



IVECO

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I am pleased to give you an overview about Iveco, as well as the main elements of our growth strategy for the next years.

In step with corporate expansion through international acquisitions and joint ventures over the last 30 years, Iveco has developed a product range wide as few manufacturers can feature: light, medium and heavy commercial vehicles, off-road trucks, city and intercity buses and coaches as well as special vehicles for applications such as fire fighting, off-road missions, defence and civil protection.

At a global level Iveco sold a total of 172,500 vehicles (up 6.3% compared to 2004) and a further 64,800 vehicles (+12.8%) were sold through its affiliates all over the world. The Irisbus group sold a total of 8,500 vehicles, which slightly higher than last year.

Iveco's 2005 net revenues totalled 9,500 million Euros, an increase of 5% compared to 2004. Profit from operating activities amounted to 415 million Euro, an increase of 12% as from 2004.

In the first half of 2006, Iveco's net revenues totalled 4,300 million Euros, an increase of 5% as compared to first half 2005.

Profit from operating activities amounted to about 230 million Euro in first half 2006, with an improvement of about 100 million Euro as compared to the same period in 2005.

The snapshot of the Iveco market share in Western Europe in first half 2006 shows our leadership in the 3.5-6 ton segment. We are very close to the leadership in the 6-16 ton segment as well. In the heavy truck segment Iveco holds an 11% market share on average. In the five European major markets we have a significant market share in the segment bus&coach over 3.5ton with the Irisbus Iveco brand.

This is a signal that the number of initiatives Iveco has launched for increased profitability have started bringing results.

Iveco's strong mandate for customer satisfaction means primarily awareness of what does really count for the customer. We know well that presently in Europe competition amongst transport and logistic operators is fierce.

Customer's voice drives us designing our vehicles. For this, we implement product and service innovation with priority to optimization of Total Cost of Ownership.

Over the last years we carried out huge efforts to build our sales and service network around a limited number of well-established criteria: Iveco dealers are independent, they rely upon their entrepreneurial skills, their size must be consistent with sound business cases and must ensure an appropriate territory coverage.

We encourage growth of dealer size, to improve productivity and financial strength, with priority to service quality and product specialization.

Insofar the Iveco customer service, we seeks excellence both in parts distribution capacity and in repair capacity. For instance, 98.8% deliveries to the end customer are finalised within 24 hours. As for excellence in repair capacity, Iveco employs several high-technology instruments for advanced and remote diagnosis, training via simulator, and assistance 24/7.

In order to offer a more innovative and competitive range of financial solutions, Iveco and Barclays Asset and Sales Finance Ltd. finalised an agreement in mid-2005 that brought together the financial services divisions of Iveco in five key markets - France, Germany, Italy, Switzerland and the United Kingdom – into a new Joint Venture. The main strength of Iveco financial services lies in specialisation in the world of transport combined with an in-depth knowledge of customer needs. Finance sales volume has increased from € 517m in 2004 to € 578m this year (1H 2006).

At Iveco product development is an endless process. In particular, it should be recalled we launched the new Daily in May. Our “light transport champion” inherits a long success story of continuous evolution to meet the needs of professional road haulage company and van fleet operators.

Iveco has also developed best in class powertrain systems, now under the corporate brand of Fiat Powertrain Technologies. Regarding engines, we are already one of the major players in the world and – as far as respect for the environment is concerned – we are well ahead of European emission regulations. For achieving such objective, Iveco chose the Exhaust Gas Recirculation system for its light vehicles range, while we went for Selective Catalytic Reduction systems to ensure Euro 5 standards on our medium and heavy range.

Our engine technology guarantees optimized fuel consumption and excellent durability, which in turn ensures excellent performances in terms of Total Cost of Ownership – which is what customers really care of.

In parallel with continuous product development, we keep on monitoring our quality performance.

However, Iveco mandate for customer satisfaction and quality goes beyond simply reducing total cost of ownership.

There are three main areas particularly close to our heart. Environment is a priority at Iveco: we are ahead of regulations timing as far as emission limits and recycling are concerned. For example, Iveco is leader in Natural Gas vehicles, a very good solution especially for urban transportation.

Safety is another fundamental area where our technologies give a substantial contribution to social and economic objectives.

Finally the Productivity on the Road: for us it is not only navigation or telematics, it includes monitoring and managing the supply chain, ensure product quality over time, optimizing consumption of fuel and other consumables.

That said about Iveco, let's have a look to how the going gets at the international level.

At a worldwide level, market developments show different patterns as far as commercial vehicles' volumes are concerned. Such patterns are driving manufacturers' strategies about global product portfolio consolidation.

USA and Western Europe are big markets which nonetheless grow rather slowly. Eastern Europe, Southern and Central America, Africa and Middle East show a more significant growth rate, but their size is quite small. Eastern markets, China above all, are not only relevant by size, but they are also growing at a tremendous pace.

Therefore, real large scale impacts are to be expected in China, not elsewhere.

As a consequence, manufacturers are looking at emerging markets, other than struggling in the mature markets where the battle for every single share point is fierce. The result is an ever-increasing pattern of global market consolidation which requires manufacturers to compete in terms of volumes, suppliers' base, and other factors.

The Iveco way to grow its business is currently focused upon China. We have just finalized 3 new industrial JVs with Chinese partners with the goal of doubling our volumes in the mid-term by offering a full product range in the area. That's why the press has nicknamed such an evolution "Iveco 2"

For developing our partnerships in China, we consider a shared long-term business vision crucial. Such a shared vision is made possible by reciprocal trust and confidence, which in turn allows us to feel comfortable in bringing state of the art technologies in China, in presence of clear rules regarding partners' know-how, consistency of management styles as well as clear and shared governance rules with the partners.

“Iveco 2” means, first of all, excellent partnerships: Saic Motor Corporation, Nanjing Automotive Corporation, and Chongqing Heavy Vehicle Group.

Let me summarize our development perspective in China by activity:

You know we already have a joint venture with Nanjing Automotive Corporation since the end of the 80s. This company is called Naveco and is producing a premium product in the top segment of light commercial vehicles and minibuses – the China version of our Daily. Our partner had another activity in the light and medium truck business playing in the basic product range segment, by far larger than the one we were playing in. The activity was in a company called Yuejing. With this agreement, our Naveco has acquired Yuejing’s commercial vehicle business.

In terms of volumes, we expect to upscale from 20,000 to 100,000 units in the medium term. For Heavy Commercial Vehicles, we have finalized a JV with Saic and Chongqing Heavy Vehicle Group, which will soon lead to an improvement in product and process technologies. Volumes will grow from 15,000 to 40,000 units in the medium term.

For Heavy trucks, we have finalized another joint venture with Saic and Chongqing Heavy Vehicle Group, which will soon lead to an improvement in product and process technologies. Volumes of heavy trucks in our plans are growing from the current 15,000 units per year to 40,000 units in the medium term.

Also our Fiat Powertrain Technologies sister company is in the last phases of negotiation to establish, again with SAIC, a new joint venture to produce medium and heavy Diesel engines to support our strategic growth in China, and make this product available to other Chinese players and for export. As we do for the heavy trucks, where we envisage to build a brand new plant, also FPT is planning to establish a brand new modular plant to produce in the first step up to 100,000 engines with the ability to double this capacity.

The companies we are in, and which we acquired through these agreements, all together have roughly 900 dealers carrying the 3 different brands (Naveco, Yuejing and Hongjiang).

After our agreements we just started a huge rationalisation effort to build we hope on of the best commercial vehicle dealer network in China offering a complete, full line of product covering light and medium commercial vehicles, and most importantly, responding to any request our Chinese customers may have, from low entry, basic, robust single product to top of the range premium sophisticated specs trucks.

In summary, our strategy in China aims at offering a full product range serving both the high grade and the low grade markets in every segment. All this through improving vehicles through Iveco technologies.

But “Iveco 2” is more than just China.

Besides China, Iveco is looking at other areas for international operations: in India and Turkey we are exploiting Fiat Group partnerships, and in Southern America we are leveraging on Fiat dominance in the area.

All the developments I have just pointed out will for sure change Iveco in the next few years, and at a great extent.