

# Piaggio Group

## Full Year 2016 Financial Results

### CORPORATE PARTICIPANTS

ROBERTO COLANINNO – CHAIRMAN AND CHIEF EXECUTIVE OFFICER

GABRIELE GALLI –GENERAL FINANCE MANAGER

RAFFAELE LUPOTTO – S.V.P., HEAD OF INVESTOR RELATIONS

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### MANAGEMENT DISCUSSION

#### **Raffaele Lupotto – S.V.P., Head of Investor Relations**

Hello. Raffaele Lupotto, Head of Investor Relations speaking.

First of all, I would like to thank you all for joining us today to analyze the Piaggio Group Full Year 2016 financial results. Today's conference call will be held by Mr. Roberto Colaninno, Piaggio Group Chairman and Chief Executive Officer; and by Mr. Gabrielle Galli, General Manager for Finance.

During today's call, we will use the presentation that you can find on our website. As usual, I remind you that during today's conference call, we may use forward-looking statements that are subject to risks that can cause actual results to be materially different. And after the presentation, we will be available to answer the question you may have.

Now, I am glad to hand over the conference call to Mr. Roberto Colaninno

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#### **Roberto Colaninno - Chairman and Chief Executive Officer**

Excuse me if I have some problem on the voice. What I want to say in advance that today, Mr. Galli will be with us for the last time. And then also with us is Dr. Montanari that is the guy that will replace Mr. Galli in the future. Mr. Montanari is an engineer and will be back in Piaggio where he is working for more than 10 years. And during this period, he was Investor Relation at the beginning, then CFO Asia, and then planning and control. He is working after this experience on a company that is on the market of the sales online of luxury products. I want say that he is very oriented to the financial and also he will be the leader of management control and budgeting, and to follow on his experience that is very important for us, that is experience on the sales, distribution system where Piaggio needs to reshape all the sales organization around the world, especially in Asia and India where we are totally focused because are the markets where we expected high developed and a huge quantity of sales.

Recently, he was in Bangkok, Thailand, where we inaugurated the number 200th Motoplex. Our importer invested on the Motoplex system. and he show that with this number ,that is more than 15,000 units here, that how it's possible to get more, more quantity in that area especially with the Vespa brand name. So, our

strategy is based on the Vespa brand, is based on all the products that is collateral to the Vespa brands. We want to keep the price at the max premium level. We want to maintain our margin that is in Vespa around the world is the more high margin related to all the other products. And thank you to the know-how of Mr. Montanari we hope to be able to implement the sales organization also through the sales online, especially when we talk about the spare parts and also accessory, about all the other products coming from the Piaggio place.

Say that, I think that our strategy line for this year and the next two, three years is based:

- this year is our commitment to get more results on the cash generation. We see more results on the margin income due to the strategy to cost reduction. Cost reduction that we see in utilization of the different material, utilization of different systems on production facility with the new machinery, and better utilization of the capacity of the plants. We like also to look to develop the new commercial vehicle especially for India market and for European market and Africa market where we see that is a lot of space on top of Ape and on top of our Porter. We see that the sales in this area is in a good evolution, in a positive evolution. So, we are exploring now some possibility where without to invest in machinery, it is possible to have a joint venture with someone that can help and can jointly work with us to develop such product segment.
- This is connected also with the new company that we have in Boston, that is Piaggio Fast Forward totally involved on the new technology, on the future and high technology to develop new products for Piaggio that can help the utilization of the transportation vehicle on the city mobility. We see that many of our customers are quite interested to see how we can help them to manage the last mile of the delivery goods. I believe that this can be solved only if we are looking in the future, not in the traditional products as it is as what Piaggio has today, but with the new technology and with new products developed and then we have in mind something that is already prototype in this company in Boston. So, I think that to give you the time for your question: lower investments, focus on cash generation, better utilization of the products that are in our line today with a new and a better sales organization, utilize Vespa brand for scooter and Guzzi for motorcycle together with Aprilia and its involvement on the racing.
- Number three is develop other commercial vehicle, light commercial vehicle based on some strategic partnership, commercial not financial partnership, to give the possibility to us to better utilize our technology and how we can manage the last mile delivery goods. Last: technology innovation on the future through this company in Boston that is already operative, that already have represented on all the U.S. markets with big interest from everybody.

I leave now the words to Mr. Galli.

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**Gabriele Galli - General Finance Manager**

Thanks a lot, Mr. Colaninno. So, we can go through the presentation you can find on the website. The presentation is regarding 2016 results, and later, we will have time for questions. So, let's start from slide number 3. Slide number 3 have situation about market demand.

As you can see, the market demand has been very positive for the year although there were some diverging dynamics in the different months. Starting from Western countries, the demand was very positive, and there was a reinforcement across the year, showing that the European replacement cycle already goes on.

European two-wheeler demand continued to go up for the second year. It was up by 9%, mainly driven by bikes, which were up by 15%, while scooters were up by around 3%.

Among the different countries, the best performance was in Italy, Spain, and the UK, but also Germany and France, which started the year negative, improved across the year, showing at the end, a positive sign. Going to North America, the market was a little bit down, although the negative trend softened throughout the year.

Moving to Asia Pacific, we had also an improving demand trend. Vietnam went on growing high-single digits. Other countries grew apart from Indonesia, which was a little bit down.

Moving to India, the demand was also positive, despite the despite the strong decrease during Q4 due to demonetization. The two-wheeler were up at the end of the year about 6% with a strong push for cargo vehicle, outstripping the Pax segment. The four-wheeler ended up flat after some increase at the beginning of the year because of demonetization starting from November. While the scooter went up by around 15% and India became, thanks to this growth, the largest market in the world.

Moving to slide number 4, we can have a look at the business highlights per region.

Western country had a very good performance. In Europe, we have been able to gain market share by around 1.3%. And now, we are leading the market with more than 12 percentage point market share over the second competitor. The strong momentum for sales in Europe went down with volume increasing very much in Italy, France and Germany, also after a reduction of the dealer network stock.

North America went down negative, but the trend improved across the year, so the fourth quarter was better than what we showed after nine months. Vespa and Guzzi had a very positive performance in Europe, confirming the strong brand appeal. In terms of pricing, the average price went a little bit down because of switching mix to new vehicle. We had a very strong success: the name is Liberty and Medley.

In Asia Pacific, the performance was a little bit weaker. Vietnam continue to decrease the volume. Asia ex-Vietnam continue to grow up with volume driven up by Indonesia and Thailand where we will be presenting in the next future also the full product range including premium motor bikes.

Moving to India. The 3/4 wheeler performance was impacted in the fourth quarter by demonetization, while the two-wheel good momentum continued. We experienced some market share loss during the year, but this was softened across the last month, especially October, November and December compared to the beginning of 2016. The performance in the two-wheeler segment was positive. As you know, we launched in the last part of the year the new vehicle Aprilia SR, which is performing well without keeping any sales from Vespa. So, we can say that the addition of the new scooter was a net addition in terms of volume given also positive result on plant utilization and so on cost of the product.

Moving to slide number 5, we can have a look at the highlights. The net sales were up by around €18 million plus 1.4%. The EBITDA was up by €9 million, which is around 5.6%. And the net profit was up by around 18% or €2.2 million, thanks to an increase of gross margin plus €15 million with a strong improvement in terms of ratio to sales, so from 28.9% to 29.6%.

After a slight increase of cash OpEx and an increase in depreciation, the sum of the two was up by around €11 million after financial expenses, slightly reduced compared to last year and with the tax rate increase by

around 5 percentage point from 40% to 45%, due to some impact of some specific item which were not cash or monetary, just accounting.

Moving to CapEx, we had a total investment of around €97 million, which is a little bit down compared to previous year. One or two, it was the number. In terms of free cash flow generation, we had an acceleration generating around €32 million versus €24 million despite the effect of demonetization during November and December month. Debt was down to €491 million in a reduction of €7 million compared to December 2015.

Moving to slide number six, we can have a look at detailed number of P&L. So, sales were up from €1.295 billion to €1.313 billion plus €18 million, 1.4%, excluding the forex plus around 3%. The gross margin was up by around €15 million from €374 million to €389 million, plus 3.9%, would have been 4.9% excluding the forex effect with, as we said before, a very important increase in terms of ratio to sales by 0.7 percentage point. The EBITDA was up €9 million from €162 million to €171 million, plus 5.6%, with a strong increase in terms of ratio to sales from 12.5% to 13%, which is one of the top ratio we experienced in the last years.

As we said before, depreciation was up by around €5 million from €105 million to €110 million, leading to an EBITDA increase by €4.2 million. Financial expenses were down by €1.2 million, leading to an income before tax up €5.4 million versus 2016. And taxes were up by 40% to 45%, an increase of €3.2 million due to ratio increase and income before tax increase as well with the net income going up from €11.9 million to €14 million. In terms of net financial position, we improved a total number by around €7.2 million from €498 million to €491 million this year.

Moving to slide number seven, we can have a look at volumes. So, volumes, the total went up by 2.4% from 520,000 to 532,000 with divergent dynamics. Europe and Western countries, as we say before, performed very well. We had an increased overall in the Western country by 8.1% of which EMEA represented around 9.4%. Asia-Pacific was down by 7.3%. India two-wheeler, after also the introduction of Aprilia SR in September, was up by 39.7% from 28,000 to 39,600. Western country commercial vehicle were up by around 15% from 13,000 to 15,000 units, while India commercial vehicle was down around 6%; if we exclude the demonetization, which costed US around 9,000 units in the last two months of the year, the decrease could have been by around 2,000 units, mostly focused in exports countries such as Nigeria and Egypt also after the political and macro-economic issues that these countries are facing and which are affecting not only Piaggio, but also the whole industry.

Moving to slide number eight, we can have a look at the sales. Sales were up by 1.4%. As we said before, 2.8% excluding forex. Forex was mostly focused on India and a little bit on Britain, the sterling pound. Looking at the different region, we can say that Western Countries were up by 5% out of which EMEA was 7.1%. It could have been plus 5.5% in the overall region excluding the sterling pound effect. Asia-Pacific was down by around 5.3%. It would have been 4.8% excluding the forex. India two-wheeler up by 38%. It would have been 44% excluding the forex. Western countries commercial vehicle up by 12% and India commercial vehicle down by 7%. It could have been minus 3.4% excluding the forex or nearly flat excluding the demonetization effect.

Moving to slide number nine, we can have a look at the sales divided by product. Scooters were up by 4.6%. Bikes were up by 0.5%. The Wi-Bikes were up but the numbers are very limited. So, the ratio is not appreciable. We had a decrease by 4.2% in Commercial Vehicle mostly due to the forex effect which we saw before and due to the demonetization. And Spare Parts and Accessory business was up by around 1.4%.

Moving to slide number ten, we can have a look at EBITDA evolution. The EBITDA last year was around €162 million or 12.5% on sales. We had an increasing gross margin coming from the sales increase with a total amount of around €5.7 million. We had also an improvement due to the increase of gross margin ratio which amounted to €8 million. I remember the gross margin ratio went up by 0.7 percentage point to 29.6%. And then we had an increase in OpEx, cash OpEx. Of course, we are talking about EBITDA by around €4.7 million with a total EBITDA of around €171 million or 13% of sales.

Moving to slide number eleven, we can have a look at the net result evolution. Last year, the net result was 11.9%. We had a positive result coming from EBITDA amounting to €9 million, a decrease coming from increase of depreciation amounting to €4.8 million, then a positive effect coming from reduction in financial expenses and an increase of taxes due to higher taxable income and higher tax rate, leading to a net result of €40 million, an increased by around €2.2 million versus previous year.

Moving to slide number twelve, we can have a look at the net financial position. We started at €498 million last year. We had a positive generation from operating cash flow by around €123 million, and a reduction in working capital of around €5.4 million. CapEx were around €97 million, providing a free cash flow generation adding up the three numbers we said before of around plus €32 million versus €24 million last year. Then we had a change in equity, namely buyback and dividends amounting to at around €25 million. It was at €29.2 million last year, leading the net financial position up €491 million. Of course, the demonetization, and also a negative effect apart from volume, also net financial position. And the fact that we loss in the last two months momentarily I would say, 9,000 units, together with the fact that we weren't able to recover the full amount of VAT, the sum of the two parts are around €8 million, the first one, €7 million; the second one had a total impact on net financial position of around €15 million, meaning that without these crises of India in the macroeconomics we would achieve the target which was around €476 million before the end of 2016. But of the two components, we consider our, of course, momentary because no issue in demand would follow the partial crisis we had in the last month and also, of course, no issue in order to recover the VAT credit that Indian government didn't pay at the end of 2016.

Last slide, slide number thirteen, you can have a look at the different components of the balance sheet. So, trade receivables were down by €6.3 million from €79 million to €72.6 million. Inventories were down by €4.4 million to €208 million. And commercial payable were up by €15 million. So, we have been able to generate around €25 million from the working capital management, leading to a net financing of the working capital amounting to around €110 million. Then, we had other assets and liabilities mainly deferred tax asset and the VAT we have been commenting before, increasing the other assets and liabilities by around €20 million, leaving the total working capital negative. So generating cash for around €36.3 million versus €30.9 million last year. In terms of total assets, the sum of tangible/intangible was down from €993 million to €981 million, having a generation of around €12 million due to CapEx of €97 million and depreciation around €110 million. The financial investments stood pretty flat compared to last year as well as the provision, leading to a net invested capital reduced by around €18 million compared last year.

In terms of net debt, we had a reduction of €7.2 million. And in terms of equity, a reduction of around €10.6 million coming from a net result of around €40 million, and buyback plus dividend of around €24 million. Last number, the net debt of our equity ratio is at 1.24 versus 1.23, so very much aligned to last year.

Okay. So we're ready for questions.

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## QUESTION AND ANSWER SECTION

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### **Ms. Monica Bosio – Banca IMI**

Yes. Thank you for taking the questions. Good afternoon.

The first question is on India. I understand that the demonetization is having just a temporary effect but in January, the market was still negative. Just wondering if you can give us some indication of Piaggio projected volumes for India in 2017 because I think that at least for that first months of this year, demonetization might have some impact.

And the second question is in your speech, you mentioned the better cash generation and some margin expansions in 2017 also thanks to the reduction of the OpEx. Can you give us some indication in term of target. How much OpEx will you think is possible to cap for this year?

And the last question is on the new products. I've seen that eBikes maybe can do something more in the future. If you can give us some indication on the strategy to improve or push revenues on the eBikes? And what is your idea for the electronic Vespa? And lastly for the new mobility products such as Gita, do you have any idea of the potential market or the potential revenues that could be in future generated by this last products? Thank you very much.

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### **Gabriele Galli - General Finance Manager**

Okay. So, starting from India, if we start from consumption, the consumption of the products went down without any price coming from demonetization, because I mean, we cannot say that the cargo industry in terms of kilogram transported or the bus industry in terms of passenger was reduced during these past five months, or I mean, the reduction was absolutely very limited.

So, the ageing of the product went down and the fact that people didn't decide to replace the product was entirely due to absence of cash. So, what we expect is that after the last two months and after some beginning months of 2017, the consumption will go on the same pattern as it was before or maybe it can also increase because somebody postponed the purchasing. So, going to when, January was also affected by reduction in purchase in new vehicles. February is also affected but with a decreasing ratio. Our colleagues in India expect that March can be the first month when the result of demonetization is reduced almost to zero. So, we can expect a normal trend after March or maybe April. But I mean, if we look at the longer-term result, I mean, of course, starting from Q2, it should be 100% resolved. So, from this moment on, we will have a market on similar trend compared to last year. Last year, before the demonetization, the market was increasing especially in the Pax segment, and Piaggio was making volume a little bit higher compared to the previous year. So, now is hardly to say – very difficult to say which will be the volume at the end of the year. So, it's too early. Of course, we have our budget but we are not disclosing the volume at the end of the year right now.

In terms of OpEx, so OpEx weren't reduced during 2016 because actually, if we see the OpEx, there was an increase in the cash OpEx by around €4.9 million, if I remember, and an increase in total OpEx of around €10

million, if we add up also the depreciation. So, for the next year, so 2017, in terms of depreciation, the depreciation is going to increase. So, I don't understand why it's so difficult to make all the analysts thinking about in higher depreciation but in your modeling, I see that you are always short of depreciation costs, and this year will be another year of increase, simply because it means we have been investing for a couple of year, which were 2011 and 2012, a reasonable amount higher than €100 million. And so, sooner or later, we have to pay it and 2016 was the year where the total depreciation was around €110 million and 2017 will be closer to €120 million than €110 million, but this is mathematics.

Going to cash OpEx, of course, the new initiative such as the initiative Mr. Colaninno was mentioning, so PFF, which had a great potential for development for the next year will have some cost as well as we are investing very much in marketing in order also to develop linear distribution network. Apart of these two areas, the other cash OpEx should remain pretty constant because we don't see any other investment in any other areas.

Moving to eBikes, we are not happy about the commercial performance we had in eBike. We think that the product is very good, as well as the market is increasing very much. And so, we will focus in the forthcoming months and years in order to make this product gain a fair amount of monthly share because the product is very competitive in terms of pricing and also is very, very competitive in terms of technology. So, probably, we have to solve some of the distribution issue and we have to make also know the product amongst the consumers. But the product in itself is very good.

Moving to development of Gita and Kilo, I don't know. I mean, I can't comment. Maybe Mr. Colaninno?

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**Roberto Colaninno - Chairman and Chief Executive Officer**

As you can understand, we are on the first stage of this project. We have already finished the first prototype of Gita and Kilo. We are on the way to present these two products to their potential customer in the United States. We have identified the customer. Customer is B2B, primarily B2B and is in line with the idea that we get to the use of these two products that is one is for the service inside to some platform where Gita have already performed very well. We have received highly interest for the bigger U.S. corporation. For the different utilization, we expected in the next three months to be able to complete this market analysis and to get more information about that. But at the first stage, I want to say that the interest from this potential customer is quite big. And so, we are optimistic on the results of this first stage of the project.

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**Mr. Stefano Lustig – Equita**

Good afternoon and thank you for taking my question. The first question is on Vietnam, Vietnamese market and Asia, and if you can provide us with volumes in the Vietnamese market you sold in 2016. So, a further breakdown out of this number we have for Asia-Pacific. What was the performance of Vietnam and what was the performance of Rest of Asia? And then, if you can give us a comment on what is happening in Vietnam and what are the expectations for 2017 and what are the strategies as to expand the business in the Rest of Asia and if you can give us a sense and an update of how things are going there in those markets.

The second question, sorry, is on the initiative Mr. Colaninno was mentioning at the beginning of the call. I'm not sure if I understood well. For sure, we mentioned initiative in the last mile such as Gita and Kilo. But I had

the impression, and tell me if I was right, that you were also mentioning about your initiatives in commercial vehicle in India. So, if it is, so if you can give us more detail on this initiative. Thank you..

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**Gabriele Galli - General Finance Manager**

Hello. So, starting from your first question. As you saw, the total volume for Asia-Pacific went down by around 6,500 units from 88,000 to 81,600. In Vietnam we had the reduction of around 9,000 units from 47,000 to 38,000. Among the other countries, we had a good performance in Indonesia. Asia was up by around 16% from 10,000 to 11,600. And in Thailand, where the increase was around 25% and above 12,000 units which was what Mr. Colaninno was mentioning before. Also in China, the market for Piaggio was up but the number are still very limited but the increase was around 30%, showing that our strategy to grow in the premium part of the market is leading to the results.

Moving to initiative in Commercial Vehicle, I leave it to Mr. Colaninno.

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**Roberto Colaninno - Chairman and Chief Executive Officer**

Yes. I believe that you are – you know that the Piaggio sells commercial vehicle mainly in Europe and India. India with Ape three-wheeler. In Europe, with some Ape and some Porter that is four-wheeler products.

We see that the trend of the demand of these products is a good improvement, not only in Europe, but also in some countries as Africa where the margin is quite high and where the market is very promising. We have to renew our brand products, our products line in order to present a new Porter and to replace Ape that we expected to be a larger decline for the next three year and also because there's coming a new European legislation in diesel engine. So, we have been working already from six months, how to find the solution to stay in this very good market and to replace Ape and to present a new Porter to the market without to invest too much, in the way to utilize machinery and tooling and all the infrastructure lines that we have in Pontedera. While we have a very good sales group of people, that they know very well this type of market in Africa and know very well this type of market in Europe, we find that we can find the solution to present, to find commercial relationship with a company that is interested on the European market., but today, it's not present with their products. And through our sales organization and through our knowledge of what we know already about these products and about the customer that utilize this type of products, we are in condition to combine on the commercial point of view with such company that – Asian company, is not the European company, and to move on to implement and to utilize on a better way the line production that we have in Pontedera without to reduce people and without to be in the risk to have some general cost to restructuring and to revise product line and product market. The results that we get from the first months of this year is very good and we have identified also the way how to get this project. We expected to be completed the project to optimize the relation with our company in India. There, we'll be focused on the Ape products. And we keep in Italy the production of four-wheeler, that we replace Porter. The reason of this is because the customer that they appreciate very much the Porter dimension and the Porter utilization of the last mile, we believe that we are able not to lose any sales on this market. That in further way is improving itself on 2017. But we are able to get this opportunity where Piaggio used to be one of the leader of the market of this small commercial vehicle.



I cannot be in position to display too much, more about this. Just to say that we are quite positive. We are very satisfied of the point that we have reached today. And we expected to be finishing all of the project by the end of the year

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**Mr. Stefano Lustig – Equita**

May I ask you a follow-up question? Sorry. I respect obviously the fact that you cannot give us too much detail. I totally respect. But let me check if I understood. The combined effort with these commercial partner will be mainly Europe and maybe also Africa. Is this the commercial area that will be addressed by this joint venture, let's say?

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**Roberto Colaninno - Chairman and Chief Executive Officer**

Absolutely, yes. On Europe, I can say that we have the exclusivity sales area. Africa depends on how we switch new country between us. When we said between us, India, but the two area is Europe and Africa.

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**Renato Gargiulo - Intermonte**

Yes. Good afternoon. My first question is on price mix. Can we assume for 2017 a slight improve in pricing especially referring to Europe? The second question, at the beginning on the call, you were referring to lower amount of investments. And also related to this last question, could you provide us a guidance about CapEx this year compared to last year? And last question on the tax rate. We have seen 45% tax rate in 2016. Can we assume any material impact from the patent box this year? And if I may just the last question on the India market, we are seeing the negative impact from demonetization. Are you expecting any possible plan from the Indian government to introduce some incentives for the automotive sector? Thank you.

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**Gabriele Galli - General Finance Manager**

Okay. So, starting from the price mix in Europe. So, this year, we have a very positive result from the newly presented vehicle namely Liberty and Medley. As you can imagine, the price of Liberty and Medley is a little bit below our average So, the further these two vehicles performing very well caused little reduction in average price.

So, in any case since it was positive – it was an increase in volumes and increase in market share, we are happy with this new net addition. For 2017, we expect more or less the mix is going to stay stable compared to what happened in 2016. And as we managed every year, we had, of course, at the beginning of the year a slight increase in price-list. So, there should be also disadvantage looking at 2017 performance.

Moving to CapEx, we have an average plan of CapEx for the next years of around under the around €100m per year because, I mean, we have to develop not only the vehicle commercial market, the President was mentioning for, but also the total product range including bikes, including scooters, including new technologies. So, I feel that €100 million is the proper number. For 2017, the number should be aligned to €100 million as well.

Moving to taxes, this year, we faced a one-off item because we had to some way had doubled taxation on some dividend we imported from Vietnam last year. But it was the double taxation just by an accounting point of view because we had a deferred tax asset. For the next years, we believe that we will be able to manage this and to avoid this tax increase which accounted this year for the difference in normal tax rate. So, we feel comfortable about keeping the tax rate at 40%, also, including there, I mean, some advantages coming from patent box which you mentioned before from induced industry 4.0 such as and hyper depreciation and other items to take in place.

Going to the India market, I mean, the general reduction in consumption was, of course, across all the automotive industry. So, not only three-wheeler, but also four-wheeler cars, but probably limited to this kind of, let's say, durable growth. But also in the normal goods, it's just probably other primary need goods. So, maybe the Indian government will be willing to do something in order to push the demand, but we cannot sure about that. We hope that. In any case, we believe that once the liquidity crisis would be finished, which would be around March-April, I mean, the availability of notes in the market should be able to push again the consumption at the normal level which we were used to see in the past year before the 8th of November

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**Mr. Filippo Prini – Kepler**

Good afternoon. I've two questions. The first, how much of the gross margin increase that you delivered in 2016 is coming from reduction of prices of raw materials? And the planned prior pricing that you announced for 2017, usual repricing, should be enough to offset any possible inflation from raw materials? And second, if you can give us an overview of the sellout data of France and Germany in the first two months of this year. Thank you.

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**Gabriele Galli - General Finance Manager**

So, I mean, the increase in gross margin came partially from reduction of raw material but not only from that. And this was not the most important part. Moving to, for example, India, where the gross margin grew more than in the other country, we had a deep reorganization at the industrial level starting from plant and moving to supplier. So, of course, we benefited from a reduction in raw material, which may last or not. It seems that during this first months of the year, the steel is increasing a little bit again. But since the biggest part came from internal activities, we are not worried about that. On top of that, as we said, I mean, during 2017, at the beginning as we do every year, we increased a bit our price list, and this price increase should be able to keep our gross margin on the firm side such as it happened in 2016.

Sellout for Germany and France at the moment, I don't have with me but the fact that the market was on the positive side during November and December is, I believe, a good news, I mean, also for the beginning of 2017. But at the moment, I don't have the sellout. Maybe in the next days or weeks when the data will be available, you can make an update with Raffaele.

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**Michele Gambarova – Banca Akros**

Yes. Good afternoon to everybody. I was wondering if you could tell me what are the perspectives for Vietnam in 2017 because the most recent performance particularly in Q4 was very disappointing, I would say? If my calculations are right in Q4, sales in Vietnam were down by more than 60% to around 5,000 units. So, I was wondering what's happening there and what do you see for 2017? And the other question was on the Aprilia SR 150 in India. If you could provide us a sort of guidance or what are the perspectives for this specific model and if your production capacity at your local two-wheeler plant can be saturated with this specific model or there is still spare capacity there. And last but not least, if you can provide us a guidance for net financial position by the end of this year since you told us you will focus on free cash flow generation. Many thanks.

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**Gabriele Galli - General Finance Manager**

So, just to, I mean, make a proper comparison starting from Vietnam, I mean, last year in the fourth quarter, we had the launch of Liberty. And so, I mean, the launch of Liberty really gave a very good volume for the last quarter. And so, the comparison this year is made and in comparing apple with oranges, of course. We don't want to say that the situation is positive in this end because in many cases, if you look at, I mean, last year performance, we have been reducing our total volume. But in any case, the situation is not so negative as it can appear from an entire comparison between a quarter when there was a launch of a very important vehicle and last quarter of 2017 when there wasn't any launch.

Moving to India, so SR has a very good performance. During these first months of the year, we are selling around 3,000 units per quarter. And so, I mean, a minimum target which we want to achieve this year is going to be at least this kind of sale per month, probably increasing because we are also working on the dealer network and a similar volume of Vespas as it is happening during this first month. Of course, the fact that we doubled the product range and we are doubling the volumes compared to a single product is giving us advantages in terms of capacity utilization. As you know, our plant in India has installed capacity of around 150,000 units. So, the fact that we are achieving something which is in the range of 50% of the capacity utilization is giving a lot of advantages in terms of fixed cost absorption and so, ultimately, in terms of gross margin achievement.

NFP, at the end of the year . So as we said before, this year without including the €15m one-off item which will be recovered during the first months of 2017, the absence of impact of demonetization, which was a direct impact on the VAT recovery could have led to a net financial position, let's say around €480 million, so being on a stable path of improvement compared to what we showed in September. For 2017, we feel that something around €465 million, €460 million is absolutely achievable. Of course, I mean, small variances such as the close by a cash one day before or one day later, the VAT credit in India may occur. So, you cannot have the control on everything. But as you can see, we have been performing very well on the working capital side across last year's and we plan to maintain the same performance on that. The EBITDA should be able to increase in 2017 compared to 2016, while the CapEx are in the similar range as it were in 2016. The financial expenses are pretty stable at around €36 million. And the tax part is going to be proportional some way to the net result. So, working the mathematics, we should be able to generate the kind of cash flow I was mentioning before

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**Nicolo Storer – Mediobanca**

Yes. Good afternoon and thanks for taking my questions. I would like a little bit to focus on the fourth quarter. And in particular, I saw that you registered a spike in the other cost and gain item. So, I was wondering which is the reason behind this huge increase in the fourth quarter and if this increase is something repeatable also next year or not.

The second question is on volumes in western countries in the fourth quarter, so a huge increase, and I was wondering how much of this increase was due to Italy and in the change in legislation for Euro 3 vehicles. And on the full year, the split between Europe and Americas, is it reasonable to assume that you sold in America 13,000 units?

Last question on D&A going forward, you said before that depreciation will be higher this year versus 2015 which is you're expansion on amortization. Here, can we assume a certain degree of stability? Thank you.

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**Gabriele Galli - General Finance Manager**

So, starting from – I mean, the other gain, so you're talking solely about other operating income.

So, the fact that around – I mean, €3 million, we had an increase of €3 million out of €109 million. So, last year, €106 million. This year, €109 million. So, that's the huge difference.

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**Nicolo Storer – Mediobanca**

And on the fourth quarter, it's 29 (this year versus 22 last year and versus 18 in the third quarter. So, I was wondering if – I mean, maybe just...

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**Gabriele Galli - General Finance Manager**

So, on the fourth quarter, we had some sale of some mold to our joint venture in Asia, which is, I mean, part of our strategy because we want to develop our product range there And so, probably this is the amount. I'm talking about, I mean, something around the €3 million total difference which you see in full year.

Moving to the volume in Europe, if I understood properly, yes, there was an increase. As you know, we had a change in regulation. So, there was a movement from Euro 3 to Euro 4. And so, some of the dealers across our dealer network but also all the other competitors in order to reduce the stock of Euro 3 models decided to make some promotion of something in order to increase the sellout of this product. So, this is one of the reasons why Piaggio but also all the other brands made a good sellout performance in the fourth quarter.

Americas, I mean, the performance had a good improvement in the fourth quarter because we had good performance in export to Latin America. And I mean, after a strong beginning of the year in January, we experienced throughout the year a constant improvement which is going to last we believe also in 2017.

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**Nicolo Storer – Mediobanca**

So, basically, all the sales in Latin America are under Americas, both the three-wheelers

and two-wheelers or just two-wheelers?

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**Raffaele Lupotto – S.V.P., Head of Investor Relations**

No. We're speaking about two-wheelers, Niccolò. We had good improvement in Q4 in two-wheelers Americas and there has been a good improvement of the commercial vehicles, but the answer was referring to two-wheels

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**Nicolo Storer – Mediobanca**

Okay. And on the last question on D&A.?

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**Raffaele Lupotto – S.V.P., Head of Investor Relations**

Can you repeat the question? Because we gave a guidance of around €120 million of D&A for the full year 2017. That was the answer that we gave before

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**Nicolo Storer – Mediobanca**

Okay. Okay. I was wondering if the increase you speak about before was related just to the depreciation and also to the amortization item. But I guess, the...

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**Raffaele Lupotto – S.V.P., Head of Investor Relations**

The total , the total amount of D&A.

Now, we are ready just for one analyst and then we have to close the call. So, the last one please.

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**Michele Baldelli - Exane BNP Paribas.**

Good afternoon to everybody. I have a question specifically related to these molds sold to the to the joint venture in India. Is it coming on the P&L because the joint venture is not consolidated, because otherwise, I should not see it, I should offset one each other.

The other point related to the same point, I see on the cash flow statement that there are capital gains on fixed assets and so on, which is directly from the P&L, and these are related to Q4. It's around €2 million. Does it relate to the same amount that we have spoken about molds to the joint venture? Is that another thing?

And then if you can update on 2016 about how much did you capitalize on R&D and what is the level of securitization not the reverse one, the direct one. Thank you.

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**Gabriele Galli - General Finance Manager**

Okay. So, sorry, maybe when I was explaining about miles, I said India. No, I was talking about China. So, that's the reason why – I mean, it appears in the consolidated because China joint venture is not consolidated. So, that's the reason. Of course, if it would have been India, it shouldn't be in the P&L. The reason is very clear. I mean, China represents a great opportunity for development, and enlarging the product range there may be for us a good opportunity to increase the sales in China or in neighboring countries or having those opportunities for buying back some products. Of course, I mean, the same amount is in the P&L and in the cash flow.

Going to your last question, the total amount of R&D capitalized is €31 million, very much in line with last year. And the total number of securitization, I'm thinking you're talking about the reverse factoring... Sorry Okay. Securitization of receivables is around €89 million

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**Michele Baldelli - Exane BNP Paribas.**

Okay. Just to verify, because I see on the cash flow segment a reinstatement of €2.267 million from the cash flow in 2016. So, this is not the molds sold to the joint venture in China because of the , so it is something else

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**Gabriele Galli - General Finance Manager**

Well, let me check because, I mean...

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**Michele Baldelli - Exane BNP Paribas.**

No. I just want to understand because it can be another capital – it can be another capital gain that you move in Q4?

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**Gabriele Galli - General Finance Manager**

You are talking about 2552. So, maybe, Raffaele ...

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**Raffaele Lupotto – Head of Investor Relations**

Michele, I will check and then I will tell you later. I will check, okay?

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**Michele Baldelli - Exane BNP Paribas.**

Okay. Perfect.

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**Raffaele Lupotto – Head of Investor Relations**

Okay. Thank you. This answer draws the call to an end. Thank you very much, everybody, for attending the meeting. And thank you. Bye.