

BREMBO

CONFERENCE CALL

1H 2014 RESULTS

July 31st, 2014 – h 14.00

Operator

Hello, this is the Chorus Call operator

Welcome to the presentation of Brembo's biannual results. After the initial presentation, there will be a Q&A session. I now give the floor to Dr Matteo Tiraboschi, Brembo's executive vice-president. Dr Tiraboschi, please.

Matteo Tiraboschi

Thanks, good morning to you all and thank you for joining us today to comment on the results of the first quarter of 2014. Here with me are Andrea Abbati Marescotti, our managing director, and our IR, Laura Panseri.

Now let me quickly comment on the presentations you found on our website. I will start from slide number 2, which shows that the sales volume in the second quarter has had a significant increase by 454,8 million euro, so it's a 16.4% increase compared to the same period in 2013.

EBITDA, 7.4 million is worth 15.5% of the sales volume, an increase of almost 36%. Amortization grows to 25,5 million as compared to 22,6 million of last year, grows almost by 12.8%. Despite the fact the absolute value has increased, the share of incidence of the sales volume hasn't changed, it has decreased of 0.2.

This, I believe, is a good indication of how our investments are carefully measured and immediately produced. The EBIT reaches 9.9%, 45 million euro. Last year's figures were 29,3 million, so it's 7.5%, an improvement of 53.4%.

The financial burden is 1,3 million, last year it was 4,3 million. Further on we will see the details. There is a reduction of the burden by 70%. Taxes: the tax rate of the quarter of 36% equals 15,7 million. Last year they were 2,8 million which equalled to 11%. This increase is due to two factors: one is the profitability that we are calculating in Italy and the tax rate which is about 50% and the second reason is that we have completed Poland's tax benefit regarding the investment of Dabrowa 2. We have engaged an enlargement in the town of Niepolomice for a new plant that is connected to the foundry in Dabrowa. Since the investments haven't been completed it isn't yet possible to calculate its profitability. Therefore in this quarter we have a higher tax rate but we believe that in the second or third quarter, we will be able to decrease the rate thanks to the Polish influence that will give important figures.

Let's go to slide 3, where we see the results of the first half. The sales volume is of 901,7 million. It has increased by 18.2%. After exchange rates this figure would equal 21.2%: we lose 3 points because of the

exchange rate. EBITDA is almost 140 million, so it's 15,5%. Last year it was 13%. Amortization is 48,6 million which equals to 5,4% compared to last year 43,7 million, 5,7%. The EBIT reaches almost 41 million, more than 10% compared to last year 7,3%. The financial burden are 3,9 million compared to last year 8,5 million. A tax rate that increases from 4.2 million to 23 million, about 26%. An important figure is 64 million that equals to 7,1% of sales volume. An increase by 5,7% compared to last year, so it's a 48% increase.

Thanks to this increase by 18% of the sales volume, I would like to highlight that we have significantly increased the income. EBITDA has increased by almost 41% and EBIT almost by 64%. The profit has increased to 48%. If we give a look to our presentation, we can see that in slide number 4 the first H 2013 of the year 2013 is almost 163 million. The volume has influenced in a positive way for more than 166 million.

Prices, including discounts we offered to customers, are worth 4,2 million euro. The exchange rate had an impact of about 23 million euro. A great impact had the US dollar and the Brazilian, Chinese, Argentine currencies. The total amount of the sales volume is about 902 million.

Then how did our businesses perform? In slide nr. 5 we can see they are all positive both in the H and in the Q, apart from commercial vehicles which perform a -0.4, which is basically due to the fact that we decided not to continue investing in a product we acquired by Naveco, in China. Had we decided otherwise we had a positive performance here too.

As for passenger cars, the business increase by over 22% in the H. Commercial vehicles by almost 17%, despite the important effect of the rupee. After the exchange rate, the increase would be by 22%. The competition sector grows by almost 9%.

Slide nr. 6 shows Brembo's markets where Brembo works. Despite the negative effect of exchange rates, the American market performed well, almost 220 million in the H. Germany performed well, 118 million. Italy is finally starting growing in terms of volume and sales. In the semester it grows by 17%. All other European markets performed well. Asia performed well. India grows by 9%. After the exchange rate effect, it would be 20%. China is over 14%. Japan is at 7%.

Let's see our profitability, margins. Starting from data about the same period in 2013, slide nr. 8 shows that the EBITDA was worth almost 100 million, 99.1%. The volume mix contributed with 61,600,000. Prices, 6,200,000. We managed to do more than what we offered to our clients. Operations, 24,600,000. Here there is something which may be misleading. An important part of the business, 21 million, was moved from Curno to Brembo North America. I am talking of the motorbike business unit. What they produce in Curno is no more directly sold to Harley Davidson but it is sold to Brembo North America at the same price. Brembo North America, then, assemble these items and sell them to Harley Davidson. By doing so, what is acquired, it all remains in the operations perimeter. This is a bit misleading, but we reported on it as we report it in the balance sheet. Exchanges are, in this case, almost neutral. As for the financial burden, those of the first alpha are 5.8 million while last year they were 6.9 million. This means we have performed better, by 1,100,000. Exchanges are negative, -700,000 euro. Last year they were 800,000 eurs.

Equity consolidation, which is not under our control, was positive, + 2,600,000. Last year they were 1,700,000 euro. The total amount of financial burden is 3.9 million, as compared to 8.5 last year. In total, we spent 6.6 million euro, meaning 300,000 euros more than last year. The incidence on the debt is of 3% as compared to 3.3% last year. The difference in terms of turnover is about 0.6%.

Slide nr. 11 shows the tax rate being redetermined. Last year we had a benefit of over 10 million from Poland which is not there this year. Consequently our tax rate is about 26.5%. Let's imagine that in the second H of 2014 we will be able and profit from the benefit coming from Niepolomice.

Slide nr. 12 shows how our debt performed. From the end of 2013 to the end of 2014, it raised by 4.9 million. It is quite a good result as compared to the general trend. In the first half we have a lot of cash flow because of our cyclical business. In fact we managed it correctly, so that the increase was limited. As compared to last year it was particularly less important. The EBITDA contributing in an important way, for about 140 million. We invested more than 60 million. Money in circulation has consumed cash for over 37 million. We have paid dividends for 32.5 million. We have spent about 14 million in financial burden, taxes and so on.

Slide 14 is about the structure of our debt. We try and have a structure on the mid-long term. 94% of our debt is on the mid-long term, 6.1% is on the short term.

Let's slide 16: some indicators. In the last years we are performing better and better. ROI 22.4%, the ratio between the net debt and EBITDA is at 1.3. the incidence of the financial burden on margins is absolutely good as well as the incidence of financial burden on the turnover, 0.6%. the next two slides show the trend of the title according to the market indicators we usually consider. TRV performs well, that is why they are particularly interesting. Rumors of a possible acquisition put pressure on them. In the first H Brembo has performed very well, increasing by 33%.

My presentation is over. Let's now leave the floor to the audience. Thank you

Operator Chorus Call

We will start with the Q&A session. The first question is from Monica Bosio of Banca IMI. Ms. Bosio, please.

Monica Bosio

Thank you very much and good afternoon. I have three questions. I can imagine that with the biannual results the guidance regarding the full year can be seen with a positive figure unless we expect a catastrophe in the second half! I wanted to know if you could give us some guidance because I can imagine a top line increasing by 15% over the full year. We are facing a decrease in the second half and margins over 14%. The second question concerns the tax rate on the half, which was 26,5%. You have told us that it will be possible to recover in the third or fourth quarter because there will be financial benefits regarding the other investments in Poland. I was wondering, in the full year, what can we esteem to be the tax rate? The third question is on commercial vehicles. I understand that the trend flat in the second quarter is due to an item you are no more acquiring. Which growth can we expect over the full year? Is it going to be a mid-single digit growth or can we esteem a growth a bit less than 10%? Thank you.

Matteo Tiraboschi

I will start from the last question. I think that on the full year we can expect a mid-single digit growth. Let's go back to the first question, then. We have given you guidelines of about 10% in terms of sales volume and of 14% in terms of EBITDA. I think that the first results of the quarter are going to be about 12,5% for what

concerns the growth. EBITDA will go over 14% and almost reach 14,5%. The tax rate is difficult to esteem. There are many variables. With this new investment we have engaged a new important tax solid period. It hasn't yet been calculated in the balance sheet because machines are still in production and investments haven't been completed yet. We are completing them in this period so I can imagine that we will be able to have benefits starting in the third quarter. However it is difficult to know how much this will affect the tax rate over the full year. I prefer not saying anything about things I have no control on.

Monica Bosio

On average, we can esteem a tax rate over the full year of about 18-20%. Is this be possible?

Matteo Tiraboschi

Yes, this can be possible. I can't give you an answer on something I can't control. And also on what might happen in the second half. I am missing some information. Even though in Italy there are important figures there is a high risk because the tax rate is still very high. The figure you have said makes sense because it's what we are expecting.

Operator Chorus Call

Next question is from Niccolò Storer, by Mediobanca

Niccolò Storer

Good afternoon. I have a few questions. The first one regards the investment in the USA which you have talked about. I wanted to understand the impact this might have on the margins starting from 2015. If we analyze your investments in the past, one can see that start-up costs and the inefficiencies concerning investments have been important for your accounts, especially in 2012 and 2013. I wanted to understand if you could give us some information about this concern and how much it might influence. I know it's a difficult analysis. Concerning operations, I also wanted to better understand what you have told us about the 21 million regarding the business from Curno to North America. I don't understand how can an account have an important influence on costs. Can you confirm that the net figure for this year, and that the figure for the biannual have had only a few million loss per operations? Another question is about the general market trend. This question is for Andrea. I would like to understand what you can predict about trucks and cars. Thank you.

Matteo Tiraboschi

I will start talking about Harley Davidson because this might be a bit misleading. This is a business that instead of being invoiced to the client, it is invoiced to Brembo North America. Brembo North America purchases products that in the past they didn't purchase. Therefore this weighs on their operations. I should have cut these 21 million operation and probably also the corresponding volumes. It would have been clearer. But it wouldn't have highlighted in a correct way the accounting of this type of business. Curno keeps doing what they did in the past and selling at the same prices. For Curno, the final client isn't Harley Davidson any longer but Brembo North America. When buying all this stuff, Brembo North America have an increase in accounting costs. They then invoice this increase directly to Harley Davidson. The

correct representation would have probably been to remove it also by the volume mix. This had already started last year in the third quarter and it is clear that now it's in its sharpest phase. Starting from next quarter we won't have this effect anymore.

Regarding the investments in the United States, the foundry has just started. In 2015 it won't be completed, this means that the building of the plant from the greenfield will cover next year and I think that it will also cover a big part of 2016. We will have the first productive output figures in 2017. We have never given rump up costs in the past because they belong to the cyclical life of Brembo. We will keep having investments in plants, with new productions. This investment will enable us to have better margins in the United States. It won't help us directly to increase our sales volume but it will help us have a richer volume. It is clear that with the foundry we will be more competitive and the indirect consequence will be that we will be more aggressive on the market. I can't deny that we have other thoughts regarding the American market because we are having important results. We have determined some information and expectations with our clients and they have them with us. We want to see if there is the possibility for further investments so as to increase not only in terms of the disks the foundry will produce, but also in the pliers field. Pliers represent an important share in the American business. Nowadays they are liquefied and managed in Ostrawa. Afterwards they are sent to the US where they are assembled and delivered to the client. We are thinking about a project where we can liquefy and work them directly in the NAFTA.

Andrea Abbati Marescotti

I will answer immediately about the market. First I'll take a look to the past and then to the future. In this first H the big manufacturers who we rely on, for example the German and the American ones, have been increasing on average of 8% to 10%. Dymler has grown by 12%, Audi by 11% worldwide. Brembo has grown twice their percentage because we have grown by 18% and this growth is due to the automotive field. This means that 50% of the growth has been made by our clients whereas the other 50% has been made by the market.

This is our master key to win also in stagnant markets. Especially in the European market. We can decline it on different markets. The American market growth is clearly about 2/3 compared to ours. The American market has grown by about 4,5% and we have grown by 30%. This result is due to the share and concerns also Europe, where it has had a 5% growth whereas we have had a 20%. We are earning much more than the rest of the market.

Looking forward, the portfolio is positive. It will let us keep this level of activity for the full year because last year's results had a second H performing better than the first one. These are the figures Matteo showed you before. Today we can say they are absolutely coherent until November. The light commercial vehicles are held back by automobiles. The field is growing but not as much as the other automobile one. I believe there will be a mid-single digit growth. Motorcycles aren't giving good results. The market is about + 1,5%. The truck is slightly growing but it has a negative influence on figures. Here I think we will have a low single digit, not a mid-single digit. We believe there will be a congruent second H. We have confirmed the working level in the different countries until the end of the year. We are cautious but optimistic.

Niccolò Storer

I would like to have a brief follow-up on what you have just said about the commercial vehicles. The outcome is worse than what you expected three months ago? I remember that when we talked about the

figures of the first quarter it seemed that the market was recovering well. The quarter had been quite positive and also the expectations were quite high.

Andrea Abbati Marescotti

I think it is going to be like last year, when we had a second which comparable to this year's second quarter. If we look at the figures the first two quarters of this year are coherent and the third and fourth quarters should have the same level of activity. It isn't a thrilling market. We have already realized our production with our commercial vehicles in Czeszochowa. Czeszochowa produces commercial vehicles but also Mercedes and satisfies their clients. So we are no longer in the logic of looking at quarters in the commercial vehicles sector.

Operatrice Chorus Call

The next question is by Martino de Ambroggi, from Equita. Mr. De Ambroggi, please.

Martino de Ambroggi

Good morning. I would like to have some information on the guidance. EBITDA at 14% on the full year might mean a slowing down in the second H because there has been a 15,5% in the first H. I understand that the start-up costs of the new plant will be available next year. I would like to know which drivers will give you 2 percentage points less in the third quarter.

Matteo Tiraboschi

Last year second half was very good both in terms of turnover and of profitability. Some important businesses perform better in some quarters, like competitions, motorbikes, and the after-market. This means that the second H will be less positive in terms of profitability. 14.5% is a percentage point less than the 15.5% we calculated in this first H, but it is an important figure. We will try and perform better even though we are considered as excessively cautious.

Martino De Ambroggi

Is 14.5% a basis for 2015?

Matteo Tiraboschi

Let's see how data will be at the end of the year and we will see. This year we will not have rump-up costs to consider for the foundry. Let's see what will happen next year. I wish we will perform as this first H. if you consider the rest of the world, you need to be more than cautious about the 14.5% for this year. For next year it is too early to know.

Martino De Ambroggi

Again on the tax rate. You always give indications on the normalized one. In the past you said that 25% was the level to be considered as the average normalized one. However, in the first H, without the benefits from Poland, the tax rate was of 36%. In the first part of your speech you mentioned that Italy had a tax rate of about 50%, even though there is the possibility to reduce it a little bit. Without fiscal benefits is it still possible to consider 25% as the normalized tax rate on the long run?

Matteo Tiraboschi

Determining tax rates for single quarters is very difficult. If you look at the story of our tax rates, you can see that they are very changing. I can't remember if it was last year or two years ago. The last quarter was positive, meaning that we earn money from the fiscal point of view. This means it is very difficult to predict the future. Basically it depends on different factors like the complexity in Italy and Brazil, active differed taxes, benefits in Czech Republic, Poland and the US. This means it is a very difficult exercise to do. I think that 26% we mentioned some time ago is still valid. The 36% we have had in this quarter is due to a series of taxes we have considered, while we haven't considered them in China and Brazil. So our tax rate is higher than what it would be.

Martino De Ambroggi

The Capex for 2014 is around 140 million. What about that of next year? With the new plant Capex will change. You have also said you are thinking of new operations. What are you thinking to do in the US?

Matteo Tiraboschi

Even next year we will be around 140-150. Some time ago we even had 165, and the company was smaller. This was due to the fact we were investing on different plants. Now we are managing the company differently and we are also generating more cash. During the first half we haven't spent a cent. If you consider the higher dividends and taxes, we can say we are particularly virtuous.

Martino De Ambroggi

As for the cash flow generation, is there something which is anomalous like delayed payments or anticipated cash. I am talking of the second quarter.

Matteo Tiraboschi

No, nothing extraordinary. We had a negative experience with a German client. We have had a problem with a software program and they haven't respected deadlines. However this was a technical problem. We have plants working at their full capacity and this allows the group to profit from good performances.

Martino De Ambroggi

What about the facturing? In the first quarter we were at 14.

Matteo Tiraboschi

More or less the same figure.

Operatore Chorus Call

Next question is by Emanuele Isella , Fidentiis. Please.

Emanuele Isella

Good afternoon. I have a couple of questions. The first question concerns the cash flow. I wanted to know if you predict they are going to decrease on the full year or not as compared to 2013. My second question is the following: how possible it is that your productive capacity is going to increase? When will you reach a

full capacity of plants after which you will have to invest again in plants in the US and in Europe? A last question. Out of curiosity, how much do motorbikes influence the market?

Matteo Tiraboschi

As for the full year, debt is going to be around 320-330 million, that is the same as the first H. motorbikes: in Italy they are increasing. India has a very small part of the market. We are probably our turnover there is around 10 million, consequently it doesn't have a great impact. The best result is in Italy. On flexibility, our plants are working at their full capacity, except for Brazil and Argentina. The 150 million investments I was mentioning before are due to sustain growth in the next years.

Operatore Chorus Call

The next question is a follow-up by Monica Bosio.

Monica Bosio

I have two questions on investments in the foundry in the US. I see that the Capex is higher than what I expected, around 74 million euro. Does it include also investments in the Homer plant? Is it so high because you are getting more and more market shares in the US? As for the activity on pliers you were mentioning before, are investments going to be less important? Can we have an update even if it is probably too early?

Matteo Tiraboschi

As for investments in the foundry, yes they also include the other plant. It will absorb our needs in terms of cast iron of about 50-60%. We will increase our working capacity. Concerning pliers, investments are going to be significantly less important. Normally when you invest in cast iron foundries you invest 100% of the money you had planned to invest. When investing on aluminum plants you can invest according to the market trend. If you remember our press release when we started the foundry in Ostrawa, we invested 30 millio. This is probably the same amount of money we are going to invest. Moreover you can even invest little by little as compared to a cast iron foundry.

Operator Chorus Call

The next question is a follow-up by Niccolò Storer.

Niccolò Storer

I still have three questions. The first: can you quantify the effect that there has been in the sales volume of Brembo North America compared to last year since there have been different operations, if I'm not mistaking? The second question is about the financial benefits. I understand that it is difficult to esteem them but is it possible to have an idea about the benefits regarding the foundry you are planning to build? Can you estimate an impact? I think that it will be possible to have benefits starting in 2017. The third question: can you give us an update on the aerospace activities in the last months?

Matteo Tiraboschi

The assets are about 21 milion in this biannual. After the production, Brembo North America invoices about 30 million to Harley Davidson. In the aerospace activities, compared to three months ago, I will repeat the same things. We are working on it, we are studying to see if we can have a faster growth with some acquisitions but without overstepping. I think that by September and October we can officially say that we

have purchased a new business. I wish we could do so earlier, but as happens in the automotive sector, we need to first agree with the client and then we will be able and communicate this to the rest of the world. Then, we will be more visible and present in this activity. As for benefits in the United States, I leave the floor to Laura who directly worked on them.

Laura Panseri

The investments in the United States have been gathered together in a complex chart and I will try to summarize information. Thanks to Michigan and the Michigan Development Agency we have received a cash grant of about 2 million euro. Afterwards we have received a further grant of about 3 million for our electrical connection. We have received facilitations in terms of costs for the selection and training of qualified workers. It is difficult to estimate the total figure because it depends on how many of them will be hired and its outcome. The figure is about 3 million. We have received facilitations in terms of lower taxes when hiring new staff but this also depends on the number of new employees. We have also had reduced taxes on properties for the next 13 years. It is difficult to know when we will have a total benefit because these incentives start in different periods.

Niccolò Storer

I insist on those 21 million euro spent in operations regarding direct and indirect invoicing. Maybe I wasn't clear enough. 21 million euro is the impact on this H. Was there an impact last year?

Matteo Tiraboschi

During the third and fourth quarter last year there has been an impact but I can't remember how much. I believe it was 18 million. Therefore we can expect that on the third and fourth quarter this year there will be a very little variance as compared to the third and fourth quarter last year. In the following quarter you will not see this variance any longer.

Niccolò Storer

Last year there has been an explosion of these operations in the last quarter.

Operatore Chorus Call

There are no further questions.

Matteo Tiraboschi

Since today is the 31st July, enjoy your holidays.