# Piaggio Group
# Q1 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**

Hello. Thank you very much for attending this conference call. First of all, I apologize for the delayed start of the Piaggio First Quarter 2013 Conference Call. Here with me, there are Mr. Roberto Colaninno, Piaggio Group Chairman and Chief Executive Officer; and Mr. Gabriele Galli, Piaggio Group General Finance Manager.

During the conference call, we'll be using materials that you can download from our website under the link Investors. And after some introductory remarks, we will be available to answer to 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 can make actual results materially different.



Now, I'm ready to start the conference and I'm glad to hand over the call to Mr. Roberto Colaninno.

.................................................................................................................................................

**Roberto Colaninno – Chief Executive Officer**

Hello, good morning to everybody. I want just to introduce with some comments the results that Piaggio reached on the first quarter. I want to underline primarily the trend of the market that as you see and you know, is quite negative in Europe and is exactly online regarding Asia and instead is going well in the United States. I'm not referring to South America and to Africa because for the time being is not a market where Piaggio ever entered.

Regarding the results of sales, we can say that we keep the position in Europe and we are and we reach some good points in India where the three-wheeler market is going for us better than last year and better than our expectations of this year.

On the starting of Vespa in India instead is that it is slowing because despite a very competitive price that anyway puts the Vespa at the top line, we don't want to sacrifice the price in order to accelerate the sales volume in the market where, number one, is very sensitive for technology, consumer and also is very sensitive to the products as Vespa represent.

Naturally, what we have to focalize our attention in India is to organize the sales distribution operation because we want to cover all the market with the name that can sell these kind of products in terms of dealers, in term of sales branches, that we are on the way to organize and we want to anticipate that we are in line with our budget in term of sales point of Vespa in India.

Regarding southeast of Asia, instead, we have changed our responsible for Indonesian market that we consider one of the major reason not to be in line with our expectation last year. And we moved on in Vietnam and in the other country of ASEAN, against a very strong and hard competition coming from Honda especially and from Yamaha. But Honda, we know that they are focused on the market in segment different than Vespa, Vespa is on the premium segment and Vespa is very high priced and we want to maintain that price for that kind of market.

United States, instead, makes a very excellent results for the first quarter. It's a totally different situation than three years ago where we were very concerned about the financial position of the branch. Today all is over and the United States company is in profit, is on budget, is in profit. They're under control, their stock ,their stock market stock, but primarily we had no control of the stock of the dealer that as you know by the American law, is very, represent a very delicate situation because as you know, the dealer has the right to return the stock that for him is quite difficult to sell. This situation is quite clean and now this company is running very well and we expect that for this kind of division will be over the budget.

So but say that from the commercial point of view, I want to say that the company reacted in an excellent way, on the cost control, productivity and cash management.

These three sector have – thank you to these three sectors, first quarter that normally due to seasonality and the cycle of Piaggio products is the lower quarter of the year, so to be in profit and to be with all the other ratio better than expectation give to us the confidence to be able also to look for the rest of the year in a positive way, in optimistic way. Naturally, we have to do a lot of things.
Number one is to keep the margin around 30%, reduce the OpEx – reduce dramatically the OpEx and then to look for new products to launch on the Indian market in term of three wheeler and in term of four wheeler vehicle, light commercial vehicle, and then to look on the southeast of Asia, the possibility to launch a motorbike as Moto Guzzi; there has received a very welcome from that kind of market.

With regard to the Italian market instead where is coming the major problems; we don't see in the future a change of this market. We look to maintain our market share. We look to maintain our price and we look to keep our cost on budget, and primarily to look in term of new products. In term of new products what I'm saying is that as you know, the launch of Vespa 946 is quite good and we have, for the first time, some booking of the products that is in line with our expectation and we'll begin to deliver new products right in July-September.
Also given good results of the Moto Guzzi, new California products that give us the possibility to compete with that segment of market – with that segment of products and they have already results from the market quite positive.
So I want to say despite the negative trend of the market, as Piaggio we're looking in the future to be able to control and to manage this complicated situation regarding, especially, the sales volume, and to maintain the cost and price on line on what is budgeted and what we expected to be during the year

.........................................................................................................................................................

**Raffaele Lupotto – Head of Investor Relations**

Okay. Now, I turn the call to Mr. Gabriele Galli who can comment on the results and the numbers. Okay, Thank you.

..............................................................................................................................................................

**Gabriele Galli – General Finance Manager**

Okay. Good afternoon to everybody. We can go through the short presentation we prepared. So starting from slide three. So basically, as Mr. Colaninno said, the market condition are very difficult at the moment. All the Western markets are hitting the new lows. In Italy, it is at a all-time low since the 1980s. Asia Pacific is presenting a flatten demand. The Indian two-wheelers is going down as a total market although it is good in term – or flattish in terms of scooter performance. The Indian commercial vehicles are showing a moderate demand growth in three-wheeler while the sub one ton four-wheeler are going down. In this scenario, we focus on premium products, the rigorous pricing discipline and efficiency gains.

So in Europe, we had a positive price effect showing that we are moving toward high-end vehicle and high displacement segments. In North America, we went on growing in terms of market share and in terms of turnover. Moto Guzzi appear to be successful during these three months and the percentage margin showed a strong resilience through volume decrease.

In Asia Pacific, we had a slowdown, but because we have been de-stocking a little bit the dealer network stock, both in Vietnam and in Indonesia, and we gained some market share in Vietnam as well as in all the other countries. As a second key point, we showed resilience of pricing, so pricing from Vespa Vietnam to other markets, other product, we showed price holding up.



In India, we have been improving the performance throughout the quarter. As you know, in January, we had a strike, month after month I mean the performance turned to be positive in commercial vehicle especially for the domestic market. The exports is still affected by the import duty hike in Sri Lanka.

Apè City Pax has been launched and will start, of course, to yield results; we have been launching it some months ago. Vespa run rate, as Mr. Colaninno was saying, is around 4,500 units stable in the quarter.

Slide number four, despite this decrease in net sales which accounted for 11.6%, we have been gaining significant cost efficiency and thanks to these cost efficiencies we achieved an EBITDA margin increase, last year it was 9.6%, this year it is 9.9% and positive net results.

Basically, we achieved these results by going on with our strategy of premium price positioning and pursuing product cost efficiencies by contracting OpEx and we had a significant OpEx reduction in the Q1 2013, around €10 million, also including around €6 million of restructuring costs we sustained in order to close the plant in Spain.

We have also some higher financial expenses compared to last year due to high debt level in line with the increase of debt level we had during 2012.

In terms of CapEx, last year was a record year, €145 million. This year we are targeting around €100 million and in the first quarter, we had a CapEx reduction from €30 million last year to €22 million this year.

The net debt increase reflecting the seasonality of the business because as we said the difference compared to Q1 2012 is very much aligned to the difference we had at the end of 2012 compared to 2011. The debt profile is still very much robust with 2.5 years of life of debt and then ample liquidity backup.

Moving to slide five, we can see the key numbers of P&L. Turnover went down from 343 to 303, minus 11.6% if you exclude the effect of Indian rupees, so the Forex effect, the difference in turnover would have been 9.2%. The gross margin is very much aligned to previous year, 29% versus 29.4% last year. And this proves the operational flexibility that the group has in terms of reacting to reduction of production and turnover. In absolute terms, the decrease in gross margin was €13 million, following the strong decrease in turnover.

In terms of EBITDA, the difference compared to last year has been very much contained. Last year it was €33 million. This year it is €30 million, so minus €2.9 million showing a strong reduction in OpEx. And, as we said before, this includes extraordinary OpEx of around €6 million to restructuring the operations in Spain. The depreciation charge is aligned €20.3 million versus €20 million, so the difference in terms of EBIT is €3.2 million, 9.8 versus 13 last year.

Going to financial expenses, there is an increase of around 10% and this is due to the higher level of debt following the huge CapEx program we had in 2012 to expand the operations in Asia and India. So the income before tax is €1.8 million versus €5.8 million last year, and after a tax of €0.7 million, we achieved a net result of around €1.1 million which compares with the 3.2 last year.

In terms of net financial position, there is, I would say, before an increase versus Q1 2012 of €65 million at 487.7 versus 422.4.

Moving to following slide, we can have a look at volume dynamics. So in terms of total volume, there is a decrease of around 2.8% from 142 to 138. This includes the net addition of Vespa in India which account, as you can see in the right column, for 13,100 units. Excluding this net addition, the drop in turnover would have been around 10%.



The commercial vehicle India went down by 3.8% and this is especially due to weak export especially versus Sri Lanka as we commented before. Commercial vehicle Europe went down from 3 to 2 thousand so minus 32%. Asia Pacific went down from 27,5 to 24,2, minus 11.8%. And as we said before, this reflect destocking of the network especially in Indonesia to start the operation in the proper way, to re-start the operation in the proper way and also some destocking in Vietnam.

Finally, Europe went down by 17.8% in a market which went down by 25%; so also in terms of – I mean, our share of the market, the performance, in a very difficult situation, was good.

Moving to slide seven, we can have a look of the evolution of turnover. So the turnover went down from €343 million to €303 million, minus 11.6%, more or less all the regions declined in line or a little bit below the decline of total volume. The fact that the total dilution is higher minus 11.6% versus 2.8% in terms of volume is mainly due to the introduction of Vespa India, which we know has a much lower selling price compared to the average volume sold by the group.

So going through the detailed number, India, three-wheeler and four-wheeler went down by 11.3% from 89 to 79. Commercial vehicle Europe went down by 22%, from 20 to 15 then there is a net addition of Vespa India which accounted for €8.3 million.

Asia Pacific went down from 49.8 to 45.1 minus 9.4%. And the western countries went down from 183.7 to 155.0, minus 15.6%. So with a reduction lower than the reduction we had in volume.

Moving to slide eight, we can look at the composition of turnover by business. So spare parts were down by around 14% from 39.4 to 33.9. Commercial vehicles were down from 100 to 86.5, minus 13.6%. Bikes were down from 44.4 to 41.9, minus 5.6%. And within bikes, Moto Guzzi registered a very good performance, increasing double-digit in volume and turnover. Scooters are down by 9.7% from 154 to 139 million euro.

Moving to slide nine, we can look at the EBITDA evolution. So the key point of this slide is that despite the volume reduction, we have been able to increase the percentage of EBITDA on turnover compared to last year. Last year, we had a total EBITDA of €33 million which was 9.6%. This year, we have €30.1 million which is 9.9%. So an increase of 0.3% despite the reduction of turnover.

In terms of composition, turnover caused a decrease in cash gross margin by €12.2 million, while we have been able to contract, reduce the OpEx by €9.3 million including around €6 million for the closure of the plant in Spain.

Moving to slide number 10, we can have a look at the evolution of net results. Last year, the net result was €3.2 million. We had a decrease of around – EBITDA of around €2.9 million in terms of EBITDA which we saw in the previous slide. Then we had a change in depreciation accounting for €0.3 million and then increase of financial charges of around €0.8 million. The three components, of course, caused a decrease in taxes as well. So after taxes, financial and depreciation, the net result is positive by €1.1 million versus €3.3 last year.

Moving to slide number 11, we can have a look at cash flow generation compared to previous year. So we started the year with €392 million which was around €55 million more than last year when we started at €335.9 million. We had an operating cash flow very much aligned to previous year, so €21.6 million versus €23.4 million. Then we had a change in working capital, you know that this quarter is very much seasonal accounting for an absorption of €92 million versus €78 million last year.



Then we had a CapEx program reduced compared to 2012 accounting for €22.3 million, last year it was €29.9 million and then there are other components such as buyback conversion reserve and so on and so forth of around €3.2 million versus €2 million last year. Ending up with a financial position of €487.7 million versus €422.4 million.

Moving to the following slide, we can have a look at the single items of the balance sheet. So in terms of trade receivable, we are €59.4 million in line with €61.8 million last year. Inventory is – sorry, I was looking at the delta – accounts receivable €118.7 million versus €123.6 million, so a little bit reduced by €5 million. Also in inventories, we had a decrease of around €11 million from €268 million €257.4 million. Commercial payable are aligned at €392 million versus €392.8 this year.
Other assets and liabilities are increased by €22 million which are mainly deferred tax assets and lower debt versus employee. As you know, last year, we had accrued some bonuses to all the employees and this year, these bonuses are not accrued. The bonuses have been paid last year in April, and so the situation is returned to the normality after the closure of April.
Everything included, working capital is €11 million versus €5.3 million last year. Then we have tangible and intangible and this figure shows the strong investment plan that we made last year. The addition of tangible plus intangible is €990 million this year, it was €933 million last year, showing an increase of around €55 million of tangible and intangible.

Financial investment and provision are very much aligned to last year, so we had a total net invested capital of €931 million versus €871 million, so plus €60 million. The net equity is €443 million versus €448 million and so the difference is there by net debt €487 million versus €422 million.

So I believe these are the key numbers.

..............................................................................................................................................................

**Raffaele Lupotto – Head of Investor Relations**

Yeah. We are ready to answer your questions. Thank you

---

QUESTION AND ANSWER SECTION

..............................................................................................................................................................

**Mrs. Monica Bosio - Banca IMI.**

Thanks. Good afternoon, everyone. I would have three questions. The first one is related to the OpEx reduction. In the first quarter the OpEx reduction were quite significant. I was wondering if you can repeat this efficiency also in the next three quarters. At the end of the day, my question is if you can quantify the OpEx reduction for the – over the full 2013 and if you expect further restructuring charges?

The second question is related to the previous one. Let's keep apart the OpEx reduction. The markets are declining and we can expect that Europe will continue to be weak with Asia Pacific that will continue to perform flattish. And I was wondering if there is a downside risk in the, let's say, in the guidance that you gave us during the last conference call that, if I remember well, was in the region of €200 million, and the consensus is now pointing to €195 million. So maybe there is some downside risk not because of the cost base, but because of the final market.



And the third question is related to the three-wheelers in India. The Apè Pax City is – should start to support the volumes in India. I was wondering what kind of monthly rate do you expect in the Apè Pax starting from April? Thank you very much..

..............................................................................................................................................................

**Gabriele Galli - General Finance Manager**

Okay. So let's start from the OpEx reduction. I believe this quarter performed particularly well because, I mean, if you look at cash OpEx, last year we had around €2.6 million of restructuring cost, this year we have €6 million of restructuring costs, so the difference is around €3 million. So apples-with-apples, the total reduction has been around €13 million.

So, I cannot ensure that we will be able to preserve the same ratio, of course, because the €13 million times four means €52 million lower than last year which was around 30/40 million lower than the previous year. But we are putting in place all the measure in order to achieve this kind of results.

So take into consideration that last year we made some particularly strong actions such as cutting all the bonus incentives to everybody included for the past workers, so I don't know if we will be able to do the same also this year, but we are taking strong measure in order to ensure the results.

In terms of EBITDA, of course, EBITDA once covered the OpEx and once covered the percentual margin which we are confident that we will be able to keep around 29% to 30% is very much a function of the volume. So after two, three months, we lost 11.6% of turnover. And so I mean, it depends very much on how the next quarters will be.

So in April, April was a tough month, but for May and June, we see the situation a little bit improving. Yesterday, there was a data of Italy showing the decrease,  a decrease in the market, but at a lower pace than previous months. So, there is some sign of hope and in the next month, we have some new products which should be able to ensure some fresh stream of turnover. For example, in new Vespa, Vespa 946, Apè Pax should be able, after the initial sales, to penetrate more and more the Indian market. And so I mean, today, the consensus of EBITDA is around €190 million and, I mean, it's a reasonable number. Then if the turnover start to improve together with the market, of course, we can do much better, if the turnover would be depressed, of course, I mean, it will have an impact also on EBITDA.

Going to the three-wheeler, Apè Pax, I mean, the performance is good. The market is performing well. As you know, I mean, Bajaj is the only player in such a market. So for us having this kind of product is a net addition. Is a net addition because we can compete also in a market where we were not competing. In the first month, we started selling around 2,000 units per month. And I mean, we feel that we can go more, I don't know how much, but more for sure. Bajaj is reacting very hardly. One of the key item is the permit in order to obtain the license to use the vehicle and they are playing very strongly in the field of permits. But we are organizing in order to have some support from broker for permits so that we can penetrate better this market.



..........................................................................................................................................................

**Mrs. Monica Bosio - Banca IMI.**

Okay. Thank you very much

..........................................................................................................................................................

**Alberto Villa – Intermonte SIM**

Yes. Good afternoon. I have a few questions. The first one is on the net debt increase. I was wondering if you can give us an indication of what you're expecting in terms of cash generation this year and where we should expect to see the debt level considering that probably the CapEx you're guiding to is lower than last year, but maybe other drivers will not be as beneficial as last year. So I was wondering if you are expecting any cash generation this year, throughout 2013.

The second one is a question on the pricing environment you are facing right now in Europe. And also in Asia if it's possible to understand if there is any kind of increased competition also in light to the devaluation of the yen, maybe some more competition from Japanese competitors? And that's about it. Thank you.

..........................................................................................................................................................

**Gabriele Galli - General Finance Manager**

Okay. So starting from net debt increase, I mean of course, as we say the last year, we have been investing very much and the total investments were between €140/150 million. This year, our target is much lower because we completed the key strategic investments such as Vespa in India and the engine plant for scooter in Vietnam. So the new target of Capex is around €100 million.

In terms of the net result, at the end of the year, we believe that we can end up with a financial position in line with last year and this is our target. So I would say a reasonable target is to have a zero cash generation, of course, after paying dividends and having a buyback.

And also if the first quarter show the increase in the net financial position of around €50/ €55 million, this target is feasible because last year the biggest part of the CapEx took part in – toward the end.

In terms of price pressure, now we face price pressure, we face competition. Japanese are in large in production so it can be that in the future, there will be some spare capacity in the market. But we pushed the idea to go on with our price positioning without getting direct competition versus Japanese. And I mean, as we proved in the last seven, eight years of constant margin despite of the market condition, we want to go on with this strategy in order not to go down 30% gross margin.

........................................................................................................................................................................

**Alberto Villa – Intermonte SIM**

Sorry. A follow-up, if I may. Can you give us an indication of what was the R&D cost capitalization for the first quarter and maybe for the full year?



........................................................................................................................................................................

**Gabriele Galli - General Finance Manager**

Yeah. Yeah, just one minute, I will tell you. Thank you. The capitalization of R&D was around €12 million

€10 million external CapEx and €12 million is R&D. Last year, this was €13.5 million. So reduced internal expenses by around 10% and of course, finished the clients' external expenses which are fixed , sorry, tangible material, very much reduced by, say, 50%.

........................................................................................................................................................................

**Alberto Villa – Intermonte SIM**

Okay. Can we take this number for the first quarter as a run rate for the future quarters?

........................................................................................................................................................................

**Gabriele Galli - General Finance Manager**

I think so. I think so.

........................................................................................................................................................................

**Alberto Villa – Intermonte SIM**

Okay thank you

..................................................................................................................................................................

**Nicolo Storer – Mediobanca**

Yes. Good afternoon, gentlemen. I have three questions for you. First one is related to the reduction in cash OpEx. Looking through the numbers, I saw that some reduction came also from the reduction in service costs and I was wondering if you could comment a little bit on this?

My second question is related to Indian export. In March, we saw a strong rebound and I was wondering how this rebound was related to the launch of the new Apè Pax or was related to something else?

And the third question, I didn't catch if you confirmed the €200 million EBITDA for 2013. Thank you

..................................................................................................................................................................

**Gabriele Galli - General Finance Manager**

So, I mean, in terms of cash OpEx, we reduced both personnel and external. Personnel is in the table very much aligned because beside the personnel expenses there are also the restructuring charges for closing the plant in Martorelles. So also last year, there was some restructuring charge. But as I was saying before, last year, the total amount was around €2.6 million, this year it is €6 million. So I mean, also, in personnel expenses we can face a reduction and probably in the future after the layoff of all the remaining people we have in Spain we will have some further reduction as well.



Our external expenses means generally, I mean consultancies, services so we have been renegotiating a lot of contracts and we have been cutting all the expenses not directly linked to the sales also.

In terms of export, of course the introduction of Apè City Pax had an advantage. So Apè City Pax is something on which we want to fight in India, in metropolitan area, where, thanks to the alternate fuel, GPL, LPG, CNG and thanks to the shorter dimension, we can serve much better the transportation segment. And also we want to use it to export. There are a lot of different countries asking Piaggio for this product. And we hope, thanks to this product, be able to cover many markets, also especially thanks to reduced cost of the engine which is internalized today. The previous engine was transformation of a diesel engine, which was not so cost competitive. And also thanks to the homologation we can have, this engine is an engine derived from a scooter engine, so we know very well the technology behind the engine, and we have been able to build up an engine which can be immatriculated in many, many countries. So it can be a vehicle useful for Latin America as well for Europe as well and other Asian regions.

In terms of EBITDA, as I said before, today the consensus is around €190 million. We will do everything possible in order to reduce the OpEx in line with what we did in the first quarter and then it depends very much on the safe level provided that we will not enter in price wars and so we will be able to keep the margin around 30%.

..................................................................................................................................................................

**Nicolo Storer – Mediobanca**

Ok thank you.

..........................................................................................................................................................

**Mr. Luca Orsini - One Investment**

Good afternoon everyone. Just one question. Again, you did extremely well on costs and looking at the extract that you give us page five, is *"costi per servizi e godimento beni diversi"[italian*] which is the single largest swing because you saved €10 million in a quarter out of €65 million which is a great result. The question I have is how much of this cost are now fixed and how much of this cost are now variable? So how much of the decline is there to stay and how much of the decline stays so long as they is linked to sales?

..........................................................................................................................................................

**Gabriele Galli - General Finance Manager**

So, I mean the external cost, I will say that the biggest part of this cost is variable, in the sense that in Italy is very difficult to fire people, it's more difficult to cut external expenses. The kind of reduction we did during the first quarter was very high, but we didn't sacrifice anything important for sales such as the dealer convention we had. So I mean it is very reduced, but achieving a similar result is absolutely nothing possible during the next quarter. So we will push a strategy of cutting as much as possible until the market will not show some recovery path.

..........................................................................................................................................................

**Mr. Luca Orsini - One Investment**

Thank you



..........................................................................................................................................................

**Mr. Michele Baldelli – Exane BNP Paribas**

Good afternoon to everybody. I have just a question about the temporary lay-off scheme in the Cassa Integrazione. How much of the reduction of costs could be related to this item, please? Thank you.

..........................................................................................................................................................

**Gabriele Galli - General Finance Manager**

So apart from Cassa Integrazione, we have also a "Solidarietà" program for workers and employees. And these proved to be a very powerful item in order to reduce cost. Also, not only on variables which has employees to assemble vehicles, but also on fixed costs. This kind of lever started in March, so the total number is not important the first quarter, but it will be a great lever for the next quarter.

In absolute term, I really don't believe that the "Cassa Integrazione" has an impact in OpEx because we have been using "Cassa Integrazione" as usually in some , I mean, as usual not in a very large extent because in Noale as in 2012, we have a "Solidarietà" programs and "Cassa Integrazione" is really not very much used.

..........................................................................................................................................................

**Mr. Michele Baldelli – Exane BNP Paribas**

Okay. Thank you very much. And just a follow-up about Indonesia, given the reshuffle of management. Currently, what is the strategy in terms of sourcing and the strategy to penetrate this area?

........................................................................................................................................................

**Gabriele Galli - General Finance Manager**

I means, in terms of penetrating this area, I mean whenever we tried to go directly against Honda which is, I mean, the biggest player of the market, the fight is very, very difficult because I mean they are very cost competitive. So last year, probably, the old management choose a mix of strategies, so they started with Vespa then they thought that going with normal vehicle was a good strategy. And so at the end, the final customer got very much confused. We feel that with Vespa, especially, for the moment, we can have a greater success than in 2012. And we have the current Vespa. Probably in the future, we will be doing something with India, importing some lower-cost vehicles. And also we will have some facelift of the current Vespa we are selling.

In terms of other vehicle, you know it doesn't take months, but probably one year or a couple of years to design something completely new and we are preparing a cost competitive vehicle, but it will not be on the road at least for the next 18 months.

........................................................................................................................................................

**Mr. Michele Baldelli – Exane BNP Paribas**

Thank you very much



........................................................................................................................................................

**Gabriele Gambarova –Banca Akros**

Good afternoon to everybody. I have just three very quick questions. One is on the restructuring costs. I mean you bore €6 million of restructuring in Q1. I would like to know how many restructuring costs you may have in fiscal year 2013. The following one is just on tax rates, just to check, what could be the tax rate for 2013, so for the whole year? And finally, if you have some color on Indian sell-in in April. Do you have any idea how did it go? That's it..

........................................................................................................................................................

**Gabriele Galli - General Finance Manager**

Okay. So in terms of restructuring, €6 million after three months, the total year should be around €10 million to €12 million, because we have to complete the operation in Spain. The most important part has been, of course, done. And then I mean some million to have some opportunistic operations in Europe.

In terms of tax rate, we are targeting 40% then some percentage point plus or minus, of course, that can occur during the year. And in terms of India sales, I mean, we started April with an improvement compared to 2012. As you know, I mean, April is a very difficult month in terms of seasonality for all the industry in India because the fiscal year ended up and I mean, in terms of consumer financing, all the banks are stopping for the first week, so the market is depressed.

Last year, it was around 12 something thousand units. This year, it was around 14,200 units. So I mean, there is an increase of around 15%

..................................................................................................................................................................

**Gabriele Gambarova –Banca Akros**

Okay. Thank you. And if possible, I have a follow up on India because, as far as I know, you have these strikes there in January, because of contractual update. Does this adjustment in the Indian contract have any role in the improvement of the OpEx in Q1 or will it have any , will it benefit your P&L in some way?

..................................................................................................................................................................

**Gabriele Galli - General Finance Manager**

No. I mean, the strike was because in the Maharashtra state we are one of the big companies and so the renegotiation of contracts started with us. And the outcome of our negotiation would have been one of the key milestones for the renegotiation of all the contracts in Maharashtra.
So we kept our positioning, then we had, of course, to negotiate something, but we didn't have any issue during February and March. Now, I mean there is something which may occur in the next few days. But the key point is to, I mean, close the contract without, of course, incurring in the big request the workers made. I mean, this is not only for the P&L point of view because the cost of the labor out of our turnover in India is very much reduced around 3%. So also that should give plus 25% and on the P&L, you have an increase, of course, of some 3% to 4%. So, it's not a big impact, but we want to keep our positioning on the – because in the long term, it can become a problem.
In terms of OpEx reduction, it didn't have anything to do because we kept our position. They were asking for a price increase. And also, most of the cost of the labor you have in India is in the cost of the products, so not in the OpEx. So I would say that the OpEx reduction is completely not linked to general situation in India and general negotiation of salaries in India



..................................................................................................................................................................

**Gabriele Gambarova –Banca Akros**

Okay. Very clear. Thank you.

..................................................................................................................................................................

**Alberto Villa – Intermonte SIM**

Yes. Sorry. Just a follow-up again on the OpEx cost. You reduced it by more than €10 million despite, I mean, higher restructuring charges. I was wondering if you can give us an idea of where probably, presumably Italy, but if you can give us an idea of where you achieved this kind of cost reductions considering that the launch of Vespa in India and the advertising campaign you mentioned before etc. I was expecting some kind of cost increase in some areas. So if you can give us an idea of where you achieved these efficiencies?

And secondly, once the plant in Spain would be completely shut, how much that would improve your cost profile in Europe? Thank you.

..................................................................................................................................................................

**Gabriele Galli - General Finance Manager**

Okay. Efficiencies have been achieved mostly in Europe because Vietnam saved something around €1 million because after the first period when we had a lot of expatriates there, we are trying to reduce a little bit of the expatriates in Vietnam so we can save some money.

India didn't save in two-wheeler very much, but had to sustain a new structure for selling Vespa, so, as a whole, India had higher expenses compared to last year. And all the key savings have been there in Europe, I would say, especially in areas such as I mean technical, legal, and tax consultancies, some outsourced manufacturing, some transportation costs, some sundry commercial expenses, some advertising and promotion. We saved some money in the product warranty and in delivering ramp-up costs. These are the biggest areas where we save the money.

..........................................................................................................................................................

**Alberto Villa – Intermonte SIM**

So is that safe to say that you reduced overall costs in Europe by more than 20% in the quarter?

..........................................................................................................................................................

**Gabriele Galli - General Finance Manager**

Yeah, yeah. It will be because, I mean, if you look at the total OpEx, the total OpEx are €68 million, if I remember well. And just one second, the total OpEx is around the €68 million and we saved €10 million. So I mean, it's overall a reduction double digit. So if you include India and Vietnam which together had a cost increase compared to last year, Europe on the lower base is around 20% absolutely



..........................................................................................................................................................

**Alberto Villa – Intermonte SIM**

Yeah. Because maybe Europe accounts for around 50% of the...

..........................................................................................................................................................

**Gabriele Galli - General Finance Manager**

Absolutely. Absolutely. I mean, Europe, we have been cutting very much in the past – during the last five years. But I mean Europe was, let's say, company has a total turnover in 2007 of around €1.2/1.3 billion. So, of course, the structures such as R&D, general and administrative spending which has been cut many, many times, but are still big compared to the turnover reduction we experienced.

..........................................................................................................................................................

**Alberto Villa – Intermonte SIM**

Yeah. Just, if possible to know about Spain going forward?

..........................................................................................................................................................

**Gabriele Galli - General Finance Manager**

Sorry. I mean, Spain going forward, we'll have a couple of impact, one impact on OpEx because while reducing the plant structure, we will not have any more to sustain this cost because the production will be localized in Noale. And so the 20 and more employees working on services there would be completely saved. In terms of manufacturing, we would be saving some variable cost because it's not efficient to manufacture in an empty plant. In terms of people, we will save, let's say, some 20 indirect worker because the other 60 to 70 direct worker will be working in the Italian plant. The plus is that you already have the people in the Scorze plant also if also if at the moment you are using some “Solidarietà” program, so you are using only when you need them. So I would say that in the longer term, you have the workers and you can save for better, you can use the workers you have, you can do without increasing indirect workers and you can save their employees. In the shorter term, you could have saved the direct workers through “Solidarietà” programs while you're saving the employee and the indirect workers.

........................................................................................................................................................

**Alberto Villa – Intermonte SIM**

So, you're meaning that part are already recovered as cost, thanks to the “Solidarietà” et cetera and some would be...

........................................................................................................................................................

**Gabriele Galli - General Finance Manager**

For the direct workers, I mean, in 2013 – in 2012, sorry, we didn't sustain this cost and probably, we could have done also in 2013 because “Solidarietà” program is still in place. But you have to plan for the future. And so sooner or later, “Solidarietà” program will finish. And so having cost for the production here in Italy, instead of in Spain, for the future 2014, we will be able to leverage on the worker we already had, we already have without this transfer probably, we wouldn't have to fire people or to sustain inefficiencies



.......................................................................................................................................................

**Raffaele Lupotto – Head of Investor Relations**

So thank you. I think that for now we can close the call. Thank you very much for attending the conference call. If you need more info, as usual, you can call me this afternoon or tomorrow. Thank very much.