



PIAGGIO & C.s.p.a.
IMMSI Group

2006 Annual Report

Share capital 205,941,272.16 euro fully paid up
Registered office: Viale R. Piaggio 25, Pontedera (Pisa)
Pisa Register of Companies and Tax Code 04773200011
Pisa Economic and Administrative Repertory 134077



Consolidated and Separate Financial Statements at 31 December 2006

Shareholders' Meeting

The shareholders are advised of the Ordinary Meeting at the Sala Assemblee of Banca Intesa, piazza Belgioioso 1, Milan, on 27 April 2007 at 2 p.m. in first call and, if necessary, on **7 May 2007**, at the same time and place in second call, to discuss the following

Agenda

- 1) Piaggio & C. S.p.A. financial statements at 31 December 2006; Directors' report on operations for the year 2006 and resolution to allocate the profit for the year; Report of the board of Statutory Auditors; Report of the Independent Auditors; Incidental and consequential resolutions; presentation of the consolidated financial statements and related reports at 31 December 2006 of the Piaggio Group.
- 2) Appointment of one member of the Board of Directors. Incidental and consequential resolutions.
- 3) Plan to allocate options on own shares to the top management of the Piaggio Group and authorisation to acquire and dispose of own shares subject to revoking the resolutions passed at the shareholders' meeting on 8 March 2006 regarding current incentive plans. Incidental and consequential resolutions.



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COMPANY BOARDS

BOARD OF DIRECTORS¹

Chairman	Roberto Colaninno
Deputy Chairman	Matteo Colaninno
Chief Executive Officer	Roberto Colaninno
Directors	Giangiacomo Attolico Trivulzio Michele Colaninno Franco Debenedetti (3), (4) Daniele Discepolo (2), (5) Luciano La Noce (3), (4) Giorgio Magnoni Gianclaudio Neri ² Luca Paravicini Crespi (3), (5) Riccardo Varaldo (4), (5)

(2) Lead Independent Director
(3) Member of the Appointments Committee
(4) Member of the Remuneration Committee
(5) Member of the Internal Control Committee

BOARD OF STATUTORY AUDITORS

Chairman	Giovanni Barbara
Standing auditors	Attilio Francesco Arietti Alessandro Lai
Substitute auditors	Mauro Girelli Maurizio Maffei

SUPERVISORY BODY

Enrico Ingrassia
Giovanni Barbara
Alessandro Bertolini

GENERAL MANAGERS

Daniele Bandiera
Michele Pallottini

INDEPENDENT AUDITORS

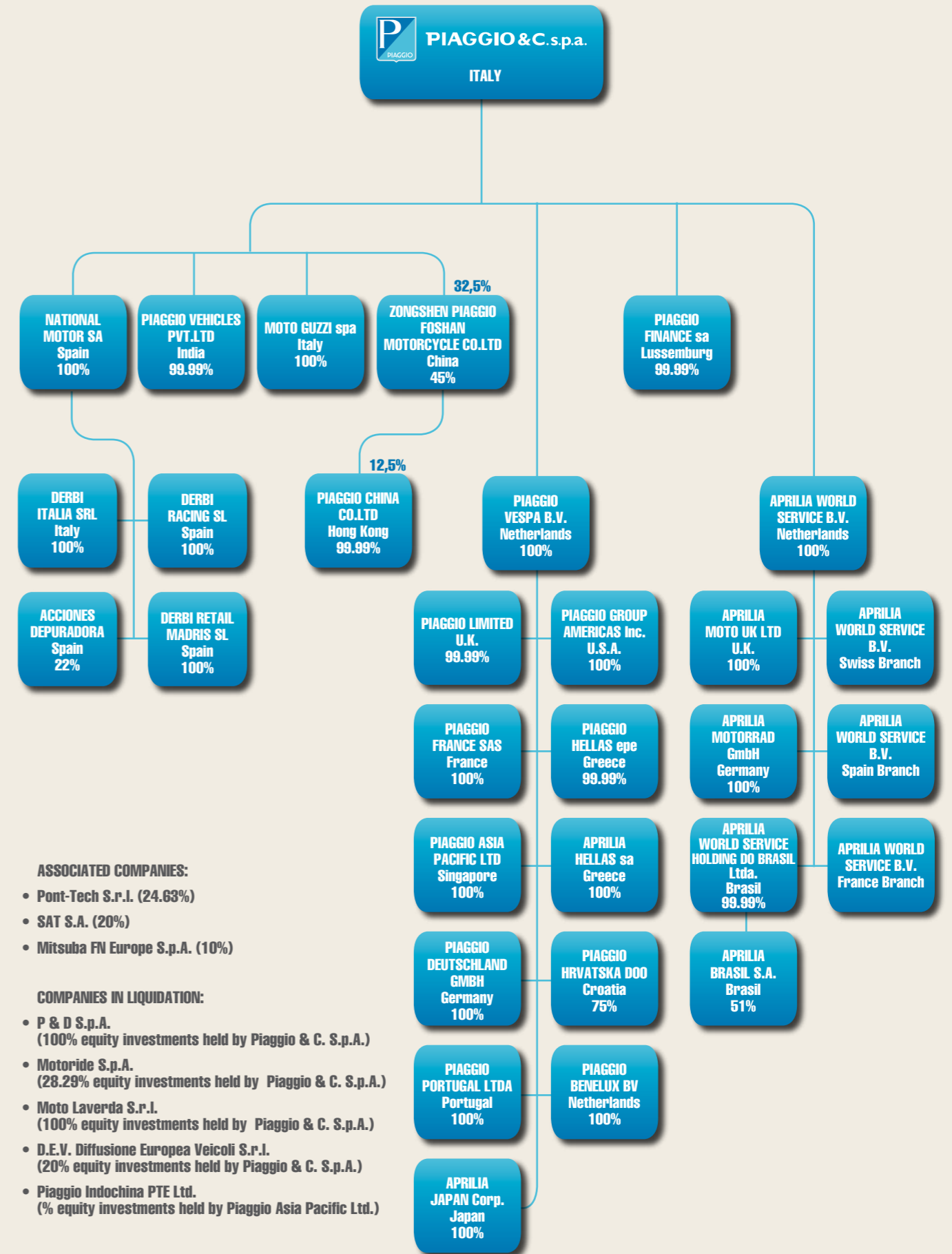
Deloitte & Touche S.p.A.

- 1 Appointed by the ordinary shareholders' meeting held on 28 August 2006, the Board will serve until approval of the financial statements at 31 December 2008.
- 2 Appointed by the Board of Directors on 13 November 2006, he will serve until the next shareholders' meeting.





PIAGGIO GROUP CORPORATE STRUCTURE AT 31 DECEMBER 2006



ASSOCIATED COMPANIES:

- Pont-Tech S.r.l. (24.63%)
- SAT S.A. (20%)
- Mitsuba FN Europe S.p.A. (10%)

COMPANIES IN LIQUIDATION:

- P & D S.p.A. (100% equity investments held by Piaggio & C. S.p.A.)
- Motoride S.p.A. (28.29% equity investments held by Piaggio & C. S.p.A.)
- Moto Laverda S.r.l. (100% equity investments held by Piaggio & C. S.p.A.)
- D.E.V. Diffusione Europea Veicoli S.r.l. (20% equity investments held by Piaggio & C. S.p.A.)
- Piaggio Indochina PTE Ltd. (% equity investments held by Piaggio Asia Pacific Ltd.)

Resolution to approve the financial statements and to allocate the profit for the period

Dear shareholders,

We propose that you approve the Financial Statements at 31 December 2006, the first prepared in accordance with the IFRS international accounting standards.

We therefore propose to cover 34,707,160.57 euro of losses relating to previous periods by using 32,960,645.06 euro from the share premium account and 1,746,515.51 euro from the IAS/IFRS transition reserve. Considering the need to have sufficient available reserves to cover non-amortised development costs recognised among the assets (as per Article 2426, n. 5 of the Italian Civil Code), we propose to allocate the 71,006,278.41 profit as follows:

- 3,550,313.92 euro to the legal reserve;
- 55,574,737.25 euro to retained earnings;
- 11,881,227.24 euro to be distributed as dividends.

Conditional upon shareholder approval, the Company will pay such dividend, equivalent to 0.03 euro per ordinary share from 24 May 2007, with the shares going ex-dividend on 21 May 2007.

Milan, 16 March 2007

For the Board of Directors

Chairman and Chief Executive Officer
Roberto Colaninno

PIAGGIO GROUP FINANCIAL HIGHLIGHTS

(amounts in millions of €)		2006	2005
Income statement (reclassified)			
Net sales		1,607.4	1,451.8
Gross industrial margin		483.0	438.2
Operating costs		-368.8	-343.9
Operating income		114.2	94.3
Income before tax		88.2	64.0
Net income		70.3	38.1
.minority interest		0.4	0.2
.Group		70.0	37.9
Gross margin as % of net sales	%	30.1	30.2
Operating income as % of net sales	%	7.1	6.5
Net income as % of net sales	%	4.4	2.6
Gross operating margin=EBITDA (from operations)		204.0	184.8
Gross operating margin as % of net sales	%	12.7	12.7
Balance Sheet			
Net working capital		20.2	44.0
Tangible assets		257.0	260.1
Intangible assets		630.3	624.7
Financial assets		1.0	7.4
Provisions		-151.8	-176.3
Net Invested Capital		756.7	759.9
Net financial position		318.0	411.4
Shareholders' equity		438.7	348.5
Sources of Funds		756.7	759.9
Minority interest		0.6	0.3
Change in net financial position			
Opening net financial position		-411.4	-521.5
Cash flow from operations (Income + Amortisation/Depreciation)		160.1	128.6
(Increase)/Decrease in working capital		23.8	70.2
(Increase)/Decrease in investment		-85.9	-136.9
Change in pension provisions and other provisions		-24.5	-10.9
Change in shareholders' equity		19.9	59.2
Total change		93.4	110.1
Closing net financial position		-318.0	-411.4



KEY FIGURES BY BUSINESS SECTOR

BUSINESS	2W				LCV	OTHER	TOTAL
	Piaggio						
	Gilera	Derbi	Aprilia	M. Guzzi			
	Vespa						
Volumes sold (units/000)	359.2	36.4	114.6	10.2	160.3		680.8
Net sales (in millions of €)	762.1	70.3	322.2	82.6	356.6	13.7	1,607.4
Employees (n°.)	3,124	294	1,029	230	2,097		6,774
Investment	22.7	5.0	25.8	6.4	6.3	23.9	90.1
- Fixed assets (in millions of €)	7.2	3.0	8.4	2.9	3.9	23.9	49.3
- R&D spending (in millions of €)	15.5	2.0	17.4	3.5	2.4		40.8

KEY FIGURES BY GEOGRAPHICAL AREA

GEOGRAPHICAL AREA	ITALY	EUROPE	NORTH AMERICA	INDIA	OTHER	TOTAL
Volumes sold (units/000)	212.0	281.3	23.1	139.4	24.9	680.8
Net sales (in millions of €)	618.4	648.1	77.2	206.4	57.3	1,607.4
Employees (n°.)	4,308	591	55	1,780	40	6,774
Investment	79.1	5.0	1.0	4.2	0.8	90.1
- Fixed assets (in millions of €)	40.9	3	1	3.6	0.8	49.3
- R&D spending (in millions of €)	38.2	2	0	0.6		40.8

Group highlights

Consolidated net sales rose to 1,607.4 million € (+10.7 % compared to 2005), of which 404.8 million € from the Aprilia and Guzzi brands and 1,202.6 million € from Piaggio, Gilera, Vespa, Derbi and the LCV Business Unit. Net sales from the Piaggio brands rose from 1,084.6 million € in 2005 to 1,202.6 million € (+10.9 %) in 2006, including 36.5 million € of sales to the Italian Post Office (*Poste Italiane*), while net sales for the Aprilia and Guzzi brands rose from 348.9 million € in 2005 to 404.8 million € in 2006 (+16.0%).

Consolidated EBITDA grew by 10.4%, reaching 204.0 million €, equal to 12.7% of net sales compared to 184.8 million € in 2005, 12.7% of net sales. Excluding non-recurring items, the 2006 EBITDA would have been 214.2 million € (13.3% of net sales) while the 2005 figure would have been 166.2 million € (11.4%) as detailed below in this report.

Operating income was 114.2 million €, compared to 94.3 million € in 2005 (+21.1%). Excluding non-recurring items that negatively affected the 2006 and positively affected the 2005 financial statements, the operating income would have been 124.4 million € and 75.7 million €, respectively, a 64.3% increase.

In 2006, Piaggio Group recorded **net income** of 70.3 million €, compared to 38.1 million € in 2005.

The **consolidated net debt** fell from 411.4 million € at 31 December 2005 to 318.0 million € at 31 December 2006, a 93.4 million € improvement, of which 16.8 million € deriving from the share capital increase of the same amount associated with the stock option scheme.

Piaggio and the financial markets

On 5 July 2006, the Initial Placement Offer of Piaggio & C. S.p.A. shares was successfully completed, with overall demand outstripping supply 2.4 times. Leading Italian and foreign institutional investors applied for about 3 times the amount originally set aside for them. As of 11 July 2006, the company's shares are listed on the Italian equities market (*Mercato Telematico Azionario, or M.T.A.*).

The price of the Initial Placement Offer and of the institutional placing was 2.3 € per share, at the lower limit of the price range set between 2.3 and 3.0 €, corresponding to a market capitalisation of more than 887 million €. The initial placement offer involved 137,137,839 ordinary shares of Piaggio & C. S.p.A., equal to 35.6% of the post-offer share capital, for a value of 315.41 million €.

During the period between 11 July 2006 and 31 December 2006, the market showed its appreciation of the share, which always remained well above the offer price and proved to be one of the best-performing new shares on the Italian equities market. On 18 September, the share joined the Blue Chip segment.

In compliance with CONSOB regulations, on 07 March 2007, shareholders owning more than 2% of the company were:

Shareholder	N°. of shares	% of share
IMMSI S.p.A.	217.907.659	55,02
SCHRODER INVESTMENT MANAGEMENT LTD	9.365.370	2,36%

Since the beginning of trading, Piaggio has maintained contact with shareholders and investors through its Investor Relations department which organises throughout the year presentations – both live and via conference call – when the Group publishes financial results or other events that require direct contact with the market.

For further information, refer to the www.piaggiogroup.com website, in the Investor Relations sector where one can access financial and business data, institutional presentation, periodical publications and share price updates.

Significant events during the year

16 March 2006 – Vespa GTS 250 i.e. wins scooter of the year award from the Motorrad magazine;

24 March 2006 – Eni and Piaggio Group sign a technical, commercial, sports and communication collaboration agreement regarding the AGIP brand and all the Piaggio Group brands;

29 March 2006 – A huge Piaggio Group success at the historical motorcycle of the year Motociclismo magazine award. Aprilia, Piaggio, Vespa, Gilera and Derbi won 15 of the 36 prizes offered;

10 May 2006 – the innovative MP3 3-wheeler was presented to the press;

15 June 2006 – CONSOB authorises publication of the information prospectus;

5 July 2006 – successful completion of the Initial Placement Offer of Piaggio & C. S.p.A. shares;

11 July 2006 – first day of trading of Piaggio shares on the Italian equities market (M.T.A.);

29 August 2006 – appointment of the new Piaggio & C. S.p.A. Board of Directors, comprising 11 members, 4 of whom are non-executive. Chairman Roberto Colaninno, Deputy Chairman Matteo Colaninno, Chief Executive Officer Rocco Sabelli;

18 September 2006 – Piaggio & C shares join the Blue Chip segment of the Italian equities market (M.T.A.);

25 October 2006 – Rocco Sabelli resigns from the position of Chief Executive Officer;

29 October 2006 – Aprilia wins the World Manufacturers' Championship and the World Riders' Championship with Alvaro Bautista and Jorge Lorenzo in the 125 cc and 250 cc categories;

13 November 2006 – Roberto Colaninno replaces Rocco Sabelli as Chief Executive Officer. Daniele Bandiera and Michele Pallottini are appointed General Managers;

25 November 2006 – the International Motorcycling Federation awards Aprilia for winning the S2 Supermoto Manufacturers' World Championship and the Riders' World Championship with Thierry Van Den Bosch;

11 December 2006 – Moto Guzzi manufactures its 10,000th motorcycle of the year;

19 December 2006 – annual Vespa production reaches 100,000 units for the first time since 1990;

20 December 2006 – Agos, a company in which Banca Intesa San Paolo holds an equity investment, signed an agreement for Italy with Piaggio Group to distribute a complete range of financial products to finance the purchase of group vehicles by end-users.a



DIRECTORS' REPORT

Introduction

On 11 July 2006, Piaggio & C. S.p.A. shares were listed on the Italian equities market (M.T.A.).

Therefore, in compliance with EU Regulation 1606/2002, starting with the 2006 financial statements, the Piaggio Group adopted the International Accounting Standards ("IFRS") issued by the International Accounting Standards Board also for the preparation of the separate financial statements of the parent company.

In this report the comparative figures of the parent company for the corresponding period in 2005 have, therefore, been restated and recalculated in accordance with the new accounting standards.

For further details regarding the impact of the new standards on the previously published financial statements of the parent company for 2005, refer to the specific Appendix to this report.

THE PIAGGIO GROUP

The Piaggio Group is a world leader in the "light wheeled transport" sector, a sector the Group helped to define with the introduction in the 1940's of the "Vespa" and "Ape" vehicles.

This sector comprise 2-, 3- and 4-wheel vehicles for private and business use that enable the customer to solve those problems connected with greater mobility by virtue of the safety, manoeuvrability and low environmental impact characteristics.

The vehicles manufactured are distributed internationally under the brands of Piaggio (scooters and 4-wheelers), Vespa (scooters), Gilera (scooters and motorbikes),

Ape (3-wheelers), Derbi (scooters and motorbikes), Aprilia (scooters and motorbikes), Moto Guzzi (motorbikes) and Scarabeo (scooters) in over 50 countries.

2-, 3- and 4-wheelers are all distributed through their own sales networks, comprising over 10,000 operators in the European main and secondary networks, 250 exclusive dealers in India and 300 dealers in the USA, as well as the distribution network of Piaggio importers in other countries.

As regards the light wheeled transport sector, this report covers the data relating to the two areas of activity of Group operations.

1. PIAGGIO GROUP FINANCIAL AND BUSINESS PERFORMANCE

Piaggio Group business results

NET SALES

Amounts in millions of €	2006	2005	Change
2-wheels	1,237.2	1,137.7	99.5
Light Commercial Vehicles	356.6	304.1	52.5
Other	13.7	10.0	3.7
TOTAL NET SALES	1,607.4	1,451.8	155.6

2006 Group consolidated net sales were 1,607.4 million €, a 10.7% increase compared to 2005.

The increase was due to the improved performance of both the 2-wheel (+8.7%) and light commercial vehicle (+17.3%) businesses. In particular, compared to the same period in 2005, growth was due to the increases in net sales

recorded by the Gilera and Vespa brands for 43.2 million €, Aprilia and Moto Guzzi for 53.9 million €, and 52.4 million € to the increase in the sales of light commercial vehicles, as well as the 36.5 million € of net sales mainly achieved in the first quarter of 2006 with Poste Italiane S.p.A., relating to the supply contract which the parent company Piaggio & C. won at the end of 2005. These sales largely offset the fall recorded by the Derbi brand.

In terms of sales volumes, the 2-wheel business had overall sales of 520,500 vehicles 2006 (489,600 in 2005, +6.3%), while the LCV business sold 160,300 vehicles (121,400 in 2005, +32.0%), of which 139,400 in India (+37.4%).

The "Other" item mainly includes sales of engines and income from racing.

The **gross industrial margin**, the difference between "Net sales" and the corresponding "Cost of sales" for the period, was 483.0 million €, up by 10.2% compared to 2005 and with a ratio to net sales of 30.1% (30.2% in 2005) and includes 35.0 million € of industrial amortisation.

The "Cost of sales" includes: cost of materials (direct and consumables), accessory purchase costs (transport of incoming materials, customs, movements and warehousing), employee costs for direct and indirect labour and related expenses, work undertaken by third parties, energy costs, depreciation of buildings, plant and machinery and industrial equipment, external maintenance and cleaning costs, net of sundry costs recharged to suppliers.

Operating costs at 31 December 2006 totalled 368.8 million €, up by 24.9 million € compared to the 343.9 million € in 2005, and consisted of employee costs, costs for services and use of third party assets and operating costs, net of operating income not included in the gross industrial margin. Operating costs also include 54.8 million € of amortisation which does not form part of the calculation of the gross industrial margin.

As indicated above, operating costs at 31 December 2006 included 10.2 million € relating to charges which the parent company incurred for the listing process.

Consolidated EBITDA – defined as "Operating income"

gross of amortisation of intangible assets and depreciation of tangible assets as they are recorded in the consolidated income statement – was 204.0 million, 10.4% up compared to the 184.8 million € in the previous year. As a percentage of net sales, 2006 EBITDA stood at 12.7%, as in 2005.

As described in more detail in the explanatory notes to the consolidated financial statements at 31 December 2006 and the separate parent company financial statements, on the basis of CONSOB notice no. DEM/6064293 dated 28 July 2006 in relation to the business and financial impact of non-recurring events and operations, it should be noted that operating costs at 31 December 2006 included 10.2 million € relating to charges which the parent company incurred for the listing process, while in 2005 the consolidated income statement included income of 18.6 million € for Ministry of the Environment anti-pollution incentives granted to Piaggio & C. S.p.A. and Aprilia S.p.A. for sales of environmentally friendly vehicles between June 2003 and July 2004 and which both companies had already passed on to customers in previous years.

Net of the impact of the IPO operations and the receipt of the anti-pollution incentives which had opposing effects on the 2006 and 2005 financial statements, EBITDA would have been 214.2 million € at 31 December 2006 and 166.2 million € at 31 December 2005 (+28.9%), 13.3% and 11.4% of net sales, respectively.

Given the aforementioned trend in net sales and costs, **operating income** in 2006 stood at 114.2 million €, a 19.9 million € increase compared to the 94.3 million € for 2005.

In 2006, the increase in profitability was also confirmed (measured as operating income divided by net sales), standing at 7.1%, compared to 6.5% in 2005. Net of the effects of the IPO operations and the receipts from the anti-pollution incentives which had opposite impacts on the 2006 and 2005 financial statements, operating income would have been 124.4 million € at 31 December 2006 and 75.7 million € at 31 December 2005 (+64.4%).

Financial charges totalled 25.9 million €, compared to 30.3 million € in 2005, of which 15.7 million € related to

the bonded loan issued by Piaggio Finance in 2005. 2006 ended with consolidated **net income** of 70.3 million € compared to net income of 38.1 million € recorded in the same period of 2005, after taking into account tax of 37.8 million € and having recognised 19.9 million € of deferred tax assets, in accordance with IAS/IFRS provisions.

CONSOLIDATED CASH FLOW STATEMENT

The consolidated cash flow statement prepared in accordance with the IFRS international accounting standards is presented in the "Consolidated Financial statements and Explanatory notes at 31 December 2006"; the following is a comment relating to the summary statement shown in the Highlights.

Cash flow generated in the period was 93.4 million €.

Cash flow from operations, i.e. net income plus amortisation and depreciation, was 160.1 million €. The positive impact of this flow on the cash generated in the period, together with the positive impact of the decrease in working capital from 44.0 M. € at 31 December 2005 to 20.2 million € at 31 December 2006 (-23.8 million €), was partly offset by investment activities for 85.9 million € and by the change in provisions of 24.5 million €. This positive performance also benefited by 16.8 million € from the increase in share capital deriving from the taking up of part of the 2004-2007 stock options during the second half of 2006.

Investment activities absorbed 85.9 million € of liquidity.

Piaggio group balance sheet

Working capital – defined as the net total of: trade receivables and other current and non-current receivables, inventories, trade payables and other long-term payables and current trade payables, other receivables (short and long-term receivables due from tax authorities, deferred tax assets) and other payables (payables due to tax authorities and other short-term payables) – stood at 20.2 million €, down compared to the figures at 31 December 2005 (a net decrease of 23.8 million €), thanks in part to the manage-

ment action taken to limit inventories and manage credit over the last 12 months, as well as the aforementioned program to implement without recourse factoring on the Italian market which was completed in 2006.

Tangible assets consist of property, machinery and industrial equipment, net of accumulated depreciation, and assets destined for sale, as set out in more detail in the Explanatory notes to the consolidated financial statements in notes 16 and 26. At 31 December 2006 these totalled 257.0 million €, 3.1 million down compared to 31 December 2005.

Intangible assets consist of capitalised development costs, patent costs and know-how, and the goodwill arising from the merger and acquisitions operations undertaken within the Group since 2000 onwards as set out in more detail in the Explanatory notes to the consolidated financial statements in note 15. At 31 December 2006 these totalled 630.3 million €, a 5.6 million € increase compared to 31 December 2005.

Financial assets, defined by the directors as the total of equity investments and other non-current financial assets (see the Explanatory notes 18 and 19), totalled 1.0 million € overall, 6.4 million € down compared to 31 December 2005.



Provisions consist of pension and employee benefits provisions (Note 33), other long-term provisions (Note 31), the current portion of other long-term provisions (Note 31), deferred tax liabilities (Note 32), and totalled 151.8 million €, 24.5 million € down compared to 31 December 2005.

Net Financial Position at 31 December 2006 stood at 318.0 million €, compared to 411.4 million € at 31 December 2005. The 93.4 million € decrease compared to 31 December 2005 was mainly due to the positive trend in cash flow from operations, which completely funded investments, and to the efforts to optimise working capital.

The breakdown of the net financial position, which is set out in more detail in the specific table in the Explanatory notes, may be summarised as follows table 1:

TAB 1

Amounts in millions of €	31/12/2006	31/12/2005
Medium/long-term financial payables	211.3	231.5
Bond	144.6	144.0
Short-term financial payables	42.8	88.5
(Financial assets)	(11.9)	(9.8)
(Liquid assets)	(68.9)	(42.8)
Total	318.0	411.4

Shareholders' equity at 31 December 2006 totalled 438.7 million €, compared to 348.5 M. € at 31 December 2005.

Employees

There were 6,774 Group **employees** at 31 December 2006, including 1,171 seasonal workers, an increase of 421 compared to 31 December 2005, mainly at the Indian subsidiary see table 2.

TAB 2

Level	Average number		Number at	
	2006	2005	31/12/06	31/12/05
Senior management	115	113	113	115
Middle management	369	335	382	328
Clerical staff	1,784	1,780	1,805	1,783
Manual labourers	4,715	4,421	4,474	4,127
Total	6,983	6,649	6,774	6,353

2. Significant subsequent events

On 31 January 2007, following the taking up of the outstanding 5,328,760 options relating to the completion of the 2004-2007 Stock Option Plan, 5,328,760 new shares were issued and the Piaggio & C S.p.A. share capital consequently increased to € 205,941,272.16 represented by 396,040,908 shares of 0.52 € nominal value.

On 14 February 2007, the Piaggio Group and Intesa Sanpaolo sign a letter of intent relating to structuring the most suitable forms of financing for the development of a new Piaggio industrial project in India for the construction of a manufacturing facility for a range of diesel engines.

During January and February 2007, equity investments in the Group changed as follows:

- On 26 January 2007, Piaggio disposed of its entire 20% equity investment in D.E.V. Srl in liquidation;
- On 23 January 2007, Piaggio Portugal Limitada placed itself in voluntary liquidation;
- Completion, effective 28 February 2007, of the activities to close the Aprilia branch in the United Kingdom following the transfer of its activities to Piaggio Limited, which will continue to market in the United Kingdom the Aprilia and Guzzi brands as well.

It is pointed out that all requirements envisaged in the "Personal data protection code" (Law 196/2003) have been complied with, including those regarding the "Technical specifications concerning minimum security measures" (annex B of the Code). The Planning Document "Documento Programmatico" of Piaggio & C. S.p.A. has been updated accordingly.

3. Operating outlook

In keeping with the aim of maintaining its role as a leader in innovation, in the second half of 2006 Piaggio launched the MP3, a new scooter concept aimed both at the most advanced client segments as well as at potential new segments of users, thanks to new technological solutions perfected by the company and covered by patents. 2007 will also be characterised by the launch of innovative vehi-

cles such as the Gilera Fuoco and the Gilera GP 800, the highest performing scooter on the market, which required especially cutting edge technical solutions and which will be followed by other scooter models.

In the motorbike segment, besides continuing the initiatives to re-launch the Aprilia and Guzzi brands with the new Mana, Shiver and Guzzi 1200 Sport models, production began on a new 650 cc model, the result of a five-year supply agreement with BMW.

In the Light Commercial Vehicles segment, the main efforts will continue to be directed at supporting the expansion of the Indian market, also thanks to the expansion of the product range with the introduction of the first version of the 4-wheel transport vehicle, the new Ape Truk. Piaggio Group's increased presence in India is destined to continue in the engine sector as well with work beginning on the new facility near Pune (Maharashtra State) for the production of new small and medium-sized diesel engines. The facility will have an annual production capacity of 200,000 engines and will be operational in 2010.

4. Dealings with related parties

Net sales, costs, payables and receivables at 31 December 2006 involving parent companies, subsidiaries and associated companies relate to the sale of goods or services and derive from arm's-length transactions.

The table 3 which follows completes the information

regarding dealings with associated companies, parent companies and other related parties which do not form part of the consolidation of the Piaggio Group.

5. THE MARKET

5.1 The 2-wheeler business

In 2006, the world market for motorised 2-wheelers (scooters and motorbikes) slightly contracted compared to previous years (-4% compared to 2005). Sales volumes remained over 40 million vehicles, however.

Asia remains the number one market: the People's Republic of China confirmed its position as the biggest world market, in spite of a 17% fall in volumes, with over 15 million vehicles sold. In second place was India with growth of 15% and more than 7.7 million vehicles sold. South East Asia, with over 11 million vehicles, experienced a slow-down compared to 2005 (-2%): among countries in this area, Indonesia (-12% compared to 2005) accounts for a large part of the 4.5 million vehicles sold, having approximately 39% of sales, followed by Vietnam and Thailand with 2.2 million and 2.1 million vehicles sold, accounting for 19% and 18% of regional sales, respectively.

The Japanese market was stable compared to 2005 with just over 700 thousand units sold.

The positive trend continued in North America (of which more than 90% is concentrated in the USA) which maintained growth of 2%, with over one million units sold. As

TAB 3

MAIN INCOME STATEMENT AND BALANCE SHEET ITEMS

€/000	Regarding:			Nature of the transaction
	Associated	Parent	Other related parties	
Revenue from sales and services	1,708.3	84.3	0.0	Net sales of vehicles and parts and/or recovery of other costs
Consumption of raw materials and services	34,158.4	3,768.4	885.4	Purchase of parts from associated companies, acquisition of services from parent companies and related parties
Current financial receivables	93.5	0.0	0.0	Receivables due from Fondazione Piaggio
Trade and other receivables	4,998.0	76.2	16.8	Receivables arising from the sale of vehicles, parts and/or recovery of other costs
Trade and other payables	8,722.4	23.4	885.4	Amounts payable arising from the purchase of parts and/or vehicles and the provision of services

for Latin America, Brazil (80% of the area) confirmed its rising trend with volumes at nearly 1.3 million units (+24% compared to 2005).

Europe, the main area for Piaggio Group businesses, saw further growth with around 2.2 million vehicles sold (+10% compared to 2005, of which +12% came from the scooter business and +9% from motorbikes). This result depended once again on the solid performance of the over 50 cc segment (+8%) combined with considerable growth in the 50 cc segment (+14%); as for the over 50 cc segment, scooters saw a better growth trend (+11%) than motorbikes (+6%).

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The scooter market

ITALY

The Italian scooter market ended 2006 with volumes of 398 thousand vehicles, essentially stable compared to the 395 thousand in 2005; 50 cc sales fell again (-6%) while over 50 cc sales increased 4%

EUROPE

In 2006, the scooter market in Europe grew from 1.164 million units in 2005 to 1.301 million in 2006 (+12%), due to the positive performance in the sub-segment of over 50 cc scooters – which rose to 639 thousand units compared to 574 thousand in 2005 (+11%) – and in the sub-segment of 50 cc scooters, which rose from 590 thousand units in 2005 to 662 thousand in 2006 (+12%).

Among the main countries, Italy remained the key market (around 30% of the European market) with 398 thousand units (stable compared to 2005), followed by Spain with

218 thousand (+27%), France with 239 thousand (+42%) and Germany with 84 thousand (-16%).

The growth in the French and Spanish markets was evenly spread over both segments. The substantial increase in the over 50 cc segment in the German market, on the other hand, was offset by an even more substantial fall in the larger 50 cc segment.

After years of decline, a sense of cautious optimism returns to the British market where 41 thousand units were sold against 40 thousand in 2005. Growth in the over 50 cc scooter market offset the fall in the 50cc scooter segment.

NORTH AMERICA

In 2006, the North American scooter market contracted 2%, falling from 65 thousand units in 2005 to 64 thousand units in 2006. The over 50 cc scooter segment saw a positive growth trend (+25%) which enabled it to overtake, in terms of relative weight, the 50 cc market which fell by 23%

The motorbike market

ITALY

The motorbike market (including 50 cc motorbikes) in Italy improved substantially in 2006, rising from 154,704 units in 2005 to 169,368 at 31 December 2006 (+9.5%), thanks to growth in the sub-segments of 51-125 cc motorbikes – which rose from 9,698 units in 2005 to 10,168 in 2006 (+4.8%), and above all in the over 125 cc motorbikes – which stood at 150,742 registrations at 31 December 2006 compared to 138,546 in 2005 (+9%). In particular, 126-750 cc motorbikes grew by 10.9% (96,372 vehicles in 2006 compared to 86,908 in 2005), while sales of over 750 cc motorbikes grew by 5.3% (54,370 vehicles in 2006 compared to 51,638 in 2005)

EUROPE

The motorbike market in Europe rose from 854,156 units in 2005 to 926,104 units in 2006 (+8.4%). Of particular note is the 6.6% growth in the 51-125 cc segment which rose from 128,545 units in 2005 to 137,021 units in 2006. The

126-750 cc segment also grew, rising to 389,635 units compared to 359,426 in the previous year (+8.4%).

The best performing markets at the end of 2006 are France (177,189 units), Italy (169,368 units), Spain (162,590 units), Germany (132,699 units) and Great Britain (90,341 units).

In Europe the main sub-segment is that of medium size (126 to 750 cc) motorbikes, where the Group is represented by the Aprilia and Moto Guzzi brands, followed by that of the maxi motorbikes with engines over 750 cc where the Group is present with the Aprilia and Moto Guzzi brands.

The sub-segment for intermediate motorbikes (126-750 cc) in Europe grew substantially compared to the previous year (+8.4%) thanks to the good performance of almost all the European markets: Spain (+33.2%), Italy (+10.9%), France (+6.0%), partially weakened by the negative performance of the British market (-1.0%) and, especially, the German market (-8.5%).

The 51-125 cc sub-segment, where the Group is present with Aprilia and Derbi – which grew by 6.6% compared to 2005 – also was boosted by the positive performance of the markets in Spain (+15.6%), France (+17.8%), Britain (+9.9%) and Italy (+4.8%); the German market fell in this sector too (-12.0%).

NORTH AMERICA

In 2006 the motorbike market in the United States followed a general growth trend (+2.6%), due to the over 125 cc segment (+12.1% overall), while the 51-125 cc sub-segment fell (-19.6%).

5.2 Light commercial vehicle business

In 2006, the European market for light commercial vehicles (vehicles with a gross weight of up to 3.5 tons) saw further recovery, +5.3% compared to 2005 (source: Acea December 2006).

On the domestic Italian market (source: ANFIA deliveries declared by the manufacturers) for the period January-December 2006, growth was higher (+8.3%), with 234,088 units sold compared to 216,187 in 2005.

The Indian market, where Piaggio Vehicle Private Limited,

a subsidiary of Piaggio & C. S.p.A., successfully operates, continues to show good growth, +19.4% compared to 2005. During 2006, sales to end users in the 3-wheeler segment in which PVPL operates, reached 405,749 units compared to 339,749 units recorded in 2005.

Within this market, the sub-segment for passenger vehicles (3- and 6-seaters) was 236,200 units (+21.3%), while the cargo sub-segment saw significant growth (+16.8%), rising from 145,135 to 169,549 units sold.

6. The regulatory framework

ITALY

In 2006 the process to apply the regulations contained in the Legislative Decree on the New Highway Code continued. In particular, the new moped registration system that came into force on 14 July 2006 (new licence plates, new vehicle registration certificate, sale and exchange of title without the need for a notary public since mopeds are considered non-registered assets); as a consequence thereof, all new mopeds registered for the first time and, in the future and on an optional basis, those already in circulation, have a new licence plate and new vehicle registration documents which allow the transport of a passenger provided that the driver is an adult. The mandatory application of the regulation to all mopeds has still not been defined in terms of timing or method and will be subject to a further ministerial circular.

As for the issue of licences for mopeds, procedures continue in a normal way for both minors and adults.

As regards traffic awareness, the initiatives of the Piaggio Group to support education campaigns and schools continued, in particular with the involvement of its own dealers in implementing part of the free courses held at schools.

As for regional and local initiatives to help reduce atmospheric pollution, the initiatives of the Regions of Lombardy, Piedmont, Emilia Romagna, Tuscany and the city of Rome should be noted. Starting in September 2006 for the three regions and from January 2007 for Rome, a permanent traffic ban applies to Euro 0 two-stroke mopeds and motor-

bikes. This ban applies to the area of 135 communes in Lombardy, 35 communes in Piedmont, in communes of at least 50,000 inhabitants in Emilia Romagna and in 23 communes of Tuscany. In Rome, the ban refers to the railway ring and applies to non-residents as of January 2007, while it will apply to residents as of November 2007.

Among the campaigns to encourage the replacement of vehicles in circulation, of note is the completion of the Lazio region campaign relating to the communes of Rome and Frosinone. There are currently no other initiatives.

As for the insurance rates applied to 2-wheelers in Italy - which according to statistical analyses produced by DOXA-ANCMA represent the main barrier to the purchase of a 50cc scooter - there have been no significant changes. Depending on the area and the age of the rider, the average premiums for moped insurance have risen further or stayed at the very high levels of the last two years. Finally, the Italian Department of Motor Vehicles (*Motorizzazione Civile*) has officially recognised the right to circulate on motorways, ring-roads and assimilated roads for heavy quads for goods transport (the category that includes the Quargo)

EUROPE

In compliance with EU directives 2002/51/CE and 2003/77/CE, on 1 January 2006 the Euro 3 phase came into force for newly registered motorcycles over 50 cc. These obligations will be extended to all new registrations for motorcycles over 50 cc and/or with a top speed of more than 45 kph as from 1 January 2007.

In the first half of 2006, European institutions defined new restrictions regarding 2- and 3-wheel motor vehicles so as to lessen their environmental impact, in addition to the aforementioned directives, in relation to pollution limits for 2 and 3-wheel motorised vehicles, with limits on

- The first EU Directive 2006/72/CE dated 18 August 2006 (published in the Italian Official Gazette of EU

Affairs (GUCE) n°. 227 dated 19/08/2006) provides that the new testing cycle harmonised at a global level (the World Motorcycle Test Cycle - WMTC) to measure the pollution from motorcycles come into non-binding force at the request of the manufacturer of the vehicle to be approved as from July 2007. The new testing cycle includes limits for emissions which are equivalent to those already familiar for the classic testing procedure with the ECE 40 cycle.

- The second directive, which is currently being finalised, should establish the new Euro 3 limits for mopeds, 3-wheelers and quads, and contain a package of additional measures for all 2- and 3-wheel motor vehicles (measurement of fuel consumption, CO2 emissions, durability, evaporative emissions, etc.).

It should be remembered that, in the vehicles segment (commercial vehicles N1 Porter), as from 1 January 2006 the obligation to respect the Euro 4 parameters has been extended to all first-time registrations.

This has led to the withdrawal of the diesel version engine of the Porter, rejecting its adjustment on technical and economic grounds and favouring the idea of developing a new technically up-to-date version, while the supplier Daihatsu has adapted the petrol version to the new parameters and guaranteed supply until 2008-2009.

The definition of harmonised international regulations regarding noise, braking and polluting emissions for 2-wheeler vehicles continued actively throughout 2006. Piaggio made a significant contribution to advancing the study activities on which the new regulation will be based at both a European and international level.

Overall, the products of the Piaggio Group conform both to the strictest European regulations and, with specific adaptations, to the regulations in North America and other non-EU countries (China, India, etc.).

7. The Piaggio Group

7.1 The 2-wheeler business unit

	2006		2005		% change	
	Volumes Sell in ('000 units)	Net sales (millions of €)	Volumes Sell in ('000 units)	Net sales (millions of €)	Volumes	Net sales
Piaggio	224.4	396.9	199.6	371.9	12.5	6.7
Gilera	34.8	68.0	35.1	61.0	-1.0	11.5
Vespa	100.1	208.8	87.5	172.6	14.4	21.0
Derbi	36.4	62.2	46.8	82.6	-22.2	-24.7
Aprilia	114.6	285.1	113.7	264.2	0.8	7.9
M. Guzzi	10.2	75.0	7.0	43.8	46.4	71.2
Spare parts and accessories	N.S.	140.9	N.S.	141.5	N.S.	-0.5
TOTAL	520.5	1,236.8	489.6	1,137.7	6.3	8.7

In 2006 the Piaggio Group, taking into consideration all the brands managed, Piaggio, Gilera, Vespa, Derbi, Aprilia and Guzzi, sold a total of 520,500 units (+6.3% compared to 2005) in the 2-wheeler sector, with net sales of 1,236.8 million € (+8.7%) including spare parts and accessories.

The Group's brands maintained their leadership of the European scooter market with a 30.8% share.

Looking at the individual brands, 2006 saw strong growth for Vespa which, in its 60th year, sold over 100,000 units (+15% compared to the previous year) thanks to the launch of the GTV and the confirmation of the LX and GTS models. Note should be taken of the excellent performance by Vespa in the USA where it recorded an increase in sales of over 40% compared to 2005. Piaggio volumes rose by 12%, also due to the positive contribution from the Italian Post Office contract for 24,300 vehicles.

The launch of the new Beverly and Liberty S families, and of the Beverly and X8 fitted with the new 400 cc engine, the success of the new vehicles manufactured in the facility managed by the Chinese joint venture (Fly 50 and 100 cc, as well as the consolidated Zip), but above all the arrival at the end of 2006 of the innovative MP3 (around 6 thousand units sold in 2006 out of 10,000 ordered overall) ensure margins for improvement this year as well.

Gilera ended 2006 at the same levels as 2005, almost 35 thousand sold, thanks to the launch of the new Nexus 500 and the new 250 cc version introduced in mid-2006.

As for Derbi, some negative factors led to a sharp fall in sales and the number of units sold in 2006; these include the termination of the collaboration agreement to distribute Kawasaki motorbikes on the Spanish market and the termination of the main collaboration agreement with the importer for the Austrian market, substituted only in July. Against this background, business performance in 2006 recorded an overall 22.2% fall in volumes and a 24.7% reduction in net sales.

As for Aprilia, the results for 2006 are essentially in line with the previous year as regards volumes (114,600 vehicles sold against 113,700 in 2005, +0.8%) and an improvement in net sales, which rose from 264.2 million € at 31 December 2005 to 285.1 million € at 31 December 2006.

More in detail, the 2006 results derive from a contraction in volumes and sales in the scooter sub-segment, offset by a strong improvement in the motorbike sub-segment, due mainly to the 126-750 cc and 51-125 sub-segments. While the result for scooters reflects a product range which is being renewed and technologically updated, the positive result for motorbikes was due to the good performance in



Italy of the new RS 125, the entry into the 126 cc – 1000 cc sub-segment of the new Pegaso 650 Strada and Trail and Tuono Factory models and the positive contribution from off-road motorbikes with the RXV 450/550 and SXV 450/550.

In 2006, Moto Guzzi recorded sales of 10,200 motorbikes compared to 7,000 in 2005 (+46.4%) and turnover of 75.0 million € compared to 43.8 million € in 2005 (+71.2%), thanks to a more favourable product mix with larger engine sizes.

7.2 The 2-wheeler product range

The Piaggio, Vespa, and Gilera brands, formed by a broad range of products that already comply with Euro 3 regulations and are entrenched in the leading positions in sales tables, ensure excellent coverage of the various market segments.

The two best-selling models in 2006 were the Piaggio Liberty (almost 71 thousand units sold, in part due to the Italian Post office contract) and the Vespa LX (45 thousand units), followed by the Zip in third place (37 thousand units) and the Beverly in fourth place with 35 thousand units; 2006 performance was improved by the Vespa GT/GTS range (almost 28 thousand units sold) as well as the “vintage” GTV of which only 999 units were built to mark the 60th year of the most well-known scooter in the world.

During 2006, Piaggio launched a range of new products that updated the existing models: the Beverly and X8 were provided with new 400 cc engines; similarly, the 50cc versions of Zip and Fly were joined by a 100cc version, also produced in China. The second half of 2006 saw the introduction of the MP3, the first 3-wheeler scooter that is already successful in Italy and throughout Europe.

2006 saw the beginning of brand repositioning for Gilera towards premium customers that will come fully into force

during 2007: an updated version of the Nexus 500 was proposed at the beginning of 2006 and the range was further improved with a 250cc version that more than doubled the 2005 sales volumes. At the end of 2006, two veritable novelties that will be launched in 2007 were unveiled for the first time at EICMA: Fuoco 500, a sporty 3-wheel scooter and the GP 800, the most powerful twin-cylinder scooter ever produced.

The range of Aprilia products is formed by a diverse series of scooters and motorbikes with various engine sizes.

During 2006, note should be made of the introduction of the new scooter models, Scarabeo 250/400/500 i.e., Sport City 250 i.e., and the new Euro 3 engines for the Sport City 125/200 and Atlantic 125/250/400 and 500, as well as the Scarabeo 125/200 street which have not yet given their full as regards sales volumes and income. As for motorbikes, the 50 cc range has been completely renewed thanks to the new RS 50, RX 50 and SX 50 models. In February there was also the launch of the new sporting RS 125, which immediately positioned itself as a leader in the 125 cc supersport segment. Among the mid-range bikes of note is the new Pegaso Trail, while among the maxi bikes note should be taken of the introduction of the new Tuono Factory and of the 2006 model of the RSV 1000 in the standard and factory versions

During 2006, Moto Guzzi continued to renew its range of vehicles, with the launch of the Breva 750 and Nevada 750 series in the touring versions and the adaptation of their engines to the Euro 3 regulation. The engines were updated for the California series as well and new versions were launched in various sub-segments including custom, touring and vintage. In addition, the company introduced the new 850 cc version of the Breva and Griso models and presented the Norge 1200, which marked Moto Guzzi's return to the touring segment.

7.3 The lcv business unit

	AT 31/12/2006		AT 31/12/2005		% change	
	Volumes Sell in ('000 units)	Net sales (millions of €)	Volumes Sell in ('000 units)	Net sales (millions of €)	Volumes	Net sales
Ape	149.2	228.2	109.7	175.1	36.0	30.3
of which India	139.4	194.0	101.4	146.8	37.4	32.2
Minivan	6.8	61.6	7.2	65.2	-6.5	-5.5
Quargo	3.8	27.3	3.6	25.2	5.6	8.4
Microcars	0.6	4.3	0.9	6.8	-38.8	-37.0
Spare parts and accessories (1)	N.S.	35.1	N.S.	31.8	N.S.	10.4
TOTAL	160.3	356.6	121.4	304.2	32.0	17.2

(1) Includes India spare parts

The Light Commercial Vehicles (LCV) division operates in the 3- and 4-wheel vehicle segment, developing, manufacturing and selling the APE, Porter and Quargo vehicles in Europe and in India, in a variety of versions and engine sizes.

The Light Commercial Vehicles (LCV) division ended 2006 with 160,300 units sold, 32% up compared to the 2005 volumes, while net sales rose from 304.2 million € in 2005 to 356.6 million € in 2006 (+17.2%). The net sales generated in Europe totalled 150.2 million €, while India, following strong growth in volumes and including net sales for spare parts and accessories, reached 206.4 million € of net sales.

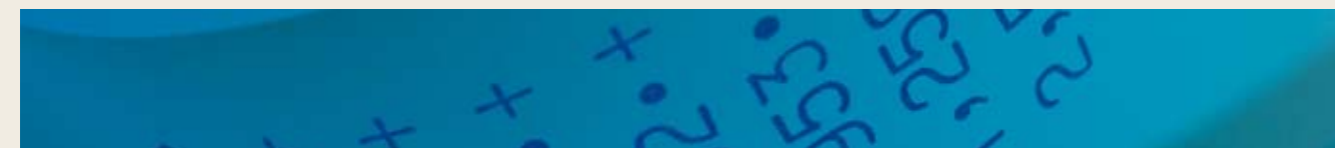
Thus the positive trend in European sales continued with 20,934 units sold, +4.6% compared to the 20,021 in 2005, and Piaggio consolidated its role as the key player in the niche of “compact” commercial vehicles which are small, highly manoeuvrable and have a high load-bearing capacity in relation to their size.

The growth in volumes and net sales achieved by Piaggio Vehicles in India again in 2006 further strengthened the presence of our subsidiary on the Indian market, where it

improved its market share (33.9%) compared to the 29.1% of the previous year and confirmed its position as the second operator on the local market. Sales rose from 100,576 units in 2005 to 137,577 units in 2006 (+36.7%). Analysing the market in detail, Piaggio Vehicles consolidated its role as market leader in the cargo (freight) segment and as the key follower in terms of dynamism and innovation in the passenger segment.

In the cargo sub-segment (0.5 tons and 0.75 tons), thanks in particular to the “Piaggio Ape 501” and its numerous personalisation possibilities to meet the varying needs of customers, the market share of Piaggio Vehicles stood at 38.7%, more than 12 points ahead of the second manufacturer (SIAM / Piaggio Vehicles figures). In addition, the rapid growth of Piaggio Vehicles in the passenger sub-segment continued. Piaggio Vehicles in fact saw a significant increase in market share which reached 30.4%, thus increasingly asserting itself as a valid alternative to the historic local market leader.

As for the product range, 2006 saw the introduction of the Euro 4 engines on the Porter range.



7.4 Research and development

Company	2006			2005		
	Capitalised	Costs	Total	Capitalised	Costs	Total
Amounts in millions of €						
Piaggio & C.	35.3	22	57.3	23.7	23.8	47.5
<i>of which 2-wheeler Piaggio/Gilera/Vespa</i>	15.5	13.9	29.4	13.4	13.3	26.7
<i>of which 2-wheeler Aprilia</i>	17.4	6.1	23.5	8.1	8.2	16.2
<i>of which LCV</i>	2.4	2	4.4	2.2	2.3	4.5
Nacional Motor (Derbi)	2	2.3	4.3	2.2	1.8	4
M. Guzzi	3.5	0.5	4.0	3.2	0	3.2
Total	40.8	24.8	65.6	29.2	25.7	54.9

The Piaggio Group carries out its research and development activities of new products or technologically advanced solutions to be applied to its vehicles and engines in the production facilities of Pontedera, Noale, Mandello del Lario and Barcellona. Piaggio Vehicles uses the product development projects carried out centrally in Pontedera for its LCV business.

The Piaggio Group continued in 2006 with its policy aimed at maintaining technological leadership in the sector, setting aside overall resources of 65.6 million € (of which 57.3 million € in Piaggio & C. S.p.A., 4.3 million € in Nacional Motor, and 4.0 million € in Moto Guzzi) for R&D activities, 4.0% of sales (3.8% in 2005), and of which 40.2 million € was capitalised under intangible assets as development costs, patent costs or know-how, depending on the category.

In particular, research activities relating to product innovation and manufacturing technology projects used 4.6 million € of resources; the development activities for the remaining 61.0 million € concerned in particular new vehicles and new engines (environmentally friendly above all). Following the development activities for new 2-wheeler products, for an overall cost of 61.2 million €, of which 29.4 million € for the Piaggio, Gilera, and Vespa brands, 4.3 for Derbi and 27.5 million € for Aprilia, during 2006 the offer was able to benefit from the production start-up of the many vehicles.

Piaggio launched its revolutionary MP3 3-wheeler, the

Sport version of the Liberty, and used the new 400cc engines on the Beverly and X8 which occupied a key position in the "maxi GT" segment; in 2006, Vespa launched the Vintage models to celebrate the brand's 60 years, while Gilera launched the new Nexus 250 and restyled the entire Nexus range, but most of all completed the twin-cylinder scooter project and presented it as the GP800 at the Milan Motorbike show along with the Fuoco 500, the sports version of the MP3.

Aprilia on the other hand launched new models of the Scarabeo 250/400/500 i.e. and Sport City 250 i.e. scooters. As regards motorbikes, the 50cc range was updated with the RS 50, RX 50 and SX 50. Also presented were the new sports RS 125, the Pegaso Trail and the Tuono Factory.

As for engines, development activities focused on both the extension of the 50cc engines for motorbikes to applications of the Aprilia brand, as well as on completing the development of Euro 3-complying solutions for licensed vehicles.

Moreover, development activities are underway for a new family of 125-200cc motorbike engines aimed mainly at Derbi vehicles, while within the framework of the MASTER family a new 400cc engine has been developed to better cater to market needs. Finally, regarding the high-end engines (up to 1200 cc), development continued on new families of twin-cylinder engines (for scooters and motorbikes) to be presented as of 2007.

As for the LCV business, the total cost in 2006 was 4.4 million € compared to 4.5 million € spent in 2005, and relate to the Quargo India (renamed Ape Truk to capitalise on Ape's success on the Indian market) and the new Euro 4 engine which fits out the Porter commercial vehicle.

As for Guzzi, research and development costs totalled 4.0 million € which were mostly capitalised, and concerned the production launch of new vehicles such as the Brevia USA and the Griso USA, the Brevia 850 cc and the Griso 850cc, the Brevia ABS, the California Vintage, the Norge 1200 in the T, GT, TL and GTL versions, the 1200 SPORT, vehicles destined for the public sector, and the development of new models such as the Griso R, the Stelvio, the Custom 940, with production expected to begin in 2007.

R&D PROJECTS FUNDED

BY THE MINISTRY OF ECONOMIC DEVELOPMENT

During 2006, the following R&D projects funded by the Ministry of Economic Development were implemented.

The "Innovative, high-performance maxi scooter for a global market" project. The programme regarding the R&D activities on the X-11 vehicle finished positively at the end of 2006. The verification procedures to ascertain whether the approximately 2,650,000 euro of costs sustained in 2006 are admissible are currently in progress.

The "T.W.O. (Two Wheels Optimized) project: innovative, highly technological solutions for 2-wheeler vehicles with a high degree of ecological friendliness, safety, ergonomics, comfort and handling performance". The programme regarding Aprilia R&D activities finished successfully in April 2006. The costs relating to 2006 submitted to the Ministry for financing amount to 225,801.36 euro.

7.5 Production

Pontedera facilities

During 2006 work began on a new production line for integral drive shafts destined for the top-end engines. As of the second half of 2007, the production line will produce all Piaggio Group and Moto Guzzi integral drive shafts and two new engine assembly lines have been built for

450/550cc engines for enduro/motard motorbikes and 50cc Derbi vehicles.

The project introducing a new internal transport flow system to improve and make logistics more efficient has been completed.

Furthermore, the process of environmental certification to the ISO 14001 standard has started and should be finished by the first quarter of 2007.

Scorzè facility

The project to rationalise the production processes and redefine the logistics flow by restructuring the motorbike and scooter assembly lines has been completed.

Mandello del Lario facility

At the end of 2006, the restructuring and reorganisation of the production processes is nearing completion.

Barcellona facility

A new assembly line for the Mulhacen was built in 2006.

Baramati facility

The new assembly/frame-welding and final construction lines for the new Ape Truk vehicles have been built, further increasing annual production capacity. A new Experimental Workshop has also been built for light commercial vehicles with its own vehicle testing track. On 13 November 2006, the Piaggio & C. S.p.A. Board of directors approved a new industrial initiative, which envisages building a new industrial facility in Pune for the production of some 200,000 engines.

8 Human resources and quality systems

8.1. Quality and customer service

2006 marks the consolidation for the group of a single system to measure quality levels on the European markets and the completion of a system to measure the level of customer loyalty, which will be first implemented in a "field trial" in the first half of 2007. The potential level of loyalty against the "consolidated" will in fact be the ideal measure of the level of overall effectiveness of the company's system. In parallel, the "Group system of operating quality" has been completed, which led to the system itself being

certified at levels of excellence (zero non-conformities) consolidating the results obtained individually in the past in the main production activities. During 2006, there was consolidation in the levels of customer satisfaction and perceived product reliability after two years with improvement rates of 20% in 2004 and 25% in 2005. These results are also backed up by the trend in market share and in internal costs of product assistance.

As for Customer Management, in 2006, the post-sales commercial assistance service was reorganised and European brand contact centres were introduced which carry out commercial assistance alongside the distribution network for all of Europe. Specific assistance programmes were also introduced for the Aprilia "supersports" motorbikes.

This initiative dedicated to the Consumer segment goes together with those already in place for Piaggio customers and those for car fleets (corporate business customers) which are offered technical management services for the product, which in some cases is extended to the whole life cycle of the product itself.

As for the spare parts business, there were some problems in customer service seen in the period from March to June, connected to the concentration of the former Aprilia businesses and the related work to adapt information systems. At the year end, those problems had been solved and the level of service is now much improved.

8.2 The organisation

The period of industrial consolidation that was "completed" with the Group being listed required the organisational model to evolve in order to strengthen the company's ability to further develop. In particular, attempts have been made to create the premises to reinforce the Group's presence and role internationally, to compete globally with higher quality products and services, as well as consolidate the company's ability to earn. The new organisation was fully implemented in December.

A core element of the new organisational structure is the

continuity of the project to transform the Group's European presence, focusing on commercial activities while seeking economies of scope and scale in administrative and staff activities.

During 2007, the European presence will be characterized by "selling agencies" in the main markets (France, Spain, Germany, UK and Benelux).

In 2006, a further strong stimulus was provided to "integrating" businesses that had until then been totally independent (Piaggio, Aprilia and Guzzi) with the adoption of common operating tools and policies, such as extending the SAP system to Aprilia, Nacional Motor and Piaggio Group Americas, as well as extending it within Piaggio and increasing common organisational procedures.

8.3 Personnel

In 2006, the overall Group personnel (that is, not only Group employees worldwide but also seasonal workers for Piaggio operations) was 7,156 people of whom 4,824 working in Italy, an overall increase of 514, of whom 133 in Italy. The 7% increase (slightly lower than the turnover rate) confirms the continuous efforts to seek innovations aimed at improving the overall efficiency of the organisation. In particular, the re-engineering of the processes made possible by the development of IT, which will continue at the same or a higher pace in 2007, enabled a diversification of the workforce mix, a reduction in the overhead costs as a percentage of overall costs (from 1.7% to 1.6%) and a growth rate of professional and/or specialised personnel focused on product and process innovation and development (+10% middle management – from 5% to 5.3% of global personnel) and product testing and laboratory activities (+9% indirect workers – from 18.7% to 19.7% of the workforce).

5,603 people held stable employment within the Group, 4,274 of them in Italy, an increase of 84 units, 26 of whom in Italy; these data convey the importance of the efforts made in terms of flexibility to meet the demands of the cyclical nature of production.

8.4 Industrial relations

2006 saw essentially full application of the agreements signed in 2005.

In this context, the only exception was Moto Guzzi where there was agreement on the plan to restructure production, aimed at consolidating the company's organisation; moreover, the integrated company contract was renewed in accordance with Group policies.

In particular, the Group believes that the involvement of the whole workforce is absolutely essential in achieving the following business development results: Customer Satisfaction, company profitability and productivity – the trend and improvement of which is shared, starting in the second half of 2006, in all the Group's facilities by means of bonuses. Flexible working conditions is the other key element (flexible hours, term contracts, seasonal contracts) that permits the company to optimise its ability to respond to the cyclical/seasonal nature of production and is the reason for discussion regarding application of the agreements.

In January 2006, unemployment benefits (*Cassa Integrazzi-*



one Guadagni) ended in the Noale/Scorzè production facility and in February production returned to normal.

The atmosphere of constructive discussion in industrial relations, focused essentially on applying the agreements, is enhanced by the number of strikes, which fell from 35 to 30 with an 18% reduction in hours lost. Absenteeism (net of the hours on strike) was at 8.9%, down 8.3% compared to 2005.

9. Other information

9.1 Corporate

During the year, the Group's corporate structure changed as a result of the following events:

- The merger by incorporation of Aprilia World Service USA, Inc. into Piaggio USA, Inc. effective 1 January 2006. Following this merger, Piaggio USA, Inc changed its name to Piaggio Group Americas, Inc.;
- The voluntary liquidation procedure completed by Aprilia Leasing S.p.A. on 9 March 2006;
- On 10 March 2006, the disposal by Aprilia World Service B.V. of its 49% equity investment in Marker S.r.l.;
- Approval of the shareholders of Motocross Company S.r.l. of the final liquidation financial statements on 30 June 2006;
- Closure of Aprilia Research & Development S.A. on 18 September 2006 and its cancellation from the company register;
- On 26 September 2006, participation in the share capital increase approved by Pont-Tech S.c.r.l.. The portion due as per Article 2481 bis of the Italian Civil Code was duly subscribed.
- Merger by incorporation of Piaggio Espana SA into Nacional Motor SA., effective 31 December 2006.

Furthermore, the following transactions took place in early 2007:

- On 23 January 2007, Piaggio Portugal Limitada resolved to place itself in voluntary liquidation;
- On 26 January 2007, Piaggio & C. S.p.A. sold its 20% equity investment in D.E.V. S.r.l. in liquidation to Hold-

ipar S.r.l. with registered office in Asolo (TV) Via S. Anna 9, for 40,000 euro. Piaggio & C. S.p.A. is no longer a shareholder of D.E.V. S.r.l.

- Effective 28 February 2007, completion of the closure of Aprilia's United Kingdom branch following the transfer of its activities to Piaggio Limited.

9.2 Disputed

Following the negotiations undertaken as from June 2006, a settlement was reached in the dispute between Loris Capirossi and Robin Redbreast Enterprises BV against Aprilia S.p.A, AWS BV and Aprilia Racing Srl by way of compensation for the damage under contractual responsibility, through a settlement agreement dated 24 July 2006.

As part of the case brought by Leasys S.p.A-Savarent at the Court of Pisa against the Company as guarantor of the latter in relation to the requests made by Europe Assistance against Leasys at the Court of Monza, regarding the initial supply of vehicles for Poste Italiane, on 28 June 2006 the Judge in Pisa issued an ruling suspending judgment until the procedure is completed in the Court of Monza.

On 25 May 2006, Piaggio & C. S.p.A. brought a case against some companies of the Case New Holland Group (Italy, Holland and USA), in order to recover damages under contractual and non-contractual responsibility relating to the execution of a supply and development contract of a new family of utility vehicles. The judge has set the first hearing for the parties to appear on 16 March 2007.

As for the tax dispute, it is noted that there are no longer any disputes involving the parent company, Piaggio & C. S.p.a. The main tax disputes of the other Group companies concern P&D S.p.A. in liquidation, and Piaggio Espana SA incorporated into National Motor S.A., Nacional Motor S.A. and Piaggio Vehicles PVT Ltd.

In more detail, with regard to P&D S.p.A. in liquidation, there are disputes arising from the notices of inspection issued by the Italian tax authorities (*Agenzia delle Entrate*) for the tax periods 1993, 1994, 1995-1997 and 2000-2002 based on the 1999 inspection, which led to the drafting of

the inspection *procès-verbal*.

Regarding the notices of inspection, the courts found in favour of the Company in the first and second degrees for the years 1993 and 1994. The government lawyers (*Avvocatura Generale dello Stato*) has appealed to the Supreme Cassation Court (*Suprema Corte di Cassazione*) regarding these second instance sentences and P&D promptly filed counter-appeals and incidental motions. The case is pending and, to date, we are waiting for the Supreme Court to fix a date for the preliminary hearing.

As regards the later years, the judges of the Pisa Provincial Tax Commission found in favour of P&D in the first degree for the years from 1995-1997, while the Florence Regional Tax Commission found against P&D, finding the inspection notices to be legitimate, setting off legal costs. The Company has decided to appeal to the Supreme Court of Cassation.

Finally, concerning the inspection notices for the years 2000, 2001 and 2002, P&D S.p.A. has appealed to the Pisa Provincial Tax Commission, but the decision has been delayed pending the outcome of the Cassation Court's ruling on the disputes relating to the earlier years.

In relation to the above dispute, the company has not considered it necessary to make provisions in the balance sheet in light of the positive outcome of all the first and second degree judgments issued so far, at least up to the most recent ruling of the Florence Regional Commission which is the only exception, and in consideration of the positive indications expressed by the professional experts engaged by the defence regarding the existence of valid reasons to appeal the Supreme Court's ruling against P&D and on the reasonable likelihood of a positive outcome to the proceedings currently pending before the competent judicial authorities.

As for Piaggio Espana S.A. and Nacional Motor S.A. there are tax disputes before the Supreme Court (the highest court of judgment), for which the companies have arranged to allocate the contested sums or have already provided for the payment of the contested amounts. Nacional Motor

SA is, moreover, a creditor of the Spanish tax authorities regarding the caution payment, which in 2006 was found to be not due, of taxes assessed but still pending judgment. In this regard, the company is preparing an application for refund.

Finally, as concerns Piaggio Vehicles PVT Ltd, there are currently various disputes regarding different years between 1998 and 2003 regarding both direct taxation and customs duties. The company has not considered it necessary to make provisions in the balance sheet in light of the positive indications expressed by the professional experts engaged by the defence.

9.3 Stock option plan

In reference to the incentive plan for 2004-2007 ("**2004-2007 plan**"), on 8 March 2006 the Board of Directors resolved to assign to the Plan Management Committee the task of assessing the possibility of redefining the terms of exercise and expiry of the options (already allocated to beneficiaries) as established in the 2004-2007 plan, conferring on the Committee the powers to prematurely end the 2004-2007 plan if necessary in comparison to the duration originally established – before the start of trading of shares on the MTA and in any case subordinately to the listing. This without prejudice to the exercise price and the quantities of options already assigned to beneficiaries within the plan itself.

On 3 May 2006, the company's Board of Directors resolved, in application of the delegated powers attributed by the extraordinary shareholders' meetings held on 7 June 2004 and 8 March 2006, to increase share capital from 194,827,431.24 euro to 205,941,272.16 euro through the issue of 21,372,771 new ordinary Piaggio shares with a nominal value of 0.52 euro each, to be offered to the holders of the options assigned under the 2004-2007 plan.

On 15 May 2006, the plan management committee, taking account of the resolution adopted by the Board of Directors on 8 March 2006 and in order to bring forward the closure of the plan in connection with the listing of the

Piaggio shares on the MTA, modified the regulation and, consequently, resolved to free for use the options assigned in implementation of the 2004-2007 plan for a total of 21,372,771 options, with the opportunity for the beneficiaries to exercise the options as from that date.

Thus, during the year 16,044,011 shares were issued of which:

- On 11 July 2006, 10,891,789 were allocated to beneficiaries who had exercised the options on 15 May 2006; of these 9,581,789 were at the price of € 0.98 and 1,310,000 at the price of € 1.72.
- On 12 July 2006, 2,257,100 were allocated to beneficiaries who had exercised the options on 4 July 2006, at a price of € 0.98 per share.
- On 15 November 2006, 2,745,122 were allocated to beneficiaries who had exercised the options on 15 November 2006, at a price of € 0.98 per share;
- On 29 December 2006, 150,000 were allocated to beneficiaries who had exercised the options on 29 December 2006, at a price of € 1.72 per share.

At this balance sheet date there remained, therefore, 5,328,760 (see table 4) options for the underwriting of a corresponding number of newly issued Piaggio shares to be exercised no later than 360 days from the date of the start of trading of the shares on the MTA.

It is further noted that on 31 January 2007, 5,328,760 new shares were allocated to beneficiaries who had exercised their options on 26 January 2007; of these, 3,920,760 at a price of € 0.98 and 1,408,000 at € 1.72.

At the date of approval of these financial statements, all the options allocated under the 2004-2007 plan have been duly exercised.

Consequently, the new share capital of Piaggio & C. S.p.A. is € 205,941,272.16 represented by 396,040,908 shares of € 0.52 nominal value.

Furthermore, on 8 March 2006, in conformity with the resolution of the Board of Directors on the same date, the company's extraordinary shareholders' meeting resolved, sub-

ordinate to the start of trading in the shares on the MTA, (a) the establishment of new stock option plan ("2007-2009 plan") with the aim of providing incentives for the creation of value in the Group's assets through the achievement of the economic and financial results envisaged by the com-

pany's plans; (b) to attribute to the Board of Directors, with the option of further delegating, every power needed to determine and approve the regulation implementing the 2007-2009 plan, and for the management and execution of the plan.

TAB 4

Rights	Number of options	Average exercise price (euro)	Market price (euro)
Rights existing at 31.12.2005 ° of which exercisable in 2005	21,372,771	0.983	
New rights granted in 2006			
Rights exercised in 2006	16,044,011	1.047	
Rights that expired in 2006			
Rights existing at 31.12.2006 ° of which exercisable at 31.12.2006	5,328,760 5,328,760		



EQUITY INVESTMENTS OF THE MEMBERS OF THE COMPANY BOARDS, GENERAL MANAGERS AND MANAGERS WITH STRATEGIC RESPONSIBILITIES

Number of Piaggio & C. shares	N.° shares held at 31.12.05	N.° shares purchased in 2006	N.° shares sold in 2006	N.° shares held at 31.12.06
Colaninno Roberto(*)	345,268,137 (**)	-	127,360,478	217,907,659 (***)
Sabelli Rocco	0	5,490,244	5,490,244	0
Neri Gianclaudio	0	3,294,116	3,294,116	0
Bandiera Daniele (****)	0	0	0	0
Pallottini Michele (****)	0	0	0	0
Total	345,268,137	8,784,360	136,144,838	217,907,659

(*) Declarant as per article 93 of Law 58/1998.

(**) On 31.12.2005, Roberto Colaninno, through Omniaholding SpA, Omniainvest SpA, Omnipartecipazioni SpA, Immsi SpA and Piaggio Holding Netherlands BV indirectly controlled Piaggio & C. SpA and the Piaggio Group.

(***) On 31.12.2006, Roberto Colaninno, through Omniaholding SpA, Omniainvest SpA, Omnipartecipazioni SpA and Immsi SpA indirectly controlled Piaggio & C. SpA and the Piaggio Group.

On 30.12.2006, effective 1 January 2007, the shareholders of Omniaholding with warrants exercised those warrants relating to the "Omniaholding S.p.A. 2001-2007" non-convertible bonded loan, valid for the subscription of newly-issued Omniaholding shares. As a result of the transaction, the equity investments in the share capital of Omniaholding SpA are as follows: Roberto Colaninno 40.554%, Oretta Schiavetti 19.890%, Matteo Colaninno 19.778% and Michele Colaninno 19.778%. Therefore, as of the execution of such increase in share capital, the control of Piaggio & C. SpA and the Piaggio Group is no longer indirectly exercised by Roberto Colaninno, but by Omniaholding SpA, a company entirely owned by the Colaninno family.

(****) Following a share issue on the same date, on 31 January 2007, Daniele Bandiera and Michele Pallottini, General Managers since 13.11.2006, sold 600,000 and 976,042 shares, respectively, under the 2004-2007 Stock Option Plan.

Milan, 16 March 2007

For the Board of Directors
Chairman and Chief Executive Officer
Roberto Colaninno



PIAGGIO GROUP Corporate Governance Piaggio & C. S.p.A.

BOARD OF DIRECTORS' REPORT ON THE COMPLIANCE WITH THE CODE OF BEST PRACTICE OF LISTED COMPANIES FOR THE 2006 FINANCIAL YEAR

Dear Shareholders,

As Chairman of the Board of Directors of Piaggio & C. S.p.A. ("**Piaggio**", the "**Issuer**" or also the "**Company**") and on behalf of the same Board, in compliance with the provisions of article 124-*bis* of Legislative Decree no. 58/1998 as subsequently amended (the "**FSA**") and Section IA.2.6 of the Rules of the Markets organised and managed by Borsa Italiana S.p.A., I hereby inform you in relation to the Piaggio & C. S.p.A. corporate governance system which is adopted to conform with the principles contained in the Code of Best Practice drawn up by the Committee for the Corporate Governance of Listed Companies as finally amended (the "**Code of Best Practice**").

The following annual report has also been drawn up taking account of the *Guidelines for the drafting of the annual report in relation to corporate governance* issued by Borsa Italiana S.p.A. (February 2003) and the *Guide to the compilation of the corporate governance report* drafted by Assonime (*Translators note: Assonime is the Association for Italy's limited liability companies*) and Emittenti Titoli S.p.A. (February 2004). Its aim is to supply you with the prescribed information in relation to the implementation of the Code of Best Practice for the financial year ended on 31 December 2006 and takes account of the fact that the Piaggio ordi-

nary shares have been listed on the Telematic Stock Market organised and managed by Borsa Italiana S.p.A. ("**MTA**") since 11 July 2006 (the "**Listing**"). Where there has been no amendment of the *corporate governance* system to comply with the recommendations of the Code of Best Practice in relation to some specific aspects, detailed reasons have been highlighted. In any event, the information and data contained in this document shall be annually updated by the Board of Directors upon issuing the next Reports on compliance with the Code of Best Practice.

Governance structure of the Company

Piaggio is structured according to the traditional administration and management model pursuant to Articles no. 2380-*bis* and ff. of the Italian Civil Code through the Shareholders' Meeting, the Board of Directors and the Board of Statutory Auditors. The auditing activity is entrusted to an auditing company registered with the Roll of Legal Auditors pursuant to Article no. 161 of the FSA appointed by the Shareholders' Meeting. The Issuer and its subsidiary companies are subject to the management and co-ordination activity of IMMSI S.p.A. according to Articles no. 2497 and ff. of the Italian Civil Code.

1. Composition and operation of the Board of Directors

1.1 Appointment, composition and term of office

The Company is managed by a Board of Directors comprising no less than seven and no more than fifteen members.

Upon appointing the Board, the Ordinary Shareholders' Meeting determines the number of members within the aforesaid limits as well as their term of office that cannot exceed three financial years in which case it shall expire at the date of the Meeting called to approve the financial statements relating to the last period of their office. They may be re-appointed. A person may be appointed Director of the Company if he or she possesses the requisites prescribed by the law, Articles of Association and other applicable provisions. As regards the professionalism requisite, paragraph 2 of Article 12 of the Articles of Association establishes that no person can be appointed Director of the Company, and if so appointed the term of office shall immediately expire, unless the person has gained at least three years experience in the following areas:

- a) administration and management that is the person has performed managerial duties for companies limited by shares with a share capital of no less than 2 million euros; or
- b) professional activities or full-time university teaching in legal, economic, financial and technical-scientific subjects that are strictly related to the activity of the Company; or
- c) managerial duties at public bodies or public administrations operating in the credit, finance and insurance sectors or, at any rate, in sectors that are strictly related to those of the activity of the Company.

The requisites of independence of the members of the administrative body will be dealt with later on at point 1.3. The provisions of the Articles of Association that govern the composition and appointment of the Board of Directors of the Issuer are suitable to guarantee compliance with the provisions introduced in relation to the same by Law no. 262/2005 (Article no. 147-ter of the FSA). The said provisions shall also be subject to amendment within the terms of law in order to comply with Legislative Decree no. 303 of 29 December 2006 (the "303/2006 Decree"). For further details on the methods adopted to elect the members of the Board of Directors, refer to Article 12 of the Articles of Association.

The Board of Directors of the Issuer in office at the date of this Report is composed of eleven members, appointed by the Ordinary Shareholders' Meeting of 28 August 2006 and in office until the date of the Shareholders' Meeting held to approve the financial statements as at 31 December 2008 and, with the exception of Gianclaudio Neri, a Director appointed by co-optation in compliance with Article no. 2386, paragraph 1 of the Italian Civil Code (to replace Rocco Sabelli, a Director resigning from all offices held within the Company and the Piaggio Group with effect from 13 November 2006) by resolution of the Board of Directors dated 13 November 2006 and, therefore, in office until the next Meeting. Please note that the administrative body currently in office had been appointed by a majority resolution passed by the Ordinary Shareholders' Meeting of 28 August 2006 (without applying the straight-ticket voting system) in accordance with the provisions of Article 12.4 of the Articles of Association in force.

The following table 1 contains a list of the members of the administrative body in office with details of their respective executive duties (see point 1.5), whether they are non-executive Directors or Independent Directors (see point 1.3) and whether they take part in the Committees established within the Board of Directors (see points 1.1.1, 2.1 and 3.3).

On 16 March 2007, the Board of Directors of the Issuer carried out the annual assessment pursuant to Article 1.C.1, letter g) of the Code of Best Practice, and concluded that the composition and operation of the administrative body are adequate in relation to the management and organisational needs of the Company also taking account of the fact that nine out of eleven members are non-executive Directors and that, of these, four are Independent non-executive Directors and also guarantee an adequate composition of the Committees established within the Board of Directors (see point 1.3 on non-executive Directors and points 1.1.1, 2.1 and 3.3 on Committees). As prescribed by Article 12, paragraph 2 of the Articles of Association and Article 6.C.1 of the Code of Best Practice, the professional *curricula* of the candidates for the office of Director have

TAB. 1

Name	Duty
Roberto Colaninno	Chairman and Managing Director
Matteo Colaninno	Vice-Chairman
Gianclaudio Neri	Non-executive director
Michele Colaninno	Non-executive director
Luciano Pietro La Noce	Non-executive director – Nomination committee member – Remuneration committee member
Giorgio Magnoni	Non-executive director
Daniele Discepolo	Non-executive and independent director – Lead independent director – internal control committee chairman

been filed with the registered office and made available on the Company's website www.piaggio.com. In compliance with the provisions of Article 12 of the Articles of Association, the Directors currently in office possess the requisites

Name	Duty
Franco Debenedetti	Non-executive and independent director – nomination committee chairman – remuneration committee member
Riccardo Varaldo	Non-executive and independent director – remuneration committee chairman – internal control committee member
Luca Paravicini Crespi	Non-executive and independent director – nomination committee member – internal control committee member
Gian Giacomo Attolico Trivulzio	Non-executive director

provided by applicable legal and regulatory provisions as well as the Articles of Association.

The following table 2 shows the management and control positions held by the members of the Board of Directors in

TAB. 2

Name and surname	Company	Management and control positions held in companies limited by shares
Roberto Colaninno	- IMMSI S.p.A. ** - Omniaholding S.p.A. * - Omniainvest S.p.A. * - Omnipartecipazioni S.p.A. * - RCN Finanziaria S.p.A. * - Immobiliare Regis S.r.l. - Rodriguez Cantieri Navali S.p.A. * - Capitalia S.p.A. ** - Mediobanca S.p.A. ** - Fondazione Piaggio Onlus	Chairman of the Board of Directors Chairman of the Board of Directors Chairman of the Board of Directors Chairman of the Board of Directors Director Chairman of the Board of Directors Director Director Director Director
Gianclaudio Neri	- Rodriguez Cantieri Navali S.p.A. * - Intermarine S.p.A. - RCN Finanziaria S.p.A. *	Managing Director and General Manager Director Director
Matteo Colaninno	- Giovani Imprenditori di Confindustria - Confindustria - Omniaholding S.p.A. * - Banca Popolare di Mantova S.p.A. * - IMMSI S.p.A. ** - Omniainvest S.p.A. * - RCN Finanziaria S.p.A. * - Immobiliare Regis S.r.l. - Risparmio & Previdenza S.p.A. * - Omnipartecipazioni S.p.A. *	National Chairman Vice-Chairman Vice-Chairman and Managing Director Vice-Chairman of the Board of Directors Director Director Director Director Director Director

Name and surname	Company	Management and control positions held in companies limited by shares
Michele Colaninno	- Is Molas S.p.A. - Moto Guzzi S.p.A. - Omniainvest S.p.A. * - Omnipartecipazioni S.p.A. * - Rodriguez Cantieri Navali S.p.A. * - Omniaholding S.p.A. * - IMMSI S.p.A. **	Director Director Director Director Director Managing Director Director
Daniele Discepolo	- Imaging S.p.A. - Zucchi S.p.A. ** - Invextra S.p.A. - Esaote S.p.A. - Arquati S.p.A. - Olcese S.p.A. - Dafofin One S.A. - Beta Skye S.r.l. * - Investimenti & Sviluppo S.p.A. *	Chairman of the Board of Directors Director Chairman of the Board of Directors Director Extraordinary Committee member Judicial Committee member Director Chairman of the Board of Directors Director
Luciano Pietro La Noce	- Rodriguez Cantieri Navali S.p.A. * - Is Molas S.p.A. - Apuliae S.p.A. - Omniainvest S.p.A. * - Omnipartecipazioni S.p.A. * - B&L S.r.l. - IMMSI S.p.A. ** - RCN Finanziaria S.p.A. * - Gruppo Smile S.r.l. - LNB Partners S.r.l.	Chairman of the Board of Directors Chairman of the Board of Directors Chairman of the Board of Directors Managing Director Managing Director Sole Director Managing Director Chairman of the Board of Directors Director Director
Giorgio Magnoni	- Acqua Blu S.r.l. * - SO.PA.F. S.p.A. ** - IDA S.r.l. - LM LS S.p.A. - Omnipartecipazioni S.p.A. * - Società Agricola YANI S.r.l. - Management & Capitali S.p.A. **	Chairman of the Board of Directors Vice-Chairman of the Board of Directors Sole Director Director Director Chairman of the Board of Directors Regulatory Issues Director
Franco Debenedetti	- CIR S.p.A. ** - COFIDE S.p.A. ** - Progetto Italia S.p.A. - Fondazione Rodolfo Debenedetti - IRIDE S.p.A. **	Director Director Advisory Board Member Director Director
Luca Paravicini Crespi	- CIR S.p.A. ** - Gruppo Editoriale l'Espresso S.p.A. ** - Scala Group S.p.A. - Education.it S.p.A. - Consilium SGR S.p.A. * - Il Gallione S.p.A. *	Director Director Director Director Director Director
Riccardo Varaldo	- Finmeccanica S.p.A. ** - Banca CR Firenze S.p.A. ** - Italy-Japan Business Group	Director Director Board Member
Gian Giacomo Attolico Trivulzio	- Immobiliare Molgora S.p.A. - Spafid S.p.A. - Fondazione Poldi Pezzoli	Chairman of the Board of Directors Director Director

* finance, banking or insurance company or of relevant importance

** listed company

companies limited by shares. With regard to the offices held by the Directors of the Issuer in management and control bodies of other companies, the Board of Directors believes that, as things stand, it is not necessary to introduce prearranged quantitative limits, also in the light of the awaited amendments to the regulatory provisions dealing with the cumulative number of offices that a Director may hold in a listed company and, without prejudice to the duty of each Director to assess whether the offices of director and statutory auditor held in other listed companies in regulated markets, finance, banking and insurance companies or major corporations, are compatible with the proper performance of the tasks undertaken as Piaggio Director.

Furthermore, with reference to the offices held by Directors of the Issuer in the parent company IMMSI S.p.A., it is worth noting that the majority of the members of Piaggio's Board of Directors do not hold management or control positions in IMMSI S.p.A. (see point 1.3).

1.1.1 Nomination Committee

In compliance with the provisions of the Code of Best Practice and in consideration of the straight-ticket voting system for the appointment of the administrative body set out in the Articles of Association, the Board of Directors of the Company has established its own Nomination Committee, comprising mostly Independent non-executive Directors and having the task of verifying that the lists presentation procedure established by the Articles of Association is carried out in a proper and transparent way in accordance with applicable legal provisions and articles of association. After verifying that the procedure for the presentation of the lists has been complied with, especially as regards the completeness of the documents to be filed with the lists and the promptness of the same filing, the aforesaid Committee takes care of the formalities necessary for presenting the same lists to the Shareholders' Meeting called for the appointment of the Board of Directors or its members. According to article 6.C.2, letter c) of the Code of Best Practice, this Committee has

also the task of making recommendations, if possible and if need be, to the Board of Directors in relation to the size and composition of the same.

On 28 August 2006, the Board of Directors appointed the following Directors as members of the Nomination Committee: Franco Debenedetti (Chairman), Luca Paravicini Crespi and Luciano La Noce.

The Nomination Committee has not held any meeting during the financial year ended on 31 December 2006, as it was set up on 28 August 2006.

1.2 Meetings of the Board of Directors

During the financial year ended on 31 December 2006 and commencing from the Listing, 4 (four) Board meetings were held on the following dates: 28 August 2006; 11 September 2006; 13 November 2006 and 12 December 2006. All Directors of the Company attended the said meetings with the sole exception of those held on 11 September and 13 November where a director was absent. At least 4 (four) Board of Directors meetings are expected to be held in the current financial year. Besides the meeting held on 16 March 2007 (approval of the draft financial statements for the period and of the consolidated financial statements for the year ended on 31 December 2006), the Calendar of the main 2007 corporate events (already communicated to the market and Borsa Italiana S.p.A. according to regulatory provisions) envisages 3 (three) more meetings on the following dates:

- 7 May 2007 – Approval of Q1 Report;
- 5 September 2007 – Approval of first Half-Year Report;
- 7 November 2007 – Approval of Q3 Report.

1.3 Non-executive Directors, Independent Directors and Lead Independent Director

Non-executive and Independent Directors are such as to guarantee, for number and authoritativeness, that their judgement can have significant weight in the decision-making process by the Board of the Issuer.

Non-executive and Independent Directors contribute to board discussions with their specific skills, thus helping the taking of decisions that are in line with corporate interests.

The Board of Directors assesses the independence of its non-executive members at the time of appointment both pursuant to Article no. 148, paragraph 3, letter b) and c) of the FSA as referred by article 147-ter, paragraph 4 of the FSA and pursuant to Article no. 3 of the Code of Best Practice as well as periodically over the term of office; the outcome of this valuation is disclosed to the market through the annual report on corporate governance.

The valuation of the administrative body is verified by the Board of Statutory Auditors in compliance with the Code of Best Practice.

Attention is drawn to the fact that, in order to exclude the potential risks of limiting the management autonomy of the Issuer that could arise, in particular, from an overlap between the Piaggio administrative bodies and the IMMSI S.p.A. parent company: (a) there are five non-executive Directors currently in office on Piaggio's Board of Directors, namely Michele Colaninno, Luciano Pietro La Noce, Giorgio Magnoni, Gianclaudio Neri and Gian Giacomo Attolico Trivulzio and four Independent non-executive Directors, namely Daniele Discepolo, Franco Debenedetti, Riccardo Varaldo and Luca Paravicini Crespi; (b) the majority of the members of the Board of Directors of the Issuer do not hold management and control offices in IMMSI S.p.A.

At the meeting held on 16 March 2007 the Board of Directors verified that the Independent Directors currently in office possessed the independence requisites pursuant to Article no. 3 of the Code of Best Practice and Article no. 148, paragraph 3, letter b) and c) of the FSA.

On 11 April 2007, the Board of Statutory Auditors acknowledged that the criteria and verification procedures adopted by the Board of Directors for the valuation of the independence requisites had been properly applied.

The Independent Directors possess the independence requisites pursuant to Article no. 3 of the Code of Best

Practice and article 148, paragraph 3, letter b) and c) of the FSA as each of them:

- (i) does not directly or indirectly control the Issuer, also through subsidiary companies, fiduciaries or third party, neither is he/she able to exercise significant influence on it;
- (ii) does not directly or indirectly participate in any shareholders' agreement through which one or more subjects could exercise control or significant influence on the Issuer;
- (iii) is not, neither has he/she been in the previous three financial years, an important officer (i.e. chairman, legal representative, chairman of the board of directors or executive director or a manager with strategic responsibilities) of the Issuer, one of its subsidiaries having strategic relevance, a company subject to the joint management with the Issuer, a company or body that controls the Issuer or is able to exercise significant influence on the same also jointly with others through a shareholders' agreement;
- (iv) does not directly or indirectly entertain, or has not entertained a significant commercial, financial or professional relationship that is, subordinate employment relationships, in the previous financial year (for example, through subsidiary companies or those where he/she is an important officer in the sense stated at point (iii) above, or as partner of a professional office or consultancy company): (a) with the Issuer, one of its subsidiaries or with any of the important officers of the same in the sense stated at point (iii) above; with a subject that, also jointly with others through a shareholders' agreement, controls the Issuer, that is – being a company or body – with the important officers of the same in the sense stated at point (iii) above;
- (v) subject to what has been stated at point (iv) above, does not entertain autonomous or subordinate employment relationships or other relationships of financial or professional nature such as to com-

promise the independence with: (a) the Issuer, its subsidiaries or parents or companies subject to joint management; (b) the directors of the Issuer; (c) spouses, close relatives or persons related by affinity within the fourth degree of the directors of the company pursuant to point (a) above;

- (vi) does not receive, neither has he/she received in the previous three financial years, significant additional remuneration from the Issuer or a subsidiary or parent company in relation to the "fixed" remuneration as non-executive director of the Company, including the participation in business performance-linked incentive plans, also share-based ones;
- (vii) has not been director of the Issuer for more than nine years in the last twelve years;
- (viii) does not hold the office of executive director in another company in which an executive director of the Issuer is a director;
- (ix) is not a member or director of a company or body belonging to the network of the company engaged to carry out the audit of the Issuer;
- (x) is not a close relative of a person falling within the cases dealt with in the previous points and therefore is not a spouse, relative or a person related by affinity within the fourth grade of the directors of the Issuer, its subsidiary companies, companies that control it and those subject to joint management.

On 28 August 2006, the Board of Directors appointed the Independent non-executive Director named Daniele Discepolo as *Lead Independent Director* according to the Code of Best Practice to act as the point of reference and coordination of the claims of non-executive Directors and, in particular, of the Independent Directors.

The *Lead Independent Director* Daniele Discepolo, Independent Director with adequate expertise in accounting and finance, is also Chairman of the Internal Control Committee (see point 3.3).

On 19 February 2007, the *Lead Independent Director* held a meeting of the Independent Directors which also the

Chairman and Managing Director Roberto Colaninno and the Chairman of the Board of Statutory Auditors Giovanni Barbara had been invited to attend in order to undertake the more appropriate initiatives to guarantee efficient coordination between the Independent Directors, also in order to ensure a proper flow of information between the same.

1.4 Role and competences of the Board of Directors

The Board of Directors plays a central role within the business organisation and is responsible for the duties and responsibility of the strategic and organisational policies as well as the verification of the existence of the controls that are necessary to monitor the performance of the Issuer and Piaggio Group companies.

Each member of the Board of Directors is required to resolve autonomously and advisedly, pursuing shareholder value creation and undertakes to devote all the time that is necessary to ensure the diligent performance of the duties envisaged by the office held in the Company, independently from any other offices held outside of the Piaggio Group, being fully aware of the responsibilities associated with the office held.

To this end, each candidate nominated for the office of Director, upon accepting the office with the Company and independently from any limits prescribed by legal and regulatory provisions as to the cumulative number of positions held, has the ability to carry out the tasks assigned to the same with due care and effectiveness, in particular taking account of the total commitment involved in holding other offices outside of the Piaggio Group.

Each member of the Board of Directors is also required to inform the same Committee of his/her accepting positions as director or auditor in other companies so that the Company may comply with the disclosure requirements prescribed by applicable legal and regulatory provisions.

According to Article 17 of the Articles of Association, the Board of Directors is granted full powers for the management of the Company and, for such purpose, it can resolve

or take all the steps that he/she may deem necessary or useful to achieve the company's object, with the exception of those reserved to the Shareholder's Meeting by the law and the Articles of Association.

Furthermore, and on the strength of the same provision of the Articles of Association, the Board of Directors can, in compliance with Article no. 2436 of the Italian Civil Code, pass resolutions concerning:

- mergers or so-called streamlined de-mergers pursuant to Articles no. 2505, 2505-*bis*, 2506-*ter*, last paragraph of the Italian Civil Code;
- the setting up or closing down of secondary offices;
- the transfer of the registered office in the national territory;
- the specification of the Directors acting as legal representatives of the Company;
- share capital reduction following withdrawal;
- amendment of the Articles of Association to comply with legal regulations,

it being understood that the said resolutions can also be passed by the Extraordinary Shareholders' Meeting.

At the meeting dated 28 August 2006, Piaggio's Board of Directors resolved upon the allocation of the management duties of the administrative body (for the duties of the Chairman and Managing Director, see the point 1.5 below), reserving, however, the following powers to the Board – acting collectively – in addition to the powers reserved to the same by law or the Articles of Association:

- a)** acquisition or transfer of investments in companies, businesses or business units;
- b)** completion and amendment of financing contracts, drawn up in any form, for amounts exceeding 25 million euros;
- c)** granting of collateral securities on assets and of personal securities for third party bonds other than those granted in the interest of companies that are either directly or indirectly controlled;
- d)** transfer of trademarks, patents and other intellectual property rights as well as completion of licence contracts;

- e)** completion and amendment of long-term commercial agreements including *joint ventures*;
- f)** acquisition and transfer of real property;
- g)** other extraordinary administrative transactions whose amount exceeds 50 million euros;
- h)** subject to the points listed above, related party transactions, as defined by applicable legal and regulatory provisions, with the exclusion of typical transactions, carried out by the Company in the ordinary course of business, completed at arms' length;
- i)** appointment of the General Manager and the Head of administration, finance and control of the Company;
- j)** appointment of the members of the administrative bodies and of the General Managers of the companies that are either directly or indirectly controlled.

According to Article 17, paragraph 2 of the Articles of Association, the Directors are required to promptly inform the Board of Statutory Auditors on the activity carried out and any major economic and financial transactions carried out by the Company or its subsidiaries and in particular, on the transactions in which they have a personal interest or an interest on behalf of third parties or which are influenced by the subject in charge of management and co-ordination at the meetings of the Board of Directors, whether convened for a specific purpose or, at any rate, held at least on a quarterly basis.

If special circumstances warrant it, the above information may also be provided to each Standing Auditor in writing. Subject to the mandatory opinion of the Board of Statutory Auditors, Article 17, paragraph 3 of the Articles of Association reserves the appointment of the manager in charge of drawing up corporate accounting documents (article 154-*bis* of the FSA) the Board of Directors; the manager is granted the powers and duties prescribed by the law and other applicable provisions as well as the powers and duties established by the Board at the time of appointment or by subsequent resolution.

The Board of Directors also fixes the remuneration of the aforesaid manager.

Please note that, with regard to the professionalism requirements of the manager in charge of drawing up corporate accounting documents, the Articles of Association should be amended to comply with the provisions of Decree 303/2006 within the deadline set by the law. Suitable powers and means are conferred to the manager in charge of drawing up corporate accounting documents in order to enable him/her to perform the tasks assigned. The manager in charge of drawing up corporate accounting documents shall be nominated by the Board of Directors of the Issuer by the date set by Law no. 262/2005, as finally amended by Decree 303/2006 and, therefore, by 30 June 2007.

According to Article 17, paragraph 5 of the Articles of Association, the Board of Directors can also appoint one or more General Managers, determining their duties and remuneration. On 13 November 2006, the Board of Directors of the Issuer appointed Daniele Bandiera as General Manager Operations and Michele Pallottini as General Manager Finance.

According to article 17, paragraph 6 of the Articles of Association, the administrative body can set up Committees with advisory and/or consulting duties, determining the duties, powers and operational methods. Please refer to point 1.1.1 above and points 2.1 and 3.3 for details on the Committees established by the Board of Directors of the Issuer.

The Board is called at the registered office of the Company or elsewhere as long as in the national territory, whenever the Chairman – or whoever stands in for him/her according to the Articles of Association (see point 1.5 below) – deems it fit or when the Managing Director, if appointed, or at least three Directors requests it, without prejudice to the powers to call a meeting assigned to other subjects by law.

According to Article 15 of the Articles of Association, the majority of the Directors in office must be present for resolutions to be valid and, the resolutions are passed by majority vote, excluding abstentions.

In case of tie votes, the person chairing the meeting shall cast the deciding vote.

1.5 Powers of the Chairman, Vice-Chairman and delegated bodies

The Chairman is elected by the Board of Directors amongst its members if the Shareholders' Meeting has not appointed one.

The Chairman calls the Board of Directors and co-ordinates the tasks, ensuring that suitable information on the items on the agenda is supplied to all of the Directors, account taken of all of the circumstances of the case (Article 14, paragraphs 1 and 3 of the Articles of Association). Furthermore, he presides over the Meeting, ascertains the identity and legitimacy of those present, verifies that the meeting is validly held and the presence of the right quorum to pass resolutions, ensures the orderly conduct of the meeting, establishes the voting methods and ascertains the results of the same according to Article 9 of the Articles of Association.

The Board of Directors can also elect one or more Vice-Chairmen to stand in for the Chairman in carrying out the above duties should he/she be absent or not available (Article 13, paragraph 1 of the Articles of Association).

The Chairman has the power to legally represent the Company and sign on its behalf; if he/she is absent or unavailable, even if only temporarily, such powers are exercised by the Vice-Chairman or Vice-Chairmen under the terms provided for by the Articles of Association. The Managing Director or Managing Directors, if appointed, also have the power to represent the Company within the limits of the delegated powers (Article 23, paragraph 1 of the Articles of Association).

On 28 August 2006, Piaggio's Board of Directors appointed Director Roberto Colaninno as Chairman and Managing Director and Matteo Colaninno as Vice-Chairman.

According to Article 17 of the Articles of Association and within the limits of law and the Articles of Association, the Board of Directors can delegate its powers and duties to an Executive Committee, fixing its duration and number of members, which however should not be less than three. Where such Executive Committee is established, the Board

of Directors fixes its duration and number of members in advance; the number of Committee members includes – as members by rights – the Chairman, the Managing Director or Managing Directors, if more than one and if appointed (Article 19 of the Articles of Association).

The Executive Committee gathers when the Chairman deems it fit or the request is made to him by a Managing Director, if appointed or at least two members, without prejudice to the powers of calling meetings assigned to other subjects by law, and the Board of Statutory Auditors takes part in these meetings (Article 20 of the Articles of Association).

The methods for calling a meeting of the Executive Committee and its operation are established by special regulation approved by the Board of Directors unless governed by applicable legal regulations and the Articles of Association.

At the date of this Report, the Board of Directors of the Issuer has not appointed an Executive Committee.

Always within its same limits, the administrative body can also delegate part of its powers and duties to the Chairman and/or other of its members as well as appoint one or more Managing Directors to whom the aforesaid powers and duties are delegated.

The Chairman and Managing Director or Managing Directors if appointed (in such case within the limits of the delegated powers) are given the power to represent the Company

As part of the duties undertaken, and for individual or categories of deeds, the power to delegate Company employees or to confer power of attorney to third parties is included in the powers of the delegated bodies, in both cases with the ability to either sub-delegate or confer power of attorney.

According to Article 17, paragraph 7 of the Articles of Association, the delegated bodies (and therefore the Executive Committee, Managing Director or Managing Directors if appointed) suitably and promptly inform the Board of Directors and Board of Statutory Auditors on the

activities carried out, the general progress of operations and its expected development as well as on transactions carried out by the Company and its subsidiaries that are of considerable importance for their size and characteristics, in particular, on the transactions in which they have a personal interest or an interest on behalf of third parties or that are influenced by the subject that manages and coordinates the meetings of the Board of Directors, also convened for a particular purpose and at least on a quarterly basis.

If special circumstances warrant it, information may also be provided to each Standing Auditor in writing.

The Chairman Roberto Colaninno was granted all powers of ordinary and extraordinary administration by resolution of the Board of Directors dated 28 August 2006 with the exclusion of the powers reserved to the administrative body – acting collectively - by law or the Articles of Association as well as the powers that are nevertheless reserved to the Board on the strength of the same resolution for a full listing of the powers reserved to the Board please refer to point 1.4 above).

Subsequent to the resignations of the Managing Director Rocco Sabelli, served with effect from 13 November 2006 from all offices held within the Company and the Piaggio Group, on the same date the Chairman Roberto Colaninno was appointed as Managing Director with the aforesaid powers.

The powers granted to the Managing Director Roberto Colaninno are additional to those he is entitled to as Chairman pursuant to the Articles of Association.

During the financial year ended on 31 December 2006, the Directors have been informed of the topics dealt with by the Board of Directors with suitable methods to allow the same to express themselves with knowledge on the items subject to their examination.

The delegated bodies have suitably and promptly informed the Board of Directors on the activities carried out, the general performance and the expected developments as well as on transactions carried out by the Company and its subsidiaries that are of considerable importance for their size

and characteristics as prescribed by law and the Articles of Association and, therefore, at least on a quarterly basis.

2. Directors and Managers Remuneration

According to Article 18 of the Articles of Association, Directors have right to the refund of the expenses sustained by them in the exercise of their duties; furthermore, they are entitled to an annual fee that is resolved by the Ordinary Shareholders' Meeting that appoints them, such fee remaining unchanged until differently resolved by the Shareholders' Meeting. Having heard the opinion of the Board of Statutory Auditors, the Board of Directors establishes the remuneration of the Chairman, Vice-Chairman or Vice-Chairmen, Managing Directors and members of the Executive Committee, if appointed. Alternatively, the Meeting can determine an overall amount for the remuneration of all Directors including those holding special offices, in which case the allocation is established by the Board of Directors, upon recommendation by the Board of Statutory Auditors.

The Issuer's remuneration policy for the delegated bodies and top Managers envisages incentives linked to business profitability and also the setting up of appropriate corporate incentive plans that provide for the allotment of *stock options*.

The fees received by the members of the Board of Directors in the financial year ended on 31 December 2006 are detailed in the notes to the financial statements for the period according to Article 78 and Attachment 3C of Consob Regulation no. 11971/1999 and subsequent amendments (the "Issuers Regulation").

The document is also available on the Company's website.

2.1 Remuneration Committee

In compliance with the Code of Best Practice, the Board of Directors of the Company has established its internal Remuneration Committee composed of non-executive

Directors, the majority of whom are Independent, having the task of: (i) putting forward proposals to the Board for the remuneration of the Managing Directors and other Directors that hold special offices, monitoring the application of the decisions taken; and (ii) putting forward general recommendations to the Board in relation to the remuneration of managers with strategic responsibilities of the Piaggio Group, taking into account the information and guidance provided by the Managing Director, periodically assessing the criteria adopted for the remuneration of the aforesaid management.

Furthermore, the Remuneration Committee has been assigned tasks in relation to the management of any *stock option* plans approved by the competent bodies of the Company.

On 28 August 2006, the Board of Directors appointed the Directors Riccardo Varaldo (with duties of Chairman), Luciano La Noce and Franco Debenedetti as members of the Remuneration Committee.

During the financial year ended on 31 December 2006 and commencing from the Listing, 2 (two) meetings of the Remuneration Committee have been held on the following dates: 4 September 2006 and 7 November 2006.

During the first meeting, the Committee has acknowledged the resolutions passed by the Board of Directors of the Company on 28 August 2006 in relation to remuneration of directors and considered that there was no need to comment on it; during the second meeting, the Committee approved its Regulation, formulated a proposal for the remuneration of the new Managing Director and obtained information from the Head of Human Resources in relation to the new organisation of the Company, reserving the right to express its recommendations in relation to the remuneration of the two new General Managers after their appointment.

All members of the Committee participated in the above-mentioned meetings and the meeting dated 7 November 2006 was also attended by the Chairman of the Board of Statutory Auditors.



3. Internal Control System

The Board of Directors defines guidelines of the internal control system, intended as the set of processes aimed at monitoring the efficiency of business transactions, the reliability of the financial information, compliance with legal and regulatory provisions and the safeguard of corporate assets.

The Board of Directors (i) takes care of the prevention and management of business risks related to the Company and the Group through the definition of internal management system guidelines that can ensure that the said risks are properly identified and adequately measured, monitored, managed and assessed, also in relation to the safeguard of the corporate assets and sound and proper management of the business; (ii) periodically assesses, at least once a year, the adequacy, efficiency and effective running of the internal control system.

In performing such duties, the Board relies on the help of a Director appointed to oversee the running of the internal control system (the “**Appointed Director**”) with the tasks set forth in point 3.1 and an Internal Control Committee that is established internally with the duties set forth in point 3.3; furthermore, it takes into consideration the organisational and management models adopted by the Piaggio Group according to Legislative Decree no. 231/2001.

Upon recommendation by the Appointed Director and having heard the opinion of the Internal Control Committee, the Board of Directors appoints the Subject in Charge of Internal Control with the tasks set forth in point 3.2, it establishes the remuneration and makes sure that the same is equipped with suitable means to carry out his duties, also under the operational structure profile and internal organisational procedures to access the information necessary to his office.

Attention is drawn to the fact that, on 12 March 2004, Piaggio adopted the ‘Organisational, management and control model’ for the prevention of offences provided for by Legislative Decree 231/2001.

At the date of this Report, the Supervisory Body, in office for the financial years 2006-2007-2008 and, therefore, until

the approval of the financial statements as at 31 December 2008 is composed as follows: Giovanni Barbara as member of the Board of Statutory Auditors and chosen amongst the statutory auditors; Alessandro Bertolini as Head of Legal and Corporate Affairs of the Issuer (appointed to replace Gianclaudio Neri resigning from the office of General Manager and subsequently appointed as Director); and Enrico Ingrassia who holds the office of chairman as member designated by the Managing Director in agreement with the Chairman of the Board of Statutory Auditors, chosen amongst external professionals equipped with the necessary requisites.

At the meeting of 5 December 2006, the Supervisory Body made an update of the Organisational Model according to Legislative Decree 231/2001 in the part dealing with the Internal Control Schemes, describing the types of administrative offences and crimes connected with the breach of disclosure requirements to be complied with as a result of the Listing.

The updated version of the Model has been sent to all managers of the Piaggio Group and published on the company Intranet.

On 3 March 2005, the Moto Guzzi S.p.A subsidiary also adopted its own organisational, management and control model according to Legislative Decree 231/2001 and appointed its supervisory body composed of the same members included in the supervisory body of the Issuer.

3.1 Appointed Director to oversee the running of the internal control system

The Appointed Director is determined and vested with the task of overseeing the running of the internal control system by the Board of Directors. The Appointed Director has the following tasks in relation to and in application of the guidelines established by Board of Directors: (a) to identify the business risks in relation to the characteristics of the activities of the Company and also the sectors in which it operates through Group companies; (b) to plan,

develop and manage the internal control system; (c) to monitor the effectiveness, adequacy and proper operation of the internal control system; (d) to amend the internal control system to comply with any issues raised during the monitoring process, the progress of the organisational and operational structure of the business, the dynamics of corporate activity as well as the new legislation and regulations that can be relevant for the Group.

In performing such duties, the Appointed Director relies on the work of the Subject in Charge of Internal Control and informs the Board of Directors on the activity carried out where required or when considered necessary or opportune by the same Appointed Director in relation to the emergence of special issues.

On 13 November 2006, in accordance with the provisions of the Code of Best Practice and with the assistance of the Internal Control Committee, the Board of Directors of the Company appointed the Managing Director Roberto Colaninno as Appointed Director to oversee the running of the internal control system (to replace the resigning managing director Rocco Sabelli), entrusting the same with the aforementioned duties.

The Appointed Director identified Pierantonio Piana, manager of Cogitek S.r.l., as the subject with the necessary requisites, professional characteristics and independence to cover the role of Subject in Charge of Internal Control and, on 30 November 2006, he proposed the appointment of such subject to the Internal Control Committee which gave its favourable opinion.

At the meeting dated 12 December 2006, the Board of Directors of the Company acknowledged the proposal of the Appointed Director and, in consideration of the favourable opinion expressed by the Internal Control Committee, it appointed Pierantonio Piana as Subject in Charge, giving mandate to the Chairman Roberto Colaninno and the General Manager Finance Michele Pallottini, separately between them, to formalise the terms and conditions of the office, that should have coincided with the duration of the Board of Directors in office.

3.2 Subject in Charge of Internal Control

The Subject in Charge of Internal Control, that is not responsible for any operational area and does not report hierarchically to operational area managers, is appointed by the Board of Directors upon recommendation of the Appointed Director and is required to carry out the following duties:

- (i) verify the effectiveness, adequacy and effective operation of the internal control system;
- (ii) assist the Appointed Director in the carrying out of the tasks entrusted to the same;
- (iii) at least quarterly, inform the Appointed Director on the activity carried out, possibly through a written report, as well as the Internal Control Committee and Board of Statutory Auditors with six-monthly reports.
- (iv) immediately inform the Appointed Director, the Board of Directors and the Internal Control Committee, in the event that, in the carrying out of the aforesaid managerial verifications, of important risk profiles that might affect the Company or however elements that are seriously prejudicial for the same, though only potentially;
- (v) attend the meetings of the Board of Directors and Internal Control Committee which he is invited to attend;
- (vi) carry out additional tasks that the Board considers appropriate to assign to the Manager of Internal Control with particular reference to the *internal audit* duty.

On 12 December 2006, upon recommendation of the Appointed Director and having heard the opinion of the same Committee, the Board of Directors of the Company appointed Pierantonio Piana as Subject in Charge of Internal Control, entrusting the same with the aforementioned duties.

The Subject in Charge of Internal Control has prepared a document named “The Piaggio & C. S.p.A. System of Internal Control” that was illustrated in detail to the Internal Control Committee at the meeting held on 7 February 2007.

On such date, the Subject in Charge of Control Committee and the Internal Control Committee jointly identified the methods to make co-ordination, verification and reporting

more efficient, also with the involvement of the Supervisory Body pursuant to Legislative Decree 231/2001 where deemed fit and necessary.

3.3 Internal Management Committee

The Board of Directors establishes an Internal Management Committee internally that is composed of Independent non-executive Directors.

The Committee meetings are attended by the Chairman of the Board of Statutory Auditors or other Auditors designated by the same. The Appointed Director can attend the same meetings and, on invitation of the Committee, the Subject in Charge of Internal Control or other employees whose participation is considered useful for the conduct of the meeting.

The Internal Control Committee has advisory and consulting duties towards the Board of Directors and, in particular, is entrusted with the following tasks:

- (i) to assist the Board of Directors in carrying out the activities related to the internal control system, in particular, in defining the system guidelines and in periodically verifying the adequacy, effectiveness and actual running of the same;
- (ii) to examine the work plan prepared by the Subject in Charge of Internal Control and the six-monthly reports sent by the same;
- (iii) to assess, jointly with the manager and auditors in charge of drawing up corporate accounting documents, the suitability of the accounting principles used and their uniformity in order to draw up the consolidated financial statement;
- (iv) to assess the recommendations formulated by the auditing company for the related engagement, the audit work plan and the results set forth in the report and in the management letter;
- (v) inform the Board at least on a six-monthly basis of the activity carried out and the adequacy of the internal control system upon approval of the year-end financial statements and the six-monthly report;

- (vi) carry out additional tasks that the Board believes should be assigned to the Committee with particular reference to the relationships with the auditing company and the advisory duties concerning transactions with related parties as prescribed by an ad hoc procedure approved by the Board (see point 4).

In compliance with the provisions of the Code of Best Practice, the Board of Directors of the Company has established its Internal Control Committee internally, composed of Independent non-executive Directors with the aforementioned duties.

On 28 August 2006, the Board of Directors appointed the Independent non-executive Directors named Daniele Discepolo (also designated *Lead Independent Director* according to the Code of Best Practice) with Chairman duties and Riccardo Varaldo and Luca Paravicini Crespi as members of the aforesaid Committee.

Commencing from the Listing and during the financial year ended on 31 December 2006, 1 (one) meeting of the Internal Management Committee has been held on 30 November 2006 during which the Chairman has extensively illustrated and described the duties of the Internal Control Committee, in particular, highlighting the advisory and consulting tasks it is required to perform for the Board of Directors of the Company; the Chairman of the Board of Statutory Auditors briefly illustrated the control activities in place within the Companies also in relation to *Internal Auditing*, inviting the manager in charge of such duty to describe the *auditing* activities currently in place and any future plans; the Committee resolved to express favourable opinion in relation to the Appointed Directors' proposal to appoint Mr. Pierantonio Piana as Subject in Charge of Internal Control. All Committee members and the Chairman of the Board of Statutory Auditors attended the said meeting.

The Internal Management Committee also met on 7 February 2007. At such meeting, the Subject in Charge of Internal Control and members of the Supervisory Body were invited pursuant to Legislative Decree 231/2001. During such meeting, the Subject in Charge illustrated the

“Piaggio & C. S.p.A. Internal Control System” document in detail to the Committee and, with the latter, it agreed the methods to improve the efficiency of the Company's co-ordination, verification and internal control reporting system activities. The auditing activities and the assessment/verification actions related to them were analysed at the same meeting.

4. Related party transactions

On 28 August 2006, the Board of Directors of the Company approved the “Procedure for Important Transactions and with Related Parties” aimed at governing the informative and procedural aspects related to transactions having specific economic and financial importance and, more specifically, transactions with related parties in compliance with the Code of Best Practice and the provisions of Article no. 2391-*bis* of the Italian Civil Code. In order to implement Article 9 of the Code of Best Practice, the Board of Directors identified the criteria (quantitative and/or qualitative) that govern the identification of confidential transactions and their examination and approval by the Board of Directors. The said criteria have been determined in relation to the type of transaction concerned with specific

and distinct reference (i) to important economic and financial transactions, that is, in relation to the Company activity (the “**Important Transactions**” as later defined); as well as (ii) to transactions with related parties (“**Transactions with Associated Parties**”, as later defined).

In order to implement Articles 9.C.1. and 9.C.2 of the Code of Best Practice, the Board of Directors has also defined appropriate procedures suitable to guarantee the Directors with complete and comprehensive information on Transactions with Related Parties.

4.1 Important Transactions

The following are considered relevant from the economic and financial point of view, that is, in relation to the Company's activity (the “**Important Transactions**”):

- 1) acquisition or transfer of shareholdings in companies, businesses or business units;
- 2) completion and amendment of financing contracts drawn up in any form whose amount exceeds 25 million euros;
- 3) granting of collateral securities on assets and of personal securities for third party bonds other than those granted in the interest of companies that are directly or indirectly controlled;



- 4) transfer of trademarks, patents and other intellectual property rights as well as the completion of licence contracts
- 5) completion and amendment of long-term commercial agreements including *joint ventures*;
- 6) acquisition and transfer of real property;
- 7) other extraordinary administrative transactions whose amount exceeds 50 million euros;
- 8) appointment of the General Manager and of the Head of administration, finance and control of the Company;
- 9) appointment of the members of the administrative bodies and General Managers of companies that are directly or indirectly controlled.

In order to calculate the equivalent values stated in points 2) and 7) above, reference should be made to each single transaction; exceptionally, in the event of transactions that are closely and objectively associated in relation to a same strategic or executive plan, reference should be made to the overall equivalent value of all of the associated transactions.

The delegated bodies shall provide the Board with adequate information on each Important Transaction and the strategic reasons behind it, so as to allow a careful examination of the potential economic and financial effects on the company and the consolidated accounts.

4.2 Transactions with Related Parties

In compliance with Article 2, paragraph 1, letter h) of the Issuers Regulation, subjects defined as Related Parties by the international accounting standard concerning related party disclosures in the financial statements, adopted according to the procedure pursuant to article 6 of Regulation (EC) no. 1606/2002 (*International Accounting Principle IAS 24*) are considered as Related Parties.

In order to guarantee adequate compliance with the principles and procedures pursuant to this point, the delegated bodies prepare and update the name list of the identifiable Related Parties. Therefore, Transactions with Related Parties are reserved to the examination and approval of

Piaggio's Board of Directors with the exclusion of Standard Transactions with Related Parties at Arms' Length (as defined below).

In any event, the competence of the collective body with regard to Standard Transactions with Related Parties at Arms' Length which are also classifiable as Important Transactions is not prejudiced.

In such case, the principles and procedures set forth in point 4.1 above apply.

For the purposes of this procedure:

- **“Standard Transaction”** means a transaction that is recurrent, usual or that is carried out as part of the Company's ordinary business activity either for typology, purpose and method for determining the consideration;
- **“Transaction at Arms' Length”** means a transaction carried out at arms' length, that is at normal market terms or conditions that are not dissimilar to those applied to similar transactions.

The delegated bodies shall provide the Board of Directors with adequate information on each Important Transaction so as to allow a careful examination of the key elements of the transaction, paying particular attention to:

- the general characteristics of the transaction (in particular stating: the purpose, reasons, consideration and timing of the transaction as well as why it is considered as “related party” transaction);
- method used to determine the consideration and/or main terms and conditions liable to generate obligations to the Company;
- foreseeable economic and financial effects of the transaction, also at consolidated level;
- any interest (also indirect) of the members of the corporate bodies in the transaction.

After examining the information received from the delegated bodies and if deemed fit, taking account of the nature, value and other characteristics of the individual Transaction with Related Parties (as provided by article 9.C.1 of the Code of Best Practice), the Board can request that

the transaction be completed with the assistance of one or more experts that are required to express an opinion on the economic terms and/or the technical and execution methods of the transaction. The experts shall be chosen among subjects with proven track record and professionalism whose independence and lack of conflict of interests in relation to the transaction shall be verified.

According to Article 9.C.2 of the Code of Best Practice, the Directors that have an interest, even potential or indirect, in a Transaction with Related Parties are required to comprehensively inform the Board in advance of the existence of such interest and the circumstances of the same.

In relation to each case and on the basis of the information supplied by the Director concerned, also taking into account the need to ensure the proper operation of the management body, the Board shall assess whether to ask the involved Director: (i) to leave the meeting prior to the beginning of the discussion and until the resolution has been passed; or (ii) to abstain from voting.

The transactions with Related Parties that are different from those reserved to the examination and approval of the Board of Directors are instead referred to the examination by the delegated bodies in accordance with the mandates respectively assigned to them.

Except for what is stated further on, at the first subsequent meeting the delegated bodies supply the Board of Directors with comprehensive information on the key elements of the Transaction with Related Parties implemented by the bodies as well as on the possible risk profiles or other critical elements.

In particular, comprehensive information will be required in relation to the following elements:

- general characteristics of the transaction (specifying why it is “with related parties” and the reasons for it);
- foreseeable economic and financial effects of the transaction, also at consolidated level.

In any event, where the delegated bodies deem it fit, they can submit Transactions with Related Parties to the examination and approval of Piaggio's Board of Directors that,

although not reserved to board competence, present particular critical elements and/or risk jeopardizing corporate assets or the protection of the minority shareholders. In these cases the procedure shall apply.

5. Member's Meeting

In ordinary sitting, the Member's Meeting is competent for:

- a) the approval of the financial statements;
- b) the appointment and removal of Directors, Auditors and Chairman of the Board of Statutory Auditors and, when provided, the subject who is in charge of accounting supervision;
- c) the determination of the emoluments of the Directors and the Auditors if not established by the Articles of Association (see point 2.)
- d) resolving on the responsibility of Directors and Auditors;
- e) resolving on other matters that are legally assigned to the Shareholders' Meeting as well as on the authorisations prescribed by the Articles of Association for any deeds made by the Directors who, in any event, remain personally liable for such deeds;
- f) approving the conduct of meetings, where required;
- g) resolving on anything else of its competence according to law.

The Extraordinary Shareholders' Meeting resolves on the amendments of the Articles of Association, the appointment, replacement and powers of the receivers and on any other matter that is expressly assigned to it by law.

The Board of Directors has the duty to resolve on the matters set forth in Article 17 of the Articles of Association, it being understood that said resolutions can also be passed by Extraordinary Shareholders' Meeting.

To ensure that Extraordinary Shareholders' Meeting is validly held and the resolutions validly passed, the provisions of law and the Articles of Association must be observed.

At present, the Company believes that there is no need to propose the adoption of a specific regulation to govern the conduct of meetings and that, in general, maximum participation and expression in the meeting debate should be guaranteed to the Members as a matter of principle.

In order to facilitate attendance by shareholders at the meetings, the Articles of Association also provide that the

Meeting be valid even if held in more adjoining or distant places connected by video conference, provided that the Board acts collectively and the principles of good faith and equal treatment of the Members are complied with (Article 6, paragraph 2 of the Articles of Association).

6. Processing of confidential information

In relation to the issues concerning the processing of confidential information, the Board of Directors of the Issuer has adopted the initiatives and/or procedures briefly described below in order to monitor the access to and circulation of confidential information prior to their disclosure to the public, to ensure respect of the confidentiality requirement prescribed by legal and regulatory provisions as well as to regulate internal management and the external communication of the aforesaid information.

6.1 Procedure for disclosing confidential information to the public

On 28 August 2006, the Board of Directors of the Company adopted the “Procedure for disclosing Confidential Information to the public” in order to regulate the internal management and external communication of *price sensitive* information.

According to the Procedure, the Chairman of the Board of Directors, the Managing Director and the *Investor Relations* Office (see point 7 below) of Piaggio ensure the proper management of the disclosure of confidential information to the market and supervise on the observance of the same Procedure.

Informed by the *top management* of the Group or, however, aware of important facts concerning the Company or its subsidiaries, the *Investor Relations* office and Press Office Manager meet with Finance Administration and Corporate Management Manager and with the Legal and Corporate Manager to verify the legal requirements and, in particular, whether the information should be treated as confidential. In the event that the information is judged as confidential

or current regulation imposes external communication, the Press Office Manager prepares a press release and, with the support of the Legal and Corporate Manager, ensures that this contains the requisites provided by current legislation on the matter.

The text of the press release must be submitted to the Chairman and Managing Director and, if necessary, to the Board of Directors for final approval prior to final disclosure.

The communication is introduced in the NIS circuit, organised and managed by the Italian Stock Exchange and is sent through the NIS to Consob and at least two press release agencies.

Furthermore, the Company makes sure that the press release is published on the Company’s website (www.piaggio.com) “*by the market opening on the day following the day of disclosure*”, and guarantees that such information remains available on the website for at least two years.

In order to ensure the management of confidential information within the Group, the Procedure is notified to the *Managing Directors* of the main subsidiaries, meaning Piaggio’s subsidiaries included in the scope of consolidation.

The management of confidential information relating to subsidiaries is entrusted to the *Managing Directors* in charge of them who must promptly send any information that, in their opinion, may qualify as confidential information according to the Procedure, to the Finance Administration and Management Manager and/or Piaggio’s *Investor Relations* Office.

The Finance Administration and Management Manager and/or the *Investor Relations* Office who receive the communication of the confidential information from the *Managing Directors* of the subsidiary company meet with the Legal and Corporate Manager to verify any legal obligations and, in particular, if the information should be considered confidential.

In the event that the information is judged confidential or current regulation imposes disclosure to third parties, the Press Office Manager prepares a press release and, with the support of the Legal and Corporate Manager, ensures

that this contains the requisites provided by current legislation related to it.

The text of the press release must be submitted to the Chairman and Managing Director and, if need be, to the Board of Directors for final approval prior to final disclosure to the public.

6.2 Register of the persons that have access to confidential information

Among the requirements prescribed in relation to subjects controlled by listed issuers or persons acting in their name or on their behalf, there is the obligation for listed issuers to keep a register of the persons that have access to confidential information pursuant to article 115-*bis* of the FSA; at the meeting dated 3 May 2006, the Board of Directors of the Company resolved (i) to grant, according to and for the effects of article 152-*bis* of the Issuers Regulation, power of attorney to the parent company IMMSI S.p.A. for the storage, management and updating of the register of persons that have access to confidential information also on behalf of Piaggio and companies belonging to the Piaggio Group; (ii) to acknowledge the “Procedure for the management of the Register of the persons that have access to Confidential Information” adopted by IMMSI S.p.A. through board of directors resolution dated 24 March 2006.

6.3. Internal Dealing

In relation to the management of information requirements originating from the new *Internal Dealing* provision pursuant to Article 114, paragraph 7 of the FSA and Articles 152-*sexies*, 152-*septies* and 152-*octies* of the Issuers Regulation in force for listed companies commencing from 1 April 2006, the Board of Directors of the Company resolved to adopt the “Procedure for the fulfilment of obligations related to Internal Dealing” on 3 May 2006, with effect from the Listing date.

Communications related to important transactions according to the *internal dealing* provision, carried out during the 2006 financial year and commencing from the Listing,

have been disclosed to the market in compliance with the aforesaid Procedure and are available on the Company’s website www.piaggio.com - *Investor Relations* section).

7. Relationships with Investors and Shareholders

The Company believes that it is in its specific interest – and also a duty toward the market – to establish an ongoing dialogue with all the Shareholders as well as institutional investors from the moment of the Listing, that is based on the reciprocal understanding of the roles; a relationship that is bound to be carried out in accordance with the “Procedure for the communication of Confidential Information to the public” described in point 6.1 above.

In such regard, it has been assessed that such relationship with all the Shareholders as well as institutional investors can be facilitated by setting up dedicated business structures supplied with personnel and suitable organisational means.

At the meeting dated 8 March 2006, the Board of Directors of the Company resolved to set up the *Investor Relations* office to take care of the reports with the Shareholders and institutional investors and possibly carry out specific tasks in the management of *price sensitive* information and the reports with Consob and Borsa Italiana S.p.A., giving mandate to the Managing Director to appoint the subject in charge of the *Investor Relations* office subsequent to the Listing.

At the date of this Report, Leonardo Caputo is manager of the *Investor Relations* office (and is also “Business Development Strategy Planning and Regulatory Affairs Manager”). For contacts: investorrelations@piaggio.com

Information activity in the relationships with Investors is also ensured through the most important corporate documentation that is provided promptly and on an ongoing basis on the Company’s website (www.piaggio.com - *Investor Relations* section).

In particular, all of the press releases disclosed to the market, the periodical accounting documentation of the

Company approved by the competent corporate bodies (financial statements of the period and consolidated statements; six-monthly report; quarterly report) as well as the documentation distributed on the occasion of the meetings with professional investors, analysts and financing community are freely available to Investors in the Italian language on the said website.

Furthermore, the Article of Association, documentation prepared for the Members Meetings, communications related to *Internal Dealing*, this Report on the *corporate governance* system and any other document whose publication on the website of the Issuer is provided according to applicable legal regulations are available on the Issuer's website.

At the meeting of 16 March 2007 and according to article 11.C.6 of the Code of Best Practice, the Board of Directors acknowledged that there have been no significant changes in the market capitalisation of the Issuer or in the composition of its corporate structure such as to require the Shareholders Meeting to make amendments to the Articles of Association in relation to the percentages fixed to exercise the prerogative that safeguard minorities.

For such purpose, it is highlighted that, following the amendments to the Articles of Association to comply with the rules of Decree 303/2006 and the related implementation provisions, the percentage thresholds established in the Articles of Association for presentation of the lists for the appointment of members of the Board of Directors and Board of Statutory Auditors will only apply in the event that the FSA or the Issuers Regulation does not provide the application of a different threshold, established by the legislator or Consob with reference to the characteristics of the Issuer (capitalisation; floating; proprietary assets).

8. Board of Statutory Auditors

According to Article 24 of the Articles of Association, the Board of Statutory Auditors is composed of three Standing Auditors and two Alternate Auditors who remain in office for three financial years; their office expires at the

date of the Meeting called to approve the financial statement related to the last term of their office and may be re-appointed.

According to article 25 of the Articles of Association, the Board of Statutory Auditors exercises the powers and the duties assigned to it by the law and other applicable provisions. The Auditors must possess the requisites provided by the law, the Articles of Association and other applicable provisions. The provisions of the Articles of Association that govern the appointment of the Board of Statutory Auditors are suitable to guarantee the respect of the provision of Article 148, paragraph 2-bis of the FSA introduced by Law 262/2005, the said provisions will also be subject to amendment within the terms of law in order to allow the amendment to Decree 303/2006.

The appointment of the Board of Statutory Auditors takes place on the basis of the list presented by the Shareholders. Each Shareholder, as well as the Members adhering to a relevant shareholders' agreement according to article 122 of the FSA, as also the parent subject, subsidiary companies and those subject to joint management according to Article 93 of the FSA, cannot present or gather to present more than one list, neither for third parties or trust companies, nor can they vote on different lists.

For further details on the election methods of the Board of Statutory Auditors, refer to article 24 of the Articles of Association.

Each member of the Board of Statutory Auditors is also required to communicate whether he has accepted offices of director or auditor in other companies with the purpose of allowing the fulfilment of the information requirements according to applicable legal and regulatory provisions.

The Board of Statutory Auditors also evaluates the independence of its members on the basis of the criteria provided by the Code of Best Practice with reference to the Directors after the appointment and subsequently on an annual basis during the term of office.

The outcome of said evaluation is disclosed the market through the annual report on corporate governance.

The Board of Statutory Auditors in office at the date of this Report, appointed by the Ordinary Shareholders' Meeting on 30 March 2006 (on the basis of the statutory provisions in force prior to the Listing) and in office until the approval of the financial statements of the year ended on 31 December 2008, is composed as follows:

Name	Office
Giovanni Barbara	Chairman
Attilio Francesco Arietti	Standing Auditor
Alessandro Lai	Standing Auditor
Maurizio Maffei	Alternate Auditor
Mauro Girelli	Alternate Auditor

All management and control offices held by members of the Board of Statutory Auditors in companies limited by shares at the date of this Report are stated in the following table. On 7 February 2007, the Board of Statutory Auditors verified the existence of the independence requisites of its members on the basis of the aforementioned criteria. The

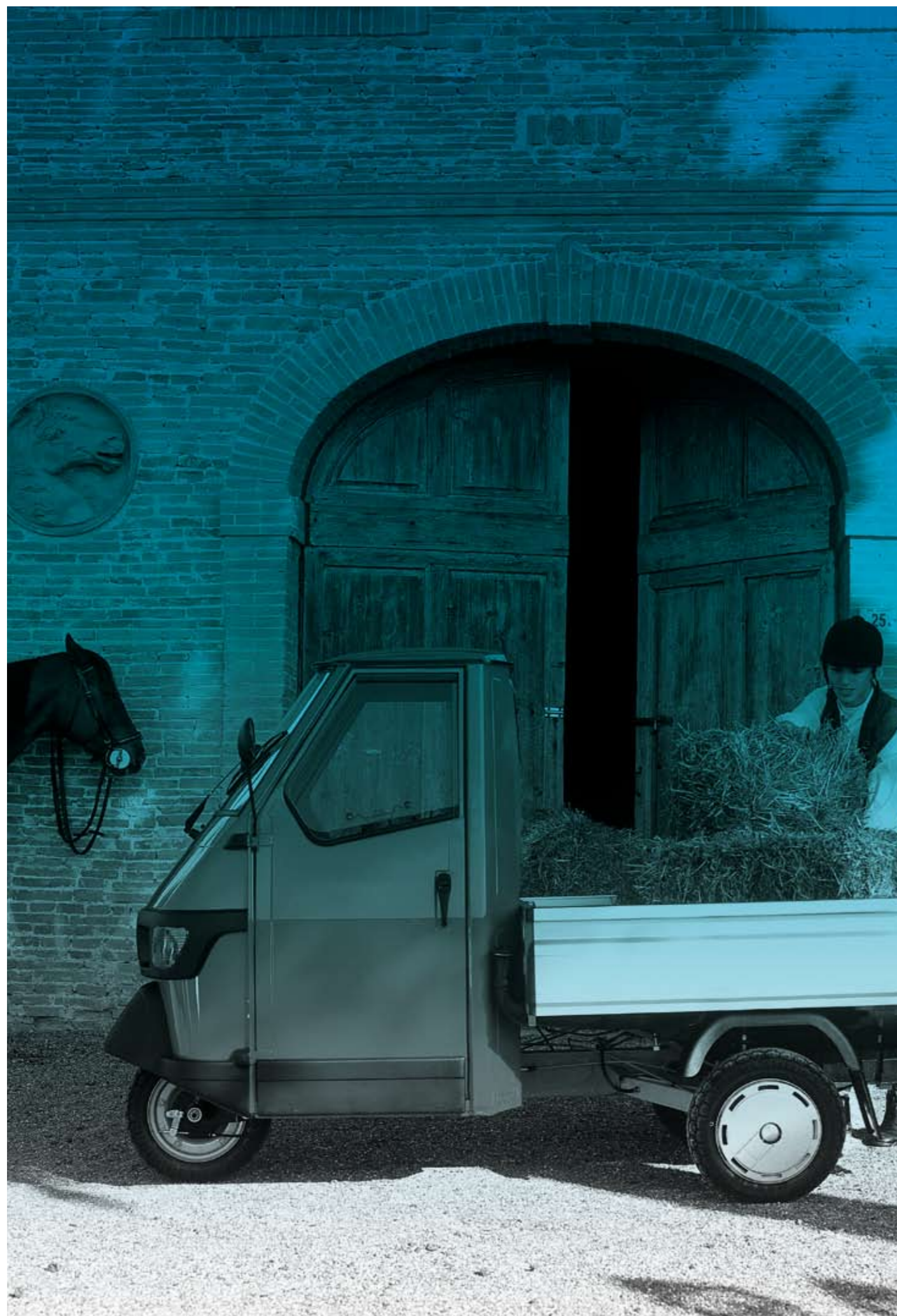
members of the Board of Statutory Auditors attended all Board of Directors meetings of the Company during the financial year ended on 31 December 2006.

During the financial year ended on 31 December 2006 and commencing from the Listing, 5 (five) Board of Statutory Auditors meetings were held on the following dates: 19 July 2006; 18 August 2006; 17 October 2006; 30 November 2006 and 20 December 2006. All members of the Board of Statutory Auditors attended the said meetings.

The delegated bodies have suitably and promptly informed the Board of Statutory Auditors on the activities carried out, the general progress of management and its expected development as well as on transactions carried out by the Company and its subsidiaries that are of considerable importance for their size and characteristics as prescribed by law and the Articles of Association and, therefore, at least on a quarterly basis.

16 March 2007

Name and surname	Company	Management and control offices held in companies limited by shares
Giovanni Barbara	<ul style="list-style-type: none"> - Credit Suisse Management SIM S.p.A. * - Credit Suisse Management Funds S.p.A. * - Credit Suisse Italy S.p.A. * - Credit Suisse Fiduciaria * - Credit Suisse Alternative Solution S.p.A. * - Direct Line Insurance S.p.A. * - I2 Capital S.p.A. * - Aicon S.p.A. * - Key Client S.p.A. * - La Fenice One S.p.A. - Alphabet Italia S.p.A. - Beerfin S.p.A. * - BMW Italia S.p.A. - BMW Milano S.r.l. - Heineken Italia S.p.A. - Intesa Previdenza SIM S.p.A. * - Istituto Centrale delle Banche Popolari Italiane * - Moto Guzzi S.p.A. - Partesa S.r.l. - Speed S.p.A. * - EDS Italia Software S.p.A. - Istiservice S.p.A. - Pirelli Tyre S.p.A. - Sistemi Sanitari S.p.A. 	<ul style="list-style-type: none"> Chairman of the Board of Statutory Auditors Chairman of the Board of Statutory Auditors Chairman of the Board of Statutory Auditors Chairman of the Board of Statutory Auditors Chairman of the Board of Statutory Auditors Chairman of the Board of Statutory Auditors Chairman of the Board of Statutory Auditors Chairman of the Board of Statutory Auditors Chairman of the Board of Statutory Auditors Chairman of the Board of Statutory Auditors Standing Auditor Standing Auditor Standing Auditor Standing Auditor Standing Auditor Standing Auditor Standing Auditor Standing Auditor Standing Auditor Standing Auditor Standing Auditor Alternate Auditor Alternate Auditor Alternate Auditor Alternate Auditor



PIAGGIO GROUP *Consolidated financial statements at 31 December 2006*

INCOME STATEMENT

In thousands of euro	Note	2006	2005	Change
Net sales	4	1,607,412	1,451,781	155,631
<i>Of which to related parties</i>		30	0	30
Costs for materials	5	946,528	847,171	99,357
<i>Of which to related parties</i>		35,610	3,323	32,287
Costs for services and use of third party assets	6	323,073	298,925	24,148
<i>Of which to related parties</i>		4,659	4,104	555
<i>Of which for non-recurring transactions</i>		10,276	0	10,276
Employee costs	7	236,168	225,500	10,668
Depreciation of tangible assets	8	40,225	42,464	(2,239)
Amortisation of intangible assets	8	49,557	48,040	1,517
Other operating income	9	128,741	143,222	(14,481)
<i>Of which to related parties</i>		1,762	106	1,656
<i>Of which for non-recurring transactions</i>		0	18,624	(18,624)
Other operating costs	10	26,378	38,643	(12,265)
<i>Of which to related parties</i>		36	0	36
Operating income		114,224	94,260	19,964
Income/(loss) from equity investments		(17)	(10)	(7)
Financial income	11	15,476	14,767	709
Financial charges	11	(41,445)	(45,058)	3,613
<i>Of which to related parties</i>		0	(288)	288
Income before tax		88,238	63,959	24,279
Tax for the period	12	17,893	25,891	(7,998)
Income from functioning assets		70,345	38,068	32,277
Assets destined for disposal:				
Gain/loss from assets destined for disposal	13	0	0	0
Consolidated net income		70,345	38,068	32,277
Attributable to:				
Parent company shareholders		69,976	37,883	32,093
Minority shareholders		369	185	184
Income per share (in €)	14	0.18	0.10	0.08
Diluted income per share (in €)	14	0.17	-	-

BALANCE SHEET

In thousands of euro	Note	At 31/12/2006	At 31/12/2005	Change
ASSETS				
Non-current assets				
Intangible assets	15	630,316	624,746	5,570
Property, plant and machinery	16	256,966	259,591	(2,625)
Property investment	17		506	(506)
Equity investments	18	754	650	104
Other financial assets	19	240	10,354	(10,114)
<i>Of which to related parties</i>	63		10,171	(10,108)
Receivables due from tax authorities (long-term)	20	7,716	7,156	560
Deferred tax assets	21	46,742	35,135	11,607
Trade receivables and other receivables	22	6,576	7,140	(564)
<i>Of which to related parties</i>	363		3,776	(3,413)
Total non-current assets		949,310	945,278	4,032
Assets destined for disposal	27		55	(55)
Current assets				
Trade receivables and other receivables	23	170,604	176,772	(6,168)
<i>Of which to related parties</i>	5,125		962	4,163
Receivables due from tax authorities (short-term)	20	35,383	12,440	22,943
Inventories	24	233,306	192,029	41,277
Other financial assets	25	11,866	137	11,729
<i>Of which to related parties</i>	30		123	(93)
Cash and cash equivalents	26	68,857	42,770	26,087
Total current assets		520,016	424,148	95,868
TOTAL ASSETS		1,469,326	1,369,481	99,845

BALANCE SHEET

In thousands of euro	Note	At 31/12/2006	At 31/12/2005	Change
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Capital & reserves attributable to parent company shareholders	28	438,091	348,213	89,878
Capital & reserves attributable to minority shareholders	28	607	254	353
Total shareholders' equity		438,698	348,467	90,231
Non-current liabilities				
Financial liabilities due after 12 months	29	355,935	375,596	(19,661)
<i>Of which to related parties</i>	0		55	(55)
Trade payables	30	0	223	(223)
Provisions for pensions and employee benefits	33	78,148	77,068	1,080
Other long-term provisions	31	21,906	44,552	(22,646)
Tax payables	34	188	797	(609)
Other long-term payables	35	17,499	12,383	5,116
Deferred tax liabilities	32	34,822	35,002	(180)
Total non-current liabilities		508,498	545,621	(37,123)
Current liabilities				
Financial liabilities due within 12 months	29	42,794	88,488	(45,694)
Trade payables	30	394,709	296,616	98,093
<i>Of which to related parties</i>	10,225		4,079	6,146
Tax payables	34	15,375	14,348	1,027
Other short-term payables	35	52,370	56,237	(3,867)
<i>Of which to related parties</i>	156		0	156
Current portion of other long-term provisions	31	16,882	19,704	(2,822)
Total current liabilities		522,130	475,393	46,737
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		1,469,326	1,369,481	99,845

CASH FLOW STATEMENT

In thousands of euro	2006	2005
<i>Operations</i>		
Consolidated net income	69,976	37,883
Minority interest	369	185
Tax for the period	17,893	25,891
Depreciation of property, plant and machinery	40,225	42,464
Amortisation of intangible assets	49,557	48,040
Non-monetary costs for stock options	2,561	1,300
Allocation to provisions for risks and provisions for pensions and employee benefits	28,861	28,653
Write-downs / (Revaluations)	1,652	10,932
Capital loss / (gain) on disposal of property, plant and machinery	(4,265)	(1,346)
Capital loss / (gain) for measurement of financial assets at fair value		(483)
Financial income	(15,476)	(14,767)
Financial charges	41,445	45,058
Income from public contributions	(381)	(19,196)
<i>Change in assets and liabilities</i>		
(Increase)/Decrease in trade receivables	15,781	51,669
(Increase)/Decrease in other receivables	(38,710)	24,856
(Increase)/Decrease in inventories	(41,277)	20,444
Increase/(Decrease) in trade payables	98,026	(18,816)
Increase/(Decrease) in other payables	25,860	1,609
Increase/(Decrease) in provisions for risks	(42,329)	(27,184)
Increase/(Decrease) in provisions for pensions and employee benefits	(10,717)	(10,709)
Other changes	(12,494)	68
Liquid funds generated by operations	226,557	246,551
Interest paid	(39,921)	(46,210)
Tax paid	(26,328)	(22,270)
Cash flow from operations (A)	160,308	178,071

next

In thousands of euro	2006	2005
<i>Investments</i>		
Investment in property, plant and machinery	(41,636)	(62,562)
Sale price, or redemption value, of property, plant and machinery	6,050	4,677
Investment in intangible assets	(48,639)	(37,179)
Sale price, or redemption value, of intangible assets	515	692
Non-consolidated equity investments	(160)	
Sale price of equity investments	59	1,412
Repayment of loans	9,897	2,343
Purchase of financial assets	(11,841)	
Sale price of financial assets	8	
Interest received	9,349	13,662
Sale price of assets destined for disposal or sale	(55)	
Income from public contributions collected		19,196
Cash flow from investments (B)	(76,453)	(57,759)
<i>Financing</i>		
Increase in share capital	16,804	
Loans received	1,352	319,910
Outflows to repay loans	(66,072)	(394,428)
Finance leases received		
Repayment of finance leases	(918)	11,484
Outflow for dividends paid to minority interests		(220)
Cash flow from financing (C)	(48,834)	(63,254)
Increase / (Decrease) in liquid funds (A+B+C)	35,021	57,058
Opening balance	30,655	(24,449)
Translation difference	963	(1,954)
Closing balance	66,639	30,655

This model shows the factors behind changes in cash and cash equivalents, net of short-term bank overdrafts, as required by IAS no. 7.

It should be noted that the 2005 figures have been reclassified to make them more comparable with the 2006 figures.

The changes regarded:

- Reclassifying the opening balance at 1 January 2005, in that the figure included €/000 38,800 of parent company demand loans which in the 2004 financial statements were an integral part of liquidity management and only later considered financial liabilities, as required by the reference standard;
- Non-inclusion in the statement of the adjustment of the initial acquisition cost of the Aprilia Group in 2005 relating to the financial instruments referred to as "Aprilia warrants" and "EMH" (€/000 -62.156 previously recorded among investments and 56.466 + 5.690 under financing) in that they did not involve cash or cash equivalents;

- Reclassifying the stock option monetary costs (€/000 1,300), previously recorded under financing, as part of operations;
- Reclassifying the change in the reserves of the shareholders' equity for measurement of financial instruments at fair value (€/000 432), previously recorded under financing, as part of operations within the other changes item.

It should also be noted that the €/000 9,090 enhancement of the "Aprilia shareholder financial instruments", the €/000 2,520 adjustment of the present value of the "Aprilia warrants" and the €/000 250 adjustment of the "EMH instrument", that took place in 2006 and are covered in more detail in the Explanatory Notes to the Consolidated Financial Statements in the paragraph regarding intangible assets, are not reflected in the above flows in that they did not involve cash or cash equivalents.

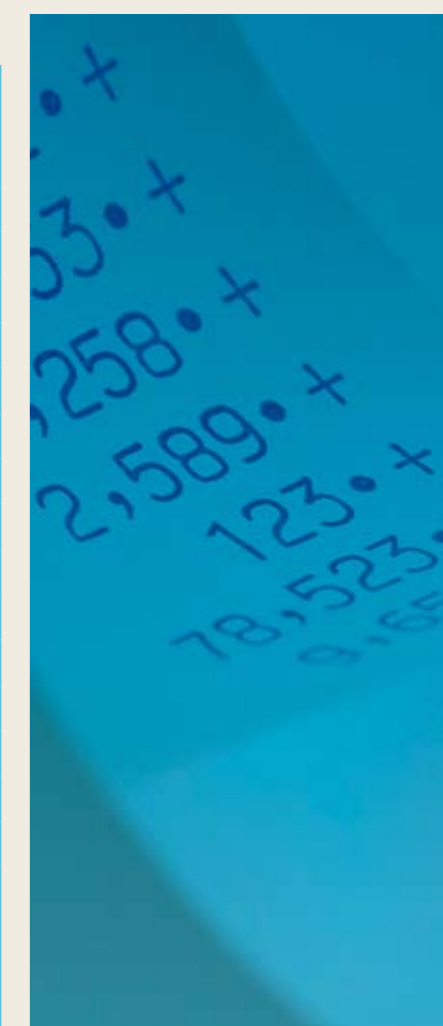
The table below shows the details of the cash and cash equivalents balance at 31 December 2006 and at 31 December 2005.

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Cash and cash equivalents	68,857	42,770	26,087
Current account overdrafts	(2,218)	(12,115)	9,897
Closing balance	66,639	30,655	35,984

NET FINANCIAL POSITION

In thousands of euro	Note	At 31/12/2006	At 31/12/2005	Change
<i>Medium- and long-term financial payables:</i>				
Medium- and long-term bank loans	29	169,740	187,804	(18,064)
Payables for leases	29	10,430	11,385	(955)
Amounts due to other lenders	29	12,607	23,211	(10,604)
Aprilia instruments	29	18,530	9,190	9,340
Amounts due to parent companies	29	0	55	(55)
Total		211,307	231,645	(20,338)
Bonded loan	29	144,628	143,951	677
Short-term financial payables:				
Current account overdrafts	29	2,218	12,115	(9,897)
Current account payables	29	952	31,532	(30,580)
Amounts due to factors	29	4,464	32,502	(28,038)
Bank loans	29	19,236	6,172	13,064
Payables for leases	29	940	903	37
Amounts due to other lenders	29	14,984	5,264	9,720
Amounts due to parent companies	29	0	0	0
Total		42,794	88,488	(45,694)
Other current financial assets				
Financial receivables due from third parties	19/25	0	(9,804)	9,804
Financial receivables due from associated companies	25	(30)	(123)	93
Securities	25	(11,836)	0	(11,836)
Total		(11,866)	(9,927)	(1,939)
<i>Cash and cash equivalents</i>	26	<i>(68,857)</i>	<i>(42,770)</i>	<i>(26,087)</i>
Total net financial position		318,006	411,387	(93,381)

In thousands of euro	
Increase/decrease in cash and cash equivalents from the cash flow statement	35,021
Outflow for repayment of loans	66,072
Repayment of finance leases	918
Purchase of financial assets	11,841
Repayment of loans granted	(9,897)
Translation differences	(963)
Present value effect of EMH financial instrument not included in the IAS cash flow statement in that it does not involve a monetary change	(250)
Present value effect of APRILIA SHAREHOLDERS financial instrument not included in the IAS cash flow statement in that it does not involve a monetary change	(9,090)
Non-monetary change in financial receivables and financial payables (Amount included under the other changes in the operating assets in the cash flow statement)	(271)
Change in the net financial position	93,381



The following table reconciles the movement in the flow of the net financial position with the flow of cash and cash equivalents as shown in the cash flow statement.

CHANGES IN SHAREHOLDERS' EQUITY

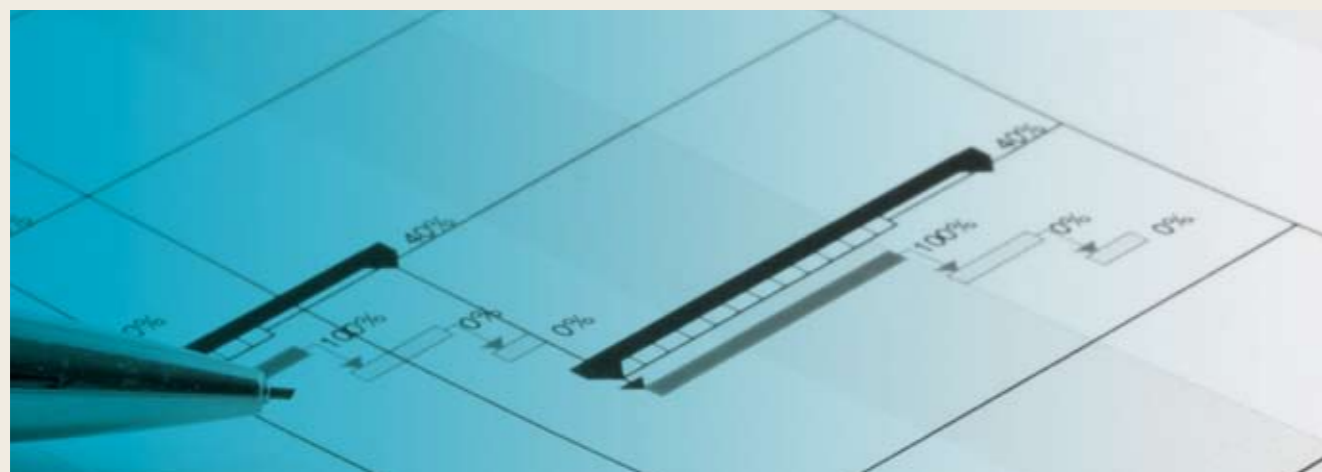
1 JANUARY 2006 / 31 DECEMBER 2006

In thousands of euro	Share capital	Share premium reserve	Legal reserve	Reserve for measurement of derivatives	IAS transition reserve		Group consolidation reserve	Group conversion reserve	Stock option reserve	Retained earnings	Earnings for the period	Consolidated Group share-holders' equity	Minority interest capital and reserves	TOTAL SHARE-HOLDERS' EQUITY
At 1 January 2006	194,827	24,500	723	56,898	(4,113)		993	1,532	2,266	32,704	37,883	348,213	254	348,467
Translation of financial statements in foreign currency								(2,384)				(2,384)	(16)	(2,400)
Change in IAS reserves				2,921					2,561			5,482		5,482
Allocation of profit										37,883	(37,883)	0		0
Exercise of stock options	8,343	8,461										16,804		16,804
Other movements														
Earnings for the year											69,976	69,976	369	70,345
At 31 December 2006	203,170	32,961	723	59,819	(4,113)		993	(852)	4,827	70,587	69,976	438,091	607	438,698

CHANGES IN SHAREHOLDERS' EQUITY

1 JANUARY 2005 / 31 DECEMBER 2005

In thousands of euro	Share capital	Share premium reserve	Legal reserve	Reserve for measurement of derivatives	IAS transition reserve		Group consolidation reserve	Group conversion reserve	Stock option reserve	Retained earnings	Earnings for the period	Consolidated Group share-holders' equity	Minority interest capital and reserves	TOTAL SHARE-HOLDERS' EQUITY
At 1 January 2005	194,827	24,500	671	0	(4,113)		993	308	966	6,724	26,032	250,908	326	251,234
Translation of financial statements in foreign currency								1,224				1,224		1,224
Change in IAS reserves				56,898					1,300			58,198		58,198
Allocation of profit			52							25,980	(26,032)	0	(220)	(220)
Other movements												0	(37)	(37)
Earnings for the year											37,883	37,883	185	38,068
At 31 December 2005	194,827	24,500	723	56,898	(4,113)		993	1,532	2,266	32,704	37,883	348,213	254	348,467



EXPLANATORY AND ADDITIONAL NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2006

Chapter	Note n.°	DESCRIPTION
A		<i>GENERAL ASPECTS</i>
	1	Content and form of the financial statements
	2	Consolidation principles and evaluation criteria
B		<i>INFORMATION BY SECTOR</i>
	3	Information by business sector
C		<i>INFORMATION ON THE CONSOLIDATED INCOME STATEMENT</i>
	4	Net sales
	5	Costs for materials
	6	Costs for services and use of third party assets
	7	Employee costs
	8	Amortisation and impairment costs
	9	Other operating income
	10	Other operating costs
	11	Net financial income (charges)
	12	Taxation
	13	Gain / (loss) from assets destined for disposal or sale
	14	Income per share
D		<i>INFORMATION ON THE CONSOLIDATED BALANCE SHEET:</i>
D1		<i>ASSETS</i>
	15	Intangible assets
	16	Property, plant and machinery
	17	Property investments
	18	Equity investments
	19	Other non-current financial assets

Chapter	Note n.°	DESCRIPTION
	20	Current and non-current receivables due from tax authorities
	21	Deferred tax assets
	22	Non-current trade receivables and other receivables
	23	Current trade receivables and other receivables
	24	Inventories
	25	Other current financial assets
	26	Cash and cash equivalents
	27	Assets destined for sale
D2		<i>LIABILITIES</i>
	28	Share capital and reserves
	29	Financial liabilities
	30	Trade payables and other payables
	31	Provisions
	32	Deferred tax liabilities
	33	Provisions for pensions and employee benefits
	34	Amounts payable to the tax authorities
	35	Other current payables
E		<i>DEALINGS WITH RELATED PARTIES</i>
F		<i>DIRECTOR AND STATUTORY AUDITORS EMOLUMENTS</i>
G		<i>COMMITMENTS AND RISKS</i>
	36	Guarantees provided
H		<i>NON-RECURRING TRANSACTIONS</i>
I		<i>SUBSEQUENT EVENTS</i>
L		<i>SUBSIDIARIES</i>
	37	List of subsidiaries

A) GENERAL ASPECTS

Piaggio S.p.A. (the Company) is a limited company set up in Italy at the Company Registry Office of Pisa. The addresses of its registered office and the locations where the Group's main activities are conducted are shown in the introduction to the report documents. The main activities of the company and its subsidiaries (the Group) are described in the Directors' Report.

The financial statements are expressed in euro (€) since that is the currency in which most of the Group's transactions take place. The foreign businesses are included in the consolidated financial statements in accordance with the principles indicated in the following notes.

Consolidation area

At 31 December 2006, the structure of the Piaggio Group was that attached to the Directors' report and is referred to here as well.

The changes in the consolidation area which occurred in 2006 compared to the consolidated financial statements at 31 December 2005 arise from the conclusion of the liquidation procedures for Aprilia Finance Ltd, Aprilia Leasing S.p.A and Motocross Company S.r.l., started in previous years, and from the disposal of Moto Sport S.A. in the first half of 2005. These changes are not significant when comparing the figures for the two periods in question.

Conformity with international accounting standards

The consolidated financial report for the Piaggio Group at 31 December 2006 has been prepared in conformity with the International Accounting Standards (IAS/IFRS) in force at that date, issued by the International Accounting Standards Board and approved by the European Commission, as well as being in conformity with the provisions established in Article 9 of Law n°. 38/2005 (Consob ruling n°. 15519 dated 27/7/06 regarding "Provisions for the presentation of financial statements", Consob ruling n°. 15520

dated 27/7/06 regarding "Changes and additions to the Issuer Regulation adopted by ruling n°. 11971/99", Consob communication n°. 6064293 dated 28/7/06 regarding "Corporate reporting required in accordance with article 114, paragraph 5 of Law 58/98"). Account was also taken of the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously called the Standing Interpretations Committee ("SIC").

In addition, international accounting standards have been uniformly applied for all the Group companies.

The financial statements of the subsidiaries used for the consolidation have been duly adapted and reclassified, where necessary, in order to make them conform to the international accounting standards and to the standard classification criteria used in the Group.

This consolidated financial report is subject to audit by Deloitte & Touche S.p.A.

Moreover, it is pointed out that there have been some reclassifications compared to the figures presented in the 2005 consolidated financial statements. The comparatives for the previous periods have as a result been reclassified. Such changes have had no effect on operating earnings, net earnings or shareholders' equity.

In particular:

- Among the non-current liabilities in the 2005 consolidated financial statements was a single item called "trade payables and other long-term payables" that included the long-term portion of trade payables, amounts due to the tax authorities and other payables. For the sake of clarity, now long-term trade payables, long-term amounts due to the tax authorities and other long-term payables are presented separately;
- In the explanatory notes, the details of the purchase costs, the costs for services and the use of third party assets, other operating income, other operating costs, and net financial income (charges) have been revised without altering the total amount of the individual balance sheet items..

1. Content and form of the financial statements

Form of the consolidated financial statements

The consolidated financial statements consist of the balance sheet, the income statement, the schedule of changes to shareholders' equity, the cash flow statement and these explanatory and additional notes.

In relation to the form of the consolidated financial statements the Company has opted to present the following types of accounting schedules:

Consolidated balance sheet

The consolidated balance sheet is presented in sections with assets, liabilities and shareholders' equity indicated separately. Assets and liabilities are shown in the consolidated financial statements on the basis of their classification as current and non-current.

Consolidated income statement

The consolidated income statement is presented with the items classified by their nature. The overall operating income is shown which includes all the income and cost items, irrespective of their repetition or fact of falling outside normal operations, except for the items of financial operations included under operating income and income before tax. In addition, the income and cost items arising from assets that are destined for disposal or sale, including any capital gains or losses net of the tax element, are recorded in a specific balance sheet item which precedes Group net income and minority interest.

Consolidated cash flow statement

The consolidated cash flow statement is presented divided into areas generating cash flows. The cash flow statement model adopted by the Piaggio Group has been prepared using the indirect method. The cash and cash equivalents recorded in the cash flow statement include the balance sheet balances for this item at the reference date. Financial flows in foreign currency have been converted at the average exchange rate for the period. Income and costs related to interest, dividends received and income taxes are included in the cash flow generated from operations.

Change in consolidated shareholders' equity

The schedule of changes in consolidated shareholders' equity is shown as required by international accounting standards, with a separate indication of the consolidated result for the period and of every individual sale, income, charge and expense that has not been transferred to the income statement, but charged directly to consolidated shareholders' equity on the basis of specific IAS/IFRS accounting standards.

Content of the consolidated financial statements

The consolidated financial statements of the Piaggio Group & C. include the financial statements of the parent company Piaggio & C. S.p.A. and of the directly and indirectly controlled Italian and foreign subsidiaries, which are listed in section I.

2. Consolidation principles and evaluation criteria

The consolidated financial statements at 31 December 2006 include, using the line-by-line method, the financial statements of the parent company and the companies in which the Piaggio & C. Group holds the majority of voting rights, and in any case of all the companies in which it exercises a dominant influence, the list of which is supplied in section I.

At 31 December 2006 the subsidiary and associated companies of Piaggio & C. S.p.A. were as follows:

	Subsidiaries			Associated companies			Total
	Italy	Abroad	Total	Italy	Abroad	Total	
Companies:							
- consolidated on a line-by-line basis	4	21	25				25
- consolidated on an equity basis		3	3		1	1	4
- valued at cost				4	2	6	6
Total companies	4	24	28	4	3	7	35

2.1 Consolidation principles

The assets and liabilities, as well as the income and charges, of the consolidated companies are incorporated using the global integration method, by eliminating the book value of the consolidated equity investments against the related shareholders' equity at the purchase or underwriting date. The book value of the equity investments has been eliminated against the shareholders' equity of the subsidiaries, by attributing to the minority interest shareholders in specific headings the portion of shareholders' equity and net income for the period due to them in the case of subsidiaries that are consolidated with the line-by-line method.

The positive differences arising from the elimination of the equity investments against the book value of shareholders' equity at the date of the first consolidation are charged to the higher values attributable to assets and liabilities and the remainder to goodwill. In accordance with the transitory provisions of IFRS 3, the Group has changed the accounting criterion for goodwill for the future starting from the transition date. Therefore, as from this date the Group has stopped amortising goodwill, subjecting it instead to an impairment test.

The portion of shareholders' equity and net income of the subsidiaries that is due to minority interest have been recorded respectively in a specific item under shareholders' equity called "Minority interest capital and reserves" and in the Income statement in a heading called "Minority interest".

Subsidiaries

These are companies where the Group exercises a dominant influence. Such influence exists when the Group has the power, directly or indirectly, to determine the financial and operational policies of a company in order to derive benefits from its activities. The acquisition of subsidiaries is recorded on the basis of the method of acquisition. The acquisition cost is determined from the sum of the present values, at the date when control is achieved of the assets, the liabilities incurred or taken on, and the financial instru-

ments issued by the Group in exchange for control of the company acquired, plus the costs directly attributed to the merger.

The assets, liabilities and identifiable contingent liabilities of the company acquired which meet the conditions for their recording in accordance with IFRS 3 are recorded at their fair values at the date of acquisition, with the exception of non-current assets (or Groups being disposed of) which are classified as held for sale in accordance with IFRS 5 and which are recorded and measured at fair value less sale costs.

The goodwill arising from the acquisition is recorded as an asset and initially measured at cost, represented by the surplus of the acquisition cost compared to the Group share in fair values of the assets, liabilities and identifiable contingent liabilities recorded.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control is assumed until such time as that control ceases to exist.

The portions of shareholders' equity and income attributable to minority interest are indicated separately, in the consolidated balance sheet and consolidated income statement, respectively.

Associated companies

These are companies in which the Group exercises notable influence, but not joint control, over their financial and operational policies. The consolidated financial statements include the portion due to the Group of the results of the associated companies, accounted for using the equity method, from the date on which such notable influence starts until such time as it ceases to exist. Should the Group portion of the associated company's losses exceed the book value of the equity investment in the financial statements, then the value of equity investment is reversed and the portion of further losses is not recorded, except and to the extent that the Group is obliged to answer for them.

Joint control companies

These are businesses over whose activities the Group has joint control, established by contractual agreements; such joint venture agreements, which imply the establishment of a separate entity in which each participant has a share of the equity investment, are called joint control equity investments. The Group records joint control equity investments by using the equity method.

With reference to transactions between a Group company and a joint control company, unrealised gains and losses are eliminated to an extent equal to the percentage of the Group's equity investment in the joint control company, except in the case in which the unrealised losses represent evidence of a reduction in value of the transferred asset.

Equity investments in other companies

Equity investments in other companies (normally with a percentage of ownership below 20%) are recorded at cost which is written down if necessary for impairment. The dividends received from such companies are included under the heading Gain (loss) from equity investments.

Transactions eliminated in the consolidation process

In preparing the consolidated financial statements, all the balances and significant transactions between Group companies are eliminated, as are the unrealised profit and loss on intragroup transactions. The unrealised profit and loss generated on transactions with associated or joint control companies are eliminated in relation to the value of the Group's portion of equity investment in those companies.

Transactions in foreign currency

Transactions in foreign currency are recorded at the exchange rate in force at the reference date of the financial statements and are converted at the exchange rate in force at that date. Exchange rate differences generated by the extinction of currency items or by their conversion at different rates from those at which they were converted when

they were initially recorded in the period or in prior financial statements are recorded in the income statement.

Consolidation of foreign companies

The separate financial statements of each company that belongs to the Group are drawn up in the currency of the main economic environment in which it operates (the operating currency). For the purposes of the consolidated financial statements, the financial statements of each foreign company are expressed in euro, which is the operating currency of the Group and the currency for the presentation of the consolidated annual report.

All the assets and liabilities of foreign companies in currency other than the euro and which fall within the consolidation area are converted by using the exchange rates in force at the reference date of the financial statements (current exchange rate method). Income and costs are converted at the average rate for the period. Exchange rate differences arising from the application of this method are classified as an item of shareholders' equity until the equity investment is disposed of. In preparing the consolidated cash flow statement, the average exchange rates have been used to convert the cash flows of the foreign subsidiaries.

During first-time adoption of the IFRS, the cumulative exchange rate differences generated by the consolidation of foreign companies outside the euro zone have not been reversed, as allowed by IFRS 1 and therefore have been maintained.

Conversion differences that arise from the comparison between opening shareholders' equity converted at current exchange rates and the same converted at historic exchange rates, as well as the difference between the result for the period expressed at average exchange rates and that expressed at current exchange rates, are charged to the shareholders' equity item "Other reserves".

The exchange rates used for the conversion into euro of the financial statements of the companies included in the consolidation area are shown in the table below.

Currency	Exchange rate at 31/12/2006	Average rate 31/12/2006	Exchange rate at 31/12/2005	Average rate 31/12/2005
US dollar	1.31700	1.25567	1.17970	1.24470
Pound sterling	0.67150	0.68182	0.68530	0.68386
Indian rupee	58.29750	56.89314	53.16790	54.85999
Singapore dollar	2.02020	1.99399	1.96280	2.07051
Chinese renminbi	10.27930	10.00898	9.52040	10.18438
Croatian kuna	7.35040	7.32489	7.37150	7.40015
Japanese yen	156.93000	146.06235	138.90000	136.84570

2.2 Accounting standards**Intangible assets**

An intangible asset which is bought and produced internally is recorded under assets, in accordance with the provisions of IAS 38, only if it is identifiable, verifiable and it is likely to generate future economic benefits and its costs can be reliably determined.

Intangible assets with a finite life are recorded at purchase or production cost net of accumulated amortisation and impairment. Amortisation is equated to their expected useful life and starts when the asset is available for use.

Goodwill

In the case of the purchase of businesses, assets, liabilities and contingent liabilities acquired and identifiable are recorded at their fair value at the date of acquisition. The positive difference between the acquisition cost and the Group's portion in the fair value of the assets and liabilities is classified as goodwill and is recorded in the financial statements as an intangible asset. Any negative goodwill is recorded on the income statement at the moment of acquisition.

Goodwill is not amortised, but is subjected to checks to identify any impairment on an annual basis, or more frequently if specific events or changed circumstances indicate the possibility that there has been a loss in value, in accordance with the provisions of IAS 36 Reduction in asset values. After the initial recording, goodwill is valued at cost net of any accumulated impairment.

On disposing of a part or the whole company that was previously acquired and from the acquisition of which there emerged goodwill, in determining the capital gain or loss on the disposal, account is taken of the corresponding residual value of goodwill.

During first-time adoption of the IFRS, the Group chose not to apply IFRS 3-Business combinations retroactively to company acquisitions that took place before 1 January 2004; consequently, the goodwill generated on acquisitions prior to the IFRS transition date has been maintained at the previous value determined in accordance with Italian accounting standards, subject to the verification and recording of any impairment.

After 1 January 2004, following the acquisitions that occurred in 2004, further goodwill was generated, the amount of which was recalculated in light of the various values assumed by the shareholders' equity of the companies acquired, in relation to the provisions of IFRS 3.

Development costs

Development costs on projects for the production of vehicles and engines are recorded under assets only if all the following conditions are met: the costs can be reliably determined and the technical feasibility of the product, the forecast volumes and prices indicate that the costs incurred in the development phase will generate future economic benefits. The capitalised development costs include only the expenses incurred which can be directly attributed to the development process.

The capitalised development costs are amortised on a straight-line basis, from the commencement of production throughout the estimated life of the product.

All other development costs are recorded in the income statement when they are incurred.

Other intangible assets

Other intangible assets acquired or produced internally are recorded under assets, in accordance with the provisions of IAS 38 – Intangible assets, when it is likely that their use will generate future economic benefits and when the cost of the asset can be reliably determined.

These assets are measured at purchase or production cost and are amortised on a straight-line basis over their estimated useful lives, if they have a finite useful life. Intangible assets with an indefinite useful life are not amortised but are subjected to impairment checks on an annual basis, or more frequently, if there is an indication that the asset may be impaired.

Other intangible assets recorded following the acquisition of a company are recorded separately from goodwill, if their current value can be determined reliably.

Here below is a summary of the amortisation periods for the various headings under intangible assets:

Development costs	3 years
Industrial patent rights and intellectual property rights	3-5 years
Other	5 years
Trademarks	max 15 years

Property, plant and machinery

The Piaggio Group has decided to adopt the cost method on first-time application of the IAS/IFRS, as allowed by IFRS 1. For the measurement of property, plant and machinery, therefore, the preference was not to use the fair value method. Property, plant and machinery are, therefore, recorded at purchase or production cost and are not reassessed. For an asset whose capitalisation is justified, the cost also includes the financial charges which are directly

attributable to the acquisition, construction or production of the asset. The costs incurred following acquisition are capitalised only if they increase the future economic benefits inherent in the asset to which they refer. All the other costs are recorded in the income statement when they are incurred. Construction in progress is valued at cost and is depreciated from the period in which it comes into operation.

Depreciation is determined on a straight-line basis on the cost of the assets net of the related residual values, depending on their estimated useful life by applying the percentage rates shown in the comment to the heading.

Land is not depreciated

Assets owned through finance leases, by means of which all the risks and benefits linked to ownership are largely transferred to the Group, are recognised as Group assets at their fair value, or, if lower, at the present value of the minimum payments due under the lease. The corresponding liability due to the lessor is recorded in the financial statements under financial payables. The assets are depreciated by applying the criterion and the rates used for assets owned by the company.

Leases in which the lessor essentially keeps all the risks and benefits linked to ownership of the assets are classified as operating leases. The costs of operating leases are recorded on a straight-line basis in the income statement over the duration of the lease.

Gains and losses arising from the disposal or sale of assets are determined as the difference between the sale income and the net book value of the asset and are charged to the income statement for the period.

Impairment

At every financial statement date, the Group reviews the book value of its tangible and intangible assets to determine if there are indications that these assets have suffered a loss in value (an impairment test). Should such indications exist, the recoverable amount of the assets is estimated in order to determine the size of the write-down.

Where it is not possible to estimate the recoverable value of an asset individually, the Group estimates the recoverable value of the cash flow generating unit to which the asset belongs.

The recoverable amount is the higher between the net sale price and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value by using a rate gross of tax which reflects current market valuations of the present value of money and the specific risks of the asset concerned.

If the recoverable amount of an asset (or of a cash flow generating unit) is estimated to be lower than the current book value, then the book value of the asset is reduced to the lower recoverable value. An impairment is recorded in the income statement immediately, unless the asset is land or buildings other than property investment recorded at reassessed values, in which case the loss is charged to the respective revaluation reserve.

When the continuation of a write-down is no longer justified, the book value of the asset (or of the cash flow generating unit) is increased to the new value arising from the estimate of its recoverable value, but to no more than the net book value which the asset would have had if the write-down for impairment had not been applied. The recovery in value is immediately recorded in the income statement.

An intangible asset with an indefinite useful life is subject to an impairment test annually, or more frequently, if there is an indication that the asset may be impaired.

Property investment

International accounting standards have regulated property assets used for production or administration purposes (IAS 16) separately from property investments (IAS 40). As allowed by IAS 40, property and buildings that are not for operations and are held in order to earn rent and/or to increase the value of assets are measured at cost net of accumulated depreciation and impairment losses.

Property investments are eliminated from the financial statements when they are sold or when the property invest-

ment is unusable in the long term and no future economic benefits are expected from its possible disposal.

Non-current assets held for sale

Non-current assets (and groups of assets being disposed of) classified as held for sale are measured at the lower of their previous book value and the market value net of selling costs.

Non-current assets (and groups of assets being disposed of) are classified as held for sale when it is expected that their book value will be recovered through a disposal rather than through using them as an operating asset for the company. This condition is met only when the sale is highly likely, the asset (or group of assets) is available for immediate sale in its current condition and management has made a commitment to sell, which should take place within twelve months of the classification under this heading.

Financial assets

Financial assets are recorded and reversed from the balance sheet on the basis of their trade date and are initially measured at cost, including the charges directly associated with the acquisition.

At subsequent financial statement dates, the financial assets which the Group intends and has the ability to maintain until their expiry (securities held until their expiry) are recorded at amortised cost using the effective interest rate method, net of write-downs made to reflect impairment.

Financial assets other than those held until expiry are classified as held for trading or available for sale, and are measured at the end of each period at their fair value. When financial assets are held for trading, the gains and losses arising from changes in the fair value are charged to the income statement for the period; for financial assets available for sale, the gains and losses arising from changes in the fair value are charged directly to equity until they are sold or have been impaired; at that moment overall gains or losses previously charged to equity are charged to the income statement of the period.

Inventories

Inventories are recorded at the lower of the purchase or production cost, determined by allocating to products the directly incurred costs as well as the portion of indirect costs that may reasonably be ascribed to the use of productive assets under normal production capacity conditions, and the market value at the closing date of the financial statements.

The purchase or production cost is determined in accordance with the weighted average cost method.

For raw materials and work in progress, the market value is represented by the presumed net sale value of the corresponding finished products after deducting finishing costs; as for finished goods it is determined by the presumed sale price (sale price lists).

The lesser value that may be determined on the basis of market trends is eliminated in subsequent periods if the reasons for that valuation cease to exist.

Inventories that are obsolete, slow moving and/or excess to normal requirements are written down in relation to the possibility of their being used or their possible future sale through the creation of a provision for stock write-downs.

Receivables

Receivables are recorded at their nominal adjusted value, in order to align them to their presumed realisable value, through the recording of a bad debt provision. This provision is calculated on the basis of the recovery assessments carried out by analysis of the individual positions and of the overall risk of all the receivables, taking account of any guarantees.

When the payment of the sum due is postponed beyond normal credit terms offered to customers, it is necessary to discount the receivable.

In order to determine the effect, estimates have been made of the time before payment by applying a discount rate that corresponds to the 20-year Euribor swap rate plus a spread of AA rated Government securities to the various forecast cash flows.

Factoring transactions

The Group sells a significant portion of its trade receivables by factoring them. The disposals can be without recourse, and in this case there are no recourse or liquidity risks, leading to the reversal of the corresponding amounts from the balances of receivables due from customers at the moment of payment by the factor.

For with recourse sales, since neither the risk of non-payment nor the liquidity risk is transferred, the related receivables are maintained on the balance sheet until the receivable sold is paid by the debtor. In this case the advance payments received from the factor are recorded under payables due to other lenders.

Cash and cash equivalents

The heading relating to cash and cash equivalents includes cash, bank current accounts, demand deposit accounts and other highly-liquid short-term financial investments, which are readily convertible into cash and have an insignificant risk of losing value.

Financial liabilities

Financial liabilities are recognised at the value of the sums received net of accessory charges. After initial recognition, loans are recorded using the amortised cost method, calculated using the effective interest rate. Financial liabilities covered by derivatives are valued at fair value, in accordance with the approach established for hedge accounting, applicable to the fair value hedge: gains and losses arising from the subsequent measurement at fair value, due to variations in interest rates, are recorded in the income statement and are offset with the actual portion of the loss and the gain arising from subsequent measurements at fair value of the instrument covered.

Derivatives and hedge accounting

The Group's activities are mainly exposed to financial risks through changes in exchange and interest rates. The Group uses derivatives (mainly forward currency contracts)

to hedge the risks arising from changes of foreign currencies in certain irrevocable commitments and in envisaged future transactions. The use of these derivatives is regulated by written procedures on the use of derivatives in line with the Group's risk management policies.

Derivatives are initially recorded at cost, and adjusted to fair value at subsequent period end dates.

Derivatives are used solely with the intent of hedging in order to reduce the risk from exchange and interest rate variations and changes in market prices. In line with the provisions of IAS 39, financial derivatives can be recorded in accordance with the methods established for hedge accounting only when, at the start of the hedge, there is the formal designation and documentation of the hedge itself, when it is presumed that the hedge is highly effective, when the effectiveness can be reliably measured and when the hedge itself is highly effective during the various accounting periods for which it is designed.

When the financial instruments have the necessary features to be recorded under hedge accounting, the following accounting treatments apply:

- *Fair value hedge*: If a financial derivative is designated as a hedge for the exposure to variations in the fair value of an asset or a liability, attributable to a particular risk which can have an impact on the income statement, gains or losses arising from subsequent assessments of the fair value of the hedge are recorded on the income statement. The gain or loss on the hedged item, attributable to the risk hedged, change the book value of that item and is recorded in the income statement.
- *Cash flow hedge* If a derivative is designated as a hedge of the exposure to changes in the cash flows of an asset or liability recorded in the financial statements or of a transaction that is considered highly likely and which could have an impact on the income statement, the effective portion of gains or losses for the derivative is recorded under shareholders' equity. The accumulated gain or loss is reversed from shareholders'

equity and recorded on the income statement in the same period in which the hedged transaction is recorded. The gain or loss associated with the hedge or that part of the hedge that is ineffective, is immediately recorded on the income statement. If a hedging instrument or a hedge are closed, but the hedged transaction has not yet taken place, the accumulated gains and losses, which until that moment had been recorded under shareholders' equity, are recorded in the income statement when the related transaction occurs. If the hedged transaction is no longer considered likely to occur, then the unrealised gains or losses held under shareholders' equity are immediately recorded on the income statement.

If hedge accounting cannot be applied, the gains or losses arising from the measurement at fair value of the derivative are immediately recorded on the income statement.

Long-term provisions

The Group records provisions for risks and charges when it has a legal or implicit obligation towards third parties and it is likely that the use of Group resources will be necessary to fulfil the obligation and when a reliable estimate of the amount of the obligation itself can be made.

Changes in the estimate are reflected in the income statement for the period in which the change occurred.

Should the impact be significant, the provisions are calculated by discounting the estimated future financial cash flows at a discount rate that is estimated gross of taxes so as to reflect the current market assessments of the present value of money and the specific risks connected to the liabilities.

Provisions for pensions and employee benefits

With the adoption of the IFRS, employee leaving indemnity is considered a defined benefit obligation to be recorded in accordance with IAS 19- Employee Benefits, consequently, it must be recalculated using the "Projected Unit

Credit Method”, by undertaking actuarial evaluations at the end of each period.

Payments for defined benefit plans are charged to the income statement in the period in which they fall due. The liabilities for benefits following the employment relationship recorded in the financial statements represent the present value of liabilities for defined benefit plans adjusted to take account of actuarial gains and losses and the unrecorded costs related to previous employment services, and reduced by the fair value of the programme assets. Any net assets resulting from this calculation are limited to the value of the actuarial losses and the cost in relation to unrecorded previous employment services, plus the present value of any repayments and reductions in future contributions to the plan.

The Group has decided not to use the so-called “corridor method”, which would allow it not to record the cost component calculated in accordance with the method described represented by actuarial gains or losses, where it does not exceed 10 percent. Finally, it should be noted that the Group has decided to show the interest element of the charge relating to employee plans under the financial charges heading.

Stock option plan

In accordance with the provisions of IFRS 2 – Share-based payments, the overall amount of the fair value of the stock options at the date of allocation is recorded entirely in the income statement under employee costs with a counter entry recognised directly under shareholders’ equity should the assignees of the equity instruments become rights holders at the moment of allocation.

In the case in which a “period of maturation” is envisaged in which certain conditions must apply before the assignees can become rights holders, the cost of compensation, determined on the basis of the fair value of the portions at the allotment date, is recorded under employee costs on the basis of a criterion of constant shares over the period between the date of allotment and that of maturity, with

a counter entry recognised directly under shareholders’ equity. The determination of fair value is made using the Black Scholes method.

Changes in the fair value of the options subsequent to the allotment date have no impact on the initial evaluation.

Deferred taxation

Deferred taxation is determined on the basis of the temporary taxable differences between the value of the assets and liabilities and their tax value. Deferred tax assets are accounted for only to the extent that the existence of adequate future taxable incomes against which to use this positive balance is considered likely. The book value of deferred tax assets is subject to review at every period end and is reduced to the extent to which the existence of sufficient taxable income to allow the whole or partial recovery of such assets is no longer probable.

Deferred taxation is determined on the basis of the tax rates which are expected to be applied in the period in which such deferrals will occur, considering the rates in force or those known to be issued. Deferred taxation is charged directly to the income statement, except when it relates to items that are directly recorded under shareholders’ equity, in which case also the related deferred taxation is charged to shareholders’ equity.

Deferred taxation is offset when there is a legal right to offset current tax assets and liabilities and when it refers to taxes due to the same tax authority and the Group intends to liquidate the current tax assets and liabilities on a net basis.

Payables

Payables are recorded at their nominal value, which is considered representative of their extinguishment value.

Recognition of net sales

In accordance with the IFRS, sales of assets are recognised when the assets are despatched and the company has transferred to the buyer the significant risks and ben-

efits connected to ownership of the assets. Net sales are recorded net of returns, discounts, rebates and allowances, as well as of tax directly connected to the sale of goods and the provision of services. Net sales of a financial nature are recorded on an accrual basis.

Grants

Grants related to plant are recorded in the financial statements provided that the right to receive them is certain and they are charged to the income statement in relation to the useful life of the asset against which they are provided. Grants related to income are recorded in the financial statements provided that the right to receive them is certain and they are charged to the income statement in relation to the costs against which they are provided.

Financial income

Financial income is recorded on an accrual basis. It includes interest income on invested funds, exchange rate gains and income arising from derivatives, when it is not offset as part of hedging transactions. Interest income is charged to the income statement as it accrues, considering the effective yield.

Financial charges

Financial charges are recorded on an accrual basis. They include interest due on financial payables calculated by using the effective interest rate method, exchange rate losses, and losses on derivatives. The portion of interest charges for finance lease payments is charged to the income statement using the effective interest rate method.

Dividends

Dividends recorded in the income statement, arising from minority equity investments, have been recorded on an accrual basis, i.e. when, following the resolution to distribute a dividend is passed by the investee company, the related tax credit right arises.

Income taxes

Taxation is the sum total of current and deferred taxes.

The consolidated financial statements include the tax set aside in the financial statements of the individual companies that are part of the consolidation area on the basis of the estimated taxable income determined in conformity with the national legislation in force at the closing date of the financial statements, taking account of the exemptions applicable and the tax credits due. Income taxes are recorded in the income statement, except for those relating to items directly charged or credited to shareholders’ equity, in which case the tax effect is recognised directly under shareholders’ equity.

They are shown under the item “Amounts due to tax authorities”, net of payments on account and withholding taxes paid. The taxes due in the case of the distribution of reserves on which tax has been suspended recorded in the financial statements of the individual Group companies are not set aside since their distribution is not expected.

Earning per share

Earning per share is calculated by dividing the income or loss attributable to parent company shareholders by the weighted average number of ordinary shares in circulation during the period. The diluted income per share is calculated by dividing the income or loss attributable to parent company shareholders by the weighted average number of shares in circulation, taking account of the effects of all the potential ordinary shares with a diluting effect. The potential shares considered are those connected to the stock option plan and those connected to Aprilia warrants. The adjustment to be made to the number of stock options in order to calculate the number of shares is determined by multiplying the number of stock options by the underwriting cost and dividing it by the market price of the share.

Use of estimates

The preparation of the financial statements and the related notes in application of the IFRS requires management to

make estimates and assumptions that have an impact on the values of assets and liabilities in the financial statements and on the information relating to contingent assets and liabilities at the financial statement date. The results which will be achieved could be different from the estimates. The estimates are used to measure the tangible and intangible assets subject to impairment tests (see Impairment), as well as for recording provisions for risks on receivables, for obsolescence of stocks, amortisation, write-downs of assets, employee benefits, tax, restructuring provisions, and other provisions and reserves. These estimates and assumptions are periodically reviewed and the impact of each change is immediately reflected in the income statement.

Dealings with related parties

Dealings with related parties are shown in the Directors' Report which is to be referred to for this heading as well.

New accounting standards

There were no accounting standards or interpretations reviewed or issued, with effect from 1 January 2006, which had a significant impact on the Group's financial statements.

B) INFORMATION BY SECTOR

3. Information by business sector

Primary sector: light wheeled transport market

The Piaggio Group is one of the world leaders in the sector of "light wheeled transport", a sector which the Group helped to define with the introduction in the 1940s of the "Vespa" and "Ape" models. This sector is related to two, three and four wheel vehicles for private or professional use which allow the user to enjoy greater mobility, by virtue of their safety, manoeuvrability and low environmental impact features.

The vehicles produced are marketed worldwide under the brands: Piaggio, Aprilia, Moto Guzzi, Gilera, Derbi, Vespa and Scarabeo.

The products are distributed through dealers, whether they be two, three or four-wheel vehicles.

Within the light transport sector, the Piaggio Group operates on the basis of policies which are common to all the companies/products: by establishing specific management policies so as to reflect the search for a common identity within which to direct the global strategies.

The scope of application of these policies concerns various aspects of company management, such as the credit and



discount management system for customers, the means of procuring production materials, cash management and the central corporate functions.

Credit management is implemented in accordance with a centrally established policy, in order to identify a common language to enable the various companies to operate on the basis of a standard reference model aimed at assessing the level of credit risk, the reliability of the dealer, the payment terms, and the establishment of reporting models to be used in order to carry out effective and timely monitoring of the related data.

The means of procuring supplies are implemented worldwide on the same basis. In light of this the Group operates by seeking to take advantage of benefits from synergy arising mainly from: shared parts across several vehicles and shared suppliers for several Group companies.

Cash management is handled centrally by the parent company so as to concentrate the financial resources needed to be able to implement investments aimed at generating benefits for all the parts of the Group, by monitoring breakeven times.

The development of new products is managed singly for the whole Group on the basis of an approach which takes into account the various needs of the key markets.

At an organisational level a system has been established which, through the integration of various brands, enables the realisation of global strategies aimed at looking for synergy to increase the value of the Group and emphasise its distinct features.

This synergy arises from the concentration of technical, industrial and other central activities which are coordinated by the Corporate Divisions thus guaranteeing the dissemination and integration of specific functional skills.

In the light of the above considerations, the activities of the Piaggio Group and the related strategies, as well as the

underpinning activities linked to managerial control, have been established in the single sector of "light wheeled transport". The following table presents the economic and financial data for the Group at 31 December 2006:

In millions of euro	Consolidated
NET SALES	
Sales to third parties	1,607.4
Inter-sector sales	
TOTAL NET SALES	1,607.4
Gross industrial margin	483.0
Net financial charges	(26.0)
Income from equity investments	
Income before taxation	88.2
Taxation	17.9
Minority interest	(0.4)
NET INCOME	69.9
OTHER INFORMATION	
Increases in tangible and intangible assets	90.3

Secondary sector: market segments

In millions of euro	2W	LCV	Other	Consolidated
NET SALES				
Sales to third parties	1,237.2	356.6	13.6	1,607.4
Inter-sector sales				
TOTAL NET SALES	1,237.2	356.6	13.6	1,607.4
Gross industrial margin				483.0
Net financial charges				(26.0)
Income from equity investments				
Income before taxation				88.2
Taxation				17.9
Minority interest				(0.4)
NET INCOME				69.9
OTHER INFORMATION				
Increases in tangible and intangible assets				90.3



Third sector: geographical area

The following table gives the economic and financial figures for the Group in relation to the geographical "destination" areas at 31 December 2006, that is, based on the nationality of the customer or of the supplier/lender.

In millions of euro	Italy	Europe	India	North America	Rest of the world	Consolidated
NET SALES						
Sales to third parties	618.4	648.1	206.4	77.2	57.3	1,607.4
Inter-sector sales						
TOTAL NET SALES	618.4	648.1	206.4	77.2	57.3	1,607.4
BALANCE SHEET						
TOTAL ASSETS	901.0	450.2	70.2	30.4	17.5	1,469.3
TOTAL LIABILITIES	915.9	419.1	69.8	30.4	34.1	1,469.3

C) INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

4. Net sales **€/000 1,607,412**

Net sales are shown net of bonuses recognised to customers (dealers).

This heading does not include transport costs, which are recharged to customers (€/000 40,172), and advertising cost recoveries invoiced (€/000 7,221), which are shown under other operating income.

TAB 1

In thousands of euro	2006		2005		Changes	
	amount	%	amount	%	amount	%
2-wheelers	1,237,190	76.97	1,137,702	78.37	99,488	8.74
LCV	356,558	22.18	304,098	20.95	52,460	17.25
Other	13,664	0.85	9,981	0.69	3,683	36.90
TOTAL	1,607,412	100.00	1,451,781	100.00	155,631	10.72

TAB 2

In thousands of euro	2006		2005		Changes	
	amount	%	amount	%	amount	%
Italy	618,440	38.48	587,858	40.49	30,582	5.20
Europe	648,055	40.32	610,100	42.03	37,955	6.22
India	206,400	12.84	157,182	10.83	49,218	31.31
North America	77,213	4.80	48,515	3.34	28,698	59.15
Rest of the world	57,304	3.56	48,126	3.31	9,178	19.07
TOTAL	1,607,412	100.00	1,451,781	100.00	155,631	10.72

The net sales for disposals of Group core business assets essentially refer to the marketing of vehicles and spare parts in European and non-European markets.

Net sales by business sector

The division of net sales by business sector is shown in the following table 1.

Net sales by geographical area

The division of net sales by geographical area is shown in the following table 2.

In 2006, net sales rose by €/000 155,631. The increase was mainly due to the rise in sales achieved on the North American and Indian markets, as well as approximately €/000 36,500 for the order of 2-wheeler vehicles placed by the Italian Post Office (Poste Italiane).

5. Costs for materials **€/000 946,528**

These totalled €/000 946,528, compared to €/000 847,171 at 31 December 2005. The 11.7% growth is essentially connected to the increase in production and sales volumes. In fact the ratio to net sales remained almost unchanged at 58.9%, while it was 58.4% in 2005.

TAB 3

In thousands of euro	2006	2005	Change
Raw materials, consumables and goods for resale	990,935	826,025	164,910
Change in inventories of raw materials, consumables and goods for resale	(15,748)	(4,441)	(11,307)
Change in work in progress of semi-finished and finished products	(28,659)	25,587	(54,246)
Total cost of purchases	946,528	847,171	99,357

TAB 4

In thousands of euro	2006	2005	Change
Employee costs	17,413	14,663	2,750
Maintenance and cleaning	7,376	8,476	(1,100)
Energy, telephone and telex	18,563	15,234	3,329
Commissions paid	4,707	3,786	921
Advertising and promotion	59,364	50,758	8,606
Technical, legal and tax consultancy and services	80,434	75,169	5,265
Company boards operating costs	4,076	2,652	1,424
Insurance	3,271	4,293	(1,022)
Third party work	34,649	31,667	2,982
Transport costs vehicles and spare parts	41,231	37,204	4,027
Other commercial expenses	8,956	8,768	188
Product warranty costs	8,721	14,031	(5,310)
Bank costs and factoring charges	5,716	4,528	1,188
Costs for use of third party assets	11,444	11,060	384
Other	17,152	16,636	516
Total costs for services	323,073	298,925	24,148

In the following table 3 there is the detailed content of this financial statement heading. This heading includes €/000 34,102 of costs relating to the purchase of scooters and engines from our Chinese subsidiary Piaggio Foshan, which are respectively distributed on the European markets and assembled on scooters built in Italy.

6. Costs for services and use of third party assets **€/000 323,073**

These totalled €/000 323,073 overall compared to €/000 298,925 at 31 December 2005.

This heading is divided as per following table 4.



€/000 10,276 of the €/000 24,148 increase is due to non-recurring costs associated with the stock exchange listing, the details of which are below:

(in thousands of euro)	2006
Employee costs	43
Advertising and promotion	2,624
Technical, legal and tax consultancy and services	6,905
Audit costs	614
Other commercial costs	86
Other	4
Total cost of listing	10,276

Higher business volumes and greater support provided to the sales network in terms of targeted advertising campaigns explain the rest of the increase.

Consultancy costs include €/000 3,617 of management services provided by the parent company Immsi SpA in 2006.

The costs for use of third party assets include lease rentals for business properties of €/000 3,874, as well as lease payments for car hire, computers and photocopiers.

Third party work of €/000 34,649 refers to production parts.

Transport costs and spare parts remain constant over the two years, equal to 2.6% of net sales.

Tab 6

Inflation rate	1.60%			
	years 1 > 5	years 6 > 10	years 11 > 15	years > 15
Discount rate	4.13%	4.35%	4.49%	4.59%
Revaluation rate for accrued empl. indemnity		2.75%		
Rate of employee indemnity		7.40%		
Annual salary increase rate		3.3%		

“Product warranty” costs, taking into account the applications of the related provision, fell significantly in absolute terms due to the improvement of the quality standards of our products. The heading “other” includes costs for temporary work of €/000 4,161.

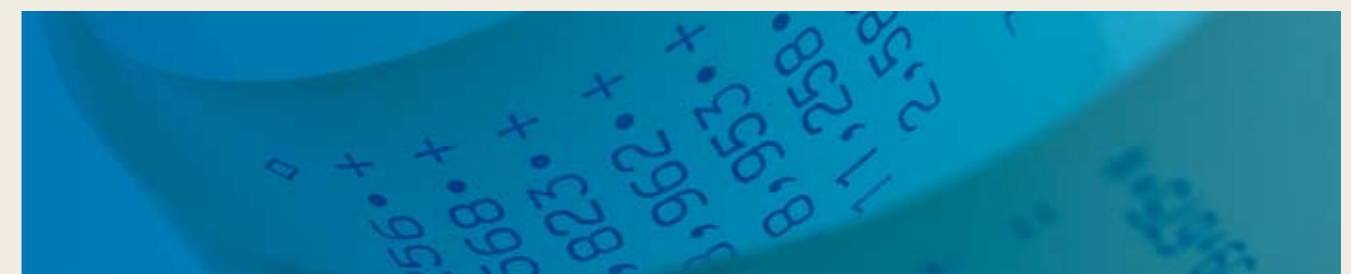
7. Employee costs €/000 236,168

The breakdown of costs incurred for employees was as follows table 5.

Tab 5

In thousands of euro	2006	2005	Change
Salaries and wages	175,374	169,097	6,277
Social security charges	48,592	45,137	3,455
Employee leaving indemnity	10,970	10,368	602
Other costs	1,232	898	334
Total	236,168	225,500	10,668

Employee costs rose in absolute terms by €/000 10,668 compared to the previous year (+4.7%). The increase was largely due to the 334 increase in the average number of the workforce, in that the average unit cost remained almost equal to that of 2005. As required by the International Accounting Standards (IAS 19), the company discounted the value of the payable for employee indemnity. The main parameters used are the following (table 6).



The overall impact at 31 December 2006 of such discounting was a decrease in liabilities for the specific component relating to minority interest, due to the increase in the discount rate in light of the increase in the cost of borrowing. Below is an analysis of the average breakdown of the workforce:

Level	Average number		
	2006	2005	Change
Senior management	115	113	2
Middle management	369	335	34
Clerical staff	1,784	1,780	4
Manual labourers	4,715	4,421	294
Total	6,983	6,649	334

Level	Number at		
	31/12/2006	31/12/2005	Change
Senior management	113	115	(2)
Middle management	382	328	54
Clerical staff	1,805	1,783	22
Manual labourers	4,474	4,127	347
Total	6,774	6,353	421

The increase in sales and the positive outlook for the future enables the Group to increase the size of the workforce, especially in the Indian subsidiary. It is pointed out that the average number is influenced by seasonal workers during the summer months working under term contracts.

In fact, the Group hires temporary staff to help meet the

Tab 7

	at 31.12.05	Entering	Exiting	Changes	at 31.12.06
Senior management	115	14	(20)	4	113
Middle management	328	61	(55)	48	382
Clerical staff	1,783	302	(231)	(49)	1,805
Manual labourers	4,127	1,861	(1,511)	(3)	4,474
Total (*)	6,353	2,238	(1,817)	0	6,774
(*) of which term contracts	834	1,815	(1,358)	(120)	1,171

peaks in demand during the summer months. 120 of these had been hired on a full-time basis at 31 December 2006.

Movements in the workforce over the two years are as follows details in table 7.

8. Amortisation, depreciation and impairment costs €/000 89,782

Below is a summary of the amortisation and depreciation in 2006, divided into different categories:

In thousands of euro	2006	2005	Change
Property, plant and machinery:			
Buildings	3,687	3,361	326
Plant and machinery	12,947	12,940	7
Industrial and commercial equipment	20,591	22,505	(1,914)
Other assets	3,000	3,658	(658)
Total depreciation	40,225	42,464	(2,239)

In thousands of euro	2006	2005	Change
Intangible assets:			
Development costs	35,025	32,483	2,542
Industrial patent rights and intellectual property rights	6,162	6,709	(547)
Concessions, licences, trademarks and similar rights	8,343	8,286	57
Other	27	562	(535)
Total amortisation	49,557	48,040	1,517

As set out in more detail in the paragraph on intangible assets, as of 1 January 2004 goodwill is no longer amortised, but is subjected annually to an *impairment test*. The *impairment test* carried out at 31 December 2006 confirmed the full recoverability of the amounts recorded in the financial statements.

Amortisation under the item "Concessions, licences, trademarks and similar rights" includes €/000 5,987 of amortisation of the Aprilia brand and €/000 2,159 for the Guzzi brand.

9. Other operating income €/000 128,741

This heading comprises:

In thousands of euro	2006	2005	Change
Grants related to income	2,132	6,295	(4,163)
Anti-pollution incentives		18,624	(18,624)
Increases in fixed assets from internal work	27,822	22,584	5,238
Net sales and other income:			
- Rent receipts	1,859	1,912	(53)
- Capital gains on assets	4,277	1,346	2,931
- Sale of miscellaneous materials	1,205	334	871
- Recovery of transport costs	40,172	35,940	4,232
- Recovery of advertising costs	7,221	3,916	3,305
- Recovery of other costs	19,186	16,453	2,733
- Compensation	389	295	94
- Extraordinary gain	12,992	7,432	5,560
- Licence rights and know-how	630	718	(88)
- Sponsorship	3,611	7,711	(4,100)
- Other income	7,245	19,662	(12,417)
Total other operating income	128,741	143,222	(14,481)

The overall decrease recorded of €/000 14,481 was mainly due to the presence in 2005 of non-recurring sales from

anti-pollution incentives for €/000 18,624. These grants were provided by the Ministry of the Environment in June 2005 in conformity with the programme agreement signed on 12.2.2002 and the supplementary document signed on 18 April 2005, relating to sales of environmentally friendly vehicles completed from June 2003 to July 2004.

The rent receipts refer mainly to income for the rent of racing bikes to the teams which compete in the World Motorcycling Championships. Capital gains refer mainly to the sale of some assets. The €/000 12,992 of extraordinary gain at 31 December 2006 essentially refer to the release of excess provisions where the reasons for making the provision no longer apply. The heading recovery of transport costs refers to the costs recharged to customers, the charges for which are classified under "services".

10. Other operating costs €/000 26,378

This heading comprises

In thousands of euro	2006	2005	Change
Non-income tax and duties	4,340	5,008	(668)
Capital losses from disposal of assets	12	236	(224)
Various subscriptions	793	602	191
Write-downs of intangible assets		3,607	(3,607)
Write-downs of tangible assets		2,349	(2,349)
Write-downs of receivables in working capital	1,652	4,976	(3,324)
Allocation of provisions	17,064	18,285	(1,221)
Other operating costs	2,517	3,580	(1,063)
Total	26,378	38,643	(12,265)

Overall, other operating costs fell by €/000 12,265. This change was mainly due to the presence in the 2005 statements of non-recurring charges connected to the write-down of some assets.

11. Net financial income (charges)**€/000 (25,969)**

Below is the breakdown of financial charges and income see tables 8 and 9.

The negative balance of financial income (charges) in 2006 was of €/000 25,969, down compared to €/000 39,291 in 2005.

The €/000 4,322 improvement is mainly due to the decrease in net debt and the margins applied on the most important medium-term bank loan.

This was partly offset by the higher charges arising from higher interest rates and the greater nominal amount of the bonded loan called "Eur 150 million 10% Senior Notes due 2012" issued by the subsidiary Piaggio Finance S.A. on 27 April 2005 compared to that of 100 million euro issued by Aprilia in 2002 and repaid on 2 May 2005, as well as by the increase in short-term euro interest rates to which the variable rate financial payables are linked.

TAB 8

In thousands of euro	2006	2005	Change
Income:			
Long-term receivables due from other companies		1	(1)
Other income due from associated companies		155	(155)
Other income due from third parties:			
- Interest due from customers	163	617	(454)
- Interest on bank and postal accounts	2,096	707	1,389
- Interest on financial receivables	377	247	130
- Income on interest rate hedging	-	2,695	(2,695)
- Income from discounting employee indemnity	3,786	1,137	2,649
- Other	2,225	1,812	413
Total other income due from third parties	8,647	7,215	1,432
TOTAL	8,647	7,371	1,276
Exchange gains	6,829	7,396	(567)
Total financial income	15,476	14,767	709

12. Taxation**€/000 17,893**

Taxation is detailed below:

In thousands of euro	2006	2005	Change
Current taxation	37,756	19,920	17,836
Deferred taxation	(19,863)	5,971	(25,834)
Total	17,893	25,891	(7,998)

Current taxation consists of IRAP (regional tax on production activities) for €/000 9,337 (chargeable to Piaggio & C. and to Moto Guzzi), the sum of income taxes for the individual companies and the use of deferred tax assets recorded in previous years for a total of €/000 28,419.

Taxation for 2006 was €/000 17,893, 20.3% of pre-tax income. In 2005, taxation was €/000 25,891, 40.5% of pre-tax income.

The reconciliation compared to the theoretical tax rate is shown in the table reported in the next page.

TAB 9

In thousands of euro	2006	2005	Change
Financial charges:			
- Interest on bank accounts	468	2,241	(1,773)
- Interest on bonded loan	15,688	12,994	2,694
- Interest on bank loans	8,828	14,267	(5,439)
- Interest payable to other lenders	5,627	1,901	3,726
- Cash discounts for customers	1,818	1,724	94
- Bank charges on loans	363	197	166
- Interest rate hedge charges	9	3,086	(3,077)
- Interest payable on leases	532	570	(38)
- Other	746	994	(248)
Total	34,079	37,974	(3,895)
Exchange losses	7,366	7,084	282
Total financial charges	41,445	45,058	(3,613)
TOTAL FINANCIAL INCOME (CHARGES)	(25,969)	(30,291)	4,322

(in thousands of euro)	2006
Income before taxation	88,238
Theoretical rate	0.33
Theoretical income tax	29,119
Taxation relating to previous years	9
Tax effect deriving from foreign tax rates differing from Italian theoretical rates	(521)
Tax effect deriving from permanent differences	3,921
Taxation relating to tax audit	1,127
Tax effect deriving from recording deferred tax assets not recognised in previous years	(22,471)
Use of tax losses against which no deferred tax assets had been recognised	(1,620)
Other differences	(1,138)
Income tax recorded in the financial statements, excluding IRAP (current and deferred)	
Other local taxation	298
IRAP (includes €/000 9,337 of current IRAP and €/000 168 of deferred IRAP)	9,169
Income tax recorded in the financial statements	17,893

Theoretical taxation was calculated by applying the 33% IRES rate in force in Italy to the income before taxation. The impact of the IRAP rate was determined separately in that this tax is not calculated on the income before taxation.

13. Gain/(Loss) from assets destined for disposal or sale**€/000 0**

At the year end there were no gains or losses from assets destined for disposal or sale.

14. Income per share

Income per share is calculated using the following figures:

In thousands of euro		2006	2005
Net income	€/000	70,345	38,068
Income attributable to ordinary shares	€/000	70,345	38,068
Average number of ordinary shares in circulation		381,277,384	374,668,137
Income per ordinary share	€	0.18	0.10
Adjusted average number of ordinary shares		414,379,517	n.a.
Diluted income for ordinary share	€	0.17	n.a.

In calculating the diluted income per share, account is taken of the potential effects deriving from the stock option plans and from the measurement of financial instruments associated with the acquisition of Aprilia.



D) INFORMATION ON THE CONSOLIDATED BALANCE SHEET - ASSETS

15. Intangible assets €/000 630,316

The following table 10 sets out the breakdown of intangible assets at 31 December 2006 and at 31 December 2005, as well as the movements during the year.

The increases were mainly due to the capitalisation of development costs for new products and engines, as well as the acquisition of software.

Write-downs were covered by a provision allocated in previous years for projects that had no industrial future.

The "Reclassifications" column shows the movement of development costs for Vespa, the MP3 and the GP800 to the "Industrial patent rights and intellectual property rights" heading, as well as the reclassification made by some Group companies of improvements to third party assets to the specific categories under tangible assets (€/000 -635).

Development costs €/000 58,170

Development costs include costs for products and engines in projects for which there is an expectation for the period of the useful life of the asset to see net sales at such a level as to allow the recovery of the costs incurred. It also includes assets in the process of formation for €/000

30,086 which represent costs for which the conditions for capitalisation exist, but in relation to products that will go into production in future years.

In 2006, based upon an overall analysis of capitalised development costs aimed at ascertaining the correctness of the categories, the parent company Piaggio & C. S.p.A. reclassified to "Industrial patent rights and intellectual property rights" the costs sustained in previous years and not yet fully amortised for the projects regarding "Vespa", which continues to highlight the Group's history, Piaggio MP3 which has patents covering some 70% of the vehicle's overall cost and Gilera GP800, an innovative scooter with the highest performances on the market.

These products and their associated development costs made it necessary to adopt highly innovative technical solutions, develop new methods and rules of calculation, define ad hoc testing and planning techniques, purchase cutting edge measurement and testing instruments and equipment, and enabled Piaggio to diversify its technical know-how and the qualitative and functional levels of some of its vehicles compared to the competition.

In this light, the 2006 financial statements better reflect the total costs sustained in product development that, while complying with the capitalisation criteria set out in IAS 38, did not bring to the Group specific patents or the acquisition of particular technical know-how that is not yet available to third parties.

Tab 10

in thousands of euro	Book value at 31/12/2005	Increases	Amortisation	Disposals	Write-downs	Reclassifications	Translation differences	Book value at 31/12/2006
R&D costs	71,732	40,958	(35,025)	(445)	(4,047)	(14,844)	(159)	58,170
Patent rights	8,579	7,663	(6,162)	(5)		14,265		24,340
Concessions, licences and trademarks	114,788		(8,343)			71		106,516
Goodwill	429,390	11,860						441,250
Other	257	17	(27)	(65)		(127)	(15)	40
Total	624,746	60,498	(49,557)	(515)	(4,047)	(635)	(174)	630,316

In relation to development costs in 2006, the new projects capitalised refer to the new models of the Gilera Nexus 250, the Aprilia Offroad 450/550, the Aprilia Naked, the Scarabeo 500, the Moto Guzzi Norge, the Derbi Mulhacèn and the Ape Quargo (destined for the Indian market), as well as the new 750 cc engine for Aprilia motorbikes and the new Euro 4 engine which is fitted to the Porter vehicle. Development costs included under this item are amortised on a straight-line basis over 3 years, in consideration of their residual usefulness.

In 2006, approximately 69 million euro of development costs were charged directly to the income statement.

Industrial patent rights and intellectual property rights €/000 24,340

This heading comprises software for €/000 9,623, patents and know-how (respectively €/000 3,963 and €/000 10,754) relating to Vespa, the MP3 and the GP800, as mentioned above. It includes assets in the process of formation for €/000 318.

The increases in the period refer mainly to software for extension of SAP applications at the Noale facility, as well as the implementation of "project controlling" and the "token ring" network at the plant, and, as regards industrial patent rights and intellectual property rights, to the development of the Piaggio MP3 and the Gilera GP800.

Industrial patent rights and intellectual property right costs are amortised over three years.

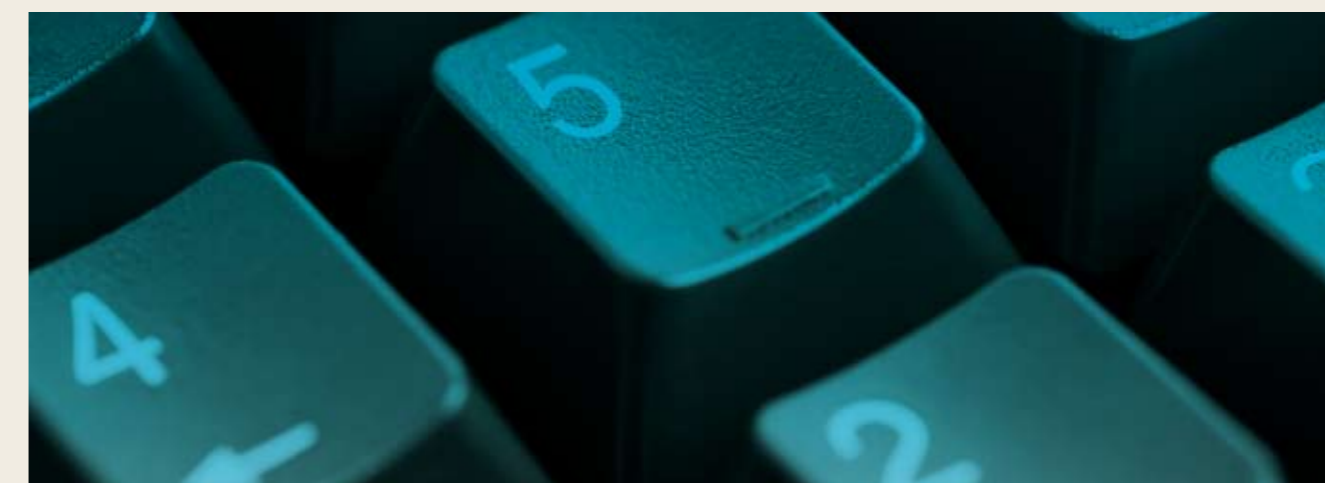
Concessions, licences and trademarks €/000 106,516

The €/000 106,516 of this heading comprises:

In thousands of euro	Net value at 31/12/2006	Net value at 31/12/2005
Guzzi	28,094	30,253
Aprilia	77,829	83,816
Laverda	465	620
Minor brands	128	99
Total	106,516	114,788

The gross value of the Aprilia brand is €/000 89,803, while that of Guzzi is €/000 32,391. The values of the Aprilia and Moto Guzzi brands are based on the appraisal of an independent third party carried out in 2005. These brands are amortised over a period of 15 years. In relation to the acquisition of the Aprilia Group, some derivatives were issued whose forward commitments are summarised below:

- Piaggio 2004/2009 Warrants for an overall issue price of €/000 5,350.5 which envisages a redemption price that can never exceed the overall issue price by more than twelve times. Therefore the maximum commitment at maturity can never exceed €/000 64,206;
- EMH 2004/2009 financial instruments for a global nominal value of €/000 10,000, which will give the right to a forward payment of a minimum guaranteed sum of €/000 3,500, as well as a maximum sale value that can never exceed €/000 6,500;



- Aprilia shareholder 2004/2009 financial instruments which envisage a sale value that can never exceed €/000 10,000.

In conformity with the main content of the aforementioned contractual agreements, by virtue of which, among other things, the final purchase cost is dependent on the achievement of specific income and balance sheet parameters, in the light of the forecasts of the 2007-2008 Business Plan and the positive stock market performance of the Piaggio security, the adjustment of initial purchase cost has been considered likely for all the financial instruments has been estimated at €/000 74,015 and has been charged to goodwill. Since the payment is deferred, the cost is represented by its present value, determined in accordance with the following parameters reported in table 11. The counter entry for the adjustment to the purchase cost, taking account of the peculiar nature of the underlying financial instruments, has been recorded for €/000 58,985 in the financial instruments fair value reserve and for €/000 15,030 to medium- and long-term financial payables.

Goodwill **€/000 441,250**

The composition of goodwill is shown in the following table:

In thousands of euro	At 31/12/2006	At 31/12/2005
Piaggio & C.	330,590	330,590
Nacional Motor	31,237	31,237
Piaggio Vehicles	5,408	5,408
Aprilia	74,015	62,155
Total	441,250	429,390

Tab 11

Amounts in €/000	Amounts	at 31/12/2006			at 31/12/2005	Change (A-B)
		Present value (A)	Time	Discount rate	Present value (B)	
Warrants	64,206	58,985	1.33	6.57%	56,465	2,520
EMH instrument	6,500	5,940	1.42	6.57%	5,690	250
Aprilia shareholder instrument	10,000	9,090	1.5	6.57%		9,090
Total	80,706	74,015			62,155	11,860

Goodwill derives from the greater value paid compared to the corresponding share of the invested companies' shareholders equity at the time of the purchase, reduced by the related accumulated amortisation until 31 December 2003. During first-time adoption of the IFRS, in fact, the Group chose not to apply IFRS 3-Business combinations retroactively to company acquisitions prior to 1 January 2004; consequently, the goodwill generated on acquisitions prior to the IFRS transition date was maintained at the previous value, calculated in accordance with Italian accounting standards, subject to verification and the recording of any impairment.

For all the transactions listed below, the difference between the book value of the equity investment and the net accounting value has been attributed to goodwill.

The transactions which gave rise to this heading are:

- the acquisition by MOD S.p.A. of the Piaggio & C. Group, completed during 1999 and 2000 (net value at 1 January 2004: €/000 330,590).
- the acquisition by Piaggio & C. S.p.A. of 49% of Piaggio Vehicles Pvt. Ltd from Greaves Ltd (net value at 1 January 2004: €/000 5,192), completed in 2001. To this may be added the subsequent acquisition by Simest S.p.A. of a 14.66% stake in the share capital of Piaggio Vehicles Pvt. Ltd;
- the acquisition by Piaggio & C. S.p.A., of 100% of Nacional Motor S.A. in October 2003, at a price of €/000 35,040 with goodwill net of amortisation of €/000 31,237 at 1 January 2004.

As highlighted in setting out the accounting principles, from 1 January 2004 goodwill is no longer amortised, but

is annually, or more frequently if specific events or changed circumstances indicate the possibility of it having been impaired, subjected to tests to identify any impairment, in accordance with the provisions of IAS 36 Reduction in assets values (impairment test).

The recoverable value of the cash-generating units to which the individual goodwill amounts have been attributed is verified through the determination of the value in use.

The main assumptions used in determining the value in use of the cash-generating units are related to the discount rate and the growth rate.

In particular, the Group has adopted a discount rate which reflects the current market assessments for the cost of borrowing and takes account of the specific risk attributable to the Group: this rate, gross of tax, is 7.24%.

The forecasts for the cash-generating units derive from those in the most recent budgets and plans prepared by the Group for the next three years, extrapolated for the following years on the basis of medium-/long-term growth rates of between 1.5% and 3%.

The impairment test carried out at 31 December 2006 confirmed that there was no need to make any changes to the values recorded in the financial statements.

The business plan prepared by the Group, which predicts a positive performance for the Group over the next three

years, provides reassurance on the appropriateness of the figures used. During 2006, there were no events such as to indicate that an asset might have been impaired.

The €/000 11,860 increase recorded in the year was due to the measurement of the financial instruments linked to the purchase of the Aprilia Group, as described in the previous paragraph.

Other intangible assets **€/000 40**

They totalled €/000 40.

16. Property, plant and machinery **€/000 256,966**

The following table 12 shows the breakdown of tangible assets at 31 December 2006 and at 31 December 2005, as well as changes during the year.

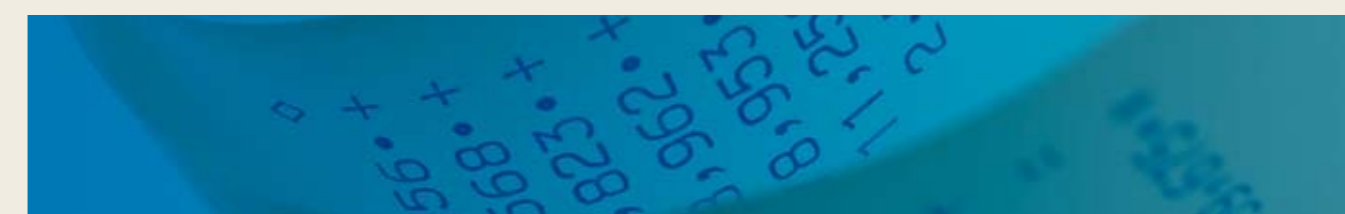
The main increases related to moulds for the new vehicles launched during the year, the restructuring of assembly lines at the Noale facility, as well as the new lines at the Baramati (India) facility.

The "Reclassifications" column includes the following:

- reallocation to land and buildings of a property which returned to the Group's full use and which at the year end had been classified under investment property, since it was rented at 31 December 2005 (€/000 +506);

Tab 12

in thousands of euro	Value at 31/12/2005	Increases	Depreciation	Disposals	Reclassifications	Translation differences	Value at 31/12/2006
Land and buildings	124,356	3,518	(3,687)	(738)	1,036	(1,060)	123,425
Plant and machinery	72,444	12,244	(12,947)	(65)	(172)	(1,989)	69,515
Equipment	53,761	21,889	(20,591)	(595)	201	(10)	54,655
Other	9,030	3,985	(3,000)	(387)	76	(333)	9,371
Total	259,591	41,636	(40,225)	(1,785)	1,141	(3,392)	256,966



- reclassifications from intangible assets as commented on previously (€/000 +635).

Land and buildings €/000 123,425

The "Land and buildings" heading, net of accumulated depreciation, comprises:

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Land	35,900	40,852	(4,952)
Industrial buildings	83,547	78,247	5,300
Civil engineering buildings	451	438	13
Light construction	477	576	(99)
Other	2,011	1,303	708
Construction in progress	1,039	2,940	(1,901)
Total	123,425	124,356	(931)

Land and industrial buildings refers to Group production facilities in Pontedera (Pisa), Noale (Venice), Mandello del Lario (Lecco), Barcelona (Spain), and Baramati (India).

During the year, some land was sold in the town of Noale with a book value of €/000 621. The remaining difference was generated by a subsidiary's reclassification between "Land" and "Industrial buildings". In 2006, the new assembly and construction lines at the facility in Baramati, India became operational. They are destined to increase production of the Quargo.

"Other" mainly refers to other operative buildings recorded by Piaggio & C S.p.A.

At 31 December 2006 the net values of assets held under leases were as follows:

In thousands of euro	At 31/12/2006
Mandello del Lario facility (land and buildings)	14,249
Motor vehicles (other assets)	11
Sap (patent rights)	454
Total	14,714

Future lease rental commitments are detailed in note 29. Buildings are depreciated in accordance with the rates

considered suitable to represent the useful life of the buildings, on a straight-line basis.

Operative buildings are depreciated on the basis of the following rates between 3% and 5%, while light constructions are depreciated using rates between 7% and 10%.

Land is not depreciated.

Plant and machinery €/000 69,515

Plant and machinery, net of the accumulated depreciation, was as follows:

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Non-specific plants	32,262	36,164	(3,902)
Automatic machinery	7,465	5,835	1,630
Ovens and sundry equipment	746	296	450
Other	15,993	16,535	(542)
Construction in progress	13,049	13,614	(565)
Total	69,515	72,444	(2,929)

Plant and machinery refer to the production facilities of the Group located in Pontedera (Pisa), Noale (Venice), Mandello del Lario (Lecco), Barcelona (Spain) and Baramati (India).

"Other" mainly includes non-automatic machinery and robotic centres.

Plant and machinery are depreciated using the following rates:

- non-specific plant: 10%;
- specific plant and non-automatic machines: 10%;
- specific plant and automatic machines: 17.5%;
- electrolytic cells: 20%;
- ovens and sundry equipment: 15%;
- robotic work centres: 22%.

Industrial and commercial equipment €/000 54,655

The value of Industrial and commercial equipment, €/000 54,655, is largely made up of production equipment for Piaggio & C. S.p.A., Moto Guzzi S.p.A., Nacional Motor

S.A. and Piaggio Vehicles Pvt. Ltd. which is already being depreciated and construction in progress for €/000 12,135. The main investment in equipment concerned moulds for the new vehicles launched during 2006 or for which launch is planned in the first half of next year, moulds for new engines and specific equipment for the assembly lines. Industrial and commercial equipment is depreciated on the basis of the rates considered adequate by the Group companies to represent its useful life and in particular:

- testing and monitoring equipment: 30%;
- miscellaneous equipment: 25%.

Other tangible assets €/000 9,371

Other tangible assets, net of accumulated depreciation, comprise:

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
EDP systems	3,029	2,766	263
Office furniture and equipment	2,358	2,510	(152)
Vehicles	558	742	(184)
Cars	1,617	1,363	254
Other	1,338	1,415	(77)
Construction in progress	471	234	237
Total	9,371	9,030	341

Guarantees

At 31 December 2006, the Group had land and buildings encumbered by mortgage liens or privileges to lending institutions to secure loans received in previous years.



17. Investment property €/000 0

At 31 December 2005, this totalled €/000 506 and consisted of the premises in Milan, Via Trebazio 1, which were rented to IMMSI S.p.A..

At 31 December 2006, the amount was reclassified under property, plant and machinery, since the premises were vacated and the asset had returned to the full use of the parent company.

18. Equity investments €/000 754

Equity investments comprise:

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Equity investments in subsidiaries	0	41	(41)
Equity investments in joint ventures	0	0	0
Equity investments in associated companies	754	609	145
Total	754	650	104

Changes for the period are shown in the following table 13. As regards Motoride.com in liquidation, on the basis of information currently available, it is believed that the value of the equity investment is recoverable.

Equity investments in subsidiaries €/000 0

The €/000 41 decrease recorded by equity investments in subsidiaries is related to the completion of the liquidation procedure for Piaggio Argentina S.A., which was started in previous years.



TAB 13

In thousands of euro	Book value at 31/12/2005	Increases	Reclassifications	Disposals/Write-downs	Book value at 31/12/2006
Subsidiaries					
Valued using the cost method:					
Piaggio Argentina	41			(41)	0
Valued using the equity method:					
Piaggio China Co. Ltd	0				0
Aprilia Brasil SA	0				0
Aprilia World Service do Brasil Ltd	0				0
Total subsidiaries	41			(41)	0
Associated companies					
Valued using the cost method:					
SA.T.S.A. - Tunisia	45				45
Acciones Depuradora Soc. Coop.			3		3
Motoride.com – Milan (in liquidation)	518			(13)	505
Pontech Soc. Cons. S.c.r.l. – Pontedera	21	160			181
D.E.V. Diffusione Europea Veicoli Srl	20				20
Marker Srl	5			(5)	0
Total associated companies	609	160	3	(18)	754
Joint ventures					
Valued using the equity method:					
Piaggio Foshan Motorcycles Co. Ltd – China	0				0
Total joint ventures	0				0

It is also noted that:

- Aprilia World Service do Brasil Ltd, at 31 December 2006 had negative shareholders' equity of €/000 479, against which a provision for risks of an equal amount has been recorded;
- Aprilia World Service USA Inc. has been merged by incorporation into Piaggio USA Inc with a subsequent change in the name of the latter to Piaggio Group Americas Inc.;
- Piaggio Espana S.A. was incorporated into Nacional Motor S.A.;
- During the year, Aprilia Finance Ltd, Aprilia Leasing S.p.A. and Motocross Company S.r.l. were closed down.

Equity investments

in joint ventures

€/000 0

The equity investment in Piaggio Foshan Motorcycles Co. Ltd has been classified under "joint ventures" in relation to the agreement signed on 15 April 2004 between Piaggio & C. S.p.A. and its historic partner Foshan Motorcycle Plant, on the one side, and the Chinese company Zongshen Industrial Group Company Limited, on the other. Piaggio & C. S.p.A.'s equity investment in Piaggio Foshan Motorcycles is equal to 45%, of which 12.5% is held through the direct subsidiary Piaggio China Company Ltd. The book value of the equity investment remained constant and equal to zero compared to 31 December 2005. In relation to the loans provided by banking institutes to the subsidi-

ary Piaggio Foshan Motorcycle Co. Ltd, Group companies have issued bank guarantees of €/000 13,591.

The following table summarises the main financial highlights of the joint ventures:

Piaggio Foshan Motorcycle Co.	Financial statements at 31/12/2006	
	45% (*)	
In thousands of euro		
NET TRADE RECEIVABLES	1,768	796
TRADE RECEIVABLES DUE FROM P&C	8,514	3,831
INVENTORIES	4,175	1,879
TRADE PAYABLES	(6,669)	(3,001)
PAYABLES DUE TO P&C	(4,453)	(2,004)
OTHER RECEIVABLES	762	343
OTHER RECEIVABLES DUE FROM P&C	52	23
OTHER PAYABLES	(1,228)	(552)
WORKING CAPITAL	2,921	1,315
TANGIBLE ASSETS	16,047	7,221
INTANGIBLE ASSETS	16	7
TOTAL ASSETS	16,063	7,228
NET CAPITAL EMPLOYED	18,984	8,543
Other Provisions	0	0
PROVISIONS	0	0
FINANCIAL PAYABLES	20,551	9,248
FINANCIAL PAYABLES (Not guaranteed by Piaggio)		
SHORT-TERM FINANCIAL RECEIVABLES AND CASH	(1,118)	(503)
FINANCIAL POSITION	19,433	8,745
SHARE CAPITAL	24,899	11,205
OTHER PROVISIONS	33,278	14,975
RETAINED EARNINGS	(62,522)	(28,135)
RESULT FOR THE PERIOD	3,896	1,753
SHAREHOLDERS' EQUITY	(449)	(202)
TOTAL SOURCE OF FUNDS	18,984	8,543
(*) percentage owned by the Group		

Equity investments

in associated companies

€/000 754

The changes recorded in 2006 were due to:

- €/ 000 160 to subscribe to the share capital increase of Pont -Tech Pontedera & Tecnologia S.c.r.l.;

- €/000 13 write-down of the equity investment in Motoride.com to adjust it to the value of the equity recorded in the last available financial statements;
- Sale of the equity investment in Marker S.r.l., previously recorded under equity investments in associated companies for €/000 5;
- Reclassification under equity investments in associated companies of the equity investment in Acciones Depuradora Soc. Coop. previously recorded under other equity investments (for €/000 3).

Furthermore, on 26 January 2007 Piaggio sold its entire 20% equity investment in D.E.V. Srl in liquidation.

19. Other non-current financial assets

€/000 240

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Financial receivables due from third parties		9,790	(9,790)
Financial receivables due from associated companies	63	0	63
Receivables due from Group companies valued at equity		381	(381)
Equity investments in other companies	177	183	(6)
Total	240	10,354	(10,114)

The €/000 9,790 Piaggio & C. S.p.A. receivable due from Scooter Holding 1 S.p.A., formerly Piaggio Holding S.p.A., was received in August 2006.

In 2006, the heading receivables due from Group companies valued at equity, which included the receivable due from AWS do Brasil for €/000 381, was reclassified under the non-current portion of other receivables.

The heading financial receivables due from associated companies includes the non-current portion of the loan granted by Fondazione Piaggio.

The following table shows the changes in equity investments in other companies:

In thousands of euro	Book value at 31/12/2005	Increases	Reclass.	Disposals	Book value at 31/12/2006
Other companies:					
Valued using the cost method:					
Sviluppo Italia Liguria S.c.p.a.(formerly Bic Liguria S.p.A.)	5				5
Consorzio Pisa Ricerche	76				76
Centro per l'innovazione – Pisa	3			(3)	0
A.N.C.M.A. – Rome	1				1
E.CO.FOR. S.p.A. – Pontedera	61				61
Consorzio Fiat Media Center – Turin	3				3
S.C.P.S.T.V.	21				21
Other	5				5
Acciones Banco Santander Central Hispano	5			(5)	0
IVM		5			5
Mitsuba F.N. Europe S.p.A.	0				0
Acciones Depuradora Soc. Coop.	3		(3)		0
Total other companies	183	5	(3)	(8)	177

During the year an equity investment of €/000 5 was acquired in IVM, the German motorcycle manufacturers association.

20. Current and non-current receivables due from tax authorities €/000 43,099

Receivables due from tax authorities of €/000 43,099 comprise:

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
VAT tax receivables	33,624	10,753	22,871
Income tax receivables	9,376	8,617	759
Other receivables due from public authorities	99	226	(127)
Total tax receivables	43,099	19,596	23,503

Receivables due from tax authorities included under non-current assets totalled €/000 7,716, compared to €/000 7,156 at 31 December 2005, while receivables due from

tax authorities included under current assets totalled €/000 35,383 compared to €/000 12,440 at 31 December 2005.

21. Deferred tax assets €/000 46,742

These totalled €/000 46,742 overall compared to €/000 35,135 at 31 December 2005. The change of €/000 11,607 was mainly generated by the parent company which used €/000 10,296 of deferred tax assets recognised in previous years and at the same time recorded new deferred tax assets totalling €/000 22,482. This entry was made in the light of the expected results of Piaggio & C. S.p.A. using it in the next years and taking account of the different timing between use and falling due of the related tax benefits.

As regards the measurements to define the deferred tax assets, the Group mainly took account of the following aspects:

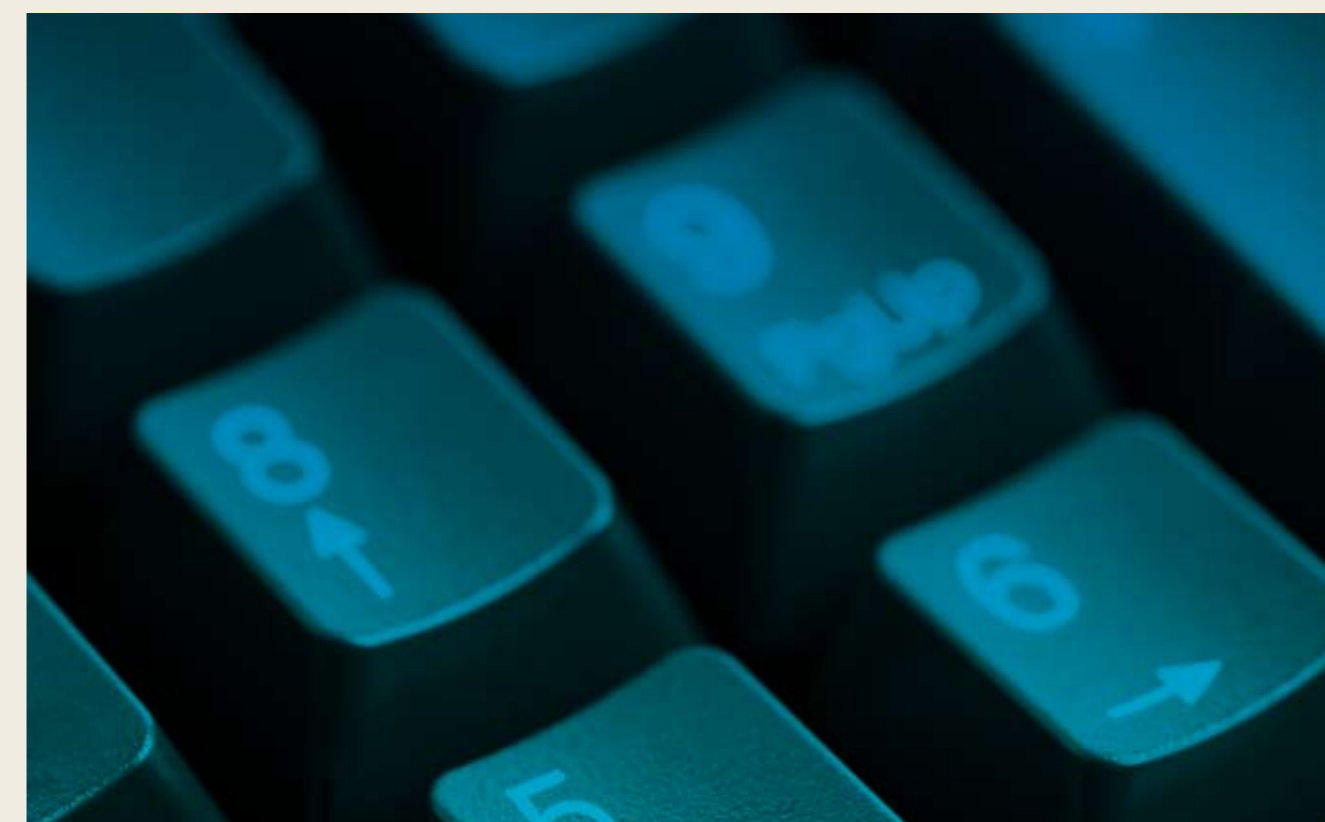
1. the tax regulations in the various countries in which it operates, their impact in terms of timing differences and any tax benefits deriving from the use of prior tax losses in consideration of their falling due;

2. expected financial results in the medium term for each individual company and the economic and tax effects deriving from organisational restructuring.

In view of the above considerations and for the sake of prudence, the tax benefits deriving from the losses carried forward were not fully recognised.

	Amount of the timing differences	Rate	Tax effect
Write-down of equity investments	2,277	0.33	751
Provision for risks	7,913	0.3725	2,829
Provision for charges	11,972	0.3725	4,460
Bad debts reserve	12,668	0.33	4,177
Obsolescent inventories reserve	18,660	0.3725	6,951
Reversal of margins	18,200	0.3725	6,082
Other	3,921	0.3725	1,365
Total deferred tax assets on timing differences	57,411		26,615

(in thousands of euro)	Losses carried forward	rate	Tax effect
Piaggio & C	130,434	0.330	43,043
Moto Laverda	948	0.330	313
P&D	6,931	0.330	2,287
Derbi Retail	576	0.300	173
Nacional Motor	68,780	0.300	20,929
Piaggio Portugal	793	0.250	198
Moto Guzzi	54,811	0.330	18,088
Piaggio Deutschland	952	0.265	252
Aprilia Motorad	3,587	0.265	951
AWS	1,723	0.330	569
Piaggio Group America	18,904	0.340	6,427
Derbi Italia	710	0.330	234
Derbi Racing	7,495	0.300	2,249
Total deferred tax assets on losses carried forward	296,644		95,713
Recognised deferred tax assets			46,742
Non-recognised deferred tax assets			75,586



22. Non-current trade receivables and other receivables €/000 6,576

Trade receivables and other receivables included under non-current assets totalled €/000 6,576 compared to €/000 7,140 at 31 December 2005, as follows:

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Receivables due from customers	174	1,642	(1,468)
Receivables due from Group companies valued at equity	440	3,776	(3,336)
Receivables due from associated companies	363		363
Other	5,599	1,722	3,877
Total	6,576	7,140	(564)

Receivables due from Group companies valued at equity comprise receivables due from AWS do Brasil which, as mentioned above, were previously classified under other non-current financial assets. At 31 December 2005, they included a €/000 3,776 receivable due from Piaggio Foshan Motorcycles, now reclassified in the current portion of trade and other receivables. The receivable due from Piaggio Foshan relates to the agreements in the joint venture contract with the Chinese partner Zongshen Industrial Group Company Limited which, with reference to this receivable, envisage that under certain conditions Piaggio Foshan should pay 4.5 million USD as soon as possible, even in instalments, between 15 April 2007 and no later than 15 April 2011. A specific provision has been allocated among the liabilities against the risks of those agreements. It is deemed adequate on the basis of available information. The receivables due from associated companies item includes amounts due from Fondazione Piaggio.

23. Current trade receivables and other receivables €/000 170,604

Trade receivables and other receivables included under current assets totalled €/000 170,604 compared to €/000 176,772 at 31 December 2005.

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Receivables due from customers	136,081	150,851	(14,770)
Receivables due from parent company	76		76
Receivables due from Group companies valued at equity	4,453	443	4,010
Receivables due from associated companies	156	519	(363)
Other receivables	28,992	23,968	5,024
Other current non-financial assets	846	991	(145)
Total	170,604	176,772	(6,168)

Trade receivables is made up of the receivables, referring to normal sale transactions, recorded net of a provision for risks on receivables of €/000 22,006.

The parent company normally sells its receivables with and without recourse. At 31 December 2006, receivables sold with recourse totalled €/000 4,047 and a counter entry was made under current liabilities.

During 2005, the parent company signed contracts with three of the most important Italian factoring companies for the sale of its trade receivables without recourse.

At 31 December 2006, trade receivables sold without recourse totalled €/000 77,145, of which €/000 73,298 were discounted. Changes in the provision are as follows:

In thousands of euro	
31 December 2005	23,601
Increases for provisions	1,652
Decreases for applications	(3,247)
31 December 2006	22,006

Receivables due from companies valued at equity have already been discussed under the heading non-current trade receivables and other receivables.

24. Inventories €/000 233,306

At 31 December 2006 these totalled €/000 233,306 compared to €/000 192,029 at the end of 2005 and comprise:

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Raw materials and consumables	97,521	82,607	14,914
Write-down provision	(9,177)	(11,519)	2,342
	88,344	71,088	17,256
Work in progress	27,470	16,466	11,004
Write-down provision	(852)	(1,048)	196
	26,618	15,418	11,200
Finished products and goods for resale	133,535	122,661	10,874
Write-down provision	(15,287)	(17,170)	1,883
	118,248	105,491	12,757
Payments on account	96	32	64
Total	233,306	192,029	41,277

25. Other current financial assets €/000 11,866

This item comprises:

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Financial receivables due from third parties		14	(14)
Financial receivables due from associated companies	30	123	(93)
Securities	11,836		11,836
Total	11,866	137	11,729

Securities refer to the underwriting of certificates of deposit issued by an Indian public social security body carried out by the parent company in order to make efficient use of temporary liquidity. The "financial receivables due from associated companies" item includes the current portion of the loan granted to Fondazione Piaggio.

26. Cash and cash equivalents €/000 68,857

The heading mainly includes short-term and on demand bank deposits.

Cash and cash equivalents totalled €/000 68,857 compared to €/000 42,770 at 31 December 2005, as shown in the following table:

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Bank and post office deposits	68,433	42,498	25,935
Cheques	346	212	134
Cash on hand	78	60	18
Total	68,857	42,770	26,087

27. Assets destined for sale €/000 0

At 31 December 2006, there were no assets destined for sale.

INFORMATION ON THE CONSOLIDATED BALANCE SHEET - LIABILITIES

28. Share capital and reserves €/000 438,698

Share capital €/000 203,170

Fully subscribed and paid up share capital at 31 December 2006 consisted of 390,712,148 ordinary shares of nominal value of € 0.52 each, for a total of € 203,170,316.96 following the issue of 16,044,011 new ordinary shares offered to and accepted by the beneficiaries of the stock option plan. On 31 January 2007, 5,328,760 new shares were issued to the beneficiaries who had exercised on 26 January 2007. Therefore, at the date of approving these financial statements, the fully subscribed and paid-up share capital comprises 396,040,908 ordinary shares of nominal value € 0.52 each, for a total of € 205,941,272.16. All options granted under the 2004-2007 Plan have been exercised.

Share premium reserve €/000 32,961

The share premium reserve at 31 December 2006 stood at € 32,960,645.06. In 2006, this item increased by € 8,460,645.06 as a result of 16,044,011 options being exercised.

Legal reserve €/000 723

The legal reserve at 31 December 2006 stood at €/000 723.

Other reserves and retained earnings

€/000 131,261

This item comprises the following:

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Conversion reserve	(852)	1,532	(2,384)
Stock option reserve	4,827	2,266	2,561
Financial instruments' fair value reserve	59,819	56,898	2,921
IFRS transition reserve	(4,113)	(4,113)	0
<i>Total other reserves</i>	<i>59,681</i>	<i>56,583</i>	<i>3,098</i>
Consolidation reserve	993	993	0
Retained earnings	70,587	32,704	37,883
Total	131,261	90,280	40,981

The financial instruments' fair value reserve includes €/000 58,985 arising from the measurement of the Aprilia warrants and €/000 834 relating to the effect of recording the cash flow hedge. The consolidation reserve was generated following the acquisition in January 2003 by Piaggio & C. S.p.A. of the 49% equity investment held by Daihatsu Motor Co. Ltd in P&D S.p.A..

Group net income for the period

€/000 69,976

Minority interest – capital and reserves

€/000 607

The year end value refers to the minority shareholders in Piaggio Hrvatska Doo.

Reconciliation of shareholders' equity and income for the period of the parent company and consolidated shareholders' equity and income for the period

In thousands of euro	Income at 31/12/2006	Shareholders' equity at 31/12/2006
Piaggio & C. S.p.A.	71,006	349,863
Difference between the application of the IAS standards to the financial statements of the Parent company and the consolidated financial statements	1,335	(61,089)
Income and shareholders' equity pro quota in subsidiaries/associated companies	34,040	67,405
Difference between the book value of the equity investments valued at cost by the parent company and measurement of the same investments on an equity basis and cancellation of inter-company entries	(36,036)	82,519
Piaggio Group & C.	70,345	438,698

29. Financial liabilities**(current and non-current)**

€/000 398,729

Financial liabilities included under non-current liabilities totalled €/000 355,935 compared to €/000 375,596 at 31 December 2005, while financial liabilities included under current liabilities totalled €/000 42,794 compared to €/000 88,488 at 31 December 2005.

As is shown in the table on the net financial position included in the financial schedules, the Group's overall net debt fell from €/000 411,387 at 31 December 2005 to €/000 318,006 at 31 December 2006, down €/000 93,381.

The attached tables summarise the breakdown of financial debt at 31 December 2006 and at 31 December 2005, as well as the changes in the year.



In thousands of euro	At 31/12/2005	Repay-ments	New issues	Reclass.	Other changes	At 31/12/2006
Non-current items						
Medium/long-term loans	187,804			(18,482)	418	169,740
Bonds falling due after 12 months	143,951				677	144,628
Other medium-/long-term loans						
of which leases	11,385			(955)		10,430
of which payables due to other lenders	23,211		1,352	(11,956)		12,607
of which Aprilia instruments	9,190				9,340	18,530
of which payables due to parent companies	55	(55)				0
Total loans after 12 months	43,841	(55)	1,352	(12,911)	9,340	41,567
Total	375,596	(55)	1,352	(31,393)	10,435	355,935

In thousands of euro	At 31/12/2005	Repay-ments	New issues	Reclass.	Other changes	At 31/12/2006
Current items						
Current account overdrafts	12,115	(9,897)				2,218
Current account payables	31,532	(30,580)				952
Payables due to factoring companies	32,502	(28,038)				4,464
Current share of medium-/long-term loans						
of which leases	903	(918)		955		940
of which due to banks	6,172	(4,502)		17,574	(8)	19,236
of which payables due to other lenders	5,264	(2,895)		12,864	(249)	14,984
Total Loans within 12 months	12,339	(8,315)		31,393	(257)	35,160
Total	88,488	(76,830)		31,393	(257)	42,794

The significant reduction in debt was due to the cash flow generated in 2006 thanks to the positive income performance and a further improvement in the management of working capital. Against this background, it was decided to reduce the forms of short-term debt, typically consisting in current account overdrafts, revolving credit lines and

advances from factoring, while a new "soft" medium-term loan (X11 Project) of €/000 1,352 has been activated with the Ministry of Economic Development.

The following table shows the breakdown of debt and the repayment plan at 31 December 2006.

(in thousand of euro)	Book value at	Nominal value at	Nominal value at	Amounts falling due within 12 months	Amounts falling due beyond 12 months	Amounts falling due in				
	31/12/2005	31/12/2006	31/12/2006			2008	2009	2010	2011	Oltre
Bank loans	237.623	192.146	193.849	22.415	171.434	28.430	57.204	27.174	29.865	28.761
Bonded loans	143.951	144.628	150.000	0	150.000	0	0	0	0	150.000
Other medium and long-term loans:										
<i>of which leases</i>	12.288	11.370	14.325	1.434	12.891	1.148	1.148	1.148	1.148	8.299
<i>of which payables due to other lenders</i>	60.977	32.055	32.119	19.512	12.607	2.669	2.548	2.206	2.169	3.015
<i>of which Aprilia Instruments</i>	9.190	18.530	20.000	0	20.000	16.500	3.500	0	0	0
<i>of which payables due to parent company</i>	55	0	0	0	0	0	0	0	0	0
Total other loans	82.510	61.955	66.444	20.946	45.498	20.317	7.196	3.354	3.317	11.314
Total	464.084	398.729	410.293	43.361	366.932	48.747	64.400	30.528	33.182	190.075

The following table analyses financial debt by currency and interest rate.

In thousands of euro	Book value at 31 Dec 2005	Book value at 31 Dec 2006	Notional value at 31 Dec 2006	Rate in force at 31 Dec 2006 (%)
Euro	459,018	397,699	409,263	6.569
Pound sterling	1,459	32	32	
Singapore dollar	1,528	718	718	5.150
Indian rupee	938	2	2	
US dollar	594	278	278	7.50
Croatian kuna	547	-	-	
<i>Total currencies other than euro</i>	<i>5,066</i>	<i>1,030</i>	<i>1,030</i>	<i>5.614</i>
Total	464,084	398,729	410,293	6.567

Medium-term loans amount to €/000 188,976 (of which €/000 169,740 non-current and €/000 19,236 current) and comprise the following:

- €/000 148,306 (nominal value €/000 150,000) loan provided to the parent company by Mediobanca and Banca Intesa. In April 2006, this loan was syndicated to a restricted pool of banks and has a portion of €/000 150,000 nominal fully drawn down and a portion of

€/000 100,000 to be used as a credit line, which at 31 December 2006 was completely unused. The structure envisages a 7-year duration, with a grace period of 18 months and 11 semi-annual instalments with the last maturity on 23 December 2012 for the loan portion, a variable interest rate linked to the 6-month Euribor rate to which a variable margin of between a maximum of 2.10% and a minimum of 0.65% is added depending on the Financial Debt/ Ebitda ratio. In relation to the improvement in this index recorded with the 2005 annual financial statements, this margin has fallen from the initial 1.30% to 1.15% as from the second half of 2006. For the portion relating to the credit line there is a commitment fee of 0.25%. The contract does not envisage the issue of guarantees, while, in line with market practice, it does require meeting some financial parameters. It should be noted that, in reference to the 2006 earnings, these parameters were comfortably met;

- A €/000 29,000 loan granted to the parent company by a pool of 14 banks for the acquisition of Aprilia for an amount of 34 million euro in non self-liquidating financial receivables claimed by the same lenders from

Aprilia S.p.A. The conditions envisaged a fixed interest rate of 3.69% annually compounded and repayment in a single instalment of capital and interest at the final maturity, set for 31 December 2009, aligned with the exercise date of the Piaggio 2004-2009 warrants underwritten by the same lenders during the Aprilia closing;

- a €/000 1,045 loan provided by Interbanca in accordance with Law 346/88 regarding subsidies for applied research, guaranteed by a mortgage lien on property;
- interest free loan of €/000 2,691 provided by Banca Antonveneta originally to a subsidiary of the Aprilia Group and, following the acquisition, taken on by the parent company with a single repayment date in 2011. The conditions envisage a market interest rate over the last two years on the basis of the performance of the Piaggio 2004-2009 warrants;
- €/000 484 loan provided to the parent company by Unicredito Italiano with EIB funds, maturing on 1 July 2007;
- Variable rate loan of €/000 646 provided to the parent company by the European Investment Bank with a guarantee from the Banca Toscana, maturing on 31 December 2007;
- €/000 678 loan provided to the parent company by Mediocredito Centrale at a subsidised rate in accordance with Law 49 art. 7 on international cooperation, maturing on 16 June 2008;
- €/000 3,090 variable rate loan provided to the parent company by Efibanca, maturing on 28 December 2009;
- €/000 3,036 (nominal value €/000 3,045) syndicated loan (portion advanced by commercial banks net of commissions) provided to Nacional Motor at a variable rate and originally maturing on 31 December 2008. The loan was prepaid on 2 January 2007.

Bonds falling due after 12 months (€/000 144,628 net book value) refers to the high yield bonded loan issued on 27 April 2005 by the subsidiary Piaggio Finance S.A. (Luxem-

bourg), for a nominal amount of €/000 150,000, maturing on 30 April 2012 and with a semi-annual coupon with a fixed annual nominal rate of 10%. The bond issue was guaranteed by the parent company and in April 2006 benefited from an upgrade with Moody's assigning a Ba3 rating (previously B2) aligning it to the issuer's rating (previously B1), with a "stable" outlook remark; in September 2006, Standard & Poor's assigned the issue a rating of BB- (previously B+), with a "positive" outlook remark. Medium-/long-term payables due to other lenders amount to €/000 57,491 (€/000 41,567 other loans falling due beyond 12 months; €/000 14,984 for the current portion of other loans and €/000 940 for the current portion of leases). Their breakdown was as follows:

- finance leases for €/000 11,370 of which €/000 11,090 provided by Locat S.p.A. to Moto Guzzi S.p.A., €/000 261 provided by Italease Factoring S.p.A. to Piaggio & C. S.p.A and €/000 19 provided by Centro Leasing to Piaggio & C. S.p.A.;
- payables due to Interbanca of €/000 9,440 as provider of the EMH financial instruments;
- €/000 9,090 Aprilia ex-shareholders financial instrument;
- subsidised loans for €/000 13,441 provided by Simest and by the Ministry of Production using regulations to encourage exports and investment in research and development (non-current portion of €/000 12,607);
- loans for €/000 14,150 provided by the Catalan Institute of Finance in favour of Nacional Motor S.A. of which €/000 11,716 was part of a variable rate syndicated loan maturing on 30 June 2013, prepaid on 2 January 2007. The remaining €/000 2,434 was encumbered by a mortgage lien and matures on 28 June 2007.

Financial instruments

Exchange rate risk

In 2006, exchange rate risk was managed in line with the policy adopted in 2005 which aims to neutralise the possible negative effects of the changes in exchange rates on

company cash-flow, by hedging the business risk, which concerns the changes in company profitability compared to the annual business budget on the basis of a key change (the so-called "budget change") and of the settlement risk, which concerns the differences between the exchange rate recorded in the financial statements for receivables or payables in foreign currency and that recorded in the related receipt or payment.

The exposure to business risk consists of the envisaged payables and receivables in foreign currency, taken from the budget for sales and purchases reclassified by currency and accrued on a monthly basis.

The hedges must be at least 66% of the business exposure of each month.

The exposure to settlement risk consists of receivables and payables in foreign currency acquired in the accounting system at any moment.

The hedge must be equal at any moment to 100% of the import, export or net settlement exposure for each currency.

Referring to contracts which are made to hedge exchange rate risk on receivables and payables in foreign currency (settlement risk), at 31 December 2006 Piaggio & C. S.p.A. had forward purchases of JPY/000,000 40 equivalent to €/000 257 (valued at the forward exchange rate), GBP/000 800 corresponding to €/000 1,190 and CHF/000 2,050 corresponding to €/000 1,281.

At 31 December 2006 the following forward sale contracts were outstanding:

- USD/000 30,400 corresponding to €/000 22,793 (valued at the forward exchange rate);
- GBP/000 2,470 corresponding to €/000 3,658 (valued at the forward exchange rate);
- JPY/000,000 208 corresponding to €/000 1,348 (valued at the forward exchange rate);
- CHF/000 2,400 corresponding to €/000 1,515 (valued at the forward exchange rate);
- and finally DKK/000 1,900 corresponding to €/000 255 (valued at the forward exchange rate).

As regards contracts in place to hedge exchange rate risk on forecast transactions (business risk), at 31 December 2006, the parent company had forward purchase transactions of JPY/000,000 1,250 corresponding to €/000 8,503 and forward sales transactions for a value of CHF/000 10,800 corresponding overall to €/000 6,852 (valued at the forward exchange rate) and GBP/000 24,650 corresponding to €/000 36,465 (valued at the forward exchange rate).

As for Piaggio Group America, at 31 December 2006, there were forward sale transactions for a value of USD/000 50,000 corresponding overall to €/000 38,948 (valued at the forward exchange rate).

30. Trade payables (current and non-current) €/000 394,709

At 31 December 2006, there were no trade payables included in the non-current liabilities, while they totalled €/000 223 at 31 December 2005.

Trade payables included among current liabilities stand at €/000 394,709 compared to €/000 296,616 at 31 December 2005.

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Non-current liabilities:			
Amounts due to suppliers	-	223	(223)
Total non-current portion	-	223	(223)



In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Current liabilities:			
Amounts due to suppliers	385,369	292,587	92,782
Trade payables due to associated companies	-	122	(122)
Trade payables due to Group companies valued at equity	9,317	2,502	6,815
Trade payables due to parent companies	23	1,405	(1,382)
Total current portion	394,709	296,616	98,093

The increase is linked to the increase in volumes and a different seasonal timing of purchases.

31. Provisions (current and non-current) €/000 38,788

The breakdown and changes in the provisions for risks during the year were as follows per table reported at the bottom of this page.

During the period, €/000 1,446 allocated in previous years as future benefits to pay to employees of Piaggio Deutschland was reclassified under pension provisions from other provisions. The share between the current and non-current share of long-term provisions is as follows:

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Non-current portion			
Product warranty provision	5,145	10,425	(5,280)
Provision for risks on equity investments	5,851	5,906	(55)
Provision for contractual risks	5,200	13,344	(8,144)
Other provisions for risks and charges	5,710	14,877	(9,167)
Total non-current portion	21,906	44,552	(22,646)

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Current portion			
Product warranty provision	13,536	9,468	4,068
Provision for promotional expenses		4,064	(4,064)
Provisions for restructuring	776	6,172	(5,396)
Other provisions for risks and charges	2,570		2,570
Total current portion	16,882	19,704	(2,822)



In thousands of euro	Balance at 31/12/2005	Allocations	Applications	Reclassification	Translation difference	Balance at 31/12/2006
Product warranty provision	19,893	14,251	(16,968)	1,557	(52)	18,681
Provision for promotional costs	4,064		(4,064)			0
Provision for risks on equity investments	5,906		(55)			5,851
Provisions for restructuring	6,172	361	(5,757)			776
Provision for contractual risks	13,344	80	(9,444)	1,220		5,200
Other provisions for risks and charges	14,877	2,372	(4,687)	(4,223)	(59)	8,280
Total	64,256	17,064	(40,975)	(1,446)	(111)	38,788

The product warranty provision relates to allocations for technical assistance on products with customer service which are estimated to be provided over the contractually envisaged warranty period. This period ranges depending on the type of goods sold and the sales market, and is also determined by customer take-up to commit to planned maintenance. The provision increased during the period to €/000 14,251 and was used for €/000 16,968 in relation to charges incurred during the year.

The provision for promotional expenses was reversed since the reasons suggesting the original allocation no longer existed. The provision for risks on equity investments includes the portion of negative shareholders' equity in the subsidiaries Piaggio China Co. Ltd and AWS do Brasil and the Piaggio Foshan joint venture, as well as the charges that may derive there from.

The provision for charges for restructuring refers to future charges which are expected to be incurred with reference to operations to reorganise the company as duly identified. In 2006, the increase of €/000 361 was used for €/000 5,757 against charges sustained for corporate restructuring.

The provision of contractual risks refers largely to charges which may arise from the ongoing negotiation of a supply contract. During the year, €/000 4,244 was reversed since the reasons suggesting the original allocation no longer existed.

"Other provisions" include the provision for legal risks for an amount of €/000 4,881. The €/000 2,372 allocation made during the year relates to other ongoing legal cases for €/000 776.

32. Deferred tax liabilities €/000 34,822

€/000 24,490 of the provision for deferred tax liabilities refers to the tax effect on the recording of Aprilia. The

remainder is related to temporary differences calculated by other Group companies.

33. Provisions for pensions and employee benefits €/000 78,148

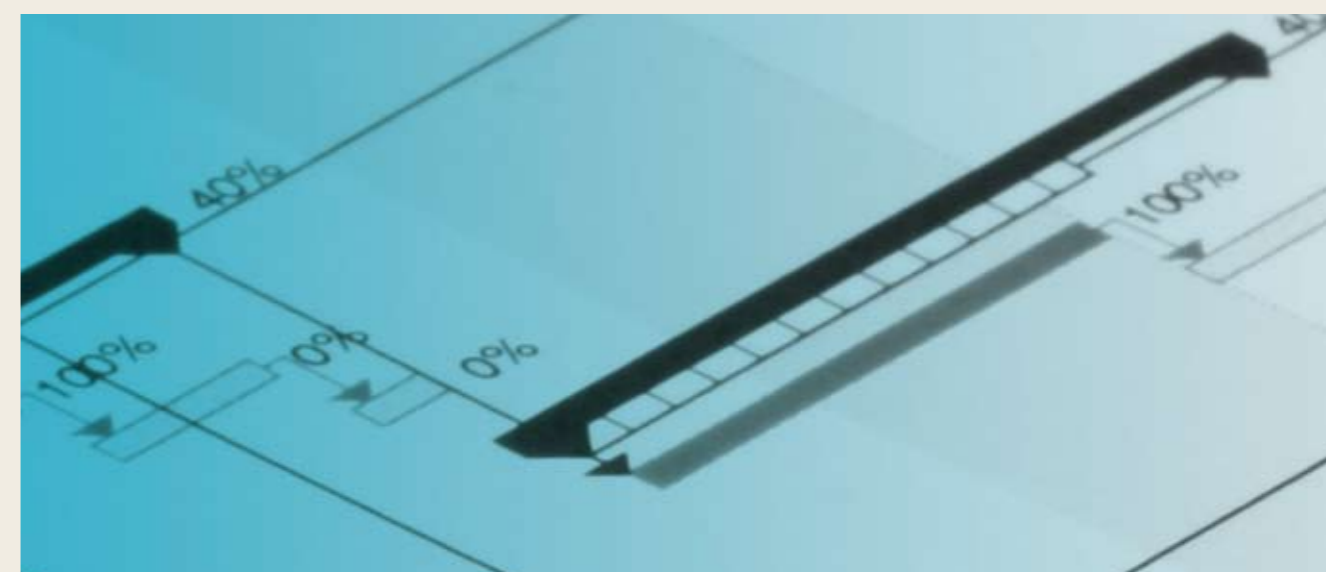
In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Pension funds	2,649	434	2,215
Employee leaving indemnity	75,499	76,634	(1,135)
Total	78,148	77,068	1,080

The provisions for pensions comprise provisions for employees allocated by foreign companies and the additional customer indemnity provision, which represents the compensation due to agents in the case of the agency contract being terminated for reasons beyond their control. The applications refer to the payment of compensation that has already been set aside in previous years, while provisions correspond to compensation accrued in the period.

The increase for the period is partly due to the above mentioned €/000 1,446 reclassification of other provisions to pension provisions already set aside in previous years as future benefits to be paid to employees of Piaggio Deutschland.

The changes in the provision for employee leaving indemnity were as follows:

	In thousands of euro
Balance at 31 December 2005	76,634
Allocations	10,970
Applications	(8,319)
Discounting effect	(3,786)
Balance at 31 December 2006	75,499



As described in the Directors' Report, in relation to the incentive plan approved during 2004, the parent company allocated 21,372,771 stock options out of a total of 24,401,084 at an exercise price of € 0.98 per share for 18,504,771 options and € 1.72 per share for 2,868,000 options.

As previously indicated in the paragraph on consolidation principles, the cost corresponds to the present value of the options, which the company has set using the Black-Scholes measurement model using the average volatility of a basket of shares similar to that of the company and an interest rate obtained as the average of the interest rate

swap for a multi-currency loan for a period equal to the length of the contract. The value determined is recognised under employee costs on a straight line basis over the period between the date of allocation and that of maturity, with a counter entry recognised directly in shareholders' equity.

In 2006, all rights previously assigned were recognised, therefore the residual cost of the value of the options was charged to the income statement.

In accordance with CONSOB regulations, the following table 14 shows the options allocated to directors, general managers and senior managers with strategic responsibilities:

Tab 14

	Position held	Options held at the start of the year			Options exercised during the year			Options held at the end of the year		
		Number of options	Average exercise price	Average maturity	Number of options	Average exercise price	Average market price at exercise date	Number of options	Average exercise price	Average maturity
Sabelli Rocco	CEO (until 13.11.06)	5,490,244	0.98	11.07.2007	5,490,244	0.98	2.26	-		
Neri Gianclaudio	GM (until 31.10.06)	3,294,116	0.98	11.07.2007	3,294,116	0.98	2.64	-		
Pallottini Michele	GM (from 13.11.06)	976,042	0.98	11.07.2007				976,042	0.98	11.07.2007
Bandiera Daniele	GM (from 13.11.06)	600,000	1.72	11.07.2007				600,000	1.72	11.07.2007
Total		10,360,402			8,784,360			1,576,042		

34. Tax payables (current and non-current) €/.000 15,563

"Tax payables" included in non-current liabilities totalled €/000 188 compared to €/000 797 at 31 December 2005, while those included in current liabilities total €/000 15,375 compared to €/000 14,348 at 31 December 2005.

The breakdown is as follows:

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Payable for income tax	3,323	4,076	(753)
Payable for non-income tax	107	820	(713)
Payables due to Tax authorities for:			
- VAT	6,124	2,930	3,194
- tax withholdings made	5,560	7,304	(1,744)
- other	449	15	434
Total	12,133	10,249	1,884
TOTAL	15,563	15,145	418

The item includes tax payables recorded in the financial statements of the individual consolidated companies, set aside in relation to tax charges for the individual companies on the basis of the applicable national laws.

Payables for tax withholdings made refer mainly to withholdings on employees' earnings, on employment termination payments and on self-employed earnings.

35. Other payables (current and non-current) €/.000 69,869

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Non-current portion:			
Amounts due to social security institutions	1,084	1,116	(32)
Other payables	16,415	11,267	5,148
Total non-current portion	17,499	12,383	5,116

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Current portion:			
Guarantee deposits	2,057	2,028	29
Payables due to employees	28,056	29,547	(1,491)
Amounts due to social security institutions	9,503	8,390	1,113
Other payables due to associated companies	156		156
Other	12,598	16,272	(3,674)
Total	52,370	56,237	(3,867)

Other payables included in non-current liabilities totalled €/000 17,499 compared to €/000 12,383 at 31 December 2005, while other payables included in current liabilities total €/000 52,336 compared to €/000 56,237 at 31 December 2005. Guarantee deposits include the deposit paid in 1997 by T.N.T. Automotive Logistics S.p.A. to Piaggio & C. S.p.A. to guarantee the payment of the employee leaving indemnities accrued by employees working for the company branch sold dealing with the receipt, packaging, warehousing and

physical distribution of parts and accessories. At the end of the year the deposit totalled €/000 1,021. Payables due to employees include the amount for holidays accrued but not taken of €/000 13,065 and other payments to be made for €/000 6,517. Payables due to associated companies refer to various amounts due to the Fondazione Piaggio.

Milan, 16 March 2007

For the Board of Directors
Chairman and Chief Executive Officer
Roberto Colaninno

E) DEALINGS WITH RELATED PARTIES

The main business and financial dealings that Group companies had with related parties have already been described in the specific paragraph in the Directors' Report to which reference is made here.

To supplement that information, the following table provides an indication by company of the outstanding items at 31 December 2006, as well as their contribution to the respective headings.

Tab 15

	Amounts in €/000	As a % of the statement item
Dealings with associated companies		
<i>Fondazione Piaggio</i>		
Other non-current financial assets	63	26.25%
Other current financial assets	30	0.25%
Non-current trade and other receivables	363	5.52%
Current trade and other receivables	156	0.09%
Other current payables	156	0.30%
<i>Piaggio China</i>		
Costs for materials	1,470	0.16%
Costs for services and use of third party assets	22	0.01%
Current trade receivables	751	0.19%
<i>Piaggio Foshan</i>		
Costs for materials	34,102	3.60%
Costs for services and use of third party assets	57	0.02%
Net sales	30	0.00%
Other operating income	1,678	1.30%
Current trade and other receivables	4,453	2.61%
Current trade payables	8,566	2.17%
<i>AWS do Brasil</i>		
Current trade and other receivables	440	0.26%
<i>Studio D'Urso</i>		
Costs for services and use of third party assets	885	0.27%
Current trade payables	885	0.22%
Dealings with parent companies		
<i>IMMSI</i>		
Costs for materials	38	0.00%
Costs for services and use of third party assets	3,695	1.14%
Other operating charges	36	0.14%
Other operating income	84	0.07%
Current trade and other receivables	76	0.04%
Current trade payables	23	0.01%

E) EMOLUMENTS PAID TO MEMBERS OF COMPANY BOARDS, GENERAL MANAGERS AND SENIOR MANAGERS WITH STRATEGIC RESPONSIBILITIES

Included here are all those who, even for a short period of time, were members of company boards or held the position of general manager.

Full name	Position held	Period for which the position was held	Duration of mandate	Emoluments for the position in the company preparing the financial statements	Non-mone- tary benefits	Bonuses and other incentives	Other emolu- ments (net of sales tax)
Colaninno Roberto	Chairman and CEO (1)	01/01-31/12	Approval of accounts at 31/12/2008	626,667			
Sabelli Rocco	CEO	01/01-13/11		1,830,000			
Colaninno Matteo	Deputy Chairman	01/01-31/12	Approval of accounts at 31/12/2008	46,667			
Attolico Trivulzio Gian Giacomo	Director	28/08-31/12	Approval of accounts at 31/12/2008	13,333			
Clempson Graham	Director	01/01-28/08		13,207			
Colaninno Michele	Director (2)	28/08-31/12	Approval of accounts at 31/12/2008	13,333			10,000
Debenedetti Franco	Director	28/08-31/12	Approval of accounts at 31/12/2008	13,333			
Discepolo Daniele	Director	01/01-31/12	Approval of accounts at 31/12/2008	26,667			6,666
La Noce Luciano	Director	01/01-31/12	Approval of accounts at 31/12/2008	26,667			
Neri Gianclaudio	Director	13/11-31/12	Approval of accounts at 31/12/2006	6,667			
Magnoni Giorgio	Director	01/01-31/12	Approval of accounts at 31/12/2008	26,667			
Miccichè Gaetano	Director	01/01-28/08		13,333			
Paravicini Crespi Luca	Director	28/08-31/12	Approval of accounts at 31/12/2008	13,333			3,334
Pirzio Biroli Carlo	Director	01/01-28/08		13,207			
Varaldo Riccardo	Director	28/08-31/12	Approval of accounts at 31/12/2008	13,333			3,334
Barbara Giovanni	Chairman of statutory auditors	01/01-31/12	Approval of accounts at 31/12/2008	95,758			42,351
Arietti Attilio Francesco	Statutory auditor	01/01-31/12	Approval of accounts at 31/12/2008	66,790			
Lai Alessandro	Statutory auditor	01/01-31/12	Approval of accounts at 31/12/2008	66,890			
Girelli Mauro	Substitute auditor	01/01-31/12	Approval of accounts at 31/12/2008				8,606
Maffei Maurizio	Substitute auditor	01/01-31/12	Approval of accounts at 31/12/2008				
Neri Gianclaudio	General Manager	01/01-31/10					(3) 1,652,232
Bandiera Daniele	General Manager Operations	13/11-31/12			553		(3) 90,931
Pallottini Michele	General Manager Finance	13/11-31/12			571		(3) 75,317

1) CEO from 13/11/2006.

2) The emoluments are paid to the company of employment.

3) Includes: (i) 10,000 euro for Bandiera Daniele in his capacity as Chairman and CEO of Moto Guzzi S.p.A., (ii) 1,667 euro for Pallottini Michele in his capacity as Director

of Moto Guzzi S.p.A. e (iii) 8,334 euro for Neri Gianclaudio in his capacity as Director of Moto Guzzi S.p.A., 8,333 euro for being member of the Supervisory Board of Moto Guzzi S.p.A. and 20,833 euro for being member of Supervisory Board of Piaggio & C. S.p.A.. In each case, the emoluments are paid to the company of employment.



F) COMMITMENTS AND RISKS

36. Guarantees provided

The main guarantees provided by lending institutions on behalf of Piaggio & C. S.p.A in favour of third parties are:

TYPE	AMOUNT €/000
Bank guarantee from Cassa di Risparmio di Pisa issued on our behalf in favour of the Administration of the Province of Pisa	130
Bank guarantee from the Banca Commerciale Italiana issued on our behalf in favour of the Genoa Customs Authority	200
Bank guarantee from the Banca Toscana di Pontedera in favour of the local authority of Pontedera issued on 21 October 1996	323
Bank guarantee for the credit line of USD 8,100,000 agreed with the Banca di Roma for the associated company Piaggio Foshan	6,150
Banca Intesa San Paolo bank guarantee issued in favour of AMIAT – Turin to guarantee contractual obligations for the supply of vehicles	230
Banca Intesa San Paolo bank guarantee issued in favour of the Algerian National Defence Ministry to guarantee contractual obligations for the supply of vehicles	601
Bank guarantee to guarantee the credit line agreed with Banca Intesa San Paolo to the subsidiary Piaggio Vespa BV for USD 20,000,000	6,808
- of which unused	7,441
- of which agreed to the subsidiary Piaggio Foshan	
Building insurance guarantee policy of 23 October 2003 issued in favour of the Tax Agency of Pisa to guarantee receivables compensated as part of the Group's sales tax procedure.	839
Bank guarantee from Banca Intesa San Paolo in favour of ACE TRADE / AUSTRIA issued on 20-01-2006 for € 2,000,000	400
- of which unused	
Bank guarantee from Banca Intesa San Paolo in favour of ACRAPOVIC /SLOVENIA issued on 07-12-2006 for € 500,000	280
- of which unused	
Bank guarantee from BNL issued in favour of the Venice Customs Authority	206
Bank guarantee from Banco di Brescia issued in favour of the local authority of Scorzé to guarantee the payment of town planning charges	166
Bank guarantee from MPS issued in favour of Cheng Shin Rubber for €/000 600	200
- of which unused	
Bank guarantee from BNL in favour of Antonveneta as a counter-guarantee to the syndicated Loan provided in 2004 to Aprilia S.p.A.	1,228
Bank guarantee from Banca Toscana issued on 25/01/2006 in favour of Ministry of Production in Rome for a prize contest	150
Bank guarantee from Cassa di Risparmio di Firenze issued on 28/07/2006 in favour of IN NOALE S.p.A. to guarantee contractual obligations relating to the sale of land	270

The main guarantees issued by banks on behalf of Nacional Motor in favour of third parties are:

TYPE	AMOUNT €/000
Bank guarantee from BBVA issued in favour of third parties for tax disputes	428

H) NON-RECURRING TRANSACTIONS

The Group has identified as significant non-recurring transactions for 2006 the stock exchange listing and for 2005 the grants received for vehicle demolition. Such grants were provided by the Ministry for the Environment in June 2005, in accordance with the agreement signed

on 12.2.2002 and the additional agreement signed on 18 April 2005, relating to the sale of environmentally friendly vehicles between June 2003 and July 2004.

The table below lists the effects of such transactions on shareholders' equity, on earnings for the period, on financial debt and on cash flows.

2006	Shareholders' equity		Earnings for the period		Net financial debt		Cash flows	
	€/000	%	€/000	%	€/000	%	€/000	%
Book values	438,698	100%	70,345	100%	318,006	100%	35,021	100%
Listing costs	(10,276)		(10,276)		(10,276)		(10,276)	
Related tax effect	437		437					
Total effect of transaction	(9,839)	-2.2%	(9,839)	-14.0%	(10,276)	-3.2%	(10,276)	-29.3%
2005	Shareholders' equity		Earnings for the period		Net financial debt		Cash flows	
	€/000	%	€/000	%	€/000	%	€/000	%
Book values	348,467	100%	38,068	100%	411,387	100%	95,858	100%
Grants for demolition	18,624		18,624		18,624		18,624	
Related tax effect	(792)		(792)					
Total effect of transaction	17,832	5.1%	17,832	46.8%	18,624	4.5%	18,624	19.4%



I) SUBSEQUENT EVENTS

On 26 January 2007, Piaggio disposed of its entire 20% equity participation in D.E.V. Srl in liquidation.

At present, no events have occurred after 31 December 2006 that make additional notes or adjustments to these financial statements necessary.

In this regard, refer to the Directors' report for significant events after 31 December 2006.

L) SUBSIDIARIES**37. Companies in the Piaggio Group**

In accordance with the CONSOB communication no. 11971 dated 14 May 1999 and subsequent changes (art. 126 of the Regulation), the list of the Group's companies and major equity investments is provided below.

The list indicates the companies divided by type of control and method of consolidation.

The following are also shown for each company: the company name, the registered office, the country of origin and the share capital in the original currency.

Also indicated is the percentage held by Piaggio & C. S.p.A. or by other subsidiaries.

In a separate column there is an indication of the percentage of voting rights at the ordinary shareholders' meeting should it be different from the equity investment percentage in the share capital.

List of companies included in the consolidation area on a line-by-line basis at 31 December 2006

Company name	Registered office	Country	Share capital at 31 December 2006	Currency	% Group ownership	Held by	%	% votes
Parent:								
Piaggio & C. S.p.A.	Pontedera (Pisa)	Italy	203,170,316.96	euro				
Subsidiaries:								
Aprilia Hellas S.A.	Chalandri	Greece	60,040.00	euro	100%	Piaggio Vespa B.V.	100%	
Aprilia Japan Corporation	Yokohama	Japan	3,000,000.00	yen	100%	Piaggio Vespa B.V.	100%	
Aprilia Moto UK Limited ***	Stockport - Cheshire	United Kingdom	2,555,325.00	GBP	100%	Aprilia World Service B.V.	100%	
Aprilia Motorrad GmbH	Dusseldorf	Germany	2,125,000.00	euro	100%	Aprilia World Service B.V.	100%	
Aprilia World Service B.V.	Amsterdam	Holland	30,000,000 authorised capital (6,657,500 subscribed and paidin)	euro	100%	Piaggio & C. S.p.A.	100%	
Derbi Italia S.r.l.	Pontedera (Pisa)	Italy	21,000.00	euro	100%	Nacional Motor S.A.	100%	
Derbi Racing S.L.	Barcelona	Spain	1,263,000.00	euro	100%	Nacional Motor S.A.	100%	
Derbi Retail Madrid S.L. **	Barcelona	Spain	603,000.00	euro	100%	Nacional Motor S.A.	100%	
Moto Guzzi S.p.A.	Mandello del Lario (Lecco)	Italy	2,500,000.00	euro	100%	Piaggio & C. S.p.A.	100%	
Moto Laverda S.r.l. ***	Noale (Venice)	Italy	80,000.00	euro	100%	Piaggio & C. S.p.A.	100%	
Nacional Motor S.A.	Barcelona	Spain	9,182,190.00	euro	100%	Piaggio & C. S.p.A.	100%	
P & D S.p.A. ***	Pontedera (Pisa)	Italy	416,000.00	euro	100%	Piaggio & C. S.p.A.	100%	
Piaggio Asia Pacific PTE Ltd.		Singapore	100,000.00	sin\$	100%	Piaggio Vespa B.V.	100%	
Piaggio Benelux B.V.	Oosterhout	Holland	45,378.00	euro	100%	Piaggio Vespa B.V.	100%	
Piaggio Deutschland GmbH	Kerpen	Germany	5,113,500.00	euro	100%	Piaggio Vespa B.V.	100%	
Piaggio Finance S.A.	Luxembourg	Luxembourg	31,000.00	euro	99.99%	Piaggio & C. S.p.A.	99.99%	
Piaggio France S.A.S.	Paris	France	1,209,900.00	euro	100%	Piaggio Vespa B.V.	100%	
Piaggio Group Americas Inc	New York	USA	561,000.00	USD	100%	Piaggio Vespa B.V.	100%	
Piaggio Hellas EPE	Athens	Greece	7,080,000.00	euro	99.9996%	Piaggio Vespa B.V.	99.9996%	
Piaggio Hrvatska D.o.o.	Split	Croatia	400,000.00	kuna	75%	Piaggio Vespa B.V.	75%	
Piaggio Indochina PTE Ltd. ***		Singapore	100,000.00	sin\$	100%	Piaggio Asia Pacific PTE Ltd	100%	
Piaggio Limited	London	United Kingdom	250,000.00	gbp	100%	Piaggio Vespa B.V. Piaggio & C. S.p.A.	99.9996% 0.0004%	
Piaggio Portugal Limitada *	Lisbon	Portugal	5,000.00	euro	100%	Piaggio Vespa B.V.	100%	
Piaggio Vehicles Private Limited	Maharashtra	India	340,000,000.00	rupee	100%	Piaggio & C. S.p.A. Piaggio Vespa B.V.	99.999997% 0.000003%	
Piaggio Vespa B.V.	Amsterdam	Holland	91,000.00	euro	100%	Piaggio & C. S.p.A.	100%	

* Company in liquidation as of 1 February 2007

** Non-operational company undergoing cancellation from the company register

*** Company in liquidation



LIST OF COMPANIES INCLUDED IN THE CONSOLIDATION AREA USING THE EQUITY METHOD AT 31 DECEMBER 2006

Company name	Registered office	Country	Share capital at 31/12/2006	Currency	% Group ownership	Held by	%	% votes
Aprilia Brasil S.A.	Manaus	Brazil	2,020,000.00	reais	51%	Aprilia World Service Holding do Brasil Ltda	51%	
Aprilia World Service Holding do Brasil Ltda.	Sao Paulo	Brazil	2,028,780.00	reais	99.99995%	Aprilia World Service B.V.	99.99995%	
Piaggio China Co. LTD	Hong Kong	China	12,500,000 authorised capital (12,100,000 subscribed and paid-up)	USD	99.99999%	Piaggio & C. S.p.A.	99.99999%	
Zongshen Piaggio Foshan Motorcycle Co. LTD.	Foshan City	China	29,800,000.00	USD	45%	Piaggio & C. S.p.A. Piaggio China Co. LTD	32.5% 12.5%	

*** Company in liquidation

LIST OF OTHER SIGNIFICANT EQUITY PARTICIPATIONS AT 31 DECEMBER 2006

Company name	Registered office	Country	Share capital at 31/12/2006	Currency	% Group ownership	Held by	%	% votes
Acciones Depuradora Soc. Coop. Catalana Limitada	Barcelona	Spain	60,101.00	euro	22%	Nacional Motor S.A.	22%	
D.E.V. - Diffusione Europea Veicoli S.r.l. ****	Noale (Venice)	Italy	100,000.00	euro	20%	Piaggio & C. S.p.A.	20%	
Mitsuba F.N. Europe S.p.A.	Pisa	Italy	1,000,000.00	euro	10%	Piaggio & C. S.p.A.	10%	
Motoride S.p.A. ***	Milan	Italy	1,989,973.00	euro	28.2885%	Piaggio & C. S.p.A.	28.2885%	
Pont - Tech , Pontedera & Tecnologia S.c.r.l.	Pontedera (Pisa)	Italy	734,160.00	euro	24.63%	Piaggio & C. S.p.A.	24.63%	
S.A.T. Société d'Automobiles et Triporteurs S.A.	Tunis	Tunisia	210,000.00	TND	20%	Piaggio Vespa B.V.	20%	

*** Company in liquidation

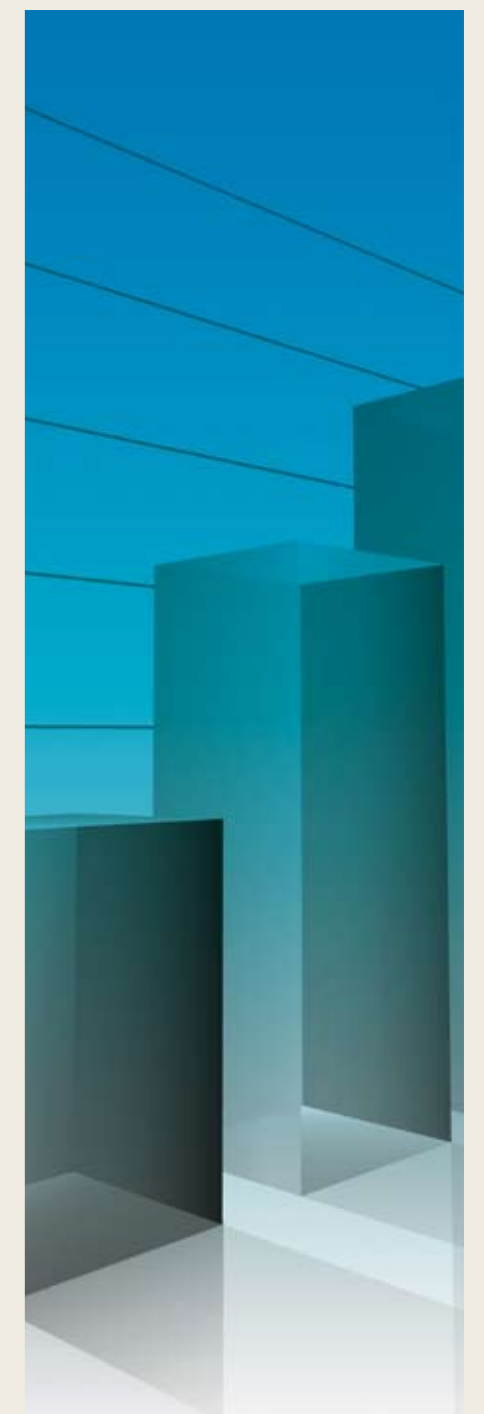
**** Sold on 26 January 2007



PIAGGIO & C. S.p.A. *Annual report at 31 December 2006*

PIAGGIO & C. S.P.A. FINANCIAL HIGHLIGHTS

Amounts in millions of €	2006	2005
Income statement (reclassified)		
Net sales	1,216.2	1,129.9
Operating income	71.6	72.3
Income before taxation	67.8	26.7
Net income	71.0	15.9
Gross margin as % of net sales	% 0.0	0.0
Operating income as % of net sales	% 5.9%	6.4%
Net income as % of net sales	% 5.8%	1.4%
Gross industrial margin=EBITDA (from operations)	141.6	151.8
Gross industrial margin as % of net sales	% 11.6	13.4
Balance sheet		
Net working capital	-8.7	19.7
Tangible assets	188.9	191.1
Intangible assets	479.8	468.1
Financial assets	120.5	139.3
Provisions	-131.6	-154.1
Net invested capital	649.0	664.2
Net financial position	299.1	407.0
Shareholders' equity	349.9	257.2
Sources of funds	649.0	664.2
Minority interest		0.3
Change in net financial position		
Opening net financial position	407.0	n.a
Cash Flow from operations (Income + Amortisation/Depreciation)	141.0	
(Increase)/Decrease in working capital	28.4	
(Increase)/Decrease in investment	-60.7	
Change in pension provisions and other provisions	-22.5	
Change in shareholders' equity	21.7	
Total Change	107.9	n.a
Closing net financial position	299.1	n.a



HIGHLIGHTS OF THE PARENT COMPANY PIAGGIO & C. S.p.A.

Net sales

In 2006, parent company net sales stood at 1,216.2 million €, a 7.6% increase compared to 2005.

The increase is due to the improved performance of both the 2-wheeler and light transport vehicle businesses. In particular, compared to the previous year, growth was due to increases in net sales recorded by Gilera, Vespa and Aprilia, the increase in net sales of light commercial vehicles and the 36.5 million € mainly in the first quarter of 2006 with the Italian Post Office (*Poste Italiane S.p.A.*), in relation to the supply contract which the parent company Piaggio & C. won at the end of 2005.

EBITDA – defined as “Operating income” gross of the depreciation and amortisation recorded in the consolidated income statement – was 141.6 million €, 6.7% down compared to the 151.8 million € in 2005. As a percentage of net sales, 2006 EBITDA stood at 11.6% compared to 13.4% in 2005 (-1.8 percentage points).

As already stated in the explanatory notes to the consolidated financial statements at 31 December 2006, in accordance with CONSOB communication DEM/6064293 dated 28.07.2006 regarding the business and financial impacts of non-recurring events or transactions, it is noted that operating costs at 31 December 2006 include 10.2 million € relating to the portion of charges that Piaggio & C S.p.A. sustained for the listing procedures, while in 2005 the consolidated income statement included 18.6 million € of income relating to anti-pollution grants provided by the Ministry of the Environment to Piaggio & C. S.p.A. and Aprilia S.p.A. for sales of environmentally friendly vehicles between June 2003 and July 2004 that both companies had already passed on to customers in previous years.

Net of the effects of the IPO and the anti-pollution grants that had opposing impacts on the 2006 and 2005 financial

statements, EBITDA would have been respectively 151.8 million € at 31 December 2006 and 133.2 million € at 31 December 2005 (+14.0%), 12.5% and 11.8% of net sales, respectively.

In the light of the above mentioned income and cost trends, **operating income** in 2006 was 71.6 million €, 0.7 million € down compared to the 72.3 million € in 2005. Profitability (the ratio between operating income and net sales) was also slightly down at 5.9% against 6.4 % in 2005.

Net of the effects of the IPO and the anti-pollution grants that had opposing impacts on the 2006 and 2005 financial statements, operating income would have been respectively 81.9 million € at 31 December 2006 and 53.7 million € at 31 December 2005 (+28.2 million €), 6.7% and 4.8% of net sales, respectively.

Net financial charges totalled 23.5 million € compared to 25.4 million € in 2005, of which 15.7 million € relating to the bonded loan issued by the parent company last year.

During 2006, equity investments, against the dividends paid by Piaggio Vehicles Pvt Ltd and Piaggio Vespa B.V., produced net income of 19.6 million €, compared to 20.2 million € of charges in 2005.

2006 closed with a **net profit** of 71.0 million €, against a net profit of 15.9 million € in 2005, after discounting 18.8 million € of taxation and allocating 22 million € of deferred tax assets.

Cash flow statement

The consolidated cash flow statement prepared in accordance with the models provided by the international accounting standards IFRS is shown in the following pages: comments are provided below making reference to the summary in the Highlights.

Cash generated in the period totalled 107.9 million €.

Cash flow from operations, i.e. net income plus amortisation and depreciation, was 141.0 million €.

The positive impact of this flow on the cash generated in the period, increased by the positive effect of the reduction in working capital was partially offset by the 60.7 million € of net investments and the 22.5 million € of changes in provisions.

Investments used 60.5 million € of liquidity.

Balance Sheet of Piaggio & C S.P.A.

Working capital – defined as the net sum of: Current and non-current trade and other receivables, Inventories, Long-term trade and other payables and Current trade payables, Other receivables (Short- and long-term amounts due from the tax authorities, Deferred tax assets) and Other payables (Tax payables and Other short-term payables) – was negative for 8.7 million €, down by 28.4 million € compared to 31 December 2005.

Tangible assets consist of property, machinery and industrial equipment, net of accumulated depreciation. At 31 December 2006, these totalled 188.9 million €, 2.2 million € down compared to 31 December 2005.

Intangible assets consist of capitalised development costs, patent and know-how costs, and the goodwill arising from the merger and acquisitions operations undertaken within the Group since 2000 onwards as set out in more detail in the Explanatory notes to the financial statements. At 31 December 2006 these totalled 479.8 million €, an 11.7 million € increase compared to 31 December 2005.

Financial assets, defined by the Directors as the sum of equity investments and other non-current financial assets totalled 120.5 million €, 18.8 million € down compared to 31 December 2005.

Provisions consist of the pension and employee benefits provisions, other long-term provisions, the current portion of other long-term provisions, deferred tax liabilities, and totalled 131.6 million €, 22.5 million € down compared to 31 December 2005.

Net debt at 30 June 2006 stood at 299.1 million €, compared to 411.4 million € at 31 December 2005. The 107.9 million € decrease compared to 31 December 2005 was mainly due to the positive trend in cash flow from operations, which entirely financed investments.

The breakdown of the net financial position, which is set out in more detail in the specific table in the Explanatory notes, may be summarised as follows:

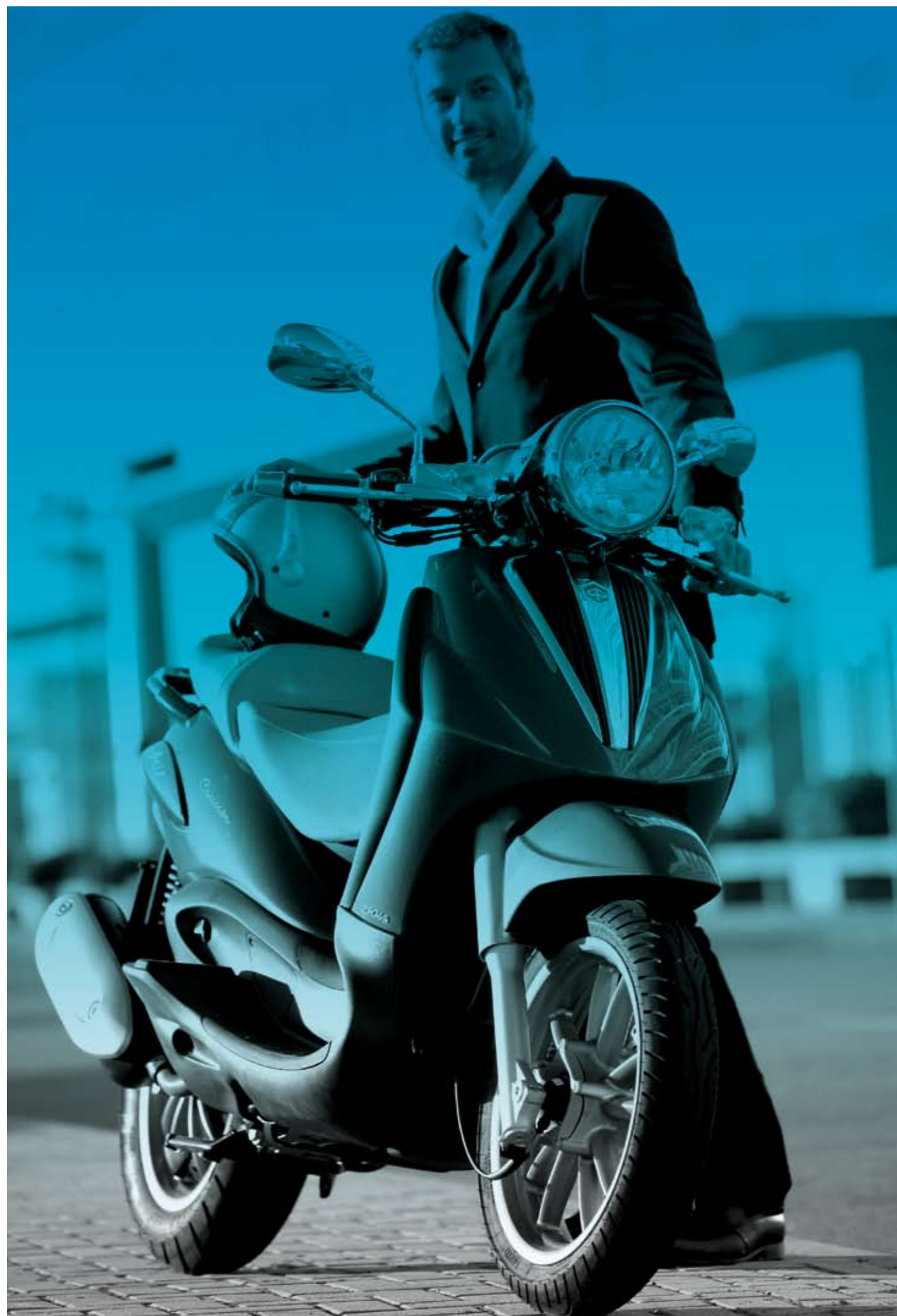
Amounts in millions of €	31/12/06	31/12/05
Medium- and long-term financial payables	201,151	207,021
Financial payables due to the subsidiary Piaggio Finance	144,624	143,950
Short-term financial payables	21,739	94,468
(Financial assets)	-32,764	-24,300
(Liquid assets)	-35,654	-14,163
Total	299,096	406,976

Shareholders' equity at 31 December 2006 totalled 349.9 million €, compared to 257.2 million € at 31 December 2005. During the year, following the exercise of stock options, the share capital increased by 8.3 million € and the share premium reserve increased by 8.5 million €, a total of 16.8 million €.

Employees

Group employees at 31 December 2006 totalled 4,102 units, of which 33 on term contracts, an increase of 56 compared to 31 December 2005.

Level	Average number		Number at	
	2006	2005	31/12/06	31/12/05
Senior management	89	81	88	84
Middle management and clerical staff	1,243	1,229	1,252	1,230
Supervisors and manual labourers	3,131	3,145	2,762	2,732
Total	4,463	4,455	4,102	4,046



PIAGGIO & C. S.p.A. *Separate parent company financial statements and explanatory notes at 31 december 2006*

INCOME STATEMENT

In thousands of euro	Note	At 31/12/2006	At 31/12/2005	Change
Net sales	4	1,216,161	1,129,941	86,220
<i>Of which to related parties</i>		422,758	458,313	-35,555
Costs for materials	5	703,335	671,405	31,930
<i>Of which to related parties</i>		72,705	15,295	57,410
Costs for services and use of third party assets	6	245,192	219,378	25,814
<i>Of which to related parties</i>		19,811	8,592	11,219
<i>Of which for non-recurring transactions</i>		10,231	0	10,231
Employee costs	7	186,352	176,502	9,850
<i>Of which to related parties</i>		39	0	39
Depreciation of tangible assets	8	31,990	33,518	-1,528
Amortisation of intangible assets	8	37,994	45,969	-7,975
Other operating income	9	79,121	111,456	-32,335
<i>Of which to related parties</i>		11,790	7,493	4,297
<i>Of which for non-recurring transactions</i>		0	18,624	-18,624
Other operating costs	10	18,779	22,332	-3,553
<i>Of which to related parties</i>		36	75	-39
Operating income		71,640	72,293	-653
Income/loss from equity investments	11	19,640	-20,188	39,828
Financial income	12	15,534	16,314	-780
<i>Of which to related parties</i>		2,217	1,470	747
Financial charges	12	39,028	41,682	-2,654
<i>Of which to related parties</i>		17,257	12,286	4,971
Income before tax		67,786	26,737	41,049
Tax for the period	13	-3,220	10,855	-14,075
Income from functioning assets		71,006	15,882	55,124
Assets destined for disposal:				
Gain/loss from assets destined for disposal	14			
Net income		71,006	15,882	55,124
Income per share (€)	15	0.19	0.04	
Diluted income per share (€)	15	0.17	n.a.	

BALANCE SHEET

In thousands of euro	Note	At 31/12/2006	At 31/12/2005	Change
ASSETS				
Non-current assets				
Intangible assets	16	479,804	468,113	11,691
Property, plant and machinery	17	188,911	190,590	-1,679
Property investment	18	0	506	-506
Equity investments	19	92,797	98,069	-5,272
Other financial assets	20	27,730	41,126	-13,396
<i>Of which to related parties</i>		<i>27,563</i>	<i>31,161</i>	<i>-3,598</i>
Receivables due from tax authorities (long-term)	21	7,089	7,035	54
Deferred tax assets	22	29,996	17,810	12,186
Trade receivables and other receivables	23	4,393	1,285	3,108
<i>Of which to related parties</i>		<i>363</i>	<i>396</i>	<i>-33</i>
Total non-current assets		830,720	824,534	6,186
Assets destined for sale	28	0	0	0
Current assets				
Trade receivables and other receivables	24	217,529	175,249	42,280
<i>Of which to related parties</i>		<i>120,708</i>	<i>94,848</i>	<i>25,860</i>
Receivables due from tax authorities (short-term)	21	25,013	2,689	22,324
Inventories	25	171,585	132,675	38,910
Other financial assets	26	32,763	24,300	8,463
<i>Of which to related parties</i>		<i>32,333</i>	<i>23,812</i>	<i>8,521</i>
Cash and cash equivalents	27	35,654	14,163	21,491
Total current assets		482,544	349,076	133,468
TOTAL ASSETS		1,313,264	1,173,610	139,654

BALANCE SHEET

In thousands of euro	Note	At 31/12/2006	At 31/12/2005	Change
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	29	203,170	194,827	8,343
Share premium reserve	29	32,961	24,500	8,461
Legal reserve	29	723	723	0
Other reserves	29	76,710	51,515	25,195
Retained earnings	29	-34,707	-30,211	-4,496
Income for the year	29	71,006	15,882	55,124
Total shareholders' equity		349,863	257,236	92,627
Non-current liabilities				
Financial liabilities due after 12 months	30	345,775	350,971	-5,196
<i>Of which to related parties</i>		<i>144,624</i>	<i>143,950</i>	<i>674</i>
Trade and other payables (long-term)	31	14,876	7,169	7,707
Provisions for pensions and employee benefits	34	72,750	72,889	-139
Other long-term provisions	32	20,936	22,222	-1,286
Deferred tax liabilities	33	26,963	28,192	-1,229
Total non-current liabilities		481,300	481,443	-143
Current liabilities				
Financial liabilities due within 12 months	30	21,740	94,468	-72,728
<i>Of which to related parties</i>		<i>508</i>	<i>20,105</i>	<i>-19,597</i>
Trade payables	31	332,530	240,025	92,505
<i>Of which to related parties</i>		<i>28,955</i>	<i>17,735</i>	<i>11,220</i>
Tax payables	35	8,385	7,509	876
Other short-term payables	36	108,519	62,163	46,356
<i>Of which to related parties</i>		<i>70,628</i>	<i>18,232</i>	<i>52,396</i>
Current share of other long-term provisions	32	10,927	30,765	-19,838
Total current liabilities		482,101	434,930	44,171
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		1,313,264	1,173,610	139,654

CASH FLOW STATEMENT

In thousands of euro	2006	2005
<i>Operations</i>		
Income for the period	71,006	15,882
Tax for the period	(3,220)	10,036
Depreciation of property, plant and machinery (including property investments)	31,990	33,518
Amortisation of intangible assets	37,994	42,829
Non-monetary costs for stock options	2,561	1,300
Allocation to provisions for risks and provisions for pensions and employee benefits	21,194	29,178
Write-downs / (Revaluations)	11,860	38,626
Capital loss / (gain) on disposal of property, plant and machinery	(3,776)	(999)
Capital loss / (gain) on disposal of equity investments	0	(557)
Financial income	(15,534)	(16,314)
Dividend income	(25,583)	(20,996)
Financial charges	39,028	41,682
<i>Change in working capital:</i>		
(Increase)/Decrease in trade receivables	(18,768)	15,731
(Increase)/Decrease in other receivables	(24,386)	(32,812)
(Increase)/Decrease in inventories	(38,911)	(13,928)
Increase/(Decrease) in trade payables	82,169	35,598
Increase/(Decrease) in other payables	64,399	19,791
Increase/(Decrease) in provisions for risks (current portion)	(19,838)	9,816
Increase/(Decrease) in provisions for risks (non-current portion)	(11,976)	(11,896)
Increase/(Decrease) in provisions for pensions and employee benefits	(10,643)	2,596
Other changes	(6,553)	9,863
<i>Liquid funds generated from operations</i>	<i>183,013</i>	<i>208,944</i>
Interest paid	(44,925)	(32,649)
Tax paid	(12,902)	(9,604)
Cash flow from operations	125,186	166,691

next

In thousands of euro	2006	2005
<i>Investments</i>		
Net (assets) liabilities Aprilia S.p.A.	0	(44,533)
Revaluation of buildings and plant made by Aprilia S.p.A.	0	(15,103)
Investment in property, plant and machinery	(31,010)	(44,535)
Sale price, or redemption value, of property, plant and machinery	4,987	1,442
Merger deficit due to Aprilia trademark	0	(44,205)
Adjustment of Aprilia trademark to fair value	0	(23,855)
Investment in intangible assets	(41,878)	(34,769)
Sale price, or redemption value, of intangible assets	0	0
Investment in financial assets	(1,187)	(68,452)
Loans advanced	(8,729)	(22,683)
Repayment of loans	10,060	8,864
Elimination of equity investment in Aprilia S.p.A.	0	88,737
Sale price of financial assets	11	45,707
Interest received	8,744	12,596
Dividends from equity investments	25,583	20,996
Cash flow from investments	(33,419)	(119,793)
<i>Financing</i>		
Share capital increase and share premium relating to exercised stock options	16,804	0
Initial financial debt of Aprilia S.p.A.	0	(33,035)
Loans received	5,143	312,277
Outflow to repay loans	(83,145)	(260,352)
Repayment of finance leases	(269)	(239)
Cash flow from financing	(61,467)	18,651
Increase / (Decrease) in liquid funds	30,300	65,549
Opening balance	5,323	(60,226)
Closing balance	35,623	5,323

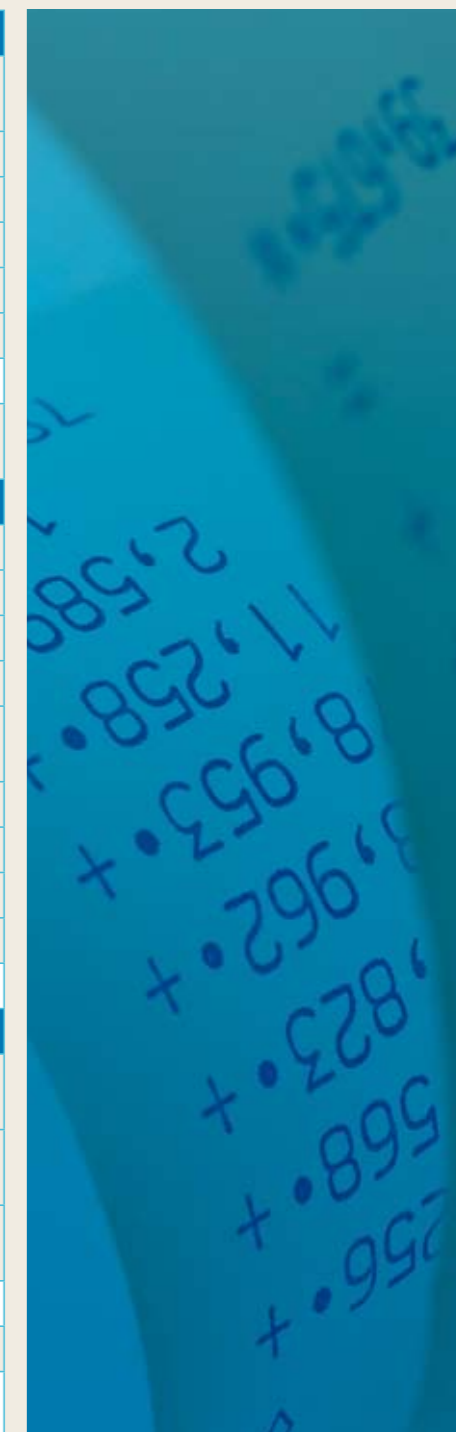
This model shows the factors behind changes in cash and cash equivalents, net of short-term bank overdrafts, as required by IAS 7. The following table sets out the breakdown of the balance of cash and cash equivalents at 30 June 2006 and 30 June 2005.

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Cash and cash equivalents	35,654	14,163	21,491
Current account overdrafts	(31)	(8,840)	(8,809)
Closing balance	35,623	5,323	30,300



NET FINANCIAL POSITION

In thousands of euro	Note	At 31/12/2006	At 31/12/2005	Change
<i>Medium- and long-term financial payables:</i>				
Medium- and long-term bank loans	30	179,641	205,715	-26,074
Payables for leases	30	0	280	-280
Amounts due to other lenders	30	12,420	1,026	11,394
Aprilia instruments	30	9,090	0	9,090
Amounts due to parent companies	30	0	0	0
Total		201,151	207,021	-5,870
Amounts due to the subsidiary Piaggio Finance	30	144,624	143,950	674
Short-term financial payables:				
Current account overdrafts	30	31	8,840	-8,809
Current account payables	30	0	0	0
Amounts due to factors	30	4,220	32,502	-28,282
Bank loans	30	184	25,452	-25,268
Medium- and long-term bank loans (current portion)	30	15,738	4,535	11,203
Payables for leases	30	280	269	11
Amounts due to other lenders	30	779	2,765	-1,986
Amounts due to parent companies	30	0	54	-54
Amounts due to subsidiaries	30	508	20,051	-19,543
Total		21,740	94,468	-72,728
Other current financial assets				
Financial receivables due from third parties	20/26	431	488	-57
Financial receivables due from subsidiaries	26	32,303	23,573	8,730
Financial receivables due from associated companies	26	30	238	-208
Total		32,764	24,299	8,465
Cash and cash equivalents	27	35,654	14,163	21,491
Total net financial position		299,096	406,977	-107,880



CHANGES IN SHAREHOLDERS' EQUITY

1 JANUARY 2006/31 DECEMBER 2006

(in thousands of euro)	Share capital	Share premium reserve	Legal reserve	Reserve for IAS transition		Stock option reserve	Reserve for measurement of financial instruments at fair value	Retained earnings	Earnings for the year Italian Gap	Earnings differences due to application of IAS	IAS earnings for the period	TOTAL SHAREHOLDERS' EQUITY
At 1 January 2006	194,827	24,500	723	(7,197)		2,266	56,446	(30,211)	(4,496)	20,378		257,236
Exercised stock options	8,343	8,461										16,804
Change in IAS reserve						2,561	2,255					4,816
Allocation of 2005 earnings				20,378				(4,496)	4,496	(20,378)		0
Income for the period											71,006	71,006
Rounding				1								1
At 31 December '06	203,170	32,961	723	13,182		4,827	58,701	(34,707)	0	0	71,006	349,863

CHANGES IN SHAREHOLDERS' EQUITY

1 JANUARY 2005/31 DECEMBER 2006

(in thousands of euro)	Share capital	Share premium reserve	Legal reserve	Reserve for IAS transition		Stock option reserve	Reserve for measurement of financial instruments at fair value	Retained earnings	Earnings for the year Italian Gap	Earnings differences due to application of IAS	IAS earnings for the period	TOTAL SHAREHOLDERS' EQUITY
At 1 January 2005	194,827	24,500	671	(3,868)		966		(31,192)	1,033	(1,783)		185,154
Change in IAS reserve				(1,546)		1,300	56,446					56,200
Allocation of 2004 earnings			52	(1,783)				981	(1,033)	1,783		0
2005 earnings									(4,496)	20,378		15,882
At 31 December 2005	194,827	24,500	723	(7,197)		2,266	56,446	(30,211)	(4,496)	20,378	0	257,236



EXPLANATORY AND ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2006

Chapter	Note n°.	DESCRIPTION
A		GENERAL ASPECTS
	1	Content and form of the financial statements
	2	Consolidation principles and evaluation criteria
B		INFORMATION BY SECTOR
	3	Information by business sector
C		INFORMATION ON THE INCOME STATEMENT
	4	Net sales
	5	Costs for materials
	6	Costs for services and use of third party assets
	7	Employee costs
	8	Amortisation and impairment costs
	9	Other operating income
	10	Other operating costs
	11	Gains/losses on equity investments
	12	Net financial income (charges)
	13	Taxation
	14	Gain / (loss) from assets destined for disposal or sale
	15	Income per share
D		INFORMATION ON THE BALANCE SHEET:
D1		ASSETS
	16	Intangible assets
	17	Property, plant and machinery
	18	Property investments
	19	Equity investments
	20	Other non-current financial assets
	21	Current and non-current receivables due from tax authorities

Chapter	Note n°.	DESCRIPTION
	22	Deferred tax assets
	23	Non-current trade receivables and other receivables
	24	Current trade receivables and other receivables
	25	Inventories
	26	Other current financial assets
	27	Cash and cash equivalents
	28	Assets destined for sale
D2		LIABILITIES
	29	Share capital and reserves
	30	Financial liabilities
	31	Trade payables and other payables
	32	Provisions
	33	Deferred tax liabilities
	34	Provisions for pensions and employee benefits
	35	Amounts payable to the tax authorities
	36	Other current payables
E		DEALINGS WITH RELATED PARTIES
F		DIRECTOR AND STATUTORY AUDITORS EMOLUMENTS
G		COMMITMENTS AND RISKS
	37	Guarantees provided
	38	Operating leases
H		NON-RECURRING TRANSACTIONS
I		SUBSEQUENT EVENTS
L		SUBSIDIARIES

A) GENERAL ASPECTS

Piaggio & C. S.p.A. (the Company) is a limited liability company established in Italy at the Company Registry Office of Pisa. The addresses of its registered office and the locations where its main activities are conducted are shown in the introduction to the annual report documents.

The financial statements are expressed in euro (€) since that is the currency in which most of the Company's transactions take place.

Conformity to international accounting standards

The 2006 financial statements are the first to be prepared in conformity with the International Accounting Standards (IAS/IFRS), in force at the balance sheet date, issued by the International Accounting Standards Board and approved by the European Commission, as well as being in conformity with the provisions established in Article 9 of Law n°. 38/2005 (Consob ruling n°. 15519 dated 27/7/06 regarding "Provisions for the presentation of financial statements", Consob ruling n°. 15520 dated 27/7/06 regarding "Changes and additions to the Issuer Regulation adopted by ruling n°. 11971/99", Consob communication n°. 6064293 dated 28/7/06 regarding "Corporate reporting required in accordance with article 114, paragraph 5 of Law 58/98"). Account was also taken of the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously called the Standing Interpretations Committee ("SIC").

The 2005 financial statements were prepared in accordance with Italian accounting principles.

Since preparation of the financial statements at 31 December 2005 in accordance with the IFRS involved changing from the Italian accounting principles, so as to enable comparisons with the previous year, the Company drafted a document called "Transition to international accounting standards (IFRS)", attached to these explanatory notes, which contains the manner and the quantification of the effects of the transition to IFRS on the financial statements

at 31 December 2005 compared to the financial statements prepared in accordance with Italian accounting principles, as arising from applying IFRS 1 (First Time Adoption of International Financial Reporting Standard).

The figures in the financial statements at 31 December 2005, presented for comparison, are those indicated in the above appendix, to which reference should be made for a complete analysis of the effects deriving from first time adoption of the international standards and that contains not only a reconciliation of the figures in accordance with Italian and international accounting standards but also explanatory notes to illustrate the main differences. This information had already been provided in the half-year report at 30 June 2005, where the Company had drafted a document called "Appendix to the half-year report Transition to international accounting standards (IFRS)". In preparing the financial statements at 31 December 2006, the same principles and criteria applied in the IFRS reconciliation schedules in the Appendix were followed.

1. Content and form of the financial statements

Form of the financial statements

The financial statements consist of the Balance Sheet, the Income statement, the Schedule of changes to shareholders' equity, the Statement of Cash Flows and these Explanatory and Additional Notes.

In relation to the form of the financial statements the Company has opted to present the following types of accounting schedules:

Balance sheet

The balance sheet is presented in sections with separate indication of assets, liabilities and shareholders' equity.

In turn, the assets and liabilities are shown in the financial statements on the basis of their classification as current and non-current.

Income statement

The income statement is presented with items classified by their nature. The overall operating income recorded

includes all the income and cost items, irrespective of their repetition or fact of falling outside normal operations, except for the items of financial operations included under operating income and income before tax. In addition, the income and cost items arising from assets that are destined for disposal or sale, including any capital gains or losses net of the tax element, are recorded in a specific heading in the financial statements which precedes net income.

Cash flow statement

The cash flow statement presented is divided into areas generating cash flows. The cash flow statement model adopted by the Piaggio & C. S.p.A. has been drawn up using the indirect method. Cash and cash equivalents included in the cash flow statement include the balance sheet balances for this heading at the reference date. Financial flows in foreign currency have been converted at the average exchange rate for the period. Income and costs relating to interest, dividends received and income taxes are included in the cash flow generated from operations.

Changes in shareholders' equity

The schedule of changes in shareholders' equity is shown as required by international accounting standards, with a separate indication of the result for the period and of every individual sale, income, charge and expense that has not been transferred to the income statement, but charged directly to shareholders' equity on the basis of specific IAS/IFRS accounting standards.

These financial statements are subject to audit by Deloitte & Touche S.p.A..

2. Valuation criteria

The most significant valuation criteria adopted in preparing the financial statements at 31 December 2006 are shown below.

Intangible assets

An intangible asset which is bought and produced internally is recorded under assets, in accordance with the provisions of IAS 38, only if it is identifiable, verifiable and it

is likely to generate future economic benefits and its costs can be reliably determined. Intangible assets with a finite life are recorded at purchase or production cost net of accumulated amortisation and impairment.

Amortisation is equated to their expected useful life and starts when the asset is available for use.

Goodwill

In the case of the purchase of businesses, assets, liabilities and contingent liabilities acquired and identifiable are recorded at their fair value at the date of acquisition. The positive difference between the acquisition cost and the Company's portion of the fair value of the assets and liabilities is classified as goodwill and is recorded in the financial statements as an intangible asset. Any negative goodwill is recorded on the income statement at the moment of acquisition.

Goodwill is not amortised, but is subjected to checks for impairment on an annual basis, or more frequently if specific events or changed circumstances indicate the possibility that there has been a loss in value, in accordance with the provisions of IAS 36 Reduction in asset values. After the initial recording, goodwill is valued at cost, net of any accumulated impairment.

On disposing of a part or the whole company that was previously acquired and from the acquisition of which there emerged goodwill, in determining the capital gain or loss on the disposal, account is taken of the corresponding residual value of goodwill.

During first-time adoption of the IFRS, the Company chose not to apply IFRS 3-Business combinations retroactively to company acquisitions that took place before 1 January 2004; consequently, the goodwill generated on acquisitions prior to the IFRS transition date has been maintained at the previous value determined in accordance with Italian accounting standards, subject to the verification and recording of any impairment. After 1 January 2006, following the acquisitions that occurred in 2004, further goodwill was generated as a result of the enhanced value of the financial instruments issued at the date of acquisition.

Development costs

Development costs on projects for the production of vehicles and engines are recorded under assets only if all the following conditions are met: the costs can be reliably determined and the technical feasibility of the product, the forecast volumes and prices indicate that the costs incurred in the development phase will generate future economic benefits.

Capitalised development costs include only the expenses incurred which can be directly attributed to the development process. Capitalised development costs are amortised on a straight-line basis, starting with the commencement of production and throughout the estimated life of the product. All other development costs are recorded on the income statement when they are incurred.

Other intangible assets

Other intangible assets acquired or produced internally are recorded under assets, in accordance with the provisions of IAS 38 – Intangible assets, when it is likely that the use of the asset will generate future economic benefits and when the cost of the asset can be reliably determined.

These assets are measured at purchase or production cost and amortised on a straight-line basis over their estimated useful lives, if they have a finite useful life. Intangible assets with an indefinite useful life are not amortised but are subjected to impairment tests on an annual basis, or more frequently, whenever there is an indication that the asset may have suffered impairment. Other intangible assets recorded following the acquisition of a company are recorded separately from goodwill, if their fair value can be determined reliably. Below is a summary of the amortisation periods for the various headings under intangible assets:

Development costs	3 years
Industrial patent rights and intellectual property rights	3-5 years
Other	5 years
Brands	max 15 years

Property, plant and machinery

The Company decided to adopt the cost method on first-time application of the IAS/IFRS to the financial statements, as allowed by IFRS 1. For the measurement of property, plant and machinery, therefore, the preference was not to use the fair value method. Property, plant and machinery are, therefore, recorded at purchase or production cost and are not reassessed. For an asset whose capitalisation is justified, the cost also includes the financial charges which are directly attributable to the acquisition, construction or production of the asset.

The costs incurred following acquisition are capitalised only if they increase the future economic benefits inherent in the asset to which they refer. All other costs are recorded in the income statement when they are incurred. Construction in progress is valued at cost and is depreciated from the period in which it comes into operation. Depreciation is determined on a straight-line basis on the cost of the assets net of the related residual values, depending on their estimated useful life by applying the percentage rates shown in the comment to the heading. Land is not depreciated.

Those assets owned through finance leases, by means of which all the risks and benefits linked to ownership are largely transferred to the Company, are recognised as Company assets at their fair value, or, if lower, at the present value of the minimum payments due under the lease. The corresponding liability due to the lessor is recorded in the financial statements under financial payables. The assets are depreciated by applying the criterion and the rates used for assets owned by the company.

Leases where the lessor essentially keeps all the risks and benefits linked to ownership of the assets are classified as operating leases. The costs relating to operating leases are recorded on a straight-line basis in the income statement over the duration of the lease.

The gains and losses arising from the disposal or sale of assets are determined as the difference between the sale income and the net book value of the asset and are charged to the income statement for the period.

Equity investments

Equity investments in subsidiaries and associated companies are recorded at cost and adjusted for any impairment. Equity investments in subsidiaries and associated companies are subjected to impairment tests annually, or more frequently, whenever there is an indication that the asset may have suffered impairment. If there is evidence that the equity investments have been impaired, a write-down is recognized in the income statement. If any portion belonging to the Company of the investee's losses exceeds the book value of the equity investment and the Company is answerable for them, the value of the equity investment is reversed and the portion of any further losses is recorded as a provision in the liabilities. If there is a subsequent positive change in the loss of value, this is recognized in the income statement as a restoration of value up to the limit of the cost.

Impairment

At every financial statement date, the Company reviews the book value of its tangible and intangible assets as well as its equity investments to determine if there are indications that these assets have suffered a loss in value (an impairment test). Should such indications exist, the recoverable amount of the assets is estimated in order to determine the size of the write-down. Where it is not possible to estimate the recoverable value of an asset individually, the Company estimates the recoverable value of the cash flow generating unit to which the asset belongs.

The recoverable amount is the higher between the net sale price and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value by using a rate gross of tax which reflects the current market valuations of the present value of money and the specific risks of the asset concerned.

If the recoverable amount of an asset (or of a cash flow generating unit) is estimated to be lower than its book value, then the book value of the asset is reduced to the lower recoverable value. An impairment is recorded in the

income statement immediately, unless the asset is land or buildings other than property investment recorded at reassessed values, in which case the loss is charged to the respective revaluation reserve.

When the continuation of a write-down is no longer justified, the book value of the asset (or of the cash flow generating unit) is increased to the new value arising from the estimate of its recoverable value, but to no more than the net book value which the asset would have had if the write-down for impairment had not been applied. The recovery in value is immediately recorded in the income statement.

An intangible asset with an indefinite useful life is subject to an impairment test every year, or more frequently, whenever there is an indication that the asset may have suffered a loss in value.

Property investment

International accounting standards have regulated property assets used for production or administration purposes (IAS 16) separately from property investments (IAS 40). As allowed by IAS 40, property and buildings that are not for operations and are held in order to earn rent and/or to increase the value of assets are measured at cost net of accumulated amortisation and losses for impairment.

Property investments are eliminated from the financial statements when they are sold or when the property investment is unusable in the long term and no future economic benefits are expected from its possible disposal.

Non-current assets held for sale

Non-current assets (and groups of assets being disposed of) classified as held for sale are valued at the lower of their previous book value and the market value net of sale costs. Non-current assets (and groups of assets being disposed of) are classified as held for sale when it is expected that their book value will be recovered through a disposal rather than through using them as an operative asset for the company. This condition is only met when the sale is highly likely, the asset (or group of assets) is available for

immediate sale in its current condition and management are committed to the sale, which should take place within twelve months of the classification under this heading.

Financial assets

Financial assets are recorded and reversed from the financial statements according to their trading date and are initially valued at cost, including the charges directly connected with the acquisition.

At the subsequent financial statement dates, the financial assets which the Company intends and has the ability to maintain until their expiry (bonds held until to maturity) are recorded at amortised cost in accordance with the effective interest rate method, net of write-downs made to reflect impairment.

Financial assets other than those held to maturity are classified as held for trading or available for sale, and are valued at the end of each period at fair value. When the financial assets are held for trading, gains and losses arising from changes in fair value are charged to the income statement for the period; for financial assets available for sale, gains and losses arising from changes in fair value are charged directly to shareholders' equity until they are sold or have suffered a loss in value; at that moment, the overall gains or losses previously recorded under shareholders' equity are charged to the income statement for the period.

Inventories

Inventories are recorded at the lower of the purchase or production cost, determined by allocating to products the directly incurred costs as well as the portion of indirect costs that may reasonably be ascribed to the use of productive assets under normal production capacity conditions, and the market value at the closing date for the financial statements.

The purchase or production cost is determined in accordance with the weighted average cost method.

For raw materials and work in progress, the market value is represented by the presumed net sale value of the corre-

sponding finished products after deducting finishing costs; finished goods are measured at the presumed sale price (sale price lists).

The lesser value that may be determined on the basis of market trends is eliminated in subsequent periods if the reasons for that valuation cease to exist.

Inventories that are obsolete, slow moving and/or excess to normal requirements are written down in relation to the possibility of their being used or their possible future sale through the creation of a provision for stock write-downs.

Receivables

Receivables are recorded at their nominal adjusted value, in order to align them to their presumed realisable value, through the recording of a bad debt provision. This provision is calculated on the basis of the recovery assessments carried out by analysis of the individual positions and of the overall risk of all the receivables, taking account of any guarantees.

When the payment of the sum due is postponed beyond normal credit terms offered to customers, it is necessary to discount the receivable. In order to determine the effect, estimates are made of the time until payment by applying a discount rate that corresponds to the 20-year Euribor swap rate plus a spread of AA rated Government securities to the various forecast cash flows.

Factoring

The Group disposes of a significant portion of its trade receivables through factoring transactions.

The disposals can be without recourse, and in this case there are no recourse or liquidity risks, leading to the reversal of the corresponding amounts from the balances of receivables due from customers at the moment of payment by the factor.

For disposals with recourse, since neither the risk of non-payment nor the liquidity risk is transferred, the related receivables are maintained on the balance sheet until the receivable sold is paid by the debtor.

In this case the advance payments received from the factor are recorded under payables due to other lenders.

Cash and cash equivalents

The heading relating to cash and cash equivalents includes cash, bank current accounts, on demand deposit accounts and other short-term financial investments with high liquidity, which are readily convertible into cash and have an insignificant risk of losing value.

Financial liabilities

Loans are recognised at the value of the sums received net of accessory charges. After the initial recording, loans are recorded using the amortised cost method, calculated by applying the effective interest rate. Financial liabilities hedged by derivative instruments are valued at fair value, in accordance with the approach established for hedge accounting, applicable to fair value hedges: gains and losses arising from the subsequent measurement at fair value which are due to variations in interest rates are recorded in the income statement and are offset with the effective share of the loss and the gain arising from subsequent valuations at fair value of the hedged instrument.

Derivative instruments and hedge accounting

The Company's activities are mainly exposed to financial risks through changes in exchange and interest rates. The Company uses derivative instruments (mainly forward currency contracts) to hedge the risks deriving from changes of foreign currencies in certain irrevocable commitments and in expected future transactions. The use of these derivatives is regulated by written procedures on the use of derivatives in line with the Company's risk management policies.

Derivative instruments are initially recorded at cost, and adjusted to fair value at subsequent period end dates.

Derivative financial instruments are used solely with the intent of hedging in order to reduce the risk from exchange

and interest rate variations and changes in market prices. In line with the provisions of IAS 39, derivative financial instruments can only be recorded in accordance with the methods established for hedge accounting when, at the start of the hedge, there is the formal designation and documentation of the hedge itself, when it is presumed that the hedge is highly effective, when the effectiveness can be reliably measured and when the hedge itself is highly effective during the various accounting periods for which it is designated.

When the financial instruments have the necessary features to be recorded under hedge accounting, the following accounting treatments apply:

- **Fair value hedge:** If a derivative financial instrument is designated to hedge the exposure to variations in the fair value of an asset or a liability, attributable to a particular risk which can have an impact on the income statement, the gain or loss arising from subsequent assessments of the fair value of the hedging instrument are recorded on the income statement. The gain or loss on the hedged item, attributable to the risk hedged, changes the book value of that item and is recorded in the income statement.
- **Cashflow hedge:** If a derivative is designated to hedge the exposure to changes in the cash flows of an asset or liability recorded in the financial statements or of a transaction that is considered highly likely and which could have an impact on the income statement, the effective share of gains or losses of the derivative is recorded under shareholders' equity. The accumulated gain or loss is reversed from shareholders' equity and recorded in the income statement in the same period in which the hedged transaction is recorded. The gain or loss associated with a hedge or that part of a hedge that is ineffective is immediately recorded in the income statement. If a hedging instrument or a hedging relationship are closed, but the hedged transaction has not yet taken place, the accumulated gains and losses, which until that moment had been recorded

under shareholders' equity, are recorded in the income statement when the related transaction occurs. If the hedged transaction is no longer considered likely to occur, then the unrealised gains or losses held under shareholders' equity are immediately recorded in the income statement.

If hedge accounting cannot be applied, the gains or losses arising from measurement at fair value of the derivative are immediately recorded in the income statement.

Long-term provisions

The Company records provisions for risks and charges when it has a legal or implicit obligation towards third parties and it is likely that the use of Company resources will be necessary to fulfil the obligation and when a reliable estimate of the amount of the obligation itself can be carried out.

Changes in the estimate are reflected in the income statement for the period in which the change occurred.

Should the impact be significant, the allocations are calculated by discounting the estimated future financial cash flows at a discount rate that is estimated gross of taxes so as to reflect the current market assessments of the present value of money and the specific risks connected to the liability.

Provisions for pensions and employee benefits

With the adoption of the IFRS, employee leaving indemnity is considered a defined benefit obligation to be recorded in accordance with IAS 19- Employee Benefits, consequently, it must be recalculated using the "Projected Unit Credit Method", by undertaking actuarial valuations at the end of each period.

Payments for defined benefit plans are charged to the income statement in the period in which they fall due. The liabilities for benefits following the employment relationship recorded in the financial statements represent the present value of liabilities for defined benefit plans adjusted to take account of actuarial gains and losses and the unre-

corded costs related to previous employment services, and reduced by the fair value of the programme assets. Any net assets resulting from this calculation are limited to the value of the actuarial losses and the cost in relation to unrecorded previous employment services, plus the present value of any repayments and reductions in future contributions to the plan.

The Company has decided not to use the so-called "corridor method", which would allow it to not record the cost component calculated in accordance with the method described represented by actuarial gains or losses, where it does not exceed 10 percent. Finally, it should be noted that the Company has decided to show the interest element of the charge relating to employee plans under the financial charges heading.

Stock option plan

In accordance with the provisions of IFRS 2 – Share-based payments, the overall amount of the fair value of the stock options at the date of allocation is recorded wholly in the income statement under employee costs with a counter entry recognised directly under shareholders' equity should the assignees of the equity instruments become rights holders at the moment of allocation. In the case in which a "period of maturation" is envisaged in which certain conditions must apply before the assignees can become rights holders, the cost, determined on the basis of the fair value of the portions at the allotment date, is recorded under employee costs on a straight line basis over the period between the date of allotment and that of maturity, with a counter entry recognised directly under shareholders' equity.

Fair value is determined using the Black Scholes method. Changes in the fair value of the options subsequent to the allotment date have no impact on the initial evaluation.

Deferred taxation

Deferred taxation is determined on the basis of the temporary taxable differences between the value of assets

and liabilities and their tax value. Deferred tax assets are accounted for only to the extent that the existence of adequate future taxable incomes against which to use this positive balance is considered likely. The book value of deferred tax assets is subject to review at every period end and is reduced to the extent to which the existence of sufficient taxable income to allow the whole or partial recovery of such assets is no longer probable.

Deferred taxation is determined on the basis of the tax rates which are expected to be applied in the period in which such deferrals will occur, considering the rates in force or those known to be issued. Deferred taxation is charged directly to the income statement, except when relating to items that are directly recorded under shareholders' equity, in which case the related deferred taxation is also charged to shareholders' equity.

Deferred tax assets and liabilities are offset when there is a legal right to set off the current tax assets and liabilities and when they refer to taxes due to the same tax authority and the Company intends to liquidate the current tax assets and liabilities on a net basis.

Payables

Payables are recorded at nominal value, which is considered representative of their extinguishment value.

Recognition of net sales

In accordance with the IFRS, sales of assets are recognised when the assets are despatched and the company has transferred to the buyer the significant risks and benefits connected to ownership of the assets.

Net sales are recorded net of returns, discounts, rebates and allowances, as well as of tax directly connected to the sale of goods and the provision of services. Net sales of a financial nature are recorded on an accrual basis.

Grants

Grants related to plant are recorded in the financial statements provided that the right to receive them is certain and

they are charged to the income statement in relation to the useful life of the asset against which they are provided.

Grants related to income are recorded in the financial statements provided that the right to receive them is certain and they are charged to the income statement in relation to the costs against which they are provided.

Financial income

Financial income is recorded on an accrual basis. It includes interest income on invested funds, exchange gains and income arising from derivatives, when it is not offset as part of hedging transactions. Interest income is charged to the income statement as it accrues, considering the effective yield.

Financial charges

Financial charges are recorded on an accrual basis. They include interest payable on financial payables calculated by using the effective interest rate method, exchange losses, and losses on derivative financial instruments. The portion of interest charges for finance lease payments is charged to the income statement using the effective interest rate method.

Dividends

Dividends recorded in the income statement arising from minority equity investments are recorded on an accrual basis, i.e. when, following the resolution to distribute a dividend is passed by the investee company, the related tax credit right arises.

Income taxes

Tax is the sum total of current and deferred taxes. The financial statements include the tax set aside in the financial statements on the basis of the estimate of the taxable income determined in conformity with the national legislation in force at the closing date of the financial statements, taking account of the exemptions applicable and the tax credits due. Income taxes are recorded in

the income statement, except for those relating to items directly charged or credited to shareholders' equity, in which case the tax effect is recognised directly under shareholders' equity.

They are shown under the heading "Payables due to tax authorities" net of payments on account and withholding taxes paid.

Earning per share

Earning per share is calculated by dividing the profit or loss attributable to shareholders by the weighted average number of ordinary shares in circulation during the period. Diluted income per share is calculated by dividing the profit or loss attributable to shareholders by the weighted average number of shares in circulation, taking account of the effects of all the potential ordinary shares with a diluting effect.

The potential shares considered are those connected to the stock option plan and those connected to Aprilia warrants.

The adjustment to be made to the number of stock options in order to calculate the number of shares is determined by multiplying the number of stock options by the underwriting cost and dividing it by the market price of the share.

Use of estimates

The preparation of the financial statements and the related notes in application of the IFRS requires management to make estimates and assumptions that have an impact on the values of assets and liabilities in the financial statements and on the information relating to contingent assets and liabilities at the financial statement date. The results to be achieved could be different from the estimates. The estimates are used to assess the tangible and intangible assets subject to impairment tests (see Losses of value), as well as to record provisions for risks on receivables, for obsolescence of stocks, amortisation, write-downs of assets, employee benefits, tax, restructuring provisions, and other allocations and provisions. These estimates and assumptions are periodically reviewed and the impact of each change is immediately reflected in the income statement.

Dealings with related parties

Dealings with related parties are shown in the Directors' Report which is to be referred to for this heading too.

New accounting standards

There were no accounting standards or interpretations reviewed or issued, with effect from 1 January 2006, which had a significant impact on the Company's financial statements.



B) INFORMATION BY SECTOR

3. Information by business sector

Primary sector: light wheeled transport market

Piaggio & C. S.p.A., part of the Piaggio Group, is one of the world leaders in the sector of "light wheeled transport", a sector which the Group has helped to define with the introduction in the 1940s of the "Vespa" and "Ape" models. This sector is related to two-, three- and four-wheeler vehicles for private or professional use which allow the user to enjoy greater mobility, by virtue of their safety, manoeuvrability and low environmental impact features.

The vehicles produced are marketed worldwide under the brands: Piaggio, Aprilia, Moto Guzzi, Gilera, Derbi, Vespa and Scarabeo.

The marketing of the products occurs through dealers, be they two, three or four-wheeler vehicles.

Within the light transport sector, Piaggio operates on the basis of policies which are common to all the companies/products: by establishing specific management policies so as to reflect the hunt for a common identity within which to direct the global strategies.

The scope of application of these policies concerns various aspects of company management, such as the credit and discount management system for customers, the means of procuring production materials, cash management and the central corporate functions.

Credit management is implemented in accordance with a centrally established policy, in order to identify a common language to enable the various companies to operate on the basis of a standard reference model aimed at assessing the level of credit risk, the reliability of the dealer, the payment terms, and the establishment of reporting models to be used in order to carry out effective and timely monitoring of the related data.

The means of procuring supplies are implemented worldwide on the same basis. In light of this the Group oper-

ates by seeking to take advantage of benefits from synergy arising mainly from: shared parts across several vehicles and shared suppliers for several Group companies.

Cash management is handled centrally by the parent company in such a way as to concentrate the financial resources needed to be able to implement investments aimed at generating benefits for all the parts of the Group, by monitoring breakeven times.

The development of new products is managed singly for the whole Group, using an approach which takes into account the various needs of the key markets.

At an organisational level, a system has been established which, through the integration of various brands, enables the realisation of global strategies aimed at looking for synergy which can increase the value of the Group and emphasise its distinct features.

This synergy arises from the concentration of technical, industrial and other central activities which are coordinated by the Corporate Divisions thus guaranteeing the dissemination and integration of specific functional skills.

In light of the above, it may be considered that the activities of the Piaggio Group and the related strategies, as well as the underpinning activities linked to management control, have been established in the single sector of "light wheeled transport".

The following table presents the economic and financial data for the Company at 31 December 2006:

In millions of euro	
TOTAL NET SALES	1,216.2
Operating income	71.6
Net financial charges	(23.5)
Income from equity investments	19.6
Income before taxation	67.8
Income tax	3.2
NET INCOME	71.0
OTHER INFORMATION	
Increase in net investments	60.7

Secondary sector: market segments

In millions of euro	2W	LCV	Other	Total
TOTAL NET SALES	1,042.0	147.5	26.7	1,216.2
Operating income				71.6
Net financial charges				(23.5)
Income from equity investments				19.6
Income before taxation				67.8
Income tax				3.2
NET INCOME				71.0
OTHER INFORMATION				
Increases to tangible and intangible assets				60.7

Third sector: geographical area

The following table gives the economic and financial figures for the Company in relation to the geographical areas "of origin" at 31 December 2006, based on the country of the customer or of the supplier/lender.

In millions of euro	Italy	Europe	India	North America	Rest of the world	Total
TOTAL NET SALES	575.2	548.5	4.8	46.9	40.8	1,216.2
BALANCE SHEET						
TOTAL ASSETS	1,044.2	242.7	2.4	0.6	23.3	1,313.2
TOTAL LIABILITIES	1,106.3	174.8	11.2	2.1	18.9	1,313.2

OTHER INFORMATION

Derogations as per Article 2423, paragraph 4 of the Italian Civil Code

No exceptional cases occurred requiring derogations to the law relating to financial statements in accordance with Article 2423 paragraph 4 of the Italian Civil Code.



Information on the direction and coordination of companies

In accordance with Article 2497-bis paragraph 4 of the Italian Civil Code, a summary of the key figures of the last financial statements at 31 December 2005 of the parent company IMMSI S.p.A, with registered offices in Mantova (MN), Piazza Vilfredo Pareto 3 – tax number 07918540019 is presented below:

Amounts in €/000		
BALANCE SHEET	31/12/2005	31/12/2004
ASSETS		
A) Amounts due from shareholders		
B) Non-current assets	262,576	285,573
C) Current assets	18,835	18,453
D) Accrued income and prepaid expenses	57	180
Total assets	281,468	304,206
LIABILITIES		
A) Shareholders' equity:		
Share capital	148,720	114,400
Reserves	58,546	91,468
Retained earnings	2,664	
Earnings for the period	9,589	11,836
B) Provisions for risks and charges	11,619	9,719
C) Employee leaving indemnity	229	208
D) Payables	49,816	75,497
E) Accrued expenses and deferred income	285	1,078
Total liabilities	281,468	304,206
INCOME STATEMENT		
A) Value of production	26,661	42,701
B) Cost of production	(12,564)	(27,268)
C) Financial income and charges	(179)	(3,288)
D) Value adjustments to financial assets		
E) Extraordinary income and charges	828	5,066
Income tax for the period	(5,157)	(5,375)
Earnings for the period	9,589	11,836

D) INFORMATION ON THE INCOME STATEMENT

Before analysing the individual items, it should be noted that the comments of the income and costs are presented in accordance with paragraph 1 of Article 2428 of the Ital-

ian Civil Code in the Directors' Report. Furthermore, the detailed presentation of the positive and negative components of the income statement and the earlier comments to the balance sheet items enable the following comments to be limited to the main headings.

4. Net sales €/000 1,216,161

The net sales involving the core business of the Company essentially refers to the marketing of vehicles and spare parts on European and non-European markets and are recorded net of premiums recognised to customers and gross of transport costs recharged to customers.

The division of net sales by business sector is shown in the following table.

Net sales by business sector

In thousands of euro	2006	2005	Change
2-wheeler	1,041,980	940,853	101,127
LCV	147,508	140,756	6,752
Other	26,673	48,331	(21,658)
Total	1,216,161	1,129,940	86,221

Net sales by geographical area

In thousands of euro	2006	2005	Change
Italy	575,244	597,107	(21,863)
Europe	548,489	453,173	95,316
Rest of the world	92,428	79,661	12,767
Total	1,216,161	1,129,940	86,221

5. Costs for materials €/000 703,335

These totalled €/000 703,335, compared to €/000 671,405 at 31 December 2005.

The 13.4% increase in raw materials, consumables and goods for resale compared to 2005 is essentially related to the increase in production volumes and to the increase in the costs of raw materials.

The percentage of net sales was 61.0%, compared to 57.9% in 2005. In the following table there is the detailed content of this financial statement heading:

In thousands of euro	2006	2005	Change
Raw materials, consumables and goods for resale	742,201	654,604	87,597
Purchase of second-hand and test vehicles	57	2,454	(2,397)
Change in inventories of raw materials, consumables and goods for resale	(36,926)	7,447	(44,373)
Change in work in progress of semi-finished and finished products	(1,997)	6,900	(8,897)
Total cost of purchases	703,335	671,405	31,930

The positive change in inventories of raw materials, consumables and goods for resale is as follows:

Goods:

+ €/000 24,764.

The €/000 2,360 provision to the reserve for obsolescent goods, net of the €/000 1,160 application, was €/000 1,200.

Raw materials:

+ €/000 12,055.

Use of the reserve for obsolescent goods, net of the €/000 984 provision, was €/000 1,022.

Consumables:

+ €/000 107.

The overall positive change in work in progress, semi-finished and finished goods was calculated as follows:

- By the €/000 9,994 negative change in finished goods.
- By the €/000 12,005 positive change in semi-finished goods and the €/000 14 negative change in work in progress.

6. Costs for services and use of third party assets €/000 245,192

These totalled €/000 245,192, compared to €/000 219,378 at 31 December 2005.

This heading comprises:

In thousands of euro	2006	2005	Change
Employee costs	9,968	8,383	1,585
Maintenance and cleaning	5,799	6,330	(531)
Energy, telephone and telex	11,395	9,488	1,907
Commissions paid	10,692	2,248	8,444
Advertising and promotion	28,056	25,000	3,056
Technical, legal and tax consultancy and services	17,097	21,445	(4,348)
Company boards operating costs	3,040	2,329	711
Insurance	2,465	2,646	(181)
Third party work	34,648	31,661	2,987
Transportation cost for vehicles, spare parts and raw material	40,347	31,698	8,649
Other commercial expenses	17,063	14,337	2,726
Product warranty costs	3,456	9,824	(6,368)
Factoring costs and commissions	2,823	1,335	1,488
Banking costs	650	658	(8)
Miscellaneous services provided	46,156	38,263	7,893
Other	5,146	4,949	197
Costs for use of third party assets	6,391	8,784	(2,393)
Total costs for services	245,192	219,378	25,814

€/000 10,231 of the €/000 25,813 increase is due to non-recurring costs associated with the stock market listing, detailed as follows:

(in thousands of euro)	2006
Employee costs	43
Advertising and promotion	2,624
Technical, legal and tax consultancy and services	6,719
Other commercial expenses	86
Miscellaneous services provide	186
Audit	569
Other	4
Total costs of listing	10,231

The costs for use of assets include lease rentals for business properties of €/000 1,721, as well as lease payments for car hire, computers and photocopiers.

Third party work of €/000 34,648 refers to work on production parts.

Transport costs and spare parts of €/000 25,972, remained essentially stable as a percentage of net sales compared to 2005.

Transport costs on purchases totalled €/000 11,332.

The heading "other" includes costs for temporary work of €/000 2,623.

Third party work represents work on production materials carried out by our suppliers.

Company boards operating costs relate to the Board of Directors and its members who are assigned certain duties, as well as the Board of Statutory Auditors and the Supervisory Board and includes emoluments of €/000 2,743, €/000 229 and €/000 68, respectively.

Services provided include €/000 24,839 of outsourced services, €/000 2,356 of warehouse management services, €/000 975 for audits, €/000 1,221 for administrative and back office services provided by the AWS subsidiary and €/000 3,519 of management services provided by the parent company IMMSI SPA.

7. Employee costs €/000 186,352

The breakdown of employee costs incurred is as follows:

In thousands of euro	2006	2005	Change
Salaries and wages	132,365	122,581	9,785
Social security charges	43,197	39,752	3,445
Employee leaving indemnity	10,424	9,585	838
Other costs	366	4,584	(4,218)
Total	186,352	176,502	9,850

Employee costs rose in absolute terms by €/000 9,850 compared to the previous year (+5.6%). As required by the International Accounting Standards (IAS 19), the company has discounted the value of the payable for employee indemnity. The main parameters used are shown the table 7.

The overall impact at 31 December 2006 of such discounting was a decrease in liabilities of €/000 3,528 with an impact on the income statement owing to lower interest, mainly due to the increase in the discount rate as a result of the increase in the cost of borrowing.

Here below is an analysis of the breakdown of the workforce:

Tab 7

Inflation rate	1.60%			
	years 1 > 5	years 6 > 10	years 11 > 15	years > 15
Discount rate	4.13%	4.35%	4.49%	4.59%
Revaluation rate for accrued empl. indemnity		2.75%		
Rate of employee indemnity		7.40%		
Annual salary increase rate		3.3%		

Level	Average number		Change
	2006	2005	
Senior managers	89	81	8
Middle management and clerical staff	1,243	1,229	14
Supervisors and manual labourers	3,131	3,145	(14)
Total	4,463	4,455	8

Level	Number at		Change
	31/12/2006	31/12/2005	
Senior managers	88	84	4
Middle management and clerical staff	1,252	1,230	22
Supervisors and manual labourers	2,762	2,732	30
Total	4,102	4,046	56

The workforce totalled 4,102 at 31 December.

Number at 31 December 2005	4,046
Hirings:	
- on permanent contract	131
- on term contract	1,267
Terminations	(1,342)
Number at 31 December 2006	4,102



8. Amortisation, depreciation and impairment costs €/000 69,984

Below is a summary of amortisation and depreciation in 2006, divided into different categories:

In thousands of euro	2006	2005	Change
Property, plant and machinery:			
Buildings	3,245	2,899	346
Plant and machinery	9,754	9,969	(215)
Industrial and commercial equipment	17,320	18,880	(1,560)
Other assets	1,671	1,770	(99)
Total depreciation of tangible assets	31,990	33,518	(1,528)

In thousands of euro	2006	2005	Change
Intangible assets:			
Development costs	26,397	28,866	(2,469)
Industrial patent rights and intellectual property rights	0	1	(1)
Concessions, licences, trademarks and similar rights	11,597	17,083	(5,486)
Other	0	18	(18)
Total amortisation of intangible assets	37,994	45,968	(7,974)

As set out in more detail in the paragraph on intangible assets, from 1 January 2005 goodwill is no longer amortised, but is subjected annually to an impairment test.

The impairment test carried out at 31 December 2005 confirmed the full recoverability of the values expressed in the financial statements.

Amortisation under the item "Concessions, licences, trademarks and similar rights" includes the amortisation of the Aprilia brand for €/000 4,537 and of other brands belonging to Aprilia S.p.A. for €/000 1,104. Also included is €/000 5,920 for software amortisation.

9. Other operating income €/000 79,121

The detail of the heading is shown in the table reported in the next page. The overall decrease of €/000 32,335 was mainly due to the presence in 2005 of non-recurring sales from anti-pollution incentives for €/000 18,624. These grants were provided by the Ministry of the Environment in June 2005, in conformity with the programme agreement signed on 12.2.2002 and the supplementary document signed on 18 April 2005, relating to sales of environmentally friendly vehicles between June 2003 and July 2004. Sponsorships received and services provided to third parties also decreased.

In 2006, €/000 25,522 of internal research and development costs were capitalised. Moreover, Piaggio capitalised €/000 151 of internal costs relating to the construction of tangible assets.

The rent receipts refer mainly to income for the rent of racing bikes to the teams which compete in the World Motorcycling Championships.

Gains from value adjustments at 31 December 2006 of €/000 8,103 relate mainly to the release of excess provisions, since the reasons for which they were originally set aside ceased to exist.

The heading recovery of transport costs refers to the costs recharged to customers, the charges for which are classified under "services".

The €/000 7,569 change refers to different methods of calculating the sales price by Aprilia Spa in 2005.

Recovered miscellaneous costs mainly comprise:

- €/000 1,381 of costs recovered from BMW for equipment relating to the new 650cc motorbike;
- €/000 2,562 of recovered costs relating to components, equipment and miscellaneous materials sold to Piaggio Vehicles pvt and Zongshen Piaggio Foshan for the assembly and production of vehicles;
- €/000 1,346 technical documentation and publications recharged to customers.
- €/000 1,215 of other costs recovered from Moto Guzzi S.p.A;

- €/000 406 of fees received from hire purchase companies.

The €/000 4,712 of licence rights were mainly received from the Indian subsidiary Piaggio Vehicles (€/000 4,215) and some third party companies: RCS (€/000 118), NEW RAY (€/000 60), FORME SRL (€/000 41) and BITRON SPA (€/000 40).

Income from recovered labour costs mainly comprises charges made to group companies for the use of personnel. Amounts recovered from suppliers include €/000 1,303 of charges for restoring final checks and materials, and €/000 2,554 of charges for the non-arrival of materials to the assembly lines.

The €/000 2,630 of recovered stamp duty essentially refers to dealers being recharged stamp duty on vehicle conformity certificates, required since 01/01/2005.

In thousands of euro	2006	2005	Change
Grants related to income	2,133	6,297	(4,164)
Anti-pollution incentives	0	18,624	(18,624)
Increases in fixed assets from internal work	25,673	20,945	4,728
Net sales and other income:			
- Rent receipts	1,923	2,054	(131)
- Gains from value adjustments	8,103	7,432	671
- Capital gains on the disposal of assets	3,781	1,793	1,988
- Recovered transport costs	1,294	8,863	(7,569)
- Recovered third party commercial costs	99	156	(57)
- Recovered miscellaneous costs	11,339	7,732	3,607
- Recovered vehicle registration costs	235	98	137
- Recovered promotion costs	430	1,717	(1,287)
- Recovered stamp duty	2,629	2,245	384
- Recovered labour costs	930	1,141	(211)
- Refund of export duty	115	87	28
- Recovered costs from suppliers	3,857	1,484	2,373
- Recovered guarantee costs	1,047	3,120	(2,073)
- Recovered other costs	12	21	(9)
- Know-how and licence rights	5,179	4,019	1,160
- Commissions receivable	910	90	820
- Sale of miscellaneous equipment	2,328	5,057	(2,729)
- Damages paid by third parties	248	295	(47)
- Services provided to third parties	1,551	5,201	(3,650)
- Sponsorships received	3,611	7,711	(4,100)
- Reversal of items payable	151	3,069	(2,918)
- Other	1,543	2,205	(662)
Total other operating income	79,121	111,456	(32,335)

10. Other operating costs €/000 18,779

This heading comprises:

In thousands of euro	2006	2005	Change
Provision for disputes	300	0	300
Provision for future risks	0	6,294	(6,294)
Total provisions for risks	300	6,294	(5,994)
Provision for product warranty	10,310	3,648	6,662
Total other provisions	10,310	3,648	6,662
- Stamp duty	3,056	2,445	611
- Non-income taxes and imposts	193	910	(717)
- Local property tax (I.C.I.)	673	646	27
- Membership dues	724	780	(56)
- Socially useful charges	354	133	221
- Capital losses on the disposal of assets	5	234	(229)
- Other expenses	1,801	6,974	(5,173)
Total other operating costs	6,806	12,122	(5,316)
Write-down of current receivables	1,363	269	1,094
Total	18,779	22,332	(3,553)

Overall, other operating costs fell by €/000 3,554. This change was mainly due to the presence in the 2005 financial statements of non-recurring charges connected to the provision for future risks. The €/000 3,056 of stamp duty refers to vehicle conformity certificates. This is charged

to the dealers and the recovery is recorded under "Other operating income".

11. Net income from equity investments €/000 19,640

This heading comprises:

In thousands of euro	2006	2005	Change
Dividends from subsidiaries	25,583	20,991	4,592
Gains on the disposal of equity investments	0	0	0
Dividends from minority equity investments	0	4	(4)
Write-downs of equity investments in subsidiaries	(5,926)	(41,183)	35,257
Write-downs of equity investments in associated companies	(14)	0	(14)
Write-downs of minority equity investments	(3)	0	(3)
Total	19,640	(20,188)	(39,828)

€/000 13,083 of dividends were paid by the subsidiary Piaggio Vehicles Ltd – India and €/000 12,500 by Piaggio Vespa B.V..

The write-down of equity investments in subsidiaries reflects the cost relating to covering the losses of some companies in liquidation, partly covered by provisions made in previous years. €/000 5,851 refers to the cost of writing down the equity investment in Moto Guzzi S.p.A.

12. Net financial income (charges) €/000 (23,494)

Below is the breakdown of financial charges and income:

In thousands of euro	2006	2005	Change
Income:			
Total financial income from subsidiaries	2,157	6,440	(4,283)
Other income from third parties:			
- Interest due from customers	27	75	(48)
- Interest on bank and postal accounts	653	176	477
- Interest on financial receivables	295	347	(52)
- Income from interest rate hedges	0	2,695	(2,695)
- Income on securities recorded under assets	789	0	789
- Income from discounting employee leaving indemnity	3,527	992	2,535
- Other income	1,118	1,249	(131)
Total other income from third parties	6,409	5,534	875
TOTAL	8,566	11,974	(3,408)
Exchange gains:			
- translation gains	5,265	2,116	3,149
- hedging exchange gains	44	898	(854)
- exchange gains from subsidiaries	1,659	1,326	333
Exchange gains	6,968	4,340	2,628
Total financial income	15,534	16,314	(780)

The amount of €/000 2,157 under the "financial income from subsidiaries" item refers to interest recognised for the equity loan provided to Nacional Motor S.A. for €/000 200 recorded under non-current assets due from subsidiaries, while the remaining €/000 1,957 comprises:

- €/000 1,015 of interest received by Piaggio from the financial asset with Moto Guzzi S.p.A.
- €/000 942 from Piaggio cash pooling with some European subsidiaries.

€/000 1,070 of other income refers to the annual portion of the payment made by Piaggio & C. warrant holders.

In thousands of euro	2006	2005	Change
Charges:			
Financial charges due to parent companies	0	3,511	(3,511)
Financial charges due to subsidiaries	17,111	12,938	4,173
Financial charges due to others:			
- Interest on bank accounts	426	2,001	(1,575)
- Interest on bank loans	8,181	12,541	(4,360)
- Interest on import-export advances	266	464	(198)
- Interest due to other lenders	3,808	1,133	2,675
- Interest rate hedge charges	9	3,086	(3,077)
- Cash discounts to customers	1,092	1,077	15
- Loss on disposal of securities recorded under current assets	484	0	484
- Fees payable on bank loans	361	250	111
- Interest due on leases	15	25	(10)
- Other	163	230	(67)
Total financial charges due to others:	14,805	20,807	(6,002)
Total	31,916	37,256	(5,340)
Exchange losses:			
- Swap contract charges	52	732	(680)
- Exchange rate losses	2,726	2,983	(257)
- Exchange rate losses due to subsidiaries	3,837	406	3,431
- Exchange rate losses due to associated companies	354	4	350
- Exchange rate losses due to third parties	143	301	(158)
Exchange losses	7,112	4,426	2,686
Total financial charges	39,028	41,682	(2,654)
TOTAL FINANCIAL INCOME (CHARGES)	(23,494)	(25,368)	1,874



The “to subsidiaries” sub-item of €/000 17,111 refers to:

- €/000 16,770 of interest payable on loans, of which €/000 15,911 to the subsidiary Piaggio Finance Luxembourg.
- €/000 329 of financial charges deriving from cash pooling and €/000 12 of cash discounts paid on sales transactions;

Interest payable to other lenders includes mainly interest payable to factoring companies.

As regards interest rate hedge charges, they should be viewed together with income from interest rate hedges.

In June 2006, the existing contract expired resulting in €/000 2,539 of interest payable, covered by using the specific reserve of €/000 2,530.

The “Others” item mainly comprises €/000 159 of implicit interest payable, stripped from the minimum due guaranteed under the EMH 04-09 financial instrument and refer to the accrual for the period.

13. Taxation €/000 (3,220)

The table below shows the details of this heading:

In thousands of euro	2006	2005	Change
Current taxation	18,762	17,292	1,470
Deferred tax liabilities	501	355	145
Deferred tax assets	(22,482)	(6,793)	15,690
Total	(3,220)	10,855	(14,075)

Current taxation comprises:

- €/000 980 of foreign income tax, of which €/000 31 relating to income charged to the income statement in previous years, mainly deriving from royalties from the Indian subsidiary Piaggio Vehicles Ltd.;
- €/000 47 from Italian income tax (IRES) on controlled foreign companies (CFC);
- €/000 10,296 from the payment of deferred tax assets (IRES) allocated in previous years calculated on the taxable income for the year offset with recorded tax losses;

- €/000 9,150 of regional tax on production (IRAP) for the period;
- €/000 1,711, a reduction in the application of deferred taxation provisions relating to amounts released during the year.

Deferred tax assets comprise:

- €/000 341 following the reversal of amortisation on tax-deductible goodwill costs;
- -€/000 160 on the impact generated by applying IAS/IFRS. Deferred tax assets were allocated as follows:
- €/000 22.339 of tax losses incurred by Piaggio in 2002 and 2003, and negative timing differences that will be generated in the future by using the product warranty reserve;
- €/000 142 of negative timing differences that will be generated in the future by the effects of applying IAS/IFRS.

2006 taxation of €/000 – 3.220, representing a 4.75% positive adjustment of income before taxation. In 2005, taxation was €/000 10,855, or 59.45% of pre-tax income.

The table below reconciles taxation with the theoretical rate:

(in thousands of euro)	2006
Income before taxation	67,786
Theoretical tax rate	0.33
Theoretical income tax	22,369
Tax effect deriving from permanent timing differences	(3,273)
Foreign income tax relating to previous years	31
Tax effect deriving from unallocated deferred tax assets	(8,432)
Foreign income tax for the period	949
Use of tax losses against which no deferred tax assets were allocated	
Separate Italian income tax (IRES) on CFC	47
Allocation of deferred tax liabilities	85
Release of part of deferred tax provisions allocated in previous years	(1,507)
Tax effect deriving from allocated deferred tax assets	(22,471)
Regional tax on production (IRAP)	8,982
Income tax recognised in the financial statements	(3,220)

Theoretical tax was calculated by applying the current 33% rate applicable in Italy to the income before taxation.

The impact deriving from the IRAP rate was calculated separately in that this tax is not calculated on the basis of income before taxation.

14. Gain/(Loss) from assets destined for disposal or sale €/000 0

At the balance sheet date, there are no gains or losses to report from assets destined for disposal or sale.

15. Income per share

Income per share is calculated using the following figures:

In thousands of euro		2006	2005
Net income	€/000	71,006	15,882
Income attributable to ordinary shares	€/000	71,006	15,882
Average number of ordinary shares in circulation		381,277,384	374,668,137
Income per ordinary share	€	0.19	0.04
Adjusted average number of ordinary shares		414,379,517	n.a
Diluted income per ordinary share	€	0.17	n.a

In calculating the diluted income per share, account is taken of the potential effects arising from the stock option

Tab 1

in thousands of euro	Value at 31/12/2006	Increases	Amortisation	Disposals	Write-downs	Reclassifications	Value at 31/12/2006
Development costs	55,104	34,729	(26,397)	0	(4,048)	(14,586)	44,802
Patent rights	7,935	7,149	(5,921)	(5)	0	14,586	23,744
Concessions, licences and trademarks	77,327	0	(5,676)	0	0	0	71,651
Goodwill	327,747	11,860	0	0	0	0	339,607
Other	0	0	0	0	0	0	0
Total	468,113	53,738	(37,994)	(5)	(4,048)	0	479,804

plans and from the assessment of financial instruments associated with the acquisition of Aprilia.

D) INFORMATION ON THE BALANCE SHEET - ASSETS FIXED ASSETS

16. Intangible assets €/000 479,804

The following table 1 sets out the breakdown of intangible assets at 31 December 2006 and at 31 December 2005, as well as the movements during the year.

Intangibles increased by €/000 11,690 due to the investments during the year, net of amortisation for the period.

The increases were mainly due to the capitalisation of development costs for new products and engines, as well as the acquisition of software.

The write-downs were covered by a reserve made in previous years for projects that did not have an industrial future.

Reclassifications refer essentially to development costs reclassified as know-how and patent rights by Piaggio & C. S.p.A. in 2006, commented in more detail under the heading “Development costs”.

Development costs €/000 44,802

Development costs include costs for products and engines in projects for which there is an expectation for the period

of the useful life of the asset to see net sales of such a level as to allow the recovery of the costs incurred. It also includes work in progress for €/000 24,522 which represents costs for which the conditions for capitalisation exist, but in relation to products that will go into production in future periods.

In 2006, based upon an overall analysis of capitalised development costs aimed at ascertaining the correctness of the categories, the parent company Piaggio & C. S.p.A. reclassified to "Industrial patent rights and intellectual property rights" the costs sustained in previous years and not yet fully amortised for the projects regarding "Vespa", which continues to highlight the Group's history, Piaggio MP3 which has patents covering some 70% of the vehicle's overall cost and Gilera GP800, an innovative scooter with the highest performances on the market. These products and their associated development costs made it necessary to adopt highly innovative technical solutions, develop new methods and rules of calculation, define ad hoc testing and planning techniques, purchase cutting edge measurement and testing instruments and equipment, and enabled Piaggio to diversify its technical know-how and the qualitative and functional levels of some of its vehicles compared to the competition. In this light, the 2006 financial statements better reflect the total costs sustained in product development that, while complying with the capitalisation criteria set out in IAS 38, did not bring to the Group specific patents or the acquisition of particular technical know-how that is not yet available to third parties.

In relation to development costs in 2006, the new projects capitalised refer to the new models of the Gilera Nexus

250, the Aprilia Offroad 450/550, the Aprilia Naked, the Scarabeo 500, the Moto Guzzi Norge, and the Ape Truk (destined for the Indian market), as well as the new 750 cc engine for Aprilia motorbikes and the new Euro 4 engine which is fitted to the Porter vehicle. Development costs included under this item are amortised on a straight-line basis over 3 years, in consideration of their residual usefulness. In 2006, around 22.0 million euro of development costs were charged directly to the income statement. The €/000 4,047 write-down made during the year refers to the project to develop a 4-wheeler product for a customer. The write-down was already covered by a provision made in previous years.

In accordance with point 5 of Article 2426 of the Italian Civil Code, it is noted that shareholders' equity is unavailable for the amount of €/000 44,802 of research and development costs yet to be amortised.

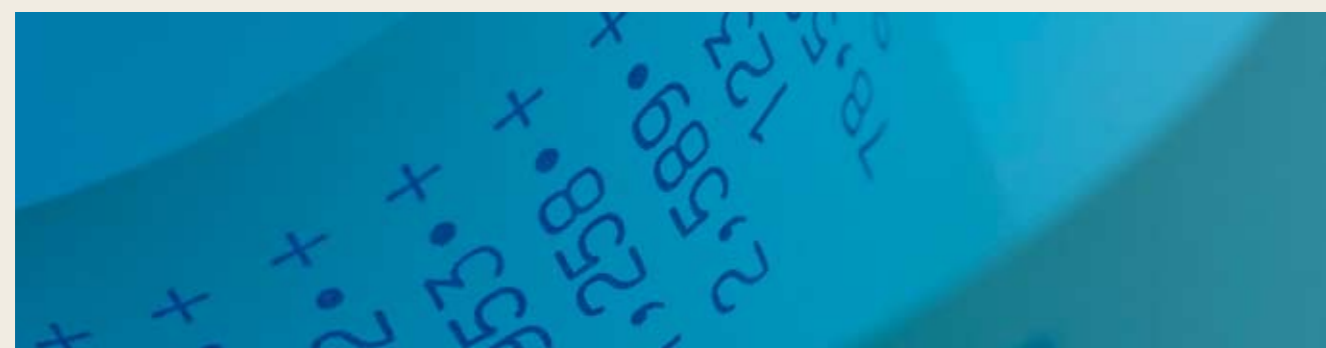
Industrial patent rights and intellectual property rights **€/000 23,744**

This heading comprises €/000 3,963 of patents, €/000 10,754 of know-how and €/000 9,036 of software.

As stated in the notes on "Development costs", in 2006 €/000 14,708 net of accumulated amortisation was reclassified to "Industrial patent rights" and "Know-how".

The increases in the period refer mainly to software for the extension of SAP applications at the Noale facility, as well as the implementation of "project controlling" and the "token ring" network at the plant.

Industrial patent rights and intellectual property right costs are amortised over three years.



Concessions, licences and trademarks

€/000 71,651

This heading totalling €/000 71,650 comprises:

In thousands of euro	Net value at 31/12/2006	Net value at 31/12/2005
Aprilia brand	71,070	76,537
Laverda brand	453	620
Suzuki licence	35	71
Minor brands	93	99
Total brands	71,651	77,327

The Aprilia brand, already recorded in the financial statements under Aprilia S.p.a. at 31 December 2005 for €/000 12,498 was increased at 31 December 2005 by allocating €/000 68,060 of the merger deficit of €/000 44,205, in that it is referable to the greater amount paid at the acquisition of that company and supported in the overall valuation of the brand by a specific valuation carried out by a third party. €/000 23,855 of deferred tax liabilities were recorded in the balance sheet against recognition of such greater amount. During the year, the Aprilia brand decreased due to €/000 4,537 of amortisation charged to the income statement, calculated on the basis of an estimated useful life until 2019. The Laverda brand was amortised by €/000 167 in 2006, on the basis of an estimated residual useful life equal to that used for amortising the brand in the consolidated financial statements. The other brands received at the merger with Aprilia S.p.A. decreased during the year by €/000 6 following amortisation calculated on the respective useful life. The Suzuki licence is amortised over five years and decreased by €/000 36, being the portion of amortisation for the year.

Goodwill

€/000 339,607

€/000 265,135 of goodwill refers to the merger deficit paid upon the incorporation of Piaggio & C. S.p.A. (€/000 250,569) and Vipifin S.p.A. (€/000 14,566) in Piaggio & C. S.p.A. (formerly MOD S.p.A.) in 2000. In relation to the acquisition of the Aprilia Group, some financial instruments were issued whose forward commitments are summarised below:

- Piaggio 2004/2009 Warrants for an overall issue price of €/000 5,350.5 which envisage a redemption price that can never exceed the overall issue price by more than twelve times. Therefore the maximum commitment at maturity can never exceed €/000 64,206;
- EMH 2004/2009 financial instruments for a global nominal value of €/000 10,000, which will give the right to a forward payment of a minimum guaranteed sum of €/000 3,500, as well as a maximum sale value that can never exceed €/000 6,500;
- Aprilia shareholder 2004/2009 financial instruments which envisage a sale value that can never exceed €/000 10,000.

In conformity with the main content of the aforementioned contractual agreements, by virtue of which, among other things, the final purchase cost is dependent on the achievement of specific income statement and balance sheet parameters, in the light of the forecasts of the 2007-2008 Business Plan and the positive stock market performance of the Piaggio security, the adjustment of initial purchase cost has been considered likely for all the financial instruments and has been estimated at €/000 74,015, charged to goodwill. Since the payment is deferred, the cost is represented by its present value, determined in accordance with the following parameters:

Amounts in €/000	Amount	at 31/12/2006			at 31/12/2005	Change (A-B)
		Present value (A)	Time	Discount rate	Present value (B)	
Warrants	64,206	58,985	1.33	6.57%	56,465	2,520
EMH instrument	6,500	5,940	1.42	6.57%	5,690	250
Aprilia shareholder instrument	10,000	9,090	1.5	6.57%		9,090
Total	80,706	74,015			62,155	11,860

The counter entry for the adjustment to the purchase cost, taking account of the peculiar nature of the underlying financial instruments, has been recorded for €/000 58,985 in the financial instruments fair value reserve and for €/000 15,030 to medium-/long-term financial payables.

As highlighted in setting out the accounting principles, from 1 January 2005 goodwill is no longer amortised, but is annually, or more frequently if specific events or changed circumstances indicate the possibility of it having been impaired, subjected to tests to identify any impairment, in accordance with the provisions of IAS 36 Reduction in assets values (impairment test).

The recoverable value of the cash-generating units, to which the individual goodwill amounts have been attributed, is verified through the determination of the value in use.

The main assumptions used in determining the value in use of the cash-generating units are related to the discount rate and the growth rate. In particular, Piaggio has adopted a discount rate which reflects the current market assessments for the cost of borrowing and takes account of the specific risk attributable to the Group: this rate, gross of tax, is 7%.

The forecasts for the cash-generating units derive from those in the most recent budgets and plans prepared by the Group for the next three years, extrapolated for the following years on the basis of medium-/long-term growth rates of between 1.5% and 3%.

The impairment test carried out at 31 December 2006 confirmed that there was no need to make any changes to the values recorded in the financial statements. The busi-

ness plan prepared by the Group, which predicts a positive performance for the different companies over the next three years, provides reassurance on the appropriateness of the figures used. Furthermore, during 2006, there were no events such as to indicate that an asset might have been impaired.

17. Property, plant and machinery €/000 188,911

The following table 2 shows the breakdown of tangible assets at 31 December 2006 and at 31 December 2005, as well as changes during the year. The main increases related to moulds for the new vehicles launched during the year, the restructuring of assembly lines at the Noale facility, as well as the new lines at the Baramati (India) facility.

The "Reclassifications" column refers to reallocation to land and buildings of a property which returned to full use and which at the year end had been classified under investment property, since it was rented at 31 December 2005.

Land and buildings €/000 95,398

Compared to the previous year, the net decrease of this heading was of €/000 2,218. Increases for the year regarded:

- Restructuring the factories at the Scorzé facility, €/000 225
- Various interventions to update workshops €/000 595
- Restructuring the works canteen at the Centro Operai, €/000 274
- Extension of the roofing to load Off. 2R vehicles, €/000 198

TAB 2

in thousands of euro	Value at 31/12/2005	Increases	Depreciation	Disposals	Reclassifications	Value at 31/12/2006
Land and buildings	97,110	1,562	(3,245)	(738)	709	95,398
Plant and machinery	43,642	10,128	(9,754)	(2)	(243)	43,771
Equipment	44,592	17,615	(17,320)	(393)	39	44,533
Other	5,246	1,706	(1,671)	(73)	1	5,209
Total	190,590	31,011	(31,990)	(1,206)	506	188,911



- Building a new porter's lodge and medical centre, €/000 270
- A €/000 203 upward revaluation of costs incurred in 2005, incorrectly charged to various tax categories.
- Net decrease of €/000 738 relating to the sale of land located in Noale which generated a net gain of €/000 3,737
- Decrease due to depreciation charged to the income statement of the year, €/000 3,245.

Plant and machinery €/000 43,771

Changes in this heading during the year are due to increases of €/000 10,128 and decreases represented by €/000 9,754 of depreciation for the period and €/000 243 by reclassifying 2005 costs.

The €/000 10,128 capitalised during the period regarded the following acquisitions:

- Modernisation of the 2- and 3-wheeler facilities, €/000 1,581
- Modernisation of the Noale facilities, €/000 133
- Modernisation of the Scorze' facilities, €/000 298
- Investments in vehicle assembly lines: €/000 294
- Investments in paintshops: €/000 257
- Investments in product quality facilities: €/000 779
- Drive shaft production line: €/000 2,463
- Construction of engine testing facilities: €/000 533
- Construction relating to restructuring the experimental workshop: €/000 385
- Investments regarding the new assembly lines at the Scorze' facility: €/000 1.524
- Machinery renewal: €/000 1,635
- Other: €/000 246

Equipment €/000 44,533

Changes during the year are due to increases of €/000 17,615 and decreases represented by €/000 17,320 of depreciation for the period and €/000 393 of the residual cost of worn equipment, no longer used in production and sold, and €/000 39 of reclassified 2005 costs incorrectly charged to various tax categories. The €/000 17,615 of capitalisation for the period mainly comprise:

- Renewal of old moulds, €/000 3,108
- Equipment for materials laboratory, €/000 676
- Equipment for assembly lines, €/000 1,050
- Purchase of moulds for the Vespa (PX, GT, GS, ET), €/000 420
- Purchase of moulds for various vehicles (Liberty, Beverly, Nexus, X8, Carnaby, etc.), €/000 2,429
- Purchase of moulds for various Aprilia vehicles (Sport-city, Scarabeo, etc.), €/000 942
- Purchase of engine moulds (500 Master, 4T Leader, 250 cc, etc.), €/000 885
- Purchase of moulds for the MP3, €/000 2,654
- Purchase of moulds for the QUARGO, PORTER and APE, €/000 231
- Purchase of moulds for the Gilera GP800, €/000 1,550
- Purchase of moulds for the Aprilia "SHIVER" motorbike, €/000 1,237
- Purchase of moulds for the Aprilia "MANA" motorbike, €/000 907
- Purchase of moulds for the 850cc twin engine, €/000 873
- Purchase of moulds for the 750cc twin motorbike engine, €/000 653

Other tangible assets €/000 5,209

At 31 December 2006, this heading comprises:

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
EDP systems	2,401	2,182	219
Office furniture and equipment	932	1,151	(219)
Vehicles	408	232	176
Cars	1,468	1,681	(213)
Total	5,209	5,246	(37)

Revaluations of fixed assets

The company still owns fixed assets that have been revalued in conformity with specific regulations or at the time of mergers. The following table 3 details the amounts by financial statement headings and refers to the legal requirement or merger transaction.

TAB 3

Categories	Rev L.823/73	Rev L. 576/75 and 72/83	Rev merger 1986	Rev economic 1988	Rev L.413/91	Rev as dispensation to previous. Art 2425	Rev merger 1990	Rev merger 1996	Rev L. 342 2000	TOTAL revaluat
Tangible Assets										
- Land and Buildings	16	2.704	0	584	3.035	898	1.668	1.549	0	10.454
- Plant and Machinery	0	871	263	0	0	0	42	0	1.930	3.106
-Equipments	0	0	331	0	0	0	2.484	0	3.438	6.253
- Furnitures	0	0	58	0	0	0	101	0	0	159
- Electronic Machinery	0	0	0	0	0	0	27	0	0	27
- Vehicles	0	0	0	0	0	0	13	0	0	13
Total Tangible Assets	16	3.575	652	584	3.035	898	4.335	1.549	5.368	20.012
Intangible Assets										
- Trademark	0	0	0	0	0	0	21.691	0	25.823	47.514
Total Intangible Assets	0	0	0	0	0	0	21.691	0	25.823	47.514
TOTAL	16	3.575	652	584	3.035	898	26.026	1.549	31.191	67.526

18. Investment property €/000 0

At 31 December 2005, investment property stood at €/000 506 and consisted of the premises in Milan, Via Trebazio 1, rented to IMMSI S.p.A..

At 31 December 2006 the amount was reclassified under property, plant and machinery, since the premises were vacated and the asset had returned to the full use of the company.

19. Equity investments €/000 92,797

Equity investments comprise:

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Equity investments in subsidiaries	92,091	97,509	-5,418
Equity investments in associated companies	706	560	146
Total	92,797	98,069	-5,272

Changes for the period are shown in the following table:

In thousands of euro	Book value at 31/12/2005	Increases	Write down	Disposals	Book value at 31/12/2006
Subsidiaries					
Piaggio Vespa B.V.	11,927	0	0	0	11,927
Piaggio Vehicles Pvt Ltd	15,393	400	0	0	15,793
Nacional Motor	35,040	0	0	0	35,040
Moto Guzzi	34,696	0	5,851	0	28,845
Piaggio Finance	31	0	0	0	31
Piaggio China Ltd	0	0	0	0	0
AWS B.V.	0	0	0	0	0
P&D S.p.A. in liquidation	416	0	0	0	416
Moto Laverda in liquidation	0	360	321	0	39
Aprilia Finance	4	0	0	4	0
Aprilia Luxembourg	2	0	2	0	0
Motocross Company	0	267	260	7	0
Total subsidiaries	97,509	1,027	6,434	11	92,091
Associated companies					
Zongshen Piaggio Foshan	0	0	0	0	0
Pont. Tech. Soc. cons. A r.l.	21	160	0	0	181
DEV s.r.l.	20	0	0	0	20
Motoride in liquidation	519	0	14	0	505
Fondazione Piaggio onlus	0	0	0	0	0
Total associated companies	560	160	14	0	706



As regards Motoride.com in liquidation, on the basis of information currently available, it is believed that the value of the equity investment is recoverable.

Equity investments in subsidiaries €/000 92,091

The €/000 5,851 write-down regarding Moto Guzzi S.p.A. was recorded to align the value of the equity investment with the value of the brand inspection in the hands of the company and the value of the brand recorded in the Group consolidated financial statements.

Equity investments in associated companies €/000 706

The changes recorded in 2006 were due to:

- €/ 000 160 to subscribe to the share capital increase of Pont -Tech Pontedera & Tecnologia S.c.r.l.;
- €/000 14 write-down of the equity investment in Motoride.com in liquidation.

20. Other non-current financial assets €/000 27,730

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Financial receivables due from third parties	0	9,796	(9,796)
Financial receivables due from associated companies	63	3,661	(3,598)
Receivables due from subsidiaries	27,500	27,500	0
Equity investments in other companies	167	169	(2)
Total	27,730	41,126	(13,396)

The €/000 9,790 Piaggio & C. S.p.A. financial receivable due from Scooter Holding 1 S.p.A., formerly Piaggio Holding S.p.A., was received in August 2006.

The receivables from Group companies item contained the receivable due from Piaggio Foshan Motorcycles of €/000 3,582, reclassified in other current receivables. The item includes the equity loan of €/000 27,500 provided to the subsidiary Nacional Motor S.A. maturing 5 June 2008.

This loan was provided to the subsidiary in order to meet the financial covenants envisaged in the syndicated loan signed with Nacional Motor.

This loan may be prepaid if the minimum capitalisation index required by Spanish law is respected. The annual interest rate is Euribor plus a 3% spread conditional upon earnings after taxation being positive.

The financial receivables due from third parties however, was reversed following repayment of the €/000 9,310 loan provided by Scooter Holding 1 s.r.l..

The following table 4 shows the changes in equity investments in other companies.

21. Current and non-current receivables due from tax authorities €/000 32,102

Receivables due from tax authorities totalling €/000 32,102 comprise:

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
VAT tax receivables	24,712	2,297	22,415
Income tax receivables	7,233	7,204	29
Other receivables due from public authorities	157	223	(66)
Total tax receivables	32,102	9,724	22,378

Receivables due from tax authorities included under non-current assets totalled €/000 7,089, compared to €/000 7,035 at 31 December 2005, while receivables due from tax authorities included under current assets totalled €/000 25,013 compared to €/000 2,689 at 31 December 2005.

TAB 4

In thousands of euro	Book value at 31/12/2005	Increases	Disposals	Book value at 31/12/2006
Other companies:				
Valued using the cost method:				
Sviluppo Italia Liguria S.c.p.a.(formerly Bic Liguria S.p.A.)	5			5
Consorzio Pisa Ricerche	76			76
Centro per l'innovazione – Pisa	2		(2)	0
A.N.C.M.A. – Rome	1			1
GEOFOR. S.p.A.	47			47
GEOFOR Patrimonio S.p.A.	12			12
E.CO.FOR. Service S.p.A.	2			2
Consorzio Fiat Media Center – Turin	3			3
S.C.P.S.T.V.	21			21
Total other companies	169	0	(2)	167

22. Deferred tax assets €/000 29,996

These totalled €/000 29,996 compared to €/000 17,810 at 31 December 2005.

The change of €/000 12,186 was mainly generated by the €/000 10,296 application of deferred tax assets recognised in previous years and the recording of new deferred tax assets totalling €/000 22,482.

This entry was made in the light of the expected results of Piaggio & C. S.p.A., its expected application over the next years and taking account of the different timing between use and falling due of the related tax benefits.

In thousands of euro	Amount of the timing differences	Tax effect 33.00%	Tax Effect 4.25%
- Write-down of equity investments	2,277	751	
- Provisions for risks	7,913	2,611	218
- provisions for charges	11,972	3,951	509
- Bad debts reserve	12,496	4,124	
- Provision for obsolescent inventories	18,660	6,158	793
- Other changes	156	51	7
Total timing differences	53,474	17,646	1,527
- 2002 tax loss	34,108	11,256	
- 2003 tax loss	40,518	13,371	
- 2004 tax loss	55,808	18,417	
Total tax losses	130,434	43,044	
- Recognised deferred tax assets		29,996	
- Non-recognised deferred tax assets		30,694	1,527

23. Non-current trade receivables and other receivables €/000 4,393

Trade receivables and other receivables included under non-current assets totalled €/000 4,393 compared to €/000 1,285 at 31 December 2005, as follows:

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Receivables due from associated companies	363	396	(33)
Other	4,030	889	3,141
Total	4,393	1,285	3,108

The "Other" item includes €/000 144 of guarantee deposits, unchanged compared to the previous year and prepaid expenses of €/000 3,004

24. Current trade receivables and other receivables €/000 217,529

Trade and other receivables included in the current assets totalled €/000 217,529 against €/000 175,529 at 31 December 2005. The €/000 42,280 increase is due besides the growth in volumes and net sales highlighted in the Directors' Report from the transfer to Piaggio & C. S.p.A. of all trade receivables relating to commercial transactions with the sales network carried out by Aprilia in Europe starting in May 2006 and, as regards Piaggio, to the transfer of UK trade receivables starting 1 September 2006, and Spanish and French trade receivables starting 31 December 2006. Trade receivables and other receivables included under current assets are represented by:

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Receivables due from customers	79,663	62,258	17,405
Trade receivables due from subsidiaries	102,846	74,915	27,931
Trade receivables due from associated companies	1,058	403	655
Trade receivables due from parent companies	8	0	8
Other receivables due from third parties	17,130	18,142	(1,012)
Other receivables due from subsidiaries	13,178	19,368	(6,190)
Other receivables due from associated companies	3,578	163	3,415
Other receivables due from parent companies	68	0	68
Total	217,529	175,249	42,280

Receivables from customers are stated net of a provision for bad debt of €/000 8,113.

Trade receivables comprise receivables related to normal sales transactions.

They include receivables in foreign currency of CHF/000 184, DKK/000 1,543, JPY/000 420, NOK/000 97, SGD/000 520, SEK/000 22, GBP/000 7,953 and USD/000 24,748, for an overall counter value of €/000 33,899 at the exchange rate of 31 December 2006.

The item also includes invoices to be issued for €/000 4,613, relating to normal commercial transactions and credit notes to be issued for €/000 13,304, relating mainly

to bonuses for targets achieved by the sales networks in Italy and abroad, as well as bills and collection advices presented to banks and not yet due for €/000 2,119.

Receivables due from local customers are normally sold to factoring companies and, as of December 2005, are usually discounted without recourse.

At 31 December 2006, receivables sold with recourse totalled €/000 4,047 with a counter-entry in current liabilities. During 2005, the parent company signed agreements with three of the major Italian factoring companies for the without recourse sale of its trade receivables. At 31 December 2006, trade receivables sold without recourse totalled €/000 77,145, of which €/000 73,298 were discounted.

The changes in the provision were as follows:

In thousands of euro	
31 December 2005	6,868
Increases for provisions	1,363
Adjustment	(24)
Decreases for applications	(94)
31 December 2006	8,113

In 2006, the receivables provision was used to cover losses for €/000 94.

Adjustments to the provision were carried out against risks emerging upon valuation of the receivables at 31 December 2006. Trade receivables due from subsidiaries refer to supplies of products carried out at arm's length; the other receivables due from subsidiaries comprise €/000 7,165 deriving from miscellaneous costs and charges recovered, and €/000 6,013 from cash pooling.

Receivables from associated companies refer to €/000 3,420 of receivables due from Piaggio Foshan Motorcycles, related to agreements contained in the joint venture contract signed with the Chinese partner Zongshen Indus-

trial Group Company Limited which, with reference to such receivable, envisage that in the event of certain conditions, Piaggio Foshan should pay 4.5 million USD as soon as possible, even in instalments, between 15 April 2007 and no later than 15 April 2011.

A provision has been made against the risks that may derive from such agreements that is deemed adequate based upon available information.

Other receivables due from third parties comprise:

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Receivables due from social security institutions	0	58	(58)
Receivables due from employees	325	246	79
Other receivables due from third parties:			
Advances on services provided	123	123	0
Balances with suppliers and other debtors	3,481	3,306	175
Invoices and credit notes to be issued	859	521	338
Miscellaneous receivables from Italian and foreign third parties	8,169	5,954	2,215
Receivables for the sales of property	522	898	(376)
Other receivables	3,651	7,036	(3,385)
Total	17,130	18,142	(1,012)

Receivables due from employees refer to advances paid for travel expenses, for illness and injury, contractual advances, cash reserves, etc.

Miscellaneous receivables of €/000 8,169 refer mainly to receivables from Italian and foreign parties for non-core business transactions.

25. Inventories €/000 171,585

At 31 December 2006 these totalled €/000 171,585 compared to €/000 132,674 at the end of 2005 and comprise:

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Raw materials	73,041	62,008	11,033
Provision	(7,218)	(8,240)	1,022
Net value	65,823	53,768	12,055
Consumables	2,477	2,371	106
Work in progress	24,291	12,300	11,991
provision	(852)	(852)	0
Net value	23,439	11,448	11,991
Finished products and goods for resale	91,028	73,955	17,074
Provision	(11,199)	(8,882)	(2,316)
Net value	79,829	65,072	14,757
Payments on account	17	16	1
Total	171,585	132,675	38,910

Changes in the provision for obsolescence are detailed in the table below number 5.

TAB 5

In thousands of euro	At 31/12/2005	Reclassifications.	Application	Accrual	At 31/12/2006
Raw materials	8,240		(2,006)	984	7,218
Work in progress					
Semi-finished products	852				852
Goods for resale	2,848		(1,160)	2,360	4,048
Finished products	6,034		(392)	1,509	7,151
Total	17,974	0	(3,558)	4,853	19,269

TAB 6

In thousands of euro	Italy	Europe	North America	India	Asia	Other countries	Total
Non-current receivables and other financial assets	63	27,500					27,563
Medium-/long-term receivables due from tax authorities	6,223	866					7,089
Non-current trade and other receivables	4,393						4,393
Current trade and other receivables	47,203	156,651	600	2,389	5,702	4,984	217,529
Short-term receivables due from tax authorities	25,013						25,013
Current financial assets	22,173	10,590					32,763
Total	105,068	195,607	600	2,389	5,702	4,984	314,350

Geographical distribution of the receivables recorded among the assets

The table 6 details the geographical distribution of the receivables recorded among the assets in the balance sheet at 31 December 2006.

26. Other current financial assets €/000 32,763

This item comprises:

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Financial receivables due from third parties	430	488	(58)
Financial receivables due from subsidiaries	32,303	23,574	8,729
Financial receivables due from associated companies	30	238	(208)
Total	32,763	24,300	8,463

Financial receivables due from subsidiaries comprises €/000 21,713 for a loan in favour of Moto Guzzi S.p.A.,

€/000 10,390 for a loan in favour of Piaggio Vespa BV and €/000 200 for a loan in favour of Nacional Motor.

27. Cash and cash equivalents €/.000 35,654

The heading mainly includes short-term and on demand bank deposits.

Cash and cash equivalents totalled €/000 35,654 compared to €/000 14,163 at 31 December 2005, as shown in the following table:

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Bank and post office deposits	35,630	14,113	21,517
Cheques	0	25	(25)
Cash on hand	24	25	(1)
Total	35,654	14,163	21,491

28. Assets destined for sale €/000 0

At 31 December 2006, there were no assets destined for sale.

INFORMATION ON THE BALANCE SHEET - LIABILITIES**29. Share capital and reserves** €/000 349,863**Share capital** €/000 203,170

Fully subscribed and paid up share capital at 31 December 2006 consisted of 390,712,148 ordinary shares of nominal value of € 0.52 each, for a total of € 203,170,316.96 following the issue of 16,044,011 new ordinary shares offered to and accepted by the beneficiaries of the stock option plan. On 31 January 2007, 5,328,760 new shares were issued to the beneficiaries who had exercised on 26 January 2007. Therefore, at the date of approving these financial state-

ments, the fully subscribed and paid-up share capital comprises 396,040,908 ordinary shares of nominal value € 0.52 each, for a total of € 205,941,272.16.

All options granted under the 2004-2007 Plan have been exercised.

Share premium reserve €/000 32,961

The share premium reserve at 31 December 2006 stood at € 32,960,645.06. In 2006, this item increased by € 8,460,645.06 as a result of 16,044,011 options being exercised.

Legal reserve €/000 723

The legal reserve at 31 December 2006 stood at €/000 723.

Other reserves and retained earnings €/000 42,003

This item comprises the following:

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Stock option reserve	4,827	2,266	2,561
Financial instruments' fair value reserve	58,702	56,446	2,256
IFRS transition reserve	13,181	(7,197)	20,378
<i>Total other reserves</i>	<i>76,710</i>	<i>51,515</i>	<i>25,195</i>
Retained earnings	(34,707)	(30,211)	(4,496)
Total	42,003	21,304	20,699

The financial instruments' fair value reserve includes €/000 58,985 arising from the measurement of the Aprilia warrants and a negative €/000 283 relating to the effect of recording the cash flow hedge.

Net income for the period €/000 71,006

The table 7 below provides an analytical view of the individual shareholders' equity items by origin, availability and application in the three previous years. The company used provisions to cover losses only in 2004.

It is pointed out that, in accordance with point 5 of Article 2426 of the Italian Civil Code, shareholders' equity is not available for the amount of development costs yet to be amortised, which at 31/12/2006 totalled €/000 44,802.

30. Financial liabilities (current and non-current)

€/000 367,515

Financial liabilities included under non-current liabilities totalled €/000 345,775 compared to €/000 350,971 at 31 December 2005, while financial liabilities included under current liabilities totalled €/000 21,740 compared to €/000 94,468 at 31 December 2005.

As is shown in the table on the net financial position included in the financial schedules, overall net debt fell from

€/000 445,439 at 31 December 2005 to €/000 367,515 at 31 December 2006, a reduction of €/000 77,924.

The tables 8 and 9 summarise the breakdown of financial debt at 31 December 2006 and at 31 December 2005, as well as the changes in the year.

The significant reduction in debt was due to the cash flow generated in 2006 thanks to the positive income performance and a further improvement in the management of working capital.

Against this background, it was decided to reduce the forms of short-term debt, typically consisting in current account overdrafts, revolving credit lines and advances from factoring, while a new subsidised medium-term loan (X11 Project) of €/000 1,352 has been activated with the Ministry of Economic Development.

TAB 7

Nature/description	Amount	Possibility of application	Amount available	2004 applications to cover losses
Capital	203,170			
Capital reserves:				
Share premium	32,961	A, B, C (*)	32,961	292,987
Payments made by shareholders				32,000
Financial instruments fair value reserve	58,702	---	---	
Earnings reserves:				
Legal reserve	723	B	---	
Extraordinary reserve				48
Non-distributable reserves as per Article 2423 of Italian Civil Code				8,365
IAS transition reserve	13,181	A, B, C	13,181	
Stock option reserve	4,827	A, B, C	4,827	
Total reserves	110,394		50,969	333,400
Retained earnings	(34,707)			
Earnings for the period	71,006			
Total shareholders' equity	349,863			

Legend:

A: for increase in capital

B: to cover losses

C: for distribution to shareholders

(*) Entirely available for increase in capital and to cover losses. Any other uses require prior adjustment (even by transfer from the share premium account itself) of the legal reserve to 20% of the share capital. At 31.12.2006 such adjustment would have been €/000 39,911.



TAB 8

(in thousands of euro)	31/12/05	Reclassifications	Increases	Repayments	Other changes	31/12/06
Financial liabilities falling due within 12 months						
Short-term bank loans	25,452		184	(25,452)		184
Current account overdrafts	8,840			(8,809)		31
Short-term payables due to factors	32,502		2,513	(30,795)		4,220
Short-term financial payables due to subsidiaries	20,051			(19,543)		508
Short-term financial payables due to parent company (PG Netherlands)	54			(54)		0
Current portion of medium-/long-term loans:	7,569	16,797	0	(7,569)	0	16,797
<i>Of which payables due to banks</i>	4,535	15,738		(3,741)	(794)	15,738
<i>Of which payables due to other lenders (M.I.C.A.)</i>	235	422		(405)	170	422
<i>Of which payables due to other lenders (Simest)</i>		357		(624)	624	357
<i>Of which payables due to other lenders (Val. IRS)</i>	2,530			(2,530)		0
<i>Of which payables due to other lenders (Leasing)</i>	269	280		(269)		280
Total	94,468	16,797	2,697	(92,222)	0	21,740

TAB 9

(in thousands of euro)	31/12/05	Reclassifications	Increases	Repayments	Other changes	31/12/06
Financial liabilities falling due beyond 12 months						
Medium-/long-term loans	205,715	(15,738)	419		(10,755)	179,641
<i>Of which EMH instrument</i>	9,190				250	9,440
Medium-/long-term payables due to other lenders	1,306	(1,059)	1,352	0	19,911	21,510
<i>Of which leases</i>	280	(280)				0
<i>Of which payables due to other lenders (M.I.C.A.)</i>	1,026	(422)	1,352		9,750	11,706
<i>Of which Simest</i>		(357)			1,071	714
<i>Of which Aprilia shareholders financial instruments</i>					9,090	9,090
Medium-/long-term payables due to subsidiaries	143,950		674			144,624
Total	350,971	(16,797)	2,445	0	9,156	345,775

The following table 10 shows the breakdown of debt and the repayment plan at 31 December 2006.

The following table analyses financial debt by currency and interest rate.

(in thousands of euro)	Book value at 31/12/2005	Book value at 31/12/2006	Notional value	Interest rate in force
Euro	445,439	367,515	376,055	6.823%
Total	445,439	367,515	376,055	

Medium-term loans amount to €/000 195,379 (of which €/000 179,641 non-current and €/000 15,738 current) and comprise the following:

- €/000 148,306 (nominal value €/000 150,000) loan provided by Mediobanca and Banca Intesa San Paolo. In April 2006, this loan was syndicated to a restricted pool of banks and has a portion of €/000 150,000 nominal

fully drawn down and a portion of €/000 100,000 to be used as a credit line, which at 31 December 2006 was completely unused. The structure envisages a 7-years duration, with a grace period of 18 months and 11 semi-annual instalments with the last maturity on 23 December 2012 for the loan portion, a variable interest rate linked to the 6-month Euribor rate to which a variable margin of between a maximum of 2.10% and a minimum of 0.65% is added depending on the Financial Debt/Ebitda ratio. As a result of the improvement in this index recorded in the 2005 annual financial statements, this margin has fallen from the initial 1.30% to 1.15% as from the second half of 2006. There is a 0.25% commitment fee on the credit line portion. The contract does not envisage the issue of guarantees, while, in line with market practice, it does require meeting some financial parameters. It should be noted that,

TAB 10

(in thousands of euro)	Book value at 31.12.05	Book value at 31.12.06	Nominal value at 31.12.06	Amounts falling due within 12 months	Amounts falling due beyond 12 months	Amounts falling due in				
						2008	2009	2010	2011	Beyond
Bank loans	235,352	186,154	187,848	16,414	171,434	28,430	57,204	27,174	29,865	28,761
Bonded loans	-	-	-	-	-	-	-	-	-	-
Other medium-/long-term loans:										
<i>Of which leases</i>	548	280	280	280	-	-	-	-	-	-
<i>Of which payables due to other lenders</i>	36,293	17,419	17,419	4,999	12,420	2,610	2,486	2,142	2,168	3,014
<i>Of which Aprilia instruments</i>	9,190	18,530	20,000	-	20,000	16,500	3,500	-	-	-
<i>Of which payables due to subsidiaries</i>	164,001	145,132	150,508	508	150,000					150,000
<i>Of which payables due to parent companies</i>	55	-	-	-	-	-	-	-	-	-
Total other loans	210,087	181,361	188,207	5,787	182,420	19,110	5,986	2,142	2,168	153,014
Total	445,439	367,515	376,055	22,201	353,854	47,540	63,190	29,316	32,033	181,775

in reference to the 2006 earnings, these parameters were comfortably met;

- A €/000 29,000 loan granted by a pool of 14 banks for the acquisition of Aprilia for an amount of 34 million euro in non self-liquidating financial receivables claimed by the same lenders from Aprilia S.p.A. The conditions envisaged a fixed interest rate of 3.69% annually compounded and repayment in a single instalment of capital and interest at the final maturity, set for 31 December 2009, aligned with the exercise date of the Piaggio 2004-2009 warrants underwritten by the same banks during the Aprilia closing;
- a €/000 1,045 loan provided by Interbanca in accordance with Law 346/88 regarding subsidies for applied research, guaranteed by a mortgage lien on property;
- interest free loan of €/000 2,691 provided by Banca Antonveneta originally to a subsidiary of the Aprilia Group and, following the acquisition, taken on by Piaggio & C. S.p.a. with a single repayment date in 2011. The conditions envisage a market interest rate over the last two years on the basis of the performance of the Piaggio 2004-2009 warrants;
- €/000 484 variable rate loan provided by Unicredito Italiano with EIB funds, maturing on 1 July 2007;
- €/000 646 variable rate loan provided by the European Investment Bank with a guarantee from the Banca Toscana, maturing on 31 December 2007;
- €/000 678 loan provided by Mediocredito Centrale at a subsidised rate in accordance with Law 49 art. 7 on international cooperation, maturing on 16 June 2008;
- €/000 3,090 variable rate loan provided to the parent company by Efibanca, maturing on 28 December 2009;
- €/000 9,440 Finance Liability by Interbanca in its capacity as concessionaire of the EMH financial instruments.

Medium-/long-term financial payables due to subsidiaries falling due beyond one year (€/000 144,624 net book value) refers to the loan provided by Piaggio Finance S.A.

against a high-yield bonded loan issued on 27 April 2005 for a nominal amount of €/000 150,000.

Medium-/long-term payables due to other lenders amount to €/000 22,569 (€/000 21,510 falling due beyond 12 months and €/000 1,059 for the current portion). Their breakdown was as follows:

- €/000 9,090 Aprilia ex-shareholders financial instrument;
- subsidised loans for €/000 13,199 provided by Simest and by the Ministry of Productive Activities using regulations to encourage exports and investment in research and development (non-current portion of €/000 12,420);
- Finance leases of €/000 280

Financial instruments

Exchange rate risks

In 2006, exchange rate risk was managed in line with the policy adopted in 2005 which aims to neutralise the possible negative effects of the changes in exchange rates on company cash-flow, by hedging the business risk, which concerns the changes in company profitability compared to the annual business budget on the basis of a key change (the so-called "budget change") and of the settlement risk, which regards the differences between the exchange rate recorded in the financial statements for receivables or payables in foreign currency and that recorded in the related receipt or payment.

The exposure to business risk consists of the envisaged payables and receivables in foreign currency, taken from the budget for sales and purchases reclassified by currency and accrued on a monthly basis.

The hedges must be at least 66% of the business exposure of each month.

The exposure to settlement risk consists of receivables and payables in foreign currency acquired in the accounting system at any moment. The hedge must be equal at any moment to 100% of the import, export or net settlement exposure for each currency.

Referring to contracts which are made to hedge exchange rate risk on receivables and payables in foreign currency (settlement risk), at 31 December 2006 Piaggio & C. S.p.A. had forward purchases of JPY/000,000 40 equivalent to €/000 257 (valued at the forward exchange rate), GBP/000 800 corresponding to €/000 1,190 and CHF/000 2,050 corresponding to €/000 1,281.

At 31 December 2006 the following forward sale contracts were outstanding:

- USD/000 30,400 corresponding to €/000 23,145 (valued at the forward exchange rate);
- GBP/000 2,470 corresponding to €/000 3,658 (valued at the forward exchange rate);
- JPY/000,000 208 corresponding to €/000 1,348 (valued at the forward exchange rate);
- CHF/000 2,400 corresponding to €/000 1,515 (valued at the forward exchange rate);
- and finally DKK/000 1,900 corresponding to €/000 255 (valued at the forward exchange rate).

In relation to the contracts in place for hedging exchange rate risk on forecast transactions (business risk), at 31 December 2006 the parent company had forward purchase transactions of JPY/000,000 1,250 corresponding to €/000 8,503 and forward sales transactions for a value of CHF/000 10,800 corresponding overall to €/000 6,852 (valued at the forward exchange rate), GBP/000 24,650 corresponding to €/000 36,465 (valued at the forward exchange rate) and USD/000 50,000 corresponding to €/000 38,948 (valued at the forward exchange rate).



31. Trade payables (current and non-current) €/000 332,530

Trade payables are all included among current liabilities and stand at €/000 332,530 compared to €/000 240,025 at 31 December 2005.

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Current liabilities:			
Amounts due to suppliers	304,459	222,290	82,169
Trade payables due to subsidiaries	19,481	13,769	5,712
Trade payables due to associated companies	8,566	2,613	5,953
Trade payables due to parent companies	24	1,353	(1,329)
Total current portion	332,530	240,025	92,505

This heading comprises payables of a trade nature, €/000 325,760 deriving from the purchase of goods and services for business purposes and €/000 6,770 for the purchase of fixed assets. The increase compared to the previous year is mainly due to the greater volumes recorded, as well as the different seasonal nature of purchases.

The heading includes foreign currency payables of CHF/000 79, GBP/000 1,214, INR/000 3,850, JPY/000 239,014, NOK/000 72, SEK/000 1,520, USD/000 2,618, DKK/000 58, HKD/000 151, SGD/000 532 and RMB/000 20 for a total counter value of €/000 5,898.

Payment of €/000 5,279 of liabilities under this heading is secured by bank guarantees.

32. Provisions (current and non-current) €/000 31,863

The breakdown and changes in the provisions for risks and charges during the year were as follows as per table 11. The distribution between the current and non-current portions of long-term provisions is as follows as per tables 12 and 13.

The provision for tax risks allocated in 2005 by Aprilia against contingent liabilities deriving from the inspection



TAB 11

(in thousands of euro)	Balance at 31/12/2005	Allocations	Applications	Adjustments	Reclassifications	Balance at 31/12/2006
Provisions for risks						
Provision for tax risk	1,000		(1,000)			0
Provision for equity investment risk	12,484		(507)			11,977
Provision for contractual risk	13,344		(4,048)	(4,244)		5,052
Provision for legal dispute risks	2,356	300				2,656
Provision for risks on guarantees provided	58	80				138
Other provisions for risks	2,777		(1,152)		(1,557)	68
Total provisions for risks	32,019	380	(6,707)	(4,244)	(1,557)	19,891
Provisions for charges						
Product warranty provision	12,669	10,310	(12,564)		1,557	11,972
Promotional expenses provision	4,064			(4,064)		0
Restructuring provision	4,235		(3,924)	(311)		0
Total provisions for charges	20,968	10,310	(16,488)	(4,375)	1,557	11,972
Total provisions for risks and charges	52,987	10,690	(23,195)	(8,619)	0	31,863

TAB 13

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Current portion			
Provision for tax risks		1,000	(1,000)
Provision for risks on equity investments		507	(506)
Provision for contractual risks	200	10,008	(9,808)
Provision for risks on guarantees provided	80		(80)
Other provisions for risks	68	2,083	(2,015)
Product warranty provision	10,579	8,868	1,711
Promotional expenses provision		4,064	(4,064)
Restructuring provision		4,235	(4,235)
Total current portion	10,927	30,765	(19,838)

TAB 12

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Non-current portion			
Provision for risks on equity investments	11,977	11,977	
Provision for contractual risks	4,852	3,336	1,516
Provision for legal disputes risks	2,656	2,356	300
Provision for risks on guarantees provided	58	58	
Other provisions for risks		694	(694)
Product warranty provision	1,393	3,801	(2,408)
Total non-current portion	20,936	22,222	(1,286)

carried out by the Italian tax authorities (Agenzia delle Entrate) in 2004, following which inspection advices were received for the tax years 2000, 2001 and 2002, was entirely used in January 2006 after the inspection advices were acknowledged. As regards the tax dispute in existence at 31 December 2006, upon evaluating the various positions and taking account of the valuations of the lawyers engaged, no elements emerged to make any further allocations deemed necessary.

The provision for risks on equity investments at 31 December 2006 refers to:

- €/000 5,286 of charges that could derive from the equity investment in the associate company Piaggio Foshan Motorcycles Co. Ltd, while waiting for its business performance to consolidate. "Commitments and risks" include the guarantees provided against loans issued by banks in favour of the associated company Piaggio Foshan Motorcycle Co. Ltd. both directly (€/000 6,150) and through subsidiaries (€/000 7,441).
- €/000 194 to the subsidiary Piaggio China Co. Ltd and €/000 6,497 to the subsidiary Aprilia World Service B.V in consideration of likely future charges deemed to be incurred from the equity investment in the two companies.

The application of €/000 507 relating to the provision for risks on equity investments refers for €/000 250 to covering the losses of Moto Laverda S.r.l in liquidation and for €/000 257 to covering losses in Motocross Company S.r.l., liquidated during the year.

The provision for contractual risk refers to:

- €/000 200 regards the agreement dated 16 October 2003 between Piaggio & C. S.p.A. and the former Piaggio Holding S.p.A., part of a more complex agreement to sell the Piaggio Group to IMMSI S.p.a. Article 2 "Assumption of payables and waiver of receivables" envisages that any adjustment between the receivable waived by Piaggio & C. S.p.A. in favour of Piaggio Holding S.p.A. and the payables due by Piaggio Holding regarding the latter's activities as parent company

of the Piaggio Group may not exceed either positively or negatively €/000 750. At 31/12/2006, the allocation made in previous years to cover the risk deriving from this contract was reduced by €/000 244.

- €/000 4,852 relating to charges that may arise from the renegotiation of an ongoing supply contract. The application of €/000 4,048 was made against a write-down of intangible assets associated with this position, deemed irrecoverable. The €/000 4,000 reduction reflects the valuation of the risk at 31/12/2006.

The provision for legal disputes regards labour disputes for €/000 1,185 and the difference of €/000 1,471 refers to other legal disputes. The €/000 300 provision made during the year relates to other ongoing legal disputes.

The provision for risks on guarantees provided refers to charges that may be incurred for guarantees provided upon disposing of company equity investments. Following a valuation of the various positions in 2006, a further provision of €/000 80 was made.

The other provisions for risks regard Aprilia. In 2006, the amount of €/000 1,152 was used against losses deriving from an exchange operation while €/000 1,557 was reclassified under the product warranty provision. The closing balance of €/000 68 refers to contingent liabilities relating to the sale of products. The product warranty provision relates to allocations for technical assistance on products with customer service which are estimated to be provided over the contractually envisaged warranty period.

This period ranges depending on the type of goods sold and the sales market, and is also determined by customer take-up to commit to planned maintenance.

The provision increased during the period by €/000 11,867 due to new allocations and reclassifications, and was used for €/000 12,564 in relation to warranty charges incurred during the year. The provision for promotional expenses was reversed since the reasons suggesting the original allocation no longer existed.

The provision for charges for restructuring was used in 2006 for an amount of €/000 3,924 against charges sus-

tained for corporate restructuring and the difference of €/000 311 was reversed.

33. Deferred tax liabilities €/000 26,963

Provisions for deferred tax liabilities refer to:

- €/000 35 for the elimination of the tax interference in 2004 on accelerated depreciation.
- €/000 3,760 for the gain recorded by Aprilia in 2005 on buildings it leased that were re-purchased by Aprilia Leasing S.p.A. These deferred tax liabilities, relating to the non-recognition of tax on this gain, were charged by Aprilia directly to equity, decreasing the revaluation reserve.
- €/000 871 for the reversal of the amortisation of goodwill fiscally recognized goodwill.
- €/000 325 relating to the application of IAS/IFRS, which led to certain deferred tax liabilities on the effects deriving from discounting employee leaving indemnity (€/000 33), the recording of leased intangible assets (€/000 72), the entry of accessory charges incurred on loans (€/000 55), the reversal of depreciation calculated on the cost of the land part of buildings (€/000 165).
- €/000 21,972 allocated to the Aprilia brand for the merger deficit deriving from incorporating that company in 2005. The gain was recorded under that asset in that it was referable to the higher price paid at the time of acquiring the incorporated company. The deferred

tax liability, related to the non-recognition of the tax on such gain, was charged directly to equity.

The provisions for deferred tax liabilities were reduced by €/000 1,729 following the release of the portion for the period and increased by €/000 501 for new allocations.

34. Provisions for pensions and employee benefits €/000 72,750

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Pension funds	381	326	55
Employee leaving indemnity	72,369	72,563	(194)
Total	72,750	72,889	(139)

The provisions for pensions essentially comprise additional customer indemnity provision, which represents the compensation due to agents in the case of the agency contract being terminated for reasons beyond their control. The €/000 13 of applications refer to the payment of compensation that has already been set aside in previous years, while the €/000 13 reduction is for compensation accrued but deemed not payable, while €/000 80 of allocations refer to compensation accrued during the year.

The changes in the provision for employee leaving indemnity were as follows per table 14.



TAB 14

	In thousands of euro
Balance at 31 December 2005	72,563
Portion accrued and allocated to the income statement	10,471
Additional contribution as per Article 3 of Law 297/82	(575)
11% income tax on employee leaving indemnity valuation	(204)
Provision transferred to other group companies	5
Provision transferred to other companies	(46)
Compensation paid during the year	(5,781)
Portion transferred to supplementary pension funds	(1,364)
Tax credit for income tax advanced on employee leaving indemnity Law 140/97:	
- Revaluation of tax credit in existence at 31/12/06	(47)
- Decrease for use of tax credit	875
Discounting effect	(3,528)
Balance at 31 December 2006	72,369

As described in the Directors' Report, in relation to the incentive plan approved during 2004, the parent company allo-

cated 21,372,771 stock options out of a total of 24,401,084 at an exercise price of € 0.98 per share for 18,504,771 options and € 1.72 per share for 2,868,000 options.

As previously indicated in the paragraph on consolidation principles, the cost corresponds to the present value of the options, which the company has set using the Black-Scholes measurement model that uses the average volatility of a basket of shares similar to that of the company and an interest rate obtained as the average of the interest rate swap for a multi-currency loan for a period equal to the length of the contract.

The value determined is recognised under employee costs on a straight line basis over the period between the date of allocation and that of maturity, with a counter entry recognised directly in shareholders' equity.

In 2006, all rights previously assigned were recognised, therefore the residual cost of the value of the options was charged to the income statement.

In accordance with CONSOB regulation 11971/99, as subsequently modified, the following table shows the options allocated to directors, general managers and senior managers with strategic responsibilities:

Full name	Position held	Options held at the start of the year			Options assigned during the year			Options exercised during the year			Options expiring during the year	Options held at 31 December 2006		
		Number of options	Average exercise price	Average maturity	Number of options	Average exercise price	Average maturity	Number of options	Average exercise price	Average market price at exercise date	Number of options	Number of options	Average exercise price	Average maturity
Sabelli Rocco	CEO (until 13.11.06)	5,490,244	0.98	11.07.2007				5,490,244	0.98	2.26				
Neri Gianclaudio	GM (until 31.10.06)	3,294,116	0.98	11.07.2007				3,294,116	0.98	2.64				
Pallottini Michele	GM (from 13.11.06)	976,042	0.98	11.07.2007								876,042	0.98	11.07.2007
Bandiera Michele	GM (from 13.11.06)	600,000	1.72	11.07.2007								600,000	1.72	11.07.2007
Total		10,360,402						8,784,360				1,576,042		

35. Tax payables (current and non-current)

€ /000 8,385

Tax payables totalled € /000 8,385 against € /000 7,509 at 31 December 2005.

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Income tax for the period payable	320	2,402	(2,082)
Other payables due to tax authorities for:			
- VAT to be paid in EU countries	2,536		2,536
- Withholdings	4,485	4,513	(28)
- Stamp duty payable	1,037	378	659
- Tax demands and taxes to be paid	7	216	(208)
Total other payables due to tax authorities	8,065	5,107	2,958
TOTAL	8,385	7,509	876

Current tax payables include € /000 47 of separate Italian income tax (IRES) on controlled foreign companies (CFC), € /000 13 of regional tax on production (IRAP) expected to be paid for the 2006 tax period, net of advances already paid for € /000 9,137, € /000 260 of taxes to be paid abroad

on income produced there (royalties and know-how). VAT to be paid in EU countries refers to the payable arising at the year end for sales tax due in those EU countries where direct tax representation was obtained in relation to such tax. Payables for withholdings made refer mainly to withholdings on employees' earnings, on employment termination payments and on self-employed earnings. The stamp duty payable refers to the closing balance due for such tax in compliance with the specific authorisation granted by the local tax authority (Agenzia delle Entrate).

36. Other payables (current and non-current)

€ /000 123,395

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Non-current portion:			
Accrued expenses	2,143	-	2,143
Deferred income	4,864	-	4,864
Amounts due to social security institutions	1,084	1,066	18
Other payables	6,785	6,103	682
Total non-current portion	14,876	7,169	7,707

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Current portion:			
Payables due to subsidiaries	67,853	7,856	59,997
Payables due to associated companies	156	0	156
Amounts due to employees	19,006	21,786	(2,780)
Amounts due to social security institutions	8,141	6,916	1,225
Amounts due to company boards	176	318	(142)
Amounts due for non-finalised grants	2,198	498	1,700
Amounts due for audit	455	694	(239)
Other debtors balances	190	59	131
Customer balances	3,400	2,082	1,318
Deferred income	1,319	6,420	(5,101)
Accrued expenses	3,155	12,057	(8,902)
Other payables	2,470	3,477	(1,007)
Total	108,519	62,163	46,356

Other payables included in non-current liabilities totalled €/000 14,876 compared to €/000 7,169 at 31 December 2005, while other payables included in current liabilities totalled €/000 108,519 compared to €/000 62,163 at 31 December 2005.

As regards the non-current portion:

- Accrued expenses refer to interest on loans.
- Deferred income comprises €/000 2,140 from the Piaggio & C. Warrant premium (amount paid by underwriters) charged to the income statement according to the duration of that financial instrument, €/000 1,431 from grants related to plant to be recorded in the income statement as regards the depreciation, €/000 1,293 from income received but pertaining to other periods deriving from licensing contracts.
- Other payables comprise €/000 1,021 of guarantee deposit paid in 1997 by T.N.T. Automotive Logistics S.p.A. to guarantee the payment of the employee leav-

ing indemnities accrued by employees working for the company branch sold dealing with the receipt, packaging, warehousing and physical distribution of parts and accessories and €/000 5,764 of amounts due to employees for holidays accrued but not taken, which historically is expected to be used beyond 12 months.

Amounts due to social security institutions includes essentially amounts due regarding the company and employee contributions due for wages and salaries in December and the amounts allocated for the early retirement (mobilità lunga) which Piaggio & C. employees who left under the restructuring plan are benefiting from.

Payables falling due beyond one year refer to the payable due to the Italian social security (INPS) for such early retirement. Other payables due to subsidiaries refer to €/000 37,818 for the acquisition from Piaggio Espana SA, Piaggio France SA and Piaggio Ltd of their trade receivables due from their dealers following the organisational restructuring of the marketing activities and €/000 29,648 of zero-balance cash pooling that aims to harmonise the bank balances of some subsidiaries so as to optimise group cash management.

Amounts due to employees include €/000 5,764 for holidays accrued and not taken and €/000 13,242 of other compensation to be paid.

Grants of €/000 2,198 refer to grants for subsidies on research activities not yet finally acquired, paid by Medio Credito Centrale, as per Law 488/92, and the EU.

Balances essentially refer to bonuses for achieving targets paid to customers after the year end and credit notes for returns. Deferred income includes the current portion of the warrant premium (€/000 1,070) and to licensing contracts mentioned above (€/000 200) as well as other miscellaneous deferrals whose income will be recorded in the income statement next year.

Accrued expenses refer to €/000 2,787 of loan interest due, of which €/000 2,619 to the parent company Piaggio Finance Luxemburgo and €/000 368 for sundry costs and expenses.

Geographical distribution of the payables recorded under liabilities

The table below details the geographical distribution of the payables recorded as liabilities in the balance sheet at 31 December 2006.

Milan, 16 March 2007

For the Board of Directors
Chairman and Chief Executive Officer
Roberto Colaninno

E) DEALINGS WITH RELATED PARTIES

The main economic and financial dealings that Group companies had with related parties have already been described in the specific paragraph in the Directors' Report to which reference is made here. To supplement that information the following table 15 provides an indication by company of the outstanding items at 31 December 2006, as well as their contribution to the respective headings.

In thousands of euro	Italy	Europe	North America	India	Asia	Other countries	Total
Financial liabilities due beyond 12 months	201,151	144,624					345,775
Non-current trade and other payables	14,876						14,876
Financial liabilities due within 12 months	21,740						21,740
Current trade payables	269,577	30,754	2,106	11,238	18,025	830	332,530
Amounts due to tax authorities – Current liabilities	5,589	2,537		259			8,385
Other current payables	40,945	67,574					108,519
Total	553,878	245,489	2,106	11,497	18,025	830	831,825



TAB 15

		Amounts in €/000	As a % of the statement item
Dealings with subsidiaries			
<i>P & D Spa</i>	Current trade and other receivables	4	0.00%
	Current financial liabilities	503	2.31%
	Other current payables	4	0.00%
	Other operating income	4	0.01%
	Financial charges	6	0.01%
<i>Nacional Motor</i>	Other non-current financial assets	27,500	99.17%
	Other current financial assets	200	0.61%
	Current trade and other receivables	12,409	5.70%
	Current trade payables	3,378	1.02%
	Other current payables	16,619	15.31%
	Net sales	100,691	8.28%
	Cost of materials	24,812	3.53%
	Costs for services and use of third party assets	291	0.12%
	Other operating income	1,154	1.46%
	Financial income	409	2.63%
Financial charges	78	0.20%	
<i>Piaggio Hrvatska</i>	Current trade and other receivables	684	0.31%
	Current trade payables	1	0.00%
	Other current payables	21	0.02%
	Net sales	12,563	1.03%
	Costs for services and use of third party assets	21	0.01%
	Other operating income	26	0.03%
<i>Piaggio France S.A.</i>	Current trade and other receivables	34,028	15.64%
	Current trade payables	2,494	0.75%
	Other current payables	36,003	33.18%
	Net sales	87,460	7.19%
	Cost of materials	2,438	0.35%
	Costs for services and use of third party assets	172	0.07%
	Other operating income	106	0.13%
	Financial income	171	1.10%
Financial charges	49	0.13%	
<i>Piaggio Deutschland GMBH</i>	Current trade and other receivables	4,742	2.18%
	Current trade payables	114	0.03%
	Other current payables	8,666	7.99%
	Net sales	54,465	4.48%
	Cost of materials	3	0.00%

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		Amounts in €/000	As a % of the statement item
<i>Piaggio Deutschland GMBH</i>	Costs for services and use of third party assets	102	0.04%
	Other operating income	83	0.10%
	Financial charges	148	0.38%
<i>Piaggio LIMITED</i>	Current trade and other receivables	7,523	3.46%
	Current trade payables	3,189	0.96%
	Other current payables	6,190	5.70%
	Net sales	14,155	1.16%
	Cost of materials	3,228	0.46%
	Costs for services and use of third party assets	1,126	0.46%
	Other operating income	43	0.05%
	Financial charges		
<i>Piaggio Benelux BV</i>	Current trade and other receivables	3,594	1.65%
	Current trade payables	13	0.00%
	Net sales	18,710	1.54%
	Costs for services and use of third party assets	25	0.01%
	Other operating income	31	0.04%
	Financial charges		
<i>Piaggio Portugal Ltda</i>	Current trade and other receivables	607	0.28%
	Current trade payables	1	0.00%
	Net sales	2,028	0.17%
	Costs for services and use of third party assets	9	0.00%
	Other operating income	1	0.00%
	Financial charges	2	0.00%
<i>Derbi Italia S.r.l.</i>	Current trade and other receivables	1,627	0.75%
	Other operating income	16	0.02%
<i>Derbi Racing SL</i>	Current trade payables	907	0.27%
	Cost of materials	907	0.13%
	Costs for services and use of third party assets	2,300	0.94%
<i>Piaggio Hellas Epe</i>	Current trade and other receivables	4,258	1.96%
	Current trade payables	1	0.00%
	Net sales	34,701	2.85%
	Costs for services and use of third party assets	16	0.01%
	Other operating income	26	0.03%
<i>Piaggio Vehicles Pvt Ltd</i>	Current trade and other receivables	2,061	0.95%
	Current trade payables	3,142	0.94%
	Cost of materials	3,935	0.56%
	Costs for services and use of third party assets	27	0.01%
	Other operating income	4,976	6.29%
<i>Piaggio Group America's</i>	Current trade and other receivables	17,636	8.11%
	Current trade payables	2,042	0.61%
	Net sales	47,006	3.87%

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		Amounts in €/000	As a % of the statement item
<i>Piaggio Group America's</i>	Costs for services and use of third party assets	1,622	0.66%
	Other operating income	350	0.44%
	Financial income	69	0.44%
<i>Piaggio Indochina</i>	Current trade and other receivables	1,663	0.76%
	Current trade payables	3	0.00%
	Net sales	8,673	0.71%
	Other operating income	273	0.35%
<i>Piaggio Asia Pacific</i>	Current trade and other receivables	257	0.12%
	Current trade payables	263	0.08%
	Net sales	1,969	0.16%
	Costs for services and use of third party assets	835	0.34%
	Other operating income	50	0.06%
<i>Piaggio Vespa BV</i>	Other current financial assets	10,390	31.71%
	Current trade and other receivables	5	0.00%
	Current financial liabilities	5	0.02%
	Financial income	3	0.02%
	Financial charges	854	2.19%
<i>Piaggio China</i>	Current trade payables	28	0.01%
	Costs for services and use of third party assets	23	0.01%
<i>Piaggio Laverda</i>	Other current financial assets	262	0.80%
	Current trade payables	143	0.04%
<i>Motocross Company</i>	Current trade and other receivables	2	0.00%
<i>Aprilia Motorrad GMBH</i>	Current trade and other receivables	415	0.19%
	Costs for services and use of third party assets	1,552	0.63%
<i>Moto Guzzi Spa</i>	Other current financial assets	21,451	65.47%
	Current trade and other receivables	9,408	4.33%
	Current trade payables	1,269	0.38%
	Other current payables	275	0.25%
	Net sales	140	0.01%
	Cost of materials	600	0.09%
	Costs for services and use of third party assets	52	0.02%
	Employee costs	39	0.02%
	Other operating income	1,582	2.00%
	Financial income	1,296	8.34%
<i>Aprilia World Service</i>	Current trade and other receivables	8,759	4.03%
<i>Aprilia World Service</i>	Current trade payables	2,438	0.73%
	Net sales	31,742	2.61%
	Cost of materials	2,642	0.38%
	Costs for services and use of third party assets	6,923	2.82%

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		Amounts in €/000	As a % of the statement item
<i>Aprilia World Service</i>	Other operating income	1,297	1.64%
	Financial income	269	1.73%
	Financial charges	63	0.16%
<i>Aprilia Hellas</i>	Current trade and other receivables	3,782	1.74%
	Current trade payables	3	0.00%
	Other current payables	75	0.07%
	Net sales	6,359	0.52%
	Costs for services and use of third party assets	78	0.03%
	Other operating income	7	0.01%
	<i>Aprilia Japan</i>	Current trade and other receivables	2,553
Current trade payables		45	0.01%
Net sales		2,066	0.17%
Costs for services and use of third party assets		2	0.00%
Other operating income		87	0.11%
<i>Aprilia Moto UK</i>	Current trade payables	7	0.00%
<i>Piaggio Finance</i>	Non-current financial liabilities	144.624	41.83%
	Other current payables	2.619	2.41%
	Financial charges	16.058	41.14%
Dealings with associated companies			
<i>Fondazione Piaggio</i>	Other non-current financial assets	63	0.23%
	Other current financial assets	30	0.09%
	Non-current trade and other receivables	363	8.26%
	Current trade and other receivables	156	0.07%
	Other current payables	156	0.14%
<i>Piaggio Foshan</i>	Cost of materials	34.102	4.85%
	Costs for services and use of third party assets	57	0.02%
	Net sales	30	0.00%
	Other operating income	1.678	2.12%
	Current trade and other receivables	4.453	2.05%
	Current trade payables	8.566	2.58%
Dealings with parent companies			
<i>IMMSI</i>	Cost of materials	38	0.01%
	Costs for services and use of third party assets	3.695	1.51%
	Other operating costs	36	0.19%
	Current trade and other receivables	76	0.03%
	Current trade payables	23	0.01%

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		Amounts in €/000	As a % of the statement item
Other related parties			
<i>Studio d'Urso</i>	Costs for services and use of third party assets	885	0.36%
	Current trade payables	885	0.27%

F) EMOLUMENTS PAID TO MEMBERS OF COMPANY BOARDS, GENERAL MANAGERS AND SENIOR MANAGERS WITH STRATEGIC RESPONSIBILITIES

Included here are all those who, even for a short period of time, were members of company boards or held the position of general manager.

Full name	Position held	Period for which the position was held	Duration of mandate	Emoluments for the position in the company preparing the financial statements	Non-mone- tary benefits	Bonuses and other incen- tives	Other emolu- ments (net of sales tax)
Colaninno Roberto	Chairman and CEO (1)	01/01-31/12	Approval of accounts at 31/12/2008	626,667			
Sabelli Rocco	CEO	01/01-13/11		1,830,000			
Colaninno Matteo	Deputy Chairman	01/01-31/12	Approval of accounts at 31/12/2008	46,667			
Attolico Trivulzio Gian Giacomo	Director	28/08-31/12	Approval of accounts at 31/12/2008	13,333			
Clempson Graham	Director	01/01-28/08		13,207			
Colaninno Michele	Director (2)	28/08-31/12	Approval of accounts at 31/12/2008	13,333			10,000
Debenedetti Franco	Director	28/08-31/12	Approval of accounts at 31/12/2008	13,333			
Discepolo Daniele	Director	01/01-31/12	Approval of accounts at 31/12/2008	26,667			6,666
La Noce Luciano	Director	01/01-31/12	Approval of accounts at 31/12/2008	26,667			
Neri Gianclaudio	Director	13/11-31/12	Approval of accounts at 31/12/2006	6,667			
Magnoni Giorgio	Director	01/01-31/12	Approval of accounts at 31/12/2008	26,667			
Miccichè Gaetano	Director	01/01-28/08		13,333			
Paravicini Crespi Luca	Director	28/08-31/12	Approval of accounts at 31/12/2008	13,333			3,334
Pirzio Biroli Carlo	Director	01/01-28/08		13,207			
Varaldo Riccardo	Director	28/08-31/12	Approval of accounts at 31/12/2008	13,333			3,334
Barbara Giovanni	Chairman of statutory auditors	01/01-31/12	Approval of accounts at 31/12/2008	95,758			42,351
Arietti Attilio Francesco	Statutory auditor	01/01-31/12	Approval of accounts at 31/12/2008	66,790			
Lai Alessandro	Statutory auditor	01/01-31/12	Approval of accounts at 31/12/2008	66,890			
Girelli Mauro	Substitute auditor	01/01-31/12	Approval of accounts at 31/12/2008				8,606
Maffei Maurizio	Substitute auditor	01/01-31/12	Approval of accounts at 31/12/2008				
Neri Gianclaudio	General Manager	01/01-31/10					(3) 1,652,232
Bandiera Daniele	General Manager Operations	13/11-31/12			553		(3) 90,931
Pallottini Michele	General Manager Finance	13/11-31/12			571		(3) 75,317

1) CEO from 13/11/2006.

2) The emoluments are paid to the company of employment.

3) Includes: (i) 10,000 euro for Bandiera Daniele in his capacity of Chairman and CEO of Moto Guzzi S.p.A., (ii) 1,667 euro for Pallottini Michele in his capacity of Director of Moto Guzzi S.p.A. and (iii) 8,334

euro for Neri Gianclaudio in his capacity of Director of Moto Guzzi S.p.A., 8,333 euro for being member of the Supervisory Board of Moto Guzzi S.p.A. and 20,833 euro for being member of Supervisory Board of Piaggio & C. S.p.A.. In each case, the emoluments are paid to the company of employment.



G) COMMITMENTS AND RISKS

37. Guarantees provided

The main guarantees provided by lending institutions on behalf of Piaggio & C. S.p.A in favour of third parties are:

TYPE	AMOUNT €/000
Bank guarantee from Cassa di Risparmio di Pisa issued on our behalf in favour of the Administration of the Province of Pisa	130
Bank guarantee from the Banca Commerciale Italiana issued on our behalf in favour of the Genoa Customs Authority	200
Bank guarantee from the Banca Toscana di Pontedera in favour of the local authority of Pontedera issued on 21 October 1996	323
Bank guarantee for the credit line of USD 8,100,000 agreed with the Banca di Roma for the associated company Piaggio Foshan	6,150
Banca Intesa San Paolo bank guarantee issued in favour of AMIAT – Turin to guarantee contractual obligations for the supply of vehicles	230
Banca Intesa San Paolo bank guarantee issued in favour of the Algerian National Defence Ministry to guarantee contractual obligations for the supply of vehicles	601
Bank guarantee to guarantee the credit line agreed with Banca Intesa San Paolo to the subsidiary Piaggio Vespa BV for USD 20,000,000 - of which unused - of which agreed to the subsidiary Piaggio Foshan	6,808 7,441
Building insurance guarantee policy of 23 October 2003 issued in favour of the Tax Agency of Pisa to guarantee receivables compensated as part of the Group's sales tax procedure.	839
Bank guarantee from Banca Intesa San Paolo in favour of ACE TRADE / AUSTRIA issued on 20-01-2006 for € 2,000,000 - of which unused	400
Bank guarantee from Banca Intesa San Paolo in favour of ACRAPOVIC /SLOVENIA issued on 07-12-2006 for € 500,000 - of which unused	280
Bank guarantee from BNL issued in favour of the Venice Customs Authority	206
Bank guarantee from Banco di Brescia issued in favour of the local authority of Scorzé to guarantee the payment of town planning charges	166
Bank guarantee from MPS issued in favour of Cheng Shin Rubber for €/000 600 - of which unused	200
Bank guarantee from BNL in favour of Antonveneta as a counter-guarantee to the syndicated Loan provided in 2004 to Aprilia S.p.A.	1,228
Bank guarantee from Banca Toscana issued on 25/01/2006 in favour of Ministry of Production in Rome for a prize contest	150
Bank guarantee from Cassa di Risparmio di Firenze issued on 28/07/2006 in favour of IN NOALE S.p.A. to guarantee contractual obligations relating to the sale of land	270
Bank guarantee from Unicredit on behalf of Piaggio in favour of Locat S.p.A. to guarantee commitments undertaken by the subsidiary Moto Guzzi S.p.A under a finance lease	5,000
Bank guarantee from Unicredit on behalf of Piaggio in favour of Locat S.p.A. to guarantee commitments undertaken by the subsidiary Moto Guzzi S.p.A under a finance lease	11,090

38. Operating leases

Piaggio & C. S.p.A. has signed operating leases for the use of tangible assets. Such contracts have an average life of 6.1 years. At 31 December 2006, the amount of operating lease instalments still due and non-cancellable is as follows:

In thousands of euro	At 31/12/2006	At 31/12/2005	Change
Within one year	332	332	
Between 1 and 5 years	323	704	(381)
Beyond 5 years			
TOTAL	655	1,036	(381)

Aprilia Commitments relating to the Aprilia transaction

Upon acquiring the Aprilia group, financial instruments were issued with the following forward commitments:

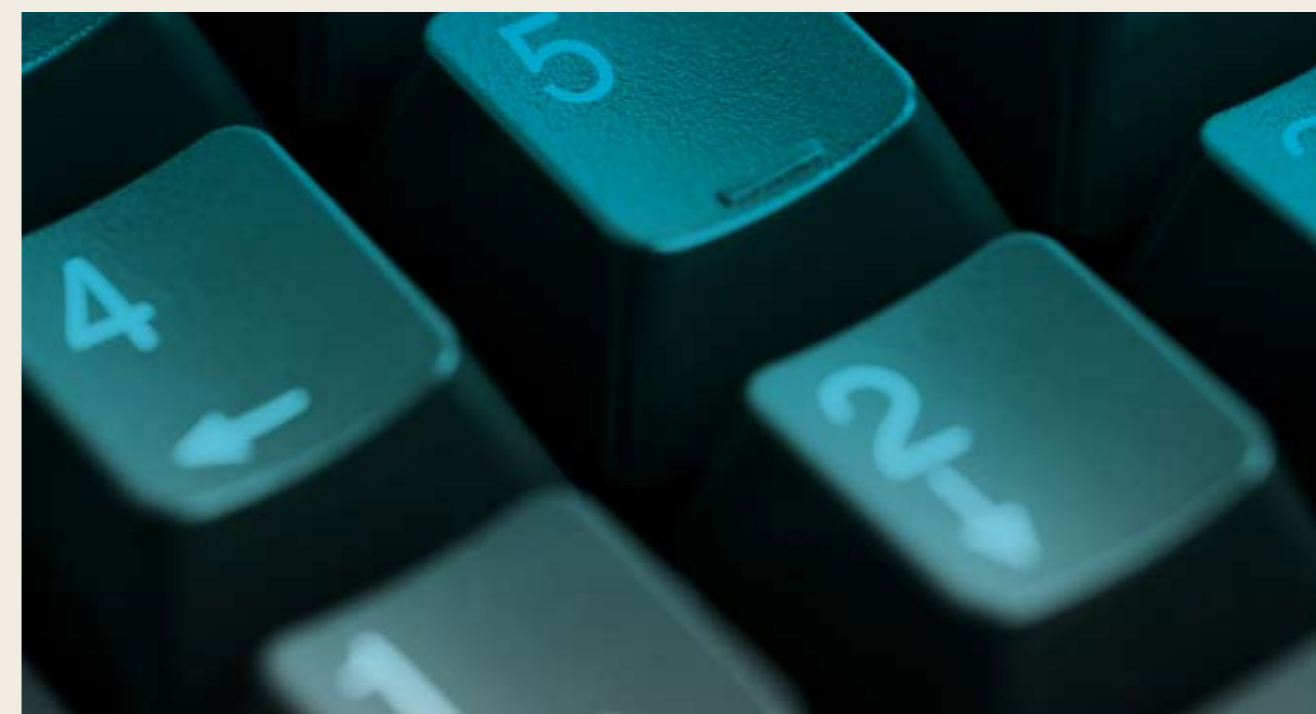
Piaggio 2004/2009 warrants for an overall issue price of €/000 5,350. This instrument envisages a redemption price that, starting from the Board's approval of the 2007 consolidated financial statements, may be paid at the issuer's discretion either in cash or by assigning ordinary shares equal to the redemption price divided by the market price.

The redemption price is linked to Piaggio Group financial performance and can never be more than 12 times the issue price. Therefore the maximum commitment can never exceed €/000 64,206.

EMH 2004/2009 financial instruments, for a global nominal value of €/000 10,000, which will give the right to a forward payment of a minimum guaranteed sum of €/000 3,500 (within 15 days from Board approval of the 2009 consolidated financial statements), already discussed under the "Payables due to banks" heading and, depending upon Piaggio Group's financial performance, a maximum redemption value that can never exceed €/000 6,500.

Aprilia shareholders 2004/2009 financial instruments, which give the underwriters the right to exercise, only conditional upon full payment of the maximum amount envisaged by the Warrants and the EMH financial instruments. Such instruments are linked to the Group's financial and business performance, and envisage payment of a redemption amount that may never exceed €/000 10,000.

These financial instruments are periodically measured and if the conditions of recognition were to occur, the related amount would increase the merger deficit calculated at the time of incorporating the company.



H) NON-RECURRING TRANSACTIONS

The Group has identified as significant non-recurring transactions for 2006 the stock exchange listing and for 2005 the grants received for vehicle demolition. Such grants were provided by the Ministry for the Environment in June 2005 in accordance with the agreement signed on

12.2.2002 and the additional agreement signed on 18 April 2005, relating to the sale of environmentally friendly vehicles between June 2003 and July 2004.

The table below lists the effects of such transactions on shareholders' equity, on earnings for the period, on financial debt and on cash flows.

2006	Shareholders' equity		Earnings for the period		Net financial debt		Cash flows	
	€/000	%	€/000	%	€/000	%	€/000	%
Book values	349,864	100%	71,006	100%	299,097	100%	30,300	100%
Listing costs	(10,231)		(10,231)		(10,231)		(10,231)	
Related tax effect	435		435					
Total effect of transaction	(9,796)	-2.8%	(9,796)	-13.8%	(10,231)	-3.4%	(10,231)	-33.8%
2005	Shareholders' equity		Earnings for the period		Net financial debt		Cash flows	
	€/000	%	€/000	%	€/000	%	€/000	%
Book values	257,236	100%	15,882	100%	406,977	100%	65,549	100%
Grants for demolition	18,624		18,624		18,624		18,624	
Related tax effect	(792)		(792)					
Total effect of transaction	17,832	6.9%	17,832	112.3%	18,624	4.6%	18,624	28.4%

**I) SUBSEQUENT EVENTS**

On 26 January 2007, Piaggio disposed of its entire 20% equity participation in D.E.V. Srl in liquidation.

At present, no events have occurred after 31 December 2006 that make additional notes or adjustments to these financial statements necessary.

In this regard, refer to the Directors' Report for significant events after 31 December 2006.

L) SUBSIDIARIES

Reference should be made to the consolidated financial statements.





PIAGGIO & C. S.p.A. *Appendix - Transition to the IFRS International Accounting Standards*

TRANSITION TO THE IFRS INTERNATIONAL ACCOUNTING STANDARDS

The European regulation no. 1606/2002, which passed into Italian law with Law no. 306/2003, and Legislative Decree 38/05, requires companies listed on regulated European stock exchanges to adopt international accounting standards (IFRS) in drawing up their completed or ongoing financial statements at 31 December 2006. Therefore, the parent company Piaggio & C. S.p.A. – listed on the M.T.A. as from 11 July 2006 – will draw up the financial statements for the year ending on 31 December 2006 in accordance with the new international accounting standards.

In accordance with CONSOB communication DEM/5025723 of 15 April 2005, on 28 August 2006 the independent auditors Deloitte & Touche S.p.A. were given the duty of auditing the “separate” opening balance sheet at the transition date (1 January 2005) and the “separate” financial statements of the parent company drawn up for comparative purposes at 31 December 2005.

On this basis the following are set out:

- the accounting standards adopted by the Piaggio & C. S.p.A. as from 1 January 2006, and the regulations for first-time application of the IAS/IFRS (IFRS 1);
- the reconciliation statements of consolidated shareholders’ equity in accordance with previous accounting standards and that recorded in conformity with the IFRS at the following dates:
 - date of transition to the IAS/IFRS (1 January 2005);

- date of closing of last period in which the financial statements were drawn up in conformity with previous accounting standards (31 December 2005);
- the reconciliation statement of the income statement result recorded in the last financial statements drawn up in accordance with previous accounting standards (31 December 2005) with that deriving from the application of the IAS/IFRS for the same period.

Also attached are the IAS/IFRS balance sheets at 1 January 2005 and 31 December 2005 and the consolidated income statement for the period ended 31 December 2005.

REGULATIONS AND OPTIONS EXERCISED DURING FIRST-TIME APPLICATION OF THE IAS/IFRS AND THE MAIN IAS/IFRS ACCOUNTING STANDARDS ADOPTED BY PIAGGIO & C. S.p.A.

This information is provided as part of the transition process to the IFRS and for the preparation of the financial statements of Piaggio & C. S.p.A. at 31 December 2006 in accordance with the IFRS as approved by the European Union; it does not include all the schedules, comparative information and explanatory notes which would be required to provide a complete representation, in conformity with the IFRS, of the financial situation and economic performance of Piaggio & C. S.p.A. at 31 December 2005.

In addition, Piaggio & C. S.p.A., having adopted the IFRS standards for its financial statements subsequently com-

pared to its own consolidated financial statements (which included the opening balance sheet at 1 January 2004), has treated assets and liabilities in accordance with the IFRS with the same criteria in both statements (parent company and consolidated) except for some headings which were subject to consolidation adjustments. In accordance with CONSOB communication DEM/5025723 of 15 April 2005, on 28 August 2006 the independent auditors Deloitte & Touche S.p.A. were given the duty of auditing the “separate” opening balance sheet at the transition date (1 January 2005) and the “separate” financial statements of the parent company drawn up for comparative purposes at 31 December 2005. The financial statements for 2005 presented here will represent the published figures for comparative purposes in the parent company financial statements at 31 December 2006.

The regulations and the most important options envisaged by the international accounting standards and adopted by Piaggio & C. S.p.A. are summarised below:

- method of presenting the financial statements: for the balance sheet it was decided to adopt the “current/non-current” criterion, while for the income statement

the classification of costs by nature was adopted. As for the cash flow statement, representation with the so-called “indirect” method was adopted ;

- sector information: Piaggio & C. S.p.A., on the basis of the provisions of IAS 14 “Sector information” has identified as its primary system that by market, secondarily that by activity, and thirdly that by geography on the basis of the location of its customers;
- optional exemptions envisaged by IFRS 1 on first-time application of the IAS/IFRS (1 January 2005):
 - valuation of property, plant and machinery, as well as of investments in property and intangible assets at fair value or, alternatively, at the reassessed cost in substitution of the cost: Piaggio & C. S.p.A. did not take advantage of this exemption since it adopted the criterion of the historic amortised cost for the purposes of the evaluation of the tangible and intangible assets;
 - business combinations: Piaggio & C. S.p.A. has decided to take advantage of the exemption allowed by IFRS 1 which allows the non-application retroactively of the International Accounting Standards for

business combinations which occurred before the transition to IFRS. Piaggio & C. S.p.A. decided not to apply IFRS 3 “Business combinations” retroactively to mergers that took place before 1 January 2005: as a consequence, the goodwill generated on acquisitions before the transition date to IFRS has been kept at the previous value determined in accordance with Italian accounting standards, by means of the verification and recording of any impairment.

- accounting treatment chosen as part of the accounting options envisaged by the IAS/IFRS :
 - assessment of tangible and intangible assets: following initial recording at cost, IAS 16 and IAS 38 envisage that such assets can be valued at cost (and amortised) or at fair value. Piaggio has chosen to adopt the cost method. In accordance with the accounting treatment envisaged by IAS 16, the value of the assets has been recalculated in relation to the need to establish the value of the land under the buildings and to consider any asset recovery value at the end of its useful life;
 - evaluation of investments in property: in accordance

with IAS 40, a property held as an investment must be initially recorded at cost, including directly attributable accessory charges. Following the purchase, it is possible to value such properties at their fair value or at cost. The Group has chosen to adopt the cost criterion;

- inventories: in accordance with IAS 2 the cost of inventories must be determined with the FIFO method or the weighted average cost method. Piaggio opted for the weighted average cost method, a method it had already used on the basis of Italian accounting standards;
- financial liabilities: on the basis of the provisions of IAS 39, the so-called amortised cost method has been applied to financial liabilities and thus they are no longer recorded in the balance sheet at their nominal value;
- employee leaving entitlements: on the basis of the provisions of IAS 19, the accounting value of the reserve for employee leaving entitlements and other deferred retribution has been adjusted through the application of actuarial methodology.



**MAIN EFFECTS ARISING FROM THE APPLICATION OF THE IAS/IFRS
ON THE OPENING BALANCE SHEET AT 1 JANUARY 2005
AND ON THE FINANCIAL STATEMENTS AT 31 DECEMBER 2005**

**EFFECTS OF THE TRANSITION TO THE IFRS
ON THE BALANCE SHEET AT 1 JANUARY 2005**

Amounts in €/000	ITALIAN ACCOUNTING STANDARDS	Reclassifications	Adjustments	IAS IFRS	
ASSETS					ASSETS
NON-CURRENT ASSETS					NON-CURRENT ASSETS
<i>Intangible assets</i>	318,863		-4,544	314,319	<i>Intangible assets</i>
<i>Tangible assets</i>	143,689	-119	456	144,026	<i>Tangible assets</i>
<i>Property investment</i>	0			0	<i>Property investment</i>
<i>Equity investments (1)</i>	178,741	-900		177,841	<i>Equity investments</i>
<i>Medium/long-term financial assets</i>	39,343	1,517		40,860	<i>Other financial assets</i>
<i>Receivables due from Tax authorities (1)</i>	1,085			1,085	<i>Receivables due from Tax authorities</i>
<i>Deferred tax assets (1)</i>	6,793			6,793	<i>Deferred tax assets</i>
<i>Trade receivables and other receivables (1)</i>	566			566	<i>Trade receivables and other receivables</i>
TOTAL NON-CURRENT ASSETS	689,080	498	-4,088	685,490	TOTAL NON-CURRENT ASSETS
ASSETS DESTINED FOR DISPOSAL	0	1,019		1,019	ASSETS DESTINED FOR DISPOSAL
CURRENT ASSETS					CURRENT ASSETS
<i>Trade receivables and other receivables (2)</i>	99,257		59,754	159,010	<i>Trade receivables and other receivables</i>
<i>Receivables due from Tax authorities (2)</i>	5,776			5,776	<i>Receivables due from Tax authorities</i>
<i>Inventories (2)</i>	118,356		390	118,746	<i>Inventories</i>
<i>Current financial assets</i>	9,706	-1,517	2,680	10,869	<i>Current financial assets</i>
<i>Cash and cash equivalents (3)</i>	1,975			1,975	<i>Cash and cash equivalents</i>
TOTAL CURRENT ASSETS	235,070	-1,517	62,824	296,377	TOTAL CURRENT ASSETS
TOTAL ASSETS	924,150	0	58,736	982,886	TOTAL ASSETS

(1) Previously included in the item "Other assets"

(2) Previously included in the item "Operative assets"

(3) Previously included in the item "Short-term financial assets"

**MAIN EFFECTS ARISING FROM THE APPLICATION OF THE IAS/IFRS
ON THE OPENING BALANCE SHEET AT 1 JANUARY 2005
AND ON THE FINANCIAL STATEMENTS AT 31 DECEMBER 2005**

**EFFECTS OF THE TRANSITION TO THE IFRS
ON THE BALANCE SHEET AT 1 JANUARY 2005**

Amounts in €/000	ITALIAN ACCOUNTING STANDARDS	Reclassifications	Adjustments	IAS IFRS	
LIABILITIES					LIABILITIES
SHAREHOLDERS' EQUITY					SHAREHOLDERS' EQUITY
TOTAL SHAREHOLDERS' EQUITY	189,840	0	-4,686	185,154	TOTAL SHAREHOLDERS' EQUITY
NON-CURRENT LIABILITIES					NON-CURRENT LIABILITIES
<i>Financial payables</i>	239,037	-12,442	9,141	235,736	<i>Financial liabilities</i>
<i>Trade payables and other payables (4)</i>		7,009		7,009	<i>Trade payables and other payables</i>
<i>Provisions for pensions and similar obligations (4)</i>	57,269		3,351	60,620	<i>Provisions for pensions and similar obligations</i>
<i>Other long-term provisions (4)</i>		14,615		14,615	<i>Other long-term provisions</i>
<i>Deferred tax liabilities (4)</i>	294		296	590	<i>Deferred tax liabilities</i>
TOTAL NON-CURRENT LIABILITIES	296,600	-9,182	12,788	318,570	TOTAL NON-CURRENT LIABILITIES
CURRENT LIABILITIES					CURRENT LIABILITIES
<i>Financial payables</i>	134,897	12,442	58,348	205,687	<i>Financial liabilities</i>
<i>Trade payables (5)</i>	200,005			200,005	<i>Trade payables</i>
<i>Current taxes (5)</i>	5,568			5,568	<i>Current taxes</i>
<i>Other payables (5)</i>	53,962	-7,009		46,953	<i>Other payables</i>
<i>Current share of long-term provisions</i>	43,278	-14,615	-7,714	20,949	<i>Current share of other long-term provisions</i>
TOTAL CURRENT LIABILITIES	437,710	-9,182	50,634	479,162	TOTAL CURRENT LIABILITIES
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	924,150	0	58,736	982,886	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

(4) Previously included in the item "Other medium/long-term liabilities"

(5) Previously included in the item "Operative liabilities"

**EFFECTS OF THE TRANSITION TO THE IFRS ON THE BALANCE SHEET
AT 1 JANUARY 2005 – NOTES TO THE SCHEDULES**

Intangible assets

Adjustments		
(in thousands of euro)		
Cancellation of start-up and expansion costs	B	-195
Recording of assets in finance leases	D	757
Adjustments to improvements to third party assets	B	-356
Cancellation of other long-term charges for loans	B	-3,320
Recording of contributions to suppliers in trade receivables and other receivables (current)		-1,430
Total		-4,544

Tangible assets

Reclassifications		
(in thousands of euro)		
to "Assets destined for disposal" owing to change in layout of Balance sheet		-119
Adjustments		
(in thousands of euro)		
Cancellation of depreciation on land and scrap value of buildings	C	406
Recording of assets in finance leases	D	50
Total		456

Equity investments

Reclassifications		
(in thousands of euro)		
to "Assets destined for disposal" owing to change in layout of Balance sheet		-900

Other financial assets

Reclassifications		
(in thousands of euro)		
from "Trade receivables and other Receivables" owing to change in layout of Balance sheet		1,517

Assets destined for sale

Reclassifications		
(in thousands of euro)		
from "Property, Plant and machinery" owing to change in layout of Balance sheet		119
from "Equity investments" owing to change in layout of Balance sheet		900
Total		1,019

CURRENT ASSETS**Trade receivables and other receivables**

Adjustments		
(in thousands of euro)		
For sale of receivables with recourse to factoring companies	F	58,348
Recording of assets in financial leasing	D	-23
Recording of contributions to suppliers in the other receivables		1,430
Total		59,754

Inventories

Adjustments		
(in thousands of euro)		
Owing to change in assessment criterion	H	390

Current financial assets

Reclassifications		
(in thousands of euro)		
To "other non-current financial assets owing to change in layout of balance sheet"		- 1,517
Adjustments		
(in thousands of euro)		
Receivables from assessment of derivatives at fair value		2,680

NON-CURRENT LIABILITIES**Financial liabilities**

Reclassifications		
(in thousands of euro)		
To "current share of Financial liabilities" owing to change in layout of Balance sheet		-12,442
Adjustments		
(in thousands of euro)		
Recording under current financial payables for assets held under finance leases	D	787
For assessment of derivatives at fair value	I	10,395
Amortized Cost charges accessories	H	-2,041
Total		9,141

Trade payables and other payables

Reclassifications		
(in thousands of euro)		
from "current share of other short-term payables" owing to change in layout of Balance sheet		7,009

Provisions for pensions and similar obligations

Adjustments		
(in thousands of euro)		
Employee benefits (actuarial assessment of leaving indemnity)	E	3,351

Other long-term provisions

Reclassifications		
(in thousands of euro)		
From "current share of other long-term provisions" owing to change in layout of Balance sheet		14,615

Deferred tax liabilities

Adjustments		
(in thousands of euro)		
Deferred tax liabilities on IAS/IFRS impact		296

CURRENT LIABILITIES**Financial liabilities**

Reclassifications		
(in thousands of euro)		
from "Financial liabilities" to Non-current liabilities owing to change in layout of Balance sheet		12,442
Adjustments		
(in thousands of euro)		
For sale of receivables with recourse to factoring companies	F	58,348

Other payables

Reclassifications		
(in thousands of euro)		
To "Trade payables and other payables" under Non-current liabilities owing to change in layout of Balance sheet		-7,009

Current share of other long-term provisions

Reclassifications		
(in thousands of euro)		
To "other long-term provisions" owing to change in layout of Balance sheet		-14,615
Adjustments		
(in thousands of euro)		
For assessment of derivatives at fair value	H	-7,714

RECONCILIATION SCHEDULES AT 31 DECEMBER 2005 AND RELATED DETAILS

EFFECTS OF THE TRANSITION TO THE IFRS ON THE INCOME STATEMENT
AT 31 DECEMBER 2005

Amounts in €/000	Italian Accounting Standards	Reclassifications	Adjustments	IAS / IFRS	
ASSETS					ASSETS
NON-CURRENT ASSETS					NON-CURRENT ASSETS
<i>Intangible assets</i>	391,099		77,014	468,113	<i>Intangible assets</i>
<i>Tangible assets</i>	190,919	-506	176	190,590	<i>Tangible assets</i>
<i>Property investment</i>	0	506	0	506	<i>Property investment</i>
<i>Equity investments (1)</i>	98,069		0	98,069	<i>Equity investments</i>
<i>Medium/long-term financial assets</i>	33,520	7,751		41,271	<i>Other financial assets</i>
<i>Receivables due from Tax authorities (1)</i>	7,035		0	7,035	<i>Receivables due from Tax authorities</i>
<i>Deferred tax assets (1)</i>	17,810			17,810	<i>Deferred tax assets</i>
<i>Trade receivables and other receivables (1)</i>	745	396		1,140	<i>Trade receivables and other receivables</i>
TOTAL NON-CURRENT ASSETS	739,197	8,147	77,190	824,534	TOTAL NON-CURRENT ASSETS
CURRENT ASSETS					CURRENT ASSETS
<i>Trade receivables and other receivables (2)</i>	147,116	-396	28,530	175,250	<i>Trade receivables and other receivables</i>
<i>Receivables due from Tax authorities (2)</i>	2,689			2,689	<i>Receivables due from Tax authorities</i>
<i>Inventories (2)</i>	132,674			132,674	<i>Inventories</i>
<i>Current financial assets</i>	32,051	-7,751		24,300	<i>Current financial assets</i>
<i>Other financial assets (3)</i>					<i>Other financial assets</i>
<i>Cash and cash equivalents (3)</i>	14,163	0		14,163	<i>Cash and cash equivalents</i>
TOTAL CURRENT ASSETS	328,693	-8,147	28,530	349,076	TOTAL CURRENT ASSETS
TOTAL ASSETS	1,067,890		105,720	1,173,610	TOTAL ASSETS

(1) Previously included in the item "Other assets"

(2) Previously included in the item "Operative assets"

(3) Previously included in the item "Short-term financial assets"

next page

RECONCILIATION SCHEDULES AT 31 DECEMBER 2005 AND RELATED DETAILS

EFFECTS OF THE TRANSITION TO THE IFRS ON THE INCOME STATEMENT
AT 31 DECEMBER 2005

Amounts in €/000	Italian Accounting Standards	Reclassifications	Adjustments	IAS / IFRS	
LIABILITIES					LIABILITIES
SHAREHOLDERS' EQUITY					SHAREHOLDERS' EQUITY
TOTAL SHAREHOLDERS' EQUITY	185,343		71,893	257,236	TOTAL SHAREHOLDERS' EQUITY
NON-CURRENT LIABILITIES					NON-CURRENT LIABILITIES
<i>Financial payables</i>	207,934	142,431	606	350,971	<i>Financial liabilities</i>
<i>Trade payables and other payables (4)</i>	0	7,169		7,169	<i>Trade payables and other payables</i>
<i>Provisions for pensions and similar obligations (4)</i>	69,328		3,561	72,889	<i>Provisions for pensions and similar obligations</i>
<i>Other long-term provisions (4)</i>		22,222		22,222	<i>Other long-term provisions</i>
<i>Deferred tax liabilities (4)</i>	27,672		520	28,192	<i>Deferred tax liabilities</i>
TOTAL NON-CURRENT LIABILITIES	304,934	171,822	4,687	481,443	TOTAL NON-CURRENT LIABILITIES
CURRENT LIABILITIES					CURRENT LIABILITIES
<i>Financial payables</i>	204,397	-142,431	32,502	94,468	<i>Financial liabilities</i>
<i>Trade payables (5)</i>	240,025			240,025	<i>Trade payables</i>
<i>Current taxes (5)</i>	7,509			7,509	<i>Current taxes</i>
<i>Other payables (5)</i>	69,190	-7,169	143	62,164	<i>Other payables</i>
<i>Accrued income and prepaid expenses (5)</i>					<i>Accrued income and prepaid expenses</i>
<i>Current share of other long-term provisions</i>	56,492	-22,222	-3,505	30,765	<i>Current share of other long-term provisions</i>
TOTAL CURRENT LIABILITIES	577,613	-171,822	29,140	434,931	TOTAL CURRENT LIABILITIES
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,067,890		105,720	1,173,610	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

(4) Previously included in the item "Other medium/long-term liabilities"

(5) Previously included in the item "Operative liabilities"

next page

RECONCILIATION SCHEDULES AT 31 DECEMBER 2005 AND RELATED DETAILS

EFFECTS OF THE TRANSITION TO THE IFRS ON THE INCOME STATEMENT
AT 31 DECEMBER 2005

Amounts in €/000	Italian Accounting Standards	Reclassifications	Adjustments	IAS / IFRS	
INCOME STATEMENT					INCOME STATEMENT
Net sales	1,129,941			1,129,941	Net sales
Costs for materials (1)	669,094		2,310	671,404	Costs for materials
Costs for services and use of third party assets (1)	219,645		-267	219,378	Costs for services and use of third party assets
Labour costs	175,202		1,300	176,502	Employee costs
Depreciation of tangible assets	33,907		-389	33,518	Depreciation of tangible assets
Amortisation of intangible assets	70,825		-24,856	45,969	Depreciation of tangible assets
Contributions					
Other income (2)	111,700		-244	111,456	Other operating income
Other costs (2)	23,150			23,150	Other operating costs
Operating income (EBIT)	49,818		21,658	71,476	Operating income
Net income from equity investments	-20,188			-20,188	Income from equity investments
Financial income (3)	15,322		991	16,313	Financial income
Financial charges (3)	-39,780		-1,902	41,682	Financial charges
Value adjustments to financial assets					
Income before tax	5,172		20,747	25,919	Income before tax
Tax	9,668		369	10,037	Tax
Net income for the period	-4,496		20,378	15,882	Net income for the period

(2) Previously included in the item "Other (costs) income, net"

(3) Previously included in the item "Financial charges and income, net"

EFFECTS OF THE TRANSITION TO THE IFRS ON THE BALANCE SHEET AND ON THE
INCOME STATEMENT AT 31 DECEMBER 2005
NOTES TO THE SCHEDULES

NON-CURRENT ASSETS

Intangible assets

Adjustments		
(in thousands of euro)		31/12/2005
Cancellation of amortisation of goodwill	A	19,166
Increase in goodwill from merger for assessment of Aprilia derivatives	A	62,156
Cancellation of capitalised financial charges owing to amortized cost	H	-2,113
Cancellation of improvements to third party assets	B	-33
Finance leases for SAP licences	D	605
Recording of contributions to suppliers in Trade receivables and other receivables (current)		-2,767
Total		77,014

Tangible assets

Reclassifications		
(in thousands of euro)		31/12/2005
To "property investments" owing to change in layout of Balance sheet	C	-506
Adjustments		
(in thousands of euro)		31/12/2005
Cancellation of depreciation on land and scrap value of buildings	C	444
Cancellation of improvements to third party assets	B	-296
Recording of assets in finance leases	D	28
Total		176

Property investment

Reclassifications		
(in thousands of euro)		31/12/2005
from "Tangible assets" owing to change in layout of Balance sheet		506

Other financial assets

Reclassifications		
(in thousands of euro)		31/12/2005
To "current financial assets" owing to change in layout of Balance sheet		-2,137
From "current financial assets" owing to change in layout of Balance sheet		9,888
Total		7,751

Trade receivables and other receivables

Reclassifications		
(in thousands of euro)		31/12/2005
From "current trade receivables and other receivables" owing to change in layout of Balance sheet		396

CURRENT ASSETS

Trade receivables and other receivables

Reclassifications		
(in thousands of euro)		31/12/2005
To "non-current trade receivables and other receivables" owing to change in layout of Balance sheet		-396
Adjustments		
(in thousands of euro)		31/12/2005
For sale of receivables with recourse to factoring companies	F	31,527
Recording of contributions to suppliers in other receivables	B	2,767
Cancellation of capitalised financial charges owing to effect of amortised cost	H	-5,812
Assessment of derivatives at fair value	H	48
Total		28,530

Current financial assets

Reclassifications		31/12/2005
(in thousands of euro)		
from "other non-current financial assets" owing to change in layout of balance sheet		2.137
to "other non-current financial assets" owing to change in layout of balance sheet		-9.888
Total		-7.751

NON-CURRENT LIABILITIES

Financial liabilities

Reclassifications		31/12/2005
(in thousands of euro)		
from "short-term financial liabilities" owing to change in layout of Balance sheet		142,431
Adjustments		
(in thousands of euro)		31/12/2005
Assessment of "New Trade" derivative	H	2,530
Assessment of EMH warrants	H	5,690
Recording of non.-current financial payables for assets held under finance leases	D	549
Cancellation of capitalised financial charges owing to impact of amortised cost	H	-8,163
Total		606

Trade payables and other payables

Reclassifications		31/12/2005
(in thousands of euro)		
from "short-term trade payables and other payables" owing to change in layout of Balance sheet		7,169

Provisions for pensions and similar obligations

Adjustments		31/12/2005
(in thousands of euro)		
Employee benefits (actuarial assessment of leaving indemnity)	E	3,561

Other long-term provisions

Reclassifications		31/12/2005
(in thousands of euro)		
From "current share of other long-term provisions" owing to change in layout of Balance sheet		22,222

Deferred tax liabilities

Adjustments		31/12/2005
(in thousands of euro)		
Accounting of Aprilia acquisition	A	355
Accounting of deferred tax liabilities on IAS/IFRS adjustments		165
Total		520

CURRENT LIABILITIES

Financial liabilities

Reclassifications		31/12/2005
(in thousands of euro)		
To "long-term financial liabilities" owing to change in layout of Balance sheet		-142,431
Adjustments		31/12/2005
For sale of receivables with recourse to factoring companies	F	32,502

Other payables

Reclassifications		31/12/2005
(in thousands of euro)		
To "long-term trade payables and other payables" owing to change in layout of Balance sheet		-7,169
Adjustments		31/12/2005
Cancellation of capitalised financial charges owing to impact of amortised cost	H	71
Assessment of derivatives at fair value	H	70
Finance leases	D	2
Total		143

Current share of other long-term provisions

Reclassifications		31/12/2005
(in thousands of euro)		
To "other long-term provisions" owing to change in layout of Balance sheet		-22,222
Adjustments		31/12/2005
Assessment of derivatives at fair value	H	-2,530
Impact of disposal of receivables with recourse	F	975
Total		3,505

INCOME STATEMENT

Costs for materials

Reclassifications		31/12/2005
(in thousands of euro)		
from "amortisation of intangible assets" on contributions to suppliers		2,310

Costs for services and use of third party assets

Adjustments		31/12/2005
(in thousands of euro)		
For recording of costs for improvements to third party assets	B	18
For cancellation of costs on assets held under finance leases	D	-285
Total		-267

Employee costs

Adjustments		31/12/2005
(in thousands of euro)		
For valorisation of Stock options	H	1,300

Depreciation of tangible assets

Adjustments		31/12/2005
(in thousands of euro)		
Cancellation of depreciation on land and scrap value of buildings	C	-410
Depreciation of assets held under finance leases	D	21
Total		-389

Amortisation of intangible assets

Adjustments		31/12/2005
(in thousands of euro)		
Cancellation of amortisation on goodwill	A	-19,166
Recording of amortisation on assets held under finance leases, SAP licences	D	151
Cancellation of amortisation for assessment of amortised cost on loans	H	-3,321
Cancellation of amortisation on improvements to third party assets	B	-15
Cancellation of amortisation on start-up and expansion costs	B	-195
Cancellation of amortisation on contributions to suppliers	B	-2,310
Total		-24,856

Other operating income

Adjustments		31/12/2005
(in thousands of euro)		
Cancellation of positive impact of assessment of warehouse inventories	H	-244

Financial income

Adjustments		31/12/2005
(in thousands of euro)		
Interest income on discounting of employee leaving indemnity	E	991

Financial charges

Adjustments		31/12/2005
(in thousands of euro)		
Amortised cost	H	1,874
Assessment of derivatives at fair value	H	3
Interest expense on assets held under finance leases	D	25
Total		1,902

Tax

Adjustments		31/12/2005
(in thousands of euro)		
Tax effects from IAS entries		14
Deferred tax liabilities on cancellation of Amortisation on Goodwill	A	355
Total		369



DESCRIPTION OF THE MAIN ITEMS IN THE RECONCILIATION OF ITALIAN AND IFRS ACCOUNTING STANDARDS

The following paragraph provides a description of the main differences between Italian and IFRS accounting standards which have had an impact on Piaggio & C. S.p.A.'s financial statements.

A Business combinations

As mentioned previously, Piaggio & C. S.p.A. decided not to apply IFRS 3 – Business combinations retroactively to the mergers that occurred before the date of transition to the IFRS.

The previous accounting standards envisaged the amortisation of goodwill. In accordance with the IAS/IFRS standards goodwill has been considered an intangible asset with an indefinite useful life and therefore is not amortised, but is subject to periodic verification of any impairment in its value. In the financial statements at 1 January 2005 the overall net value of goodwill was 265.1 million euro, and at 31 December 2005 was 246.4 million euro. In the income statement for 2005 in accordance with the previous accounting standards amortisation of goodwill was recorded of 19.2 million euro at 31 December, which was then cancelled in the income statement prepared in accordance with international accounting standards.

In addition, in reference to the transactions that occurred during 2005 (and therefore after the date of transition to the IAS/IFRS), it was decided, on the basis of IFRS3, to allocate the value of the merger deficit generated through the incorporation of Aprilia S.p.A. to the heading 'brands and licences' for a total of 76.5 million euro.

A check was carried out of any impairment to goodwill, following the procedure required by IAS 36. The method of discounted operational cash flow was used, based on the forecasts made in the long-term future budgets/plans approved by the company management, and on the discount rates based on the average cost of capital. This capital cost is basically calculated on the parameters rela-

ting to groups of companies operating in the same sectors and which are assessed by leading financial analysts.

The check carried out on the current value of the expected cash flows justifies a level of goodwill significantly higher than that recorded in the financial statements and therefore no write-down was made.

Development costs

In accordance with Italian accounting standards, the costs of applied research and development can be either capitalised or written off as costs in the period in which they are incurred. Piaggio & C. S.p.A. has mainly written off research costs when they have been incurred and capitalised those development costs for which a future profit is expected. IAS 38 – Intangible assets - envisages that research costs are recorded in the income statement, while development costs which meet the requirements of IAS 38 for capitalisation must be capitalised and subsequently amortised as from the start of production and over the economic life of the related products. The approach followed by Piaggio is, therefore, in line with the provisions of the international accounting standards.

In accordance with the provisions of IAS 36 – Asset value reduction, development costs which are capitalised under intangible assets must then be subjected to an impairment test and a write-down must be recorded should the recoverable value of the asset be lower than its book value, as subsequently described in the paragraph 'Impairment of assets'.

B Cancellation of capitalised costs

On the basis of Italian accounting standards Piaggio & C. S.p.A. used to capitalise some costs (mainly start-up and expansion costs, improvements to third party assets and other costs) for which the IFRS require recognition on the income statement when they are incurred.

The overall impact of these cancellations was 3.9 million euro at 1 January 2005, and 2.1 million euro at 31 December 2005.

C Property plant and machinery

The main difference between the old and the new accounting standards relates to land and buildings. The Italian standards which were previously adopted allowed the recording of such items without distinction between them with consequent amortisation of the land. In accordance with international standards land must always be separated from buildings and thus not amortised.

In terms of the balance sheet, there were increases at 1 January 2005 of 0.3 million euro, and at 31 December 2005 of 0.3 million euro, while on the income statement there was no significant effect.

The revision of the useful life of assets in accordance with IAS 16 has not had a significant effect given that the previous accounting standards already included amortisation rates that were largely in line with the useful life of the assets.

Assets destined for disposal and related liabilities

In accordance with the provisions of IFRS 5, Piaggio & C. S.p.A. has reclassified the assets which were originally recorded under tangible assets and for which the book value is considered recoverable mainly through their sale rather than through its continued use, under the heading 'non-current assets held for sale', or if necessary under the related liability heading.

The amortisation of the assets held for sale ends when the requirements for this change of treatment are seen to exist.

Impairment of assets

In accordance with Italian accounting standards, Piaggio & C. S.p.A. annually undertakes an assessment of the likely recovery of intangible assets with an indefinite useful life (mainly goodwill), by comparing the asset's book value with its recoverable value, understood as the value of the asset (or group of assets) when in use. In order to determine the value in use Piaggio & C. S.p.A. estimates

the future cash flows, positive and negative, of the asset (or group of assets) which arise from the continued use of the asset and, finally from its sale, and discounts them. When the recoverable value is lower than the book value, an impairment is recorded equal to the difference between the two.

As for tangible assets, Piaggio & C. S.p.A. records specific writedowns when it is expected that the asset will no longer be used. In addition, should there be indications of impairment, Piaggio & C. S.p.A. makes an assessment of the recoverability of groups of similar assets, using the non-discounted financial flow method. If the recoverable value is lower than the book value, an impairment is recorded, equal to the difference between the two.

In accordance with the IFRS, every year an assessment of the value of intangible assets with an indefinite useful life must be made with a method which is broadly similar to that envisaged by Italian accounting standards. In addition, development costs, which are capitalised in accordance with the IFRS and charged in accordance with Italian accounting standards, are allocated to the related cash generation units and the assessment is made of their recoverability together with the related tangible assets by applying the method of discounted financial flows.

D Finance Leases

Piaggio & C. S.p.A. has, in relation to the transition to the IAS/IFRS, reviewed and adjusted these contractual operations to this international accounting standard (no. 17).

E Employee benefits

Piaggio & C. S.p.A. recognises various forms of benefits for employees, which may be classified as defined benefit pension plans, as other long term benefits.

With the adoption of the IFRS, employee leaving indemnity is considered a defined benefit obligation to be accounted for in accordance with IAS 19 and, consequently, must be recalculated by applying the "projected unit credit" method.

In addition, Piaggio & C. S.p.A. has decided to recognise all the accumulated actuarial profits and losses as at 1 January 2005 by charging them directly to the reserve for shareholders' equity. The amounts recorded to adjust the previous employee leaving indemnity balances amounted to 3.4 million euro at the transition date and 3.6 million euro at 31 December 2005.

F Disposal of receivables

Piaggio & C. S.p.A. cedes a significant part of its trade receivables through factoring operations.

In accordance with Italian accounting standards all the receivables disposed of through factoring with or without recourse have been eliminated from the balance sheet.

In accordance with the IFRS, since the requirement of definitive disposal of the risks of insolvency does not exist in the case of operations with recourse, the receivables and payables which are disposed of in this way are written back to the balance sheet with a significant increase in balances for trade receivables and financial payables. In particular, owing to these recoveries trade receivables and financial payables increased by 58.3 million euro, and 31.5 million euro respectively in the periods of 1 January and 31 December 2005.

G Provisions for future risks and charges

From the analysis in accordance with IAS 37 relating to provisions for risks and charges, no significant differences emerged regarding the amount already accounted for in accordance with the Italian standards which were previously adopted.

H Other adjustments

Discounting of receivables/payables

In accordance with the provisions of the international accounting standards, it was arranged to discount assets and liabilities which are recorded under non-current items, for which there was included a financial element linked to

the agreed reductions, thus reducing the income/cost element from operations against the financial interest / charges element.

Warehouse inventories

In accordance with the international accounting standards, it was arranged to assess the warehouse stocks with the weighted average cost method.

Amortized cost

In accordance with the provisions of IAS 39, it was arranged to account for the impact of the amortized cost methods on loans obtained from the banking system.

Derivative contracts

Some exchange rate hedging contracts have been recorded in accordance with the Hedge Accounting technique as described in IAS 39.

Stock Option Plan

The Stock Option plans existing at the transition dates have been recorded as envisaged by IFRS2.

I Accounting of deferred tax assets and liabilities

This item includes the net effect of the deferred tax assets and liabilities calculated on the aforementioned IFRS adjustments and on other minor differences between the Italian and IFRS accounting standards relating to the recognition in the financial statements of deferred tax assets and liabilities.

SUMMARISED RECONCILIATION OF SHAREHOLDERS' EQUITY (IFRS1) RECONCILIATION SCHEDULES FOR SHAREHOLDERS' EQUITY AT 01.01.2005

Amounts in €/000	01/01/2005 PIAGGIO	REF
SHAREHOLDERS' EQUITY		
Values in accordance with Italian accounting standards	189,840	
Business combinations	0	A
Cancellation of start-up and expansion costs	(195)	B
Improvements to third party assets	(356)	B
Cancellation of amortisation provision for land and buildings destined for sale	255	C
Recording of assets held under financial leasing	(3)	D
Change in criterion for recording of inventories	244	H
Disposal of receivables	0	F
Employee benefits	(3,351)	E
Provisions for risks and charges	0	G
Financial charges	(1,279)	H
Assessment of stock options	(966)	H
Costs charged to stock options	966	H
Values according to IAS / IFRS	185,154	

SUMMARISED RECONCILIATION OF SHAREHOLDERS' EQUITY (IFRS1) AND NET INCOME AT 31 DECEMBER 2005

(in €/000)	Shareholders' equity 31/12/2005	Net income 31/12/2005	REF
Values according to Italian accounting standards	185,343	(4,496)	
Cancellation of amortisation on goodwill	18,811	18,811	A
Assessment of P&C 2004-2009 warrants	56,466	0	A
Cancellation of capitalised costs	(330)	224	B
Property, plant and machinery	279	365	C
Financial leasing	84	87	D
Inventories	0	(244)	H
Recording and assessment of derivatives	(23)	(3)	H
Disposal of receivables	0	0	F
Employee benefits	(3,561)	991	E
Amortised cost	167	1,447	H
Stock Option Plan	0	(1,300)	H
Values according to IAS / IFRS	257,236	15,882	

**REPORT BY THE BOARD OF STATUTORY AUDITORS
TO THE SHAREHOLDERS' MEETING AS PER ARTICLE 153
OF LEGISLATIVE DECREE NO. 58/98 (THE "T.U.F.")
AND ARTICLE 2429 OF THE CIVIL CODE**

To the Shareholders,

In the course of the financial year ending 31 December 2006 the Board of Statutory Auditors of Piaggio & C. S.p.A. (the "Company") carried out its statutory duties, also taking into account – given the listing of the Company's ordinary shares on the Mercato Telematico Azionario [automated stock exchange] since 11 July 2006 – the Consob circulars about company checks and the activities of boards of statutory auditors, and the "Principi di comportamento del Collegio Sindacale di società quotate nei mercati regolamentati" [Principles of Conduct for the Board of Statutory Auditors of Companies listed on Regulated Markets] recommended by the Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri [National Council of Professional Accountants].

In the course of the financial year ending 31 December 2006, the Board of Statutory Auditors therefore checked (i) that the law and memorandum of association were observed, (ii) that principles of correct administration were respected, (iii) that those aspects of the Company's organisational structure that fall within its remit, as well as the internal audit system and the administrative and accounting system, were adequate, and that this last could be relied upon to give a true picture of operational items, (iv) how the rules on corporate governance specified in the Codice di Autodisciplina del Comitato per la Corporate Governance delle società quotate [Self-regulating Code of Practice of the Committee for the Corporate Governance of Listed Companies], adopted by the Company, were actually implemented, and (v) that the directives issued to controlled companies as per Article 114, paragraph 2, of the T.U.F. were adequate.

More particularly the Board, in compliance with Article 153 of the T.U.F., and also in view of the indications given by Consob in Circular no. DEM/1025564 of 6 April 2001, can report as follows:

1. The Board has verified that the Company operations impacting its profits, cash flow and assets – which it learnt about by attending board of directors' meetings and shareholders' meetings and by talking to top management – were in compliance with the law and articles of association, were not manifestly imprudent or risky, did not involve potential conflicts of interest, were not at variance with resolutions adopted by the shareholders' meeting, and were not such as to compromise the integrity of the shareholders' equity.

2. The Board did not discover, in the course of the financial year 2006, any atypical and/or unusual third-party, inter-company or related-party transactions.

The inter-company and related-party transactions, described in the Directors' Report and in the Notes to the Financial Statements, took place under normal market conditions; in particular, the Board considers these transactions to be fair and in the interests of the Company.

The Board also notes that the Company's Board of Directors, on 28 August 2006, adopted a Procedura per le Operazioni rilevanti e con Parti Correlate [Procedure for Important Transactions and those with Related Parties], designed to regulate the reporting and procedural aspects of transactions having a particular impact on profits, cash flow and assets, and of transactions with related parties.

The Board, as part of its checks, verified that the above Procedure was observed by the Company's bodies.

3. With regard to the transactions indicated in point 2 above, the Board considers the information provided in the Directors' Report and Notes to the Financial Statements to be adequate.
4. The reports on the financial statements and consolidated financial statements by the auditor Deloitte & Touche S.p.A., issued pursuant to Article 156 of the T.U.F., on 11 April 2007, are unqualified and do not include any emphasis of matter paragraphs; they certify that the financial statements and consolidated financial statements have been drawn up clearly and give a true and fair view of the Company's profitability, assets and liabilities and financial position, of changes in shareholders' equity, and of cash flow in the financial year ending 31 December 2006.
5. In the course of the financial year 2006 and to date the Board has not received any complaints from shareholders as per Article 2408 of the Civil Code.
6. In the course of the financial year 2006 and to date the Board has not received any other complaints.
7. In the course of the financial year 2006 Deloitte & Touche S.p.A. was entrusted with the following duties in addition to the auditing of the financial statements and accounting control:
 - a) Audit of the IFRS reconciliation schedules, for a fee of € 25,000,000 plus VAT and reimbursement of out-of-pocket expenses;
 - b) supporting the sponsor, with regard to both the Italian Prospectus and the international one, in the offering of ordinary shares in the Company to the general public in Italy and institutional investors, for a fee of € 403,550 plus VAT;
 - c) still within the context of the listing process, auditing restricted to the Quarterly Report as at 31 March 2006, for a fee of € 32,650 plus VAT.
8. In the course of the financial year 2006, the following duties were assigned to Studio Legale e Societario, with registered office in Via Tortona 25, Milan, a firm with permanent links to the audit firm:
 - a) ordinary tax advice, for a fee of € 43,680 plus VAT;
 - b) advice on issues regarding the project to centralise the foreign subsidiaries - back offices, for a fee of € 36,400 plus VAT.
9. The Board of Statutory Auditors acknowledges that during the financial year 2006 it issued the following opinions in accordance with the law:
 - a) an opinion on the appointment of the audit firm as per Article 159 of the T.U.F.;
 - b) opinions on the fees granted to directors entrusted with particular functions as per Article 2389 of the Civil Code;
 - c) at the extraordinary shareholders' meeting of 8 March 2006, where the Board of Directors was granted the power to increase the share capital against payment, certification that (i) the share capital had been paid in, (ii) the circumstances indicated in Articles 2446 and 2447 of the Civil Code were absent, and (iii) there were no debenture loans.

Within the framework of the process to have the Company's ordinary shares listed on the stock exchange, which was concluded on 11 July 2006 with the Company's admission to trading on the automated stock exchange MTA, the Board of Statutory Auditors:

 - d) expressed an opinion on the company to be entrusted with the checking of the management control system referred to in Article 2.3.4, paragraph 2 c) of the Borsa Italiana S.p.A. Regulations (more

specifically the Board judged both the names proposed by the Company to be "qualified" for this position):

- e) signed a responsibility statement for the information contained in the Prospectus.

The Board of Statutory Auditors, in compliance with the Self-regulating Code, also:
 - f) verified that the criteria and procedures adopted by the Board of Directors when vetting the independence of its members had been correctly applied,
 - g) verified the independence of its own members using the criteria specified in the Self-regulating Code.
10. In the course of 2006 the Company's Board of Directors met ten times; the Appointments Committee met twice; and the Internal Audit Committee once.

During the same year the Board of Statutory Auditors met seven times, and also when it drew up its report on the financial statements as at 31 December 2005 and when it expressed its opinion on the appointment of the audit firm; the Board also attended all the meetings of the Board of Directors and the three shareholders' meetings held during the year.

The Chairman of the Board also attended a meeting of the Appointments Committee and the Internal Audit Committee meeting.
 11. The Board of Statutory Auditors has learnt and checked, to the extent that this falls within its jurisdiction, that the principles of correct administration have been observed.

In particular, as regards the decision-making processes of the Board of Directors, the Board has checked that the management decisions taken by the directors complied with the law and articles of association, and that their resolutions were not contrary to the interests of the Company.
 12. The Board of Statutory Auditors has learnt and checked, to the extent that this falls within its jurisdiction, that the Company's organisational structure was adequate, noting that it had evolved to reflect the growth in business and the Company's greater presence in the international market.
 13. The Board of Statutory Auditors – also by liaising and coordinating with the Internal Audit Committee and the Managing Director in his capacity as the director appointed to oversee that the internal audit system is functioning – has evaluated and checked the adequacy of the Company's internal audit system and the work of the person in charge of it.
 14. The Board of Statutory Auditors has checked and evaluated – by collecting information from the relevant department managers, examining company documentation, and analysing the results of the audit firm's work – whether the administrative and accounting system was adequate and could be relied upon to give a true picture of operational items.
 15. The Board has checked that the directives given by the Company to its controlled companies as per Article 114, paragraph 2, of the T.U.F. were adequate, and that there was a proper flow of information between them, and it believes that the Company is able to fulfil the communication obligations laid down by law.
 16. During the financial year the Board of Statutory Auditors met managers from the audit firm Deloitte & Touche S.p.A. in order to exchange relevant data and information with them in accordance with Article 150, paragraph 3 of the T.U.F.

At these meetings the audit firm did not report any facts or anomalies important enough to be indicated in this report.

The Board believes that no critical issues arose with regard to the independence of the audit firm.

The fact that the Chairman of the Board of Statutory Auditors is also a statutory auditor of its subsidiary Moto Guzzi S.p.A. has also facilitated the exchange of information with that subsidiary's Board of Statutory Auditors.

17. The Company has adopted the latest version of the Self-regulating Code of Practice of the Committee for the Corporate Governance of Listed Companies.

The system of corporate governance adopted by the Company is detailed in the Corporate Governance Report for 2006, drawn up by the Board of Directors.

18. In the course of its activity and checks during the year, the Board discovered no blameworthy facts, omissions or irregularities of such significance as to require flagging in this report.

19. The Board acknowledges the transition to International Accounting Standards also for the separate financial statements of the parent company. The Board remarks that, as far as it is aware, there has been no derogation from the law in the preparation of the consolidated financial statements and separate financial statements.

The Board, also in view of the results of the work carried out by the body responsible for accounting control, has found no reason – as far as its own remit goes – not to approve the financial statements as at 31 December 2006 as drafted and approved by the Board of Directors at its meeting of 16 March 2007, and agrees with the Board of Directors about the proposed allocation of the year's profits.

The Board of Statutory Auditors

Mr. Giovanni Barbara (Chairman) [Signature of Giovanni Barbara]

Mr. Attilio Francesco Arietti (Statutory Auditor) [Signature of Attilio Arietti]

Mr. Alessandro Lai (Statutory Auditor) [Signature of Alessandro Lai]

Pontedera, 11 April 2007

**AUDITORS' REPORT PURSUANT TO ART. 156
OF LEGISLATIVE DECREE No. 58 OF FEBRUARY 24, 1998**

**To the Shareholders of
PIAGGIO & C. S.p.A.**

1. We have audited the consolidated financial statements of Piaggio & C. S.p.A. and its subsidiaries (the "Piaggio Group"), which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These consolidated financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the financial statements of the prior year, which are presented for comparative purposes as required by law, reference should be made to the auditors' report issued by us on March 9, 2006.

3. In our opinion, the consolidated financial statements present fairly the financial position of the Piaggio Group as of December 31, 2006, and the results of its operations and its cash flows for the year then ended in accordance with IFRS as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/2005.

DELOITTE & TOUCHE S.p.A.

Signed by
Paolo Guglielmetti
Partner

Florence, Italy
April 11, 2007

This report has been translated into the English language solely for the convenience of international readers.

**AUDITORS' REPORT PURSUANT TO ART. 156
OF LEGISLATIVE DECREE No. 58 OF FEBRUARY 24, 1998**

**To the Shareholders of
PIAGGIO & C. S.p.A.**

1. We have audited the financial statements of Piaggio & C. S.p.A., which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit. These financial statements represent Piaggio & C. S.p.A.'s first annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/2005.
2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements present for comparative purposes the corresponding data for the year 2005 prepared in accordance with IFRS. In addition, the Appendix to the financial statements explains the effects of transition to IFRS as adopted by the European Union and includes the reconciliation statements required by IFRS 1, previously approved by the Board of Directors and published as an attachment to the Piaggio & C. S.p.A. half-yearly interim financial statements, which we have audited and on which we issued a special purpose auditors' report dated September 11, 2006.

3. In our opinion, the financial statements present fairly the financial position of Piaggio & C. S.p.A. as of December 31, 2006, and the results of its operations and its cash flows for the year then ended in accordance with IFRS as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/2005.

DELOITTE & TOUCHE S.p.A.

Signed by
Paolo Guglielmetti
Partner

Florence, Italy
April 11, 2007

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