycles units sold were 53,2k, 5,3k less than previous year, that means -9,1% . Such a decrease was mainly coming from the low displacement Derbi motorcycles, which accounted a -2k units less, and from Moto Guzzi which sold 2,4k units less, having a total number of 5,8k units sold.

The **Light Commercial Vehicles** had an 8,6% increase, up to about 140k units, that means +11,1k units more over last year. Indian sales grew by 10%, up to 125,2k units, with 4,8k 3W units more and 6,6k 4W units increase. European sales were almost stable, about 300 units less than 2007.

Ebitda Evolution

Going on to the next slide, we can see the Ebitda evolution, which was 21 ML less than previous year, at 179,4 ML Euros. Such a decrease includes a reduction for the gross margin by 22,2 ML in absolute terms (I remind you that the industrial profitability increased by 0,2%). The main components of that are:

- ⇒ About 25 ML coming from the lower level of sales;
- ⇒ About 11 ML as the negative net impact (that means revenues less cost of goods sold) coming from the different exchange rate;
- ⇒ About 12 ML positive impact from the increased level of low cost countries sourcing;
- ⇒ 2 ML as small, but significant positive impact, coming from the reduction of production costs, including raw materials, energy, labour.

The low cost countries supplies accounted for 19,5% over total supplying, with a 2,8% increase over last year, excluding Indian operations and vehicles and engines manufactured by our Chinese j.v., that accounted for a total value of 52,3 ML Euros, corresponding to 54 K vehicles and 69 K engines delivered.

The operating expenses were 6 ML higher than last year, including a 7 ML increase in R&D amortization, so that the cash opex were slightly lower than last year.

Net Income

The next slide shows the Net Income evolution; it was 62 ML after the 1st nine months 2008, accounting for 4,8% on total sales, the same level as in 2007, with a reduction of 4,4 ML. The reduction came from:

- 28,1 ML Ebit reduction, that includes the Ebitda change plus a 7,2 ML increase in amortization, entirely due to R&D projects referred to new products, that are amortized in a 3 year period;
- the financial expenses, that were 2,6 ML higher than 2007, and accounted for 2% over total sales;
- regarding the tax level, it may be useful to repeat what we told in the last conference call following the 1st H financial results: we are forecasting a 2008 tax rate of 26% which is substantially lower than the 42% of the last year. The lower tax rate results from the one-off benefit due to the forecasted accrual, as per IAS guidelines, of the tax asset, mostly relevant to Moto Guzzi tax losses carried forward, which will be available against future profits considering the above mentioned amalgamation of the Company into Piaggio. As a result, the tax impact was 26,3 ML lower than previous year. It's worth to be mentioned that the aforesaid asset will be reversed in the future years, when the losses will be off-set, determining an higher tax rate.

Balance sheet

At the balance sheet level, we can see a net invested capital in line with previous year, with a Debt to Equity ratio that increased from 54% of last year to 77% in 2008, with a 23% growth which is exactly due to the cash payment of warrants to banks, rather than by shares, off course also the buy back impact must be considered (it is about a 6% impact).

In order to better understand the financial evolution in the first nine months 2008, we can go forward to the next slide.

The cash absorption in the first nine months was 57,6 ML Euros, including the 63,9 ML payment for warrant, and leads to a NFP of 327,4 ML.

The main components of the global cash flow are the following:

1. The operating cash flow coming from the P/L that we analyzed before generated 114,8 ML;
2. The working capital that increased by 9,5 ML, which is a normal evolution not impacted by extraordinary issues, as it was last year with the benefit coming from the recovery of about 30 ML exposure for a fiscal credit.

In particular, all drivers are in line with last year ones, with a 10% growth for stock turnover which is fully manageable in the next months.
3. The capital expenditure was 58,8 ML, at the same level of the previous year, and includes the spending for the new plant in Vietnam and the diesel engine project in India.
4. Finally, the 23,5 ML dividend payment and 19,2 ML for shares buy back (mostly concentrated in the Q3) contributed to the above mentioned 57,6 ML global cash-out flow.

We have finished our presentation, thank you for your kind attention.

We are ready for questions.

29.10.08