PIAGGIO & C. S.p.A.
IMMSI Group

Share capital 194,827,431.24 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

PIAGGIO GROUP

FINANCIAL STATEMENTS 2005

(Translation from the original one issued in Italian)

Contents

COMPANY BOARDS

Board of Directors	**Chairman**	Roberto Colaninno
	Deputy Chairman	Matteo Colaninno
	Chief Executive Officer	Rocco Sabelli
	Directors	Graham Clempson
		Daniele Discepolo[1]
		Luciano La Noce
		Giorgio Magnoni
		Gaetano Micciché
		Carlo Pirzio Biroli
	Secretary to the Board of Directors	Alberto Casacchia
Board of Statutory Auditors	**Chairman**	Giovanni Barbara
	Standing auditors	Attilio Francesco Arietti
		Alessandro Lai
	Alternate auditors	Mauro Girelli
		Maurizio Maffeis
Supervisory Body as per Legislative Decree 231/2001		Enrico Ingrillì
		Giovanni Barbara
		Gianclaudio Neri
Incentive Plan Committee		Roberto Colaninno
		Graham Clempson
		Gaetano Micciché
General Manager		Gianclaudio Neri
Independent auditors		Deloitte & Touche S.p.A.

[1] As from March 5, 2005

FINANCIAL HIGHLIGHTS OF THE PIAGGIO GROUP

Income statement (reclassified) *(Values in €/000))*		**December 2005** (1)	**December 2004** (2)
Net sales		**1,451.8**	**1,084.2**
Gross margin		**438.2**	**322.9**
Operating costs		(343.9)	(260.6)
Operating income		**94.3**	**62.3**
Income before tax		**64.0**	**40.9**
Profit/(Loss) on disposals/sales		0.0	0.8
Tax		(25.9)	(15.4)
Net income		**38.1**	**26.3**
Minority interest		***0.2***	***0.3***
Group		***37.9***	***26.0***
Gross margin as % of net sales	%	30.2	29.8
Operating income as % of net sales	%	6.5	5.7
Net income as % of net sales	%	2.6	2.4
EBITDA		**184.8**	**122.7**
EBITDA as % of net sales	%	12.7	11.3

Balance sheet

Net working capital	44.0	114.2
Tangible assets	260.1	239.5
Intangible assets	624.7	580.6
Financial assets	7.4	25.7
Reserves	(176.3)	(187.2)
Net invested capital	**759.9**	**772.7**
Net financial position	411.4	521.5
Shareholders' equity	348.5	251.2
Sources of funds	**759.9**	**772.7**
Minority interest	0.3	0.3

Change in net financial position

Opening net financial position	**521.5**	**n.a.**
Cash Flow from operations (Income+Amortisation/Depreciation)	128,6	
(Increase)/Reduction in working capital	70,2	
(Increase)/Reduction in investment	(136.9)	(3)
Change in provision for risks and charges	(10.9)	
Change in Shareholders' equity	59.2	(3)
Total change	***110.1***	

Closing net financial position	**411.4**	**n.a.**

1. December 2005: includes balance sheet and income statement figures for the Aprilia Group.
2. December 2004: the figures recorded are based on those of the consolidated financial statements approved by the Shareholders' meeting during May 2005, consolidating solely the balance sheet items of the whole Group in its configuration when the financial statements were drawn up, this includes the balance sheet consolidation of the Aprilia Group, while the income statement figures reflect the performance of the Piaggio Group prior to the consolidation, without including the income statement data of the Aprilia Group.
3. These figures include the negative impact on the value of the Aprilia warrants which had an impact on intangible assets of 62.2 ML € and on shareholders' equity of 56.6 ML €.

The figures at December 31, 2004 have been reclassified in accordance with the first time application IAS/IFRS, which occurred with the approval of the Half Yearly report for 2005.

HIGHLIGHTS

- **Growth in consolidated net sales, +367.6 ML€ of which 351.0 ML€ for the change in the consolidation area:**
  - Consolidated net sales 1,451.8 ML€ of which 351.0 ML€ for the change in the consolidation area;
  - Net sales Italy 587.9 ML€ compared to 468.4 ML€ in 2004;
  - Net sales Europe 610.1 ML€ compared to 453.1 ML€ in 2004;
  - Net sales India 157.2 ML€ compared to 108.2 ML€ in 2004;
  - Net sales USA 48.5 ML€ compared to 25.2 ML€ in 2004;
  - Other 48.2 ML€ compared to 29.3 ML€ in 2004.

- **Rising EBITDA**
  - Consolidated EBITDA 184.8 ML€, + 62.1 ML€ compared to 2004 +50.6%;
  - EBITDA as % of consolidated net sales 12.7%, +1.4% compared to the previous year.

- **Rising operating income and profitability**
  - Consolidated operating income 94.3 ML€, +32 ML€ ; profitability (operating income as % of net sales) 6.5%, +0.8% compared to 2004;

- **Net income 38.1 ML€, +11.8 ML€ compared to 2004 (including minority interest).**

- **Net financial position 411.4 ML€, down by 110.1 ML€ compared to 2004.**

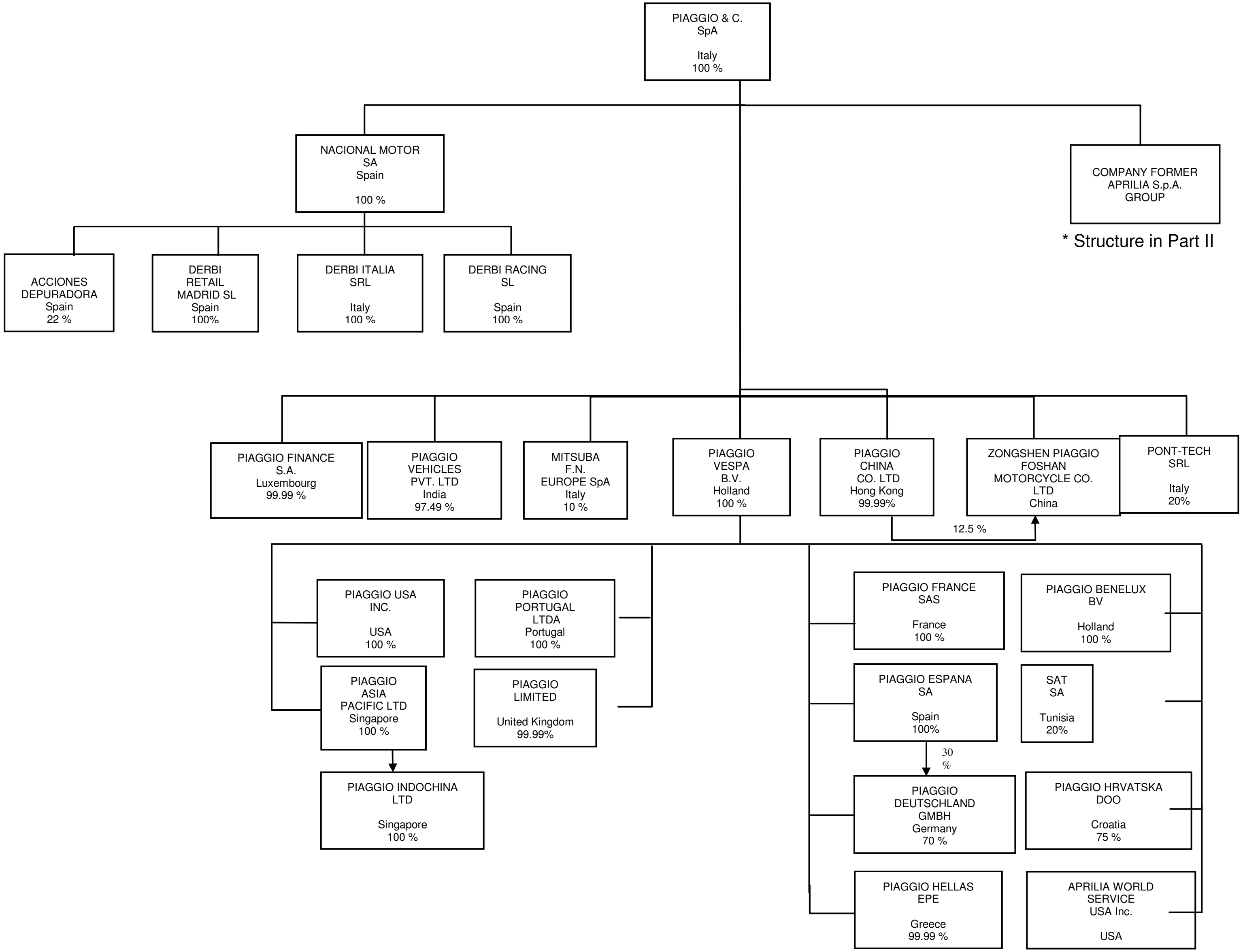
HIGHLIGHTS BY BUSINESS AREA

	2W				LTV	OTHER	TOTAL
	Piaggio Gilera Vespa	DERBI	Aprilia	M. Guzzi			
Volumes sold	318.8	46.8	113.7	7.0	121.4	3.3	611.0
Net sales	687.3	93.3	297.9	51.0	304.0	18.2	1,451.8
Employees	3,013	302	1,060	238	1,740		6,353
Investments							
- Fixed assets	18.0	4.1	10.8	16.7	13.1	8.0	70.7
- R&D (spending)	25.9	4.0	16.2	3.4	4.5	0.8	54.9

HIGHLIGHTS BY GEOGRAPHIC AREA

GEOGRAPHIC AREA	ITALY	EUROPE	U.S.A.	INDIA	OTHER	TOTAL
Volumes sold	204.3	268.7	15.9	101.4	20.7	611.0
Net sales	587.9	610.1	48.5	157.2	48.2	1,451.8
Employees	4,259	611	42	1,400	41	6,353
Investment						
- Fixed assets	55.3	4.5	0.4	10.5	0	70.7
- R&D (spending)	50.6	4.0	0	0.3		54.9

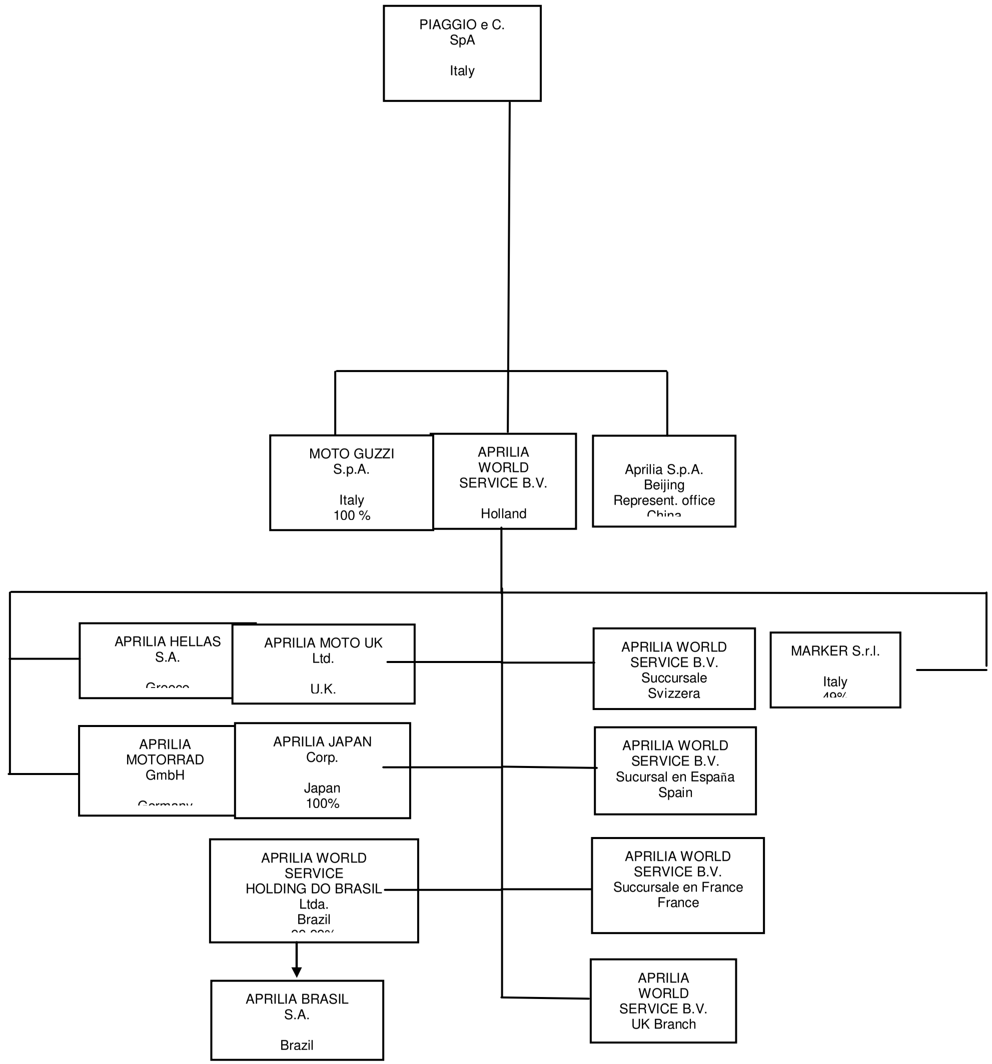
Group structure 31.12.2005



Companies in liquidation:

- Piaggio Argentina S.A. (99.99% owned by Piaggio Vespa BV)
- P & D S.p.A. (100% owned by Piaggio & C. S.p.A.)
- Motoride S.p.A. (28.29% owned by Piaggio & C. S.p.A.)

Group structure 31.12.2005 “Former Aprilia Group” part



Companies in liquidation: - Aprilia Leasing S.p.A. (100% owned by Piaggio & C. S.p.A.)
- Moto Laverda S.r.l. (100% owned by Piaggio & C. S.p.A.)
- Motocross Company S.r.l. (100% owned by Piaggio & C. S.p.A.)
- D.E.V. Diffusione Europea Veicoli S.r.l. (20% owned by Piaggio & C. S.p.A.)
- Aprilia Research & Development S.A. (100% owned by Aprilia World Service B.V.)

DIRECTORS' REPORT

FOREWORD

Following the coming into force of the EU Regulation no. 1606/2002, starting with the financial statements for the first half of 2005, the Piaggio Group adopted the International Accounting Standards ("IFRS") issued by the International Accounting Standards Board. In this Directors' report the comparative figures for the corresponding period in 2004 have, therefore, been restated and recalculated in accordance with the new accounting standards.

For further detail regarding the content of these standards as well as the impact of their adoption on the previously published financial statements for 2004 refer to the specific Appendix to the Half Year Report as approved by the Board of Directors of Piaggio & C. S.p.A. on September 13, 2005, as well as to the Appendix to the Notes to these Financial Statements.

With effect from December 31, 2005, Piaggio & C. S.p.A. incorporated Aprilia S.p.A. as resolved by the respective company boards, with accounting and tax effect from January 1st, 2005.

1. THE MARKET

The Piaggio Group operates internationally in the light vehicles sector, a sector which the Group helped to define in 1946 with the introduction of the Vespa and in 1948 with the introduction of the Ape, thus anticipating the emerging need for individual mobility which is still a feature of modern society.

The light vehicle sector includes two, three and four wheel transport, for private or professional use, which, above all in major urban centres, enables the resolution of the main problems of mobility, thanks to the technical characteristics of safety, manoeuvrability and low environmental impact.

Against this background, the research and development activity of the Piaggio Group takes an innovative approach not only in terms of style, but also in terms of the technical solutions that are deployed. Moreover, this is in line with the mission of vehicle use and with the emerging expectations of customers. This approach is evidenced by the numerous innovative concepts of form and function and by the technological firsts which are part of Piaggio's past and present.

Today the Group is one of the leading global operators, and confirmed European leader, in the development, production and distribution of two-wheel vehicles (scooters from 50 to 500 cc and motorbikes from 50 to 1,100 cc). The Group also operates in the development, production and distribution of three and four wheel light commercial vehicles (LTV) in the markets of Europe and India (where it is the second largest operator).

The vehicles produced by the Group are distributed in over 50 countries under the brand names of "Piaggio" (scooters and three and four wheel vehicles), "Vespa" (scooters), "Gilera" (scooters and motorbikes), "Derbi" (scooters and motorbikes), "Aprilia" (scooters and motorbikes), "Scarabeo" (scooters), and "Moto Guzzi" (motorbikes).

As part of the light vehicle sector, this Report considers the data relating to the two business areas into which the Group's activity is divided.

1.1 TWO-WHEEL MARKET

The world market for motorised two-wheel transport in 2005 confirmed the marked expansion that had already been seen in previous years, exceeding 40 million vehicles sold, up by 9% compared to 2004.
Asia remains undoubtedly the main driver for this result: the People's Republic of China confirmed its position as the world's leading market by increasing volumes by 9% with over 18 million vehicles. India was again in second place with growth of 10% and more than 6.7 million vehicles sold. Also South East Asia in 2005 confirmed the growth of recent years, reaching almost 9 million vehicles (+13% compared to 2004): among the countries in this area, Indonesia covers around half of the sales, followed by Thailand and Vietnam which respectively account for 25% and 20%.
The crisis of the Japanese market seems to have ended and it saw a slight positive trend compared to 2004; sales volumes in 2005 were just over 706,000 units (+1%).
The positive trend in North America (of which more than 90% is concentrated in the USA) continued with growth of 4% and sales in excess of one million units. As for Latin America, Brazil maintained its marked growth (90% of the area), also in this case with sales volumes of over one million units (+12% compared to 2004).
Europe, the main area for the Piaggio Group's businesses, for the second year running saw a rising trend (+5% compared to 2004, of which +6% for scooters and +4% for motorbikes). This result arose once again from the solid performance of the over 50 cc segment (+9%) which made up for the fall in the 50 cc segment (–3%); unlike 2004, in 2005 the over 50 cc scooter segment (+13%) recorded a higher rise than that for the over 50 cc motorbikes (+6%); thus there was a continuation in the trend by which in coming years the over 50 cc scooter segment should surpass the 50 cc motorbike segment which is still over half of the European market.

The scooter market

Italy

The Italian scooter market ended 2005 at 395 thousand vehicles sold compared to 403 thousand in the same period of 2004 (-2%), thus confirming the change in the mix that has occurred between 50 cc and over 50 cc vehicles in favour of the latter.
The 50 cc segment fell from 130 thousand units in 2004 to 122 thousand units in 2005 (-7%). The market for over 50 cc vehicles at December 31, 2005 stood at 273 thousand units and was thus stable compared to 2004.

Europe

In 2005 the scooter market in Europe grew, going from 1,102,000 units in 2004 to 1,164,000 (+6%).
The 50 cc scooter segment fell slightly from 593 thousand units in 2004 to 590 thousand in 2005. The over 50 cc scooter segment rose to 574 thousand units compared to 509 thousand in the same period of 2004 (+13%).

The main market is the Italian one (395 thousand units) followed by Spain (172 thousand), France (168 thousand), Germany (99 thousand), Greece (82 thousand), and Great Britain (40 thousand).
The French market saw overall growth compared to the previous year, rising from 157 thousand units to 168 thousand (+7%), due both to the increase in 50 cc scooters and licence plate registered scooters (+4% and +14% respectively compared to the previous year).
The Spanish market stood at 172 thousand vehicles, an increase of 34% compared to the same period in 2004, which is not representative of the sharp change in the type of demand. In fact against a fall in the market of 6% for 50 cc scooters, the market for over 50 cc scooters grew by 94%.
In Greece too the market recorded growth of 19%, while the German market saw an overall fall of 5% due to a negative trend in the 50 cc market (-10%), not fully reabsorbed by the growth in the over 50 cc segment (+9%).
Finally, the British market stood at 40 thousand vehicles, a fall of 12% compared to the same period of 2004, due to a negative trend in both the 50 cc and over 50 cc segments (–9% and -14% respectively).
USA
The scooter market in the USA in 2005 saw growth from 48 thousand units in 2004 to 57 thousand units in 2005 (+17%). The 50 cc scooter segment saw growth of 11% and the over 50 cc scooter segment rose by 27%.

The market for motorbikes

Italy
In Italy the market for motorbikes (including 50 cc motorbikes) rose from 152 thousand units in 2004 to 155 thousand in 2005, thus recording growth of 2%.
The segment for 50 cc motorbikes fell (-1%) from 6,500 units in 2004 to 6,400 units in 2005. There was, however, a marked rise in 51-125 cc motorbikes, which moved from 8,600 units in 2004 to 9,700 in 2005, an increase of 14%. The segment for over 125 cc motorbikes grew by 1% with 139 thousand registrations at 31 December 2005 compared to 137 thousand in 2004. In particular the 126-750 cc motorbike segment grew by 1% (87 thousand vehicles compared to 86 thousand in 2004), while the over 750 cc motorbikes saw slight growth of 1% (52 thousand vehicles compared to 51 thousand in 2004).
Europe
The market for motorbikes in Europe rose from 823 thousand units in 2004 to 854 thousand units in 2005 (+4%). While the 50 cc segment fell from 91 thousand to 76 thousand units (-17%), the 51-125 cc segment grew by 31%, going from 98 thousand units in 2004 to 129 thousand units in 2005, and the over 125 cc segment stood at 650 thousand units compared to 634 thousand in the previous year (+2%).
The main market is the French one which outstripped Italy by 736 units (155 thousand units in both France and Italy). Germany is the third European market with 140 thousand units, followed by Spain (121 thousand units) and Great Britain (91 thousand units).

In Europe the main segment is that for 126-750 cc motorbikes, where the Group is represented by the Aprilia brand, followed by that for maxi motorbikes of over 750 cc where the Group is present with the Aprilia and Moto Guzzi brands. In 2005, the over 750 cc segment fell slightly (-1%), while the segment for intermediate 126-750 cc motorbikes grew compared to the previous year (+5%). Turning to the key European market for Moto Guzzi (over 750 cc), Germany, although remaining the leading European market, saw its market drop by 7% mainly due to a fall in the touring segment of 17% and the sports road bike segment of 16%, custom bikes fell by 14%, naked bikes lost 7%, and enduro bikes 1%, while sport touring bikes, thanks also to the introduction of two new BMW models, grew by 14%.
The French market, the third in Europe, grew by 5% rising from 41 thousand in 2004 to 43 thousand units registered in 2005, mainly thanks to the touring segment which saw a rise of 9%, followed by the naked segment 9%, custom 9% and sport touring 2%. On the other hand, the segments for sport, down by 16%, and enduro, down by 2%, fell compared to 2004.
The fourth European market is the UK which was stable in 2005 at around 39 thousand units; demand fell in the sport (–12%), sport touring (–23%) and naked (–1%) segments. The values were partly offset by the growth in the enduro (18%), touring (4%) and custom (4%) segments. In the UK market Moto Guzzi grew from 0.6%, with 223 motorbikes registered, to 0.8% in 2005, or 301 units.

The Spanish market, the fifth largest in Europe, saw significant growth of 34%, going from 14 thousand units registered in 2004 to 19 thousand in 2005 with a 58% rise in the naked segment, 52% in sport touring, 40% in touring, 48% in enduro and 43% in custom. The only segment which fell back was the sport segment, down by 12%.

USA

In 2005 the motorbike market in the USA grew overall (+4%). In more detail, while the 51-125 cc segment fell (-12%), the over 125 cc motorbike segment grew (+7%). In particular, again in relation to 750 cc motorbikes, there was growth of 5% from 459 thousand in 2004 to 482 thousand registrations in 2005.

1.2 LIGHT TRANSPORTATION VEHICLES MARKET

In 2005 the European market for light transportation vehicles (vehicles with a gross weight of up to 3.5 tonnes) saw further recovery of 3.5% compared to 2004. Italy, however, went against the trend and fell by 2.4%. The Italian market, therefore, stood at 216,160 units compared to 221,500 in 2004. The drive to buy light transportation vehicles on the Italian market is, therefore, still “lukewarm” and influenced by a continuing economic situation which is not positive.
The Indian market, where Piaggio Vehicle Private Limited, a subsidiary of Piaggio & C. S.p.A., successfully operates, continued to enjoy a positive growth trend, up by 12.1% compared to 2004. During 2005, in terms of sales to the final customer in the segments in which PVPL is present, it totalled 339,780 units for 3 wheel vehicles compared to around 303,000 units recorded in 2004.
Within the market, the passenger vehicle segment (3 and 6 seaters), stood at 194,636 units in 2005, slightly up on 2004 (+7.2%).
The trend in the Cargo segment shows a much more marked rise. Between 2004 and 2005 the

segment grew by 19.5% from 121,500 to 145,145 units sold. The Cargo market therefore, even if smaller in terms of size than the Passenger segment, is the growth driver for the Indian market.
At the end of 2005 PVPL enjoyed a 38% share of the Indian market for three wheel cargo vehicles and 24% for Passenger vehicles.

2. THE REGULATORY FRAMEWORK

Italy

On June 21, 2005, the Ministry of the Environment issued the reimbursements for the incentive campaign contributions for 2003 and 2004. Piaggio, the Ministry's main creditor, received a full reimbursement of 11.3 million euro (9.6 million relating to 2003 and 1.7 million relating to 2004). Aprilia obtained a repayment of 7.3 million euro (6.3 million accrued in 2003 and 1.0 million in 2004). As at April 18, 2005 there was the finalisation of the supplement to the Programme Agreement signed on February 12, 2002 between the Ministry of the Environment and ANCMA, for the continuation of the supply of contributions for the purchase of low-polluting mopeds. The funds for the 2005 campaign were made available as from May 20, 2005 for an overall sum of 25,000,000 euro. A contribution of 250 euro (including sales tax) was provided for every low-polluting moped. As at December 2005, the Group brands had obtained the following contributions: Piaggio 8,381,250 euro, Aprilia 4,588,500 euro, and Derbi 361,250 euro.
The contributions for the purchase of electric traction vehicles were refinanced and the campaign continued in 2005.
On October 1st, 2004, the Region of Lombardy launched its own incentive campaign with contributions in favour of low-polluting mopeds and motorbikes (up to 250 cc). This initiative continued throughout 2005 and negotiations are underway with ANCMA for a renewal of the campaign in 2006.
On October 25, 2005, with a resolution presented by the Assessor of the Environment for the Region of Lazio, an incentive campaign was started for the purchase of low-polluting vehicles, and it is ongoing. In this case too the incentives are for mopeds and motorbikes (limited to 200 cc) and it is expected to continue in 2006.
In 2005 there continued the coming into force of the regulations contained in the Legislative Decree on the New Highway Code. Public, media and market attention was very high, above all owing to the numerous innovations announced for two wheel vehicles. In particular the obligation to obtain the mini licence for scooters (as the Code defines all two wheel vehicles up to 50 cc) was extended to adults who do not possess any other licence as from 01.10.2005. In addition, it was made compulsory for all candidates for the mini licences to present a medical certificate of driving suitability. Despite the toughening of the obligations, once the regulatory requirement had been clarified, there were no negative consequences on the market for both 2 wheel mopeds and for the Ape 50. Nonetheless, it must be recalled that such products were covered by the government contribution as low-polluting vehicles. At December 31, 2005 the Ministry figures relating to the issue of mini licences showed a total of 1,076,590 since the obligation was introduced. The Group's initiatives to support education

campaigns and schools are continuing, in particular with the involvement of its own dealers to provide part of the free courses at schools.

At the same time as the coming into force of the mini licence for adults, Parliament modified article 213 of the Highway Code extending the cases in which the additional sanction of confiscating the vehicle (moped or motorcycle) is applied, to cases of riding without a helmet, illegally increasing the bike's performance, dangerous driving and unauthorised transport of a passenger on a moped.

Among the other changes made to the Highway Code relating to the 50 cc segment, note should be made of: a) the possibility of transporting a passenger on a moped; b) the circulation document – which will be for a nominated person– as well as; c) the new registration system for mopeds. These measures too were envisaged to be applied as from 01.07.2004, but are still a dead letter today given that the Implementing decree, although approved by the Cabinet in January 2006, is still not in force. Ministerial sources indicate the likely coming into force for the end of the April 2006. A consequence will be that the envisaged phase of undertaking an administrative re-examination of all the mopeds currently in circulation (around six million vehicles), which could lead to a further drive to replace old vehicles with new ones which already conform to the regulation, will be further postponed to the end of 2006.

Again in Italy, there have been no important changes as regards insurance rates. The average premiums for insurance policies for mopeds rose further or remained at the very high level of the previous two years. This occurred despite a slight fall in the overall number of accidents and in the absence of increases in the cost of parts and labour. Depending on the geographic area and the age of the rider, the total annual insurance premium is up to 50% of the list price of the vehicle (especially in the case of mopeds), although on average it is never lower than 15%, and represents the main barrier to purchase, as seen in statistical studies on the population carried out by specialist institutes.

It should be noted that since December 2003 road insurance of mopeds has been included in the so-called ISTAT Basket for the calculation of inflation.

During 2005, by means of a specific Ministerial Decree of November 22, 2005 Italy adopted the European Directive 2005/30 which regulates the issue of EU approvals for replacement silencers, containing catalysers to limit polluting emissions. This directive is applied to non-original (after market) silencers which are freely traded. Although at the request of the manufacturer it is already in force, the obligation of approval in accordance with the directive will start as from May 18, 2006.

Europe

For the whole of 2005 the regulatory activity continued in the institutions of Brussels that led to the establishment of new pollution limits for the so-called "Euro3" phase for motorcycles and to the proposal of a directive for corresponding Euro3 limits for 2/3/4 wheel mopeds, motorised tricycles and quadricycles. While the Euro3 parameters for motorcycles have been obligatorily in force throughout Europe since Januart 1^{st}, 2006 for all new approvals and since Januart 1^{st}, 2007 for all registrations of motorcycles, for other categories of vehicle such dates and corresponding limits have not yet been identified.

Since January 1st, 2005, for new approvals, the Euro4 phase of pollution limits has entered into force for commercial vans (N1 - Porter). Since January 1st, 2006 this obligation has been extended to all production. A consequence of this regulation has been the termination of the Porter Diesel line, while the petrol version has been updated to the new parameters.

Following the discussion in Brussels on the final report of the study carried out by TuV - Technische UberwachungsVerein – on tampering with mopeds and motorcycles, France put forward a proposal to change the related European legislation in a way that would be extremely detrimental for producers, by extending the existing prescriptions to other categories of vehicles. Piaggio, in collaboration with the European Association ACEM, has managed to bring the discussion back to more rational ground which can protect its interests. As a consequence the European Commission has reserved the right to present a proposal to modify the existing regulation to take the needs of constructors into account also.

Approval of the text of the New EU Directive on driving licences continues to be put back owing to the impossibility of the EU Council of Ministers reaching agreement on the text to be approved. In particular Germany, France and Poland refuse to support a compromise text prepared by the Luxembourg Presidency and subsequently by the British Presidency. At the moment it is not possible to make a forecast about the progress of this directive. However, it is unlikely that there will be progress during 2006, in consideration of the “weakness” of the Austrian and Finnish presidencies (being small countries). It is very likely that the procedure will be unblocked under the German Presidency in the first half of 2007. We should recall that with the approval of this directive, for the first time the requirements for riding mopeds, which are currently based on national regulations, will be regulated at a European level. Piaggio has guaranteed, and will continue to guarantee, proactive monitoring of the content of the provision, with particular reference to driving specifications for tricycles and quadricycles, as well as to the possibility for member states to keep the conditions established by domestic laws, such as for example, for some countries to keep 14 as the minimum age to use a motorbike and the equivalence between licence B and licence A1.

Finally, the definition of internationally harmonised regulations regarding noise, braking and pollutant emission from two wheel vehicles continued throughout 2005. Piaggio made a significant contribution to the progress of research studies on which the new regulations will be based. This commitment saw Piaggio involved both in Europe (Brussels) and internationally (UN/Geneva), in prima persona and through the category associations to which it belongs, protecting the interests of the Group in all the issues as they were addressed.

Overall, the products of the Piaggio Group conform to the strictest regulations currently in force in Europe and, with particular adaptations, in the USA regarding the environment and safety and they also conform to other existing non-EU regulations which are generally less restrictive.

3. THE PIAGGIO GROUP

3.1 TWO WHEEL

	2005		2004		Delta %	
	Volumes Sell in (units/ '000)	Net sales (ML€)	Volumes Sell in (units/ '000)	Net sales (ML€)	Volumes	Net sales
Piaggio	195.9	365.9	226.9	428.0	-13.7%	-14.5%
Galera	35.1	61.1	45.4	80.7	-22.7%	-24.3%
Vespa	87.8	173.4	58.2	110.2	50.9%	57.3%
Parts/Accessories	n.s.	87.0	n.s.	92.3		-5.8%
Derbi (1)	46.8	93.3	50.5	96.3	-7.3%	-3.1%
Aprilia	113.7	297.9	103.0	286.0	10.4%	4.2%
M. Guzzi	7.0	51.0	4.0	30.5	76.8%	67.2%
TOTAL	**486.3**	**1,129.6**	**487.9**	**1,124.0**	**-0.3%**	**0.5%**

(1) Includes spare parts and accessories

In 2005 the Piaggio, Vespa and Gilera brands maintained their leadership of the scooter market with a 25.1% share. Looking at the individual brands, 2005 was a very good year for Vespa which recorded annual global sales of 87,800 units thanks to the launch of two new models: LX 50/125/150, restyling of the ET launched in 1996, and of the GTS, the first 250 cc Vespa equipped with a latest generation electronic injection engine well before the Euro 3 regulation comes into force. Thus the share in Europe of the most famous brand in the Piaggio Group grew in 2005 by almost one percentage point from 4.4% to 5.2%.

After a 2004 characterised by the restyling of the Liberty and Beverly models and by the excellent performance of the X8, Piaggio volumes in 2005 stood at 195,900 units, or a 17.5% share. Gilera ended 2005 with 35,100 units sold or a 2.5% share. The initial market indications seen at the end of 2005 following the launch of Runner, offered good prospects for 2006.

The expansion of the Piaggio Group in the USA continued in 2005 too: the distribution network was enhanced by increasing the Vespa Boutiques which are spread all over the country to around 120. Vespa remains the Group's leading product with around 8,700 units sold, while the market share remained largely stable at 16.0%.

As for other non-European countries, the Piaggio Group's commitment remains directed to those markets which are the most structured and where customers have a high level of spending power.

Derbi too confirmed its position as European leader in its key sector, that for 50 cc motorbikes, with a market share of 33.8% (+4.7% compared to 2004) and the Senda confirmed its position as the best-selling 50 cc motorbike in Europe (26,347 units), albeit the market in general fell by around 17% compared to the previous year.

Despite the presence in the subsectors of 125 cc motorbikes – where Derbi maintained a 2.2% share – and of scooters (up to and including 50 cc), this fall in the main subsector where the brand operates led to a fall of 2.5% in net sales for 2005.

As for the scooter subsector, with 84,988 vehicles sold in Europe, in 2005 the Aprilia brand raised its share to 7.3% (+0.2%), while in the motorbike segment, with 18,114 units sold in Europe, Aprilia's share in 2005 fell to 2.1% (-0.8%). As for the American market, up compared to 2004, the presence of Aprilia and Guzzi underwent a structural reorganisation which will bear fruit as from the second quarter of 2006.

Albeit in a slightly negative market, Moto Guzzi, with 1.7%, regained share in its niche market. Thanks also to the launch of the new Breva 1100 cc and Griso 1100 cc, volumes in 2005 stood at 6,975 motorcycles sold with net sales worth 43.8 million euro (+90% compared to 2004).

3.2 THE TWO-WHEEL PRODUCT RANGE

The Piaggio, Vespa, and Gilera series consist of a wide range of products, which are regularly in the leading positions in sales tables, with excellent coverage of the various market segments. There were three models which in 2005 made a particular impact: Vespa LX, Liberty and Beverly. Vespa LX was the Group's best-selling scooter with almost 55,000 units, or net sales of 94.1 million euro; the sales of the Liberty model were over 46,000 units which enabled net sales of 65.9 million euro. Just under 40,000 units were sold of the Beverly (114.4 million euro in net sales) which continued to have a leading role in the Piaggio range.

Significant volumes were also achieved by the pair of "big" Vespas, the Gran Turismo and the GTS, which together reached almost 21,000 units sold at 54.6 million euro in net sales.

The results for the two Piaggio Gran Turismo models were also outstanding: the X9 and X8 in 2005 both recorded sales of around 18,500 units, with net sales of 43.9 million euro and 54.6 million euro respectively.

The main new product presented during 2005 was the GTS: it is a product aimed at a particularly sophisticated and demanding customer who wishes to combine the elegance and classic styling which are typical of a Vespa, with the advanced technology and performance worthy of a real Gran Turismo scooter. There was also a significant success for the LX, which was a worthy successor to the ET.

Gilera meanwhile presented the new version of the Runner, the scooter with a motorbike inside, while Piaggio proposed a new version of the Zip 4 Stroke, the first scooter wholly manufactured at the plant in Foshan in the People's Republic of China. This will be Piaggio's response to the fastest growing segment for 50 cc vehicles, that of low-priced classic bikes. In 2006 Zip with the addition of a 100 cc 4 Stroke engine will increase its potential in the over 50 cc segment as well.

The range of Aprilia products consists of a diversified range of scooters and motorbikes of varying engine sizes. The models which in 2005 particularly stood out were, for scooters, the Scarabeo in various engine sizes (26,122 vehicles sold), the Sport City 125/200 (17,274 vehicles), the SR 50

(22,968 vehicles), the Atlantic 125/250/500 (13,428 vehicles); and for motorcycles, the RS 125 (4,327 vehicles), the Pegaso (3,045 vehicles) and the RSV 1000 (1,853 vehicles).

The Moto Guzzi range in 2005 saw the introduction of the new Euro 3 twin spark 1100 engine, which uses a new six speed gearbox and a new patented transmission system, and which was adopted as from May 2005 on the Breva 1100 and as from September on the Griso 1100.

3.3 LIGHT TRANSPORTATION VEHICLES

	2005		**2004**		Delta %	
	Volumes Sell in (units/'000)	Net sales (ML€)	Volumes Sell in (units/'000)	Net sales (ML€)	Volumes	Net sales
Ape	109.7	175.0	81.5	133.5	34.6%	31.2%
of which India	*101.4*	*146.8*	*72.1*	*100.4*	*40.6%*	*46.2%*
Minivan	7.2	65.1	7.1	59.3	1.7%	9.9%
Quargo	3.6	25.1	0.9	6.4	294.2%	292.1%
Microcars	0.8	5.8	1.2	7.7	-30.7%	-25.5%
Trackmaster	0.1	1.1			n.a.	n.a.
Parts/Accessories	n.s.	31.8	n.s.	30.7	n.s.	3.6%
TOTAL	**121.4**	**304.0**	**90.7**	**237.6**	**33.9%**	**27.9%**

The Light Transportation Vehicles (LTV) Division ended 2005 with 121,400 units sold, up by 33.9% compared to volumes in 2004. This growth arose especially from the success of the associated Indian company PVPL (Piaggio Vehicles Private Ltd) which further reinforced its presence on the domestic market in India and gradually increased the capacity of its production facility at Baramati. Moreover, in 2005 there was an excellent performance from the European market which, following several years in decline, started to grow again thanks to the new commercial and marketing policy and to the introduction of the new Quargo product. Therefore, it rose from around 18,500 units sold in 2004 to 20,021 vehicles recorded at the end of 2005. Growth in Europe, therefore, stood at a significant level of 7.6% which not only enabled an inversion in the trend by generating positive growth in net sales, but also caused a real turnaround in the business and in the contribution which Piaggio LTV Europe makes to the Group.

Despite the unique nature of the product, in the European market (mainly Italy), Ape continues to show signs of being weighed down by the mature phase of its product life cycle and saw a fall of 16.4% compared to 2004. The fall in the 3 wheel segment, however, was more than made up for by the marked growth in the 4 wheel segment (Porter and the new Quargo) which rose from 8,146 units in 2004 to more than 11,200 in 2005 (+38.2%).

Overall net sales of Piaggio LTV rose from 237.6 ML€ in 2004 to 304.0 ML€ in 2005 (+27.8%). Net sales generated in Europe totalled 146.8 ML€, while India, following the sharp growth in volumes, reached 157.2 ML€ in net sales.

In the domestic market, in particular, the Group rose from 4,837 Porters sold in 2004 to 4,873 in 2005 (largely stable with +0.7%), however increasing its market share in the N1 segment which reached 2.3% (Source ANFIA: declared deliveries). In particular, then, in the pick-up and chassis versions, in which the Porter range has an important competitive advantage compared to its rivals, Piaggio's market share consolidated at 21.3% (ANFIA figures: December 2005). As a consequence Piaggio reinforced its role as a key player in the sector of compact commercial vehicles which are small, highly manoeuvrable and have a high load-bearing capacity in relation to their size. In addition, in the Heavy Quadricycle / 3 wheel segment, where Piaggio has always played a leading role, the new Quargo performed well. Launched at the end of 2004, in 2005 Quargo sales were around 3,500 units. This performance more than made up for the fall in the Ape estimated at around 1,500 units. It is also worth highlighting an important effect of the mix since the average price and unit value of the modern 4 wheel range (Quargo and Porter), is higher than that for the 3 wheel range (Ape).

The Indian market, where Piaggio Vehicle Private Limited, a subsidiary of Piaggio & C. S.p.A., operates successfully, continued to grow, up by 12.1% compared to 2004. During 2005, in terms of sales to the end customer in the segments in which PVPL is present, 339,780 3 wheel units were sold compared to around 303,000 units recorded at the end of 2004.

In India the key market for 3 wheel commercial vehicles continued to grow, with an increase of 12.1% compared to 2004. Against this background, the performance of the associated Indian company PVPL continued to show a marked increase and an interesting growth rate. Sales rose from almost 72,000 units in 2004 to over 100,000 units during 2005. The growth rate for PVPL, therefore, stood at 41.4%. This marked growth enabled PVPL to significantly increase its market share which rose from 23% of the total 3 wheel market in 2004 to the current 30%. Looking in detail at the market, PVPL consolidated its role as market leader in the Cargo segment (goods transport) and as a key, dynamic and innovative follower in the Passenger segment (passenger transport).

In the Cargo segment (0.5 ton and 0.75 ton), thanks in particular to the "Piaggio Ape 501" and the numerous customisation possibilities it offers to meet the varying needs of customers in timely fashion, PVPL's market share stood at 38%. The key follower, an Indian manufacturer, stood at just 23% (SIAM / PVPL figures).

In the Passenger segment (3 and 6 seaters) PVPL's performance saw solid growth and it continued to confirm its role as a valid alternative to the historic local market leader, increasing its market share by a full 10 percentage points from 14% in 2004 to 24% in 2005.

The reasons for the continual growth on the Indian market, which led PVPL to have an overall, and constantly increasing, market share of 30%, are a high quality product and, above all, a value proposition that is enhanced by advanced service that meets the needs of end users.

As for the product range, 2005 was dedicated to the commercial and marketing launch of the Quargo – the new compact professional vehicle – which was presented in autumn 2004. 2005, therefore, saw management of the marketing mix which was aimed at consolidating the “customer base” of Piaggio LTV – and they are very loyal to the brand – as well as seeking new customer targets who in the new product can find the best solution to their professional needs. During 2005 further versions of the Quargo were also launched (i.e. Tilt-frame body, Van, Heavy Duties) in order to better command the various key market segments. The results obtained, expressed in terms of net sales, were significant. During 2005 the new version of the Porter (which replaced the previous one) was also put on the market, equipped with a more comfortable cabin so as to better meet the needs of professional customers. At the end of 2005 the Piaggio Trackmaster was presented, an off-road vehicle destined for the professional utility sector (ideal for agricultural and leisure use) which requires an extreme vehicle suitable for every type of surface or incline.

3.4 SPARE PARTS

2005 was the first year in which the Piaggio Group chose to concentrate in a single Corporate structure the spare parts division, with the aim, on the one hand, of optimising customer service levels, and, on the other, creating synergies between the various Group brands.

As for the level of service, 2005 ended with values over 93% in the first instance.

Although demand was largely unchanged, the objective of making an overall improvement in the competitive positioning of our brands and the consequent development of the business was confirmed.

3.5 CORPORATE BUSINESS

2005 saw good results both at the level of volumes and in the consolidation of relations with the public administration, institutions and national service companies.

There was clear development in the European market, the first important supplies to the overseas market in general (Albanian Ministry of Industry - LTV, Algerian Ministry of the Interior - Vespa, Argentine Ministry of the Interior – Breva) and a marked consolidation of the domestic market (Italy).

At a European level the development of supplies was particularly positive in the postal services sector (4,000 vehicles + 60% compared to 2004) and involved France, Holland, Spain, Austria, Switzerland, Germany and Greece.

The domestic market, in addition to the awarding of the supply for the Italian post office, saw significant results in the services sector generally and in particular in public utilities. In the LTV sector the increase in vehicles (1,600 compared to 700 in 2004) was achieved through the development of new commercial relations and through the consolidation of existing relations.

In relation to the range of motorbikes (Guzzi and Aprilia), during the year contacts were re-established with the central administration and town councils to guarantee the offer conditions and the company’s involvement in future tenders.

In addition, the public administration market segment was strongly affected by the fall in financial resources (budget cuts), a situation which will involve this market segment in 2006 as well.

3.6 RESEARCH AND DEVELOPMENT

Company	2005			2004		
amount ML€	Capitalised	Cost	Total	Capitalised	Cost	Total
Piaggio & C.	15.6	15.6	31.2	22.2	13.0	35.2
of which 2W	13.4	13.3	26.7	15.3	10.9	26.2
of which LTV	2.2	2.3	4.5	6.9	2.1	9.0
Nacional Motor	2.2	1.8	4.0	1.7	1.8	3.5
Aprilia	8.1	8.2	16.2	4.6	5.8	10.4
Moto Guzzi	3.2	0.2	3.4	8.4	0.9	9.3
Total	29.2	25.7	54.9	36.9	21.5	58.4

During 2005, the Piaggio Group continued with its policy of research and development activities, allocating overall resources of 54.9 ML€ (of which 31.2 ML€ for Piaggio, 4.0 ML€ for Nacional Motor, 16.2 ML€ for Aprilia, and 3.4 ML€ for Moto Guzzi), with a ratio to net sales of 3.8%.

The associated Indian company Piaggio Vehicles Pvt Ltd for its new products largely relied on the development undertaken by the parent company Piaggio & C. S.p.A. in the LTV business area.

In particular the development activities related to new vehicles and new engines (above all from an environmental aspect and already conformed with the new Euro 3 regulation).

Following the development activities for new two wheel products, for an overall cost of 31.2 ML€ the Piaggio brand started production of completely new vehicles and engines for products already in the range such as:

- The new Euro 3 engines for all the Group’s scooters and the new Euro 4 version for the Porter
- Vespa GTS and LX with the related engines
- Runner
- Quargo INDIA.

As for the Aprilia brand, 2005 with overall expenditure of 16.2 ML€, saw the start of production for:

- Atlantic 500 Sprint
- Pegaso 650, in both the road and Enduro versions
- Scarabeo 50 with the new 2 stroke Piaggio engine
- TUONO 1000 R

The activities to design and industrialise the “off road” bicylinder range complete with Cross, Motard and Enduro versions also continued.

In addition, Aprilia over coming months will see to the “updating” of the range of its sports motorbikes with the restyling of the RSV 1000 and of all the vehicles over 50 cc conforming to the Euro3 regulation.

As for Guzzi, following overall expenditure of 3.4 ML€, during 2005 the BREVA 1100 and GRISO 1100 went into production.
Finally, Derbi, with overall expenditure of 3.9 ML€, started production of the GP1 50 cc, Senda R and SM and Boulevard 200.

3.8 OPERATIONS

The restructuring of the facility dedicated to the production of scooter engines was completed by finishing the complete reorganisation of the buildings through civil engineering and plant works and defining a new production arrangement through new layouts of the manufacturing areas with the aim of streamlining the various processes and improving the environmental hygiene.
During 2005 work started to reorganise the 2Bis facility dedicated to the production of motorbike engines in the low and high cylinder capacity ranges.
As part of the 2 wheel business, the project was launched to rationalise the facility at Scorzè which envisages the redefinition of the logistical flow and the streamlining of production processes through the new layout of the Motorbike and Scooter assembly areas. In 2005 the reorganisation of the Motorbike factory was completed, while the Scooter factory will be completed during 2006.
In the *LTV Operations at* Pontedera, among the various activities undertaken, work was started on the production lines for the new vehicles which are planned for phase-in during 2005/2006.
In the Indian plant of Baramati production capacity of 90,000 Ape vehicles per year was increased by 36,000 Ape passenger vehicles per year with the completion of a new factory and the implementation of new production facilities for vehicle assembly and painting.

4. CUSTOMER MANAGEMENT AND QUALITY

The “organisational model” to support the Group’s quality management system, realisation of which started in 2004, has been developed in line with a customer perspective for the results of the individual processes (product development, sales and post-sales); in particular, it has been agreed to parallel the orientation to technological innovation with a customer orientation, as an expression of their needs and expectations, in order to create a company with a significant ability to ensure the loyalty of its customers to the Group’s brands.
Customer satisfaction and loyalty are in fact the best measure of the quality level of the company’s system; they are periodically analysed by the Group, and are decisive factors in identifying the priorities in the growth and development plans.
The information regarding “customer perception” is also closely tied to internal performance monitoring in relation to the reliability level of products and services, the quality of parts and the production processes for the various types of vehicles and engines. The customer satisfaction and product and process reliability targets have since 2004 been a decisive element in reward systems for all staff (not only managers), as a mechanism to reinforce the realisation and development of the organisational model described above.

The Piaggio Group, in its new dimension (Piaggio, Aprilia, and Moto Guzzi), strengthened its own business model, creating a central division dedicated to the design and development of methodologies and tools to check product and process quality and “company quality assurance systems”. The division coordinates all the activities needed to define a Quality and Customer satisfaction plan and to check product quality, through the definition of standards, which it certifies with reliability tests on products in the various phases of the development and construction of the Group’s vehicles.
During 2005 Piaggio saw a consolidation of the improving trends in product reliability as perceived by customers (50% in the period 04-05 - 12% in 2005 – ratio of perceived defects) which enabled an improvement and competitive continuation of the level of customer satisfaction at the end of 2005. These results can be seen in a marked reduction in product support costs (warranty costs) and in the improved production quality indicators and in the quality level of parts.
In 2005, in addition, the company was engaged in disseminating these tools and methods throughout all the Group companies and brands and, at the end of the year, customer satisfaction surveys had already started to record the first results for the Aprilia and Moto Guzzi brands.
As regards Customer Satisfaction, 2005 was characterised by a repositioning of the after-sales technical and commercial assistance service, which will be completed in 2006.
Commercial assistance is offered, alongside and by way of support to the distribution network for various Group brands, through a call centre and an online customer service (Brands website); here more than 100,000 contacts have been handled, offering information on the retail prices recommended by the constructor for its products and services, information on the content of promotions and on the commercial and assistance network, as well as on the management of customer claims supported by specific support initiatives.
As for technical assistance, alongside the traditional assistance service during the vehicle’s warranty period, there are new services such as: extended guarantees (3 and 4 years), prepaid packages for routine maintenance with or without extended warranties; in particular for fleets, services are available (corporate business customers) and product technical management services (routine and non-routine maintenance) which in some cases are extended to the point of managing the entire product life cycle.
In 2005 3,800 service packages were handled in total, such as those above, of which more than 1,000 with complete technical management of the product.

5 HUMAN RESOURCES

5.1 EMPLOYEES

Piaggio Group’s employees as at December 31, 2005 numbered 6,353 units including seasonal workers (834 units of which 807 in Piaggio Vehicles), with an increase of 182 units compared to the previous year which includes an increase of 323 units in Piaggio Vehicles alone.
As for the parent company at December 31, 2005 employees of the Piaggio brand totalled 3,110, with a decrease of 85 units compared to the previous year, while the employees of the Aprilia brand totalled 935, with an increase of 13 units compared to 2004.

In the period from February to September 2005 the Piaggio brand took on 750 people on fixed-term contracts (annual average 265 units), while the Aprilia brand in the period from January to June employed 243 people on fixed-term contracts.

5.2 ORGANISATION

During June 2005 the new organisational set up of the Group became operative, through the integration of Brands into a single organisation to ensure their distinctive features and to create economies of scale and synergies to increase the value of the company.
The company is organised by Brands, Central Functions and Corporate Staff.
Brands has the mission of highlighting the differences and distinctive features of the range of products offered to customers, of increasing the awareness of individual brands, the image of the brand and the profitability of the business.
The realisation of economies of scale and scope is obtained through the amalgamation of technical, industrial and sourcing activities in central functions, which simultaneously oversee and enhance the specialist know-how and the development of professional families.
The coordination of staff and support activities for the businesses has been concentrated in Corporate Functions which, through the oversight of specific functional skills, ensure the standardised dissemination of policies and tools in the Group, thus facilitating integration and achieving all the possible synergies.
The strategic importance of the US market has been recognised through the creation of a dedicated commercial unit.
In addition, the Spare Parts business unit has been set up to oversee and develop the multi-brands business and the Corporate Business unit has been enhanced to develop the business with major customers and the public administration.

5.3 INDUSTRIAL RELATIONS

Piaggio Brand

During 2005, part of the union agreement signed on July 1st, 2004 was applied in relation to the flexibility of working hours (the so-called “Hours bank”). This tool enabled an increase in individual work hours during the period from March to June, reducing the need for seasonal workers; during the period October - January the recovery of the extra time worked was undertaken.
The industrial relationships was influenced by the negotiations to renew the retribution part of the national metalworkers’ contract which ended on January 19, 2006, as seen also by the total number of strike hours. Total absenteeism was 10.1%, (+0.2% compared to the previous year), of which 5.6% (+0.1%) for illness and 0.7% (-0.05%) for work-related accidents and illness.
During 2005 the use of temporary lay-off redundancy funds occurred only in the first weeks of January and in the final week of December to face the lower production volume for light transportation vehicles for an overall 38,000 hours (with an 8% reduction compared to the previous year).

Aprilia Brand

During June 2005 the supplementary agreement was signed, which among other things redefined a result-based incentive linked to certain parameters which has already been adopted for Piaggio. As already indicated for the premises at Pontedera, also for those in Scorzè and Noale the strike situation saw an improvement, except for strikes caused by the renewal of the national contract.

The use of the extraordinary redundancy fund came to a final end with the mobility procedure for 31 employees established through a union agreement on November 25, 2005, while use of the ordinary redundancy fund was limited to 80,000 hours (-57% compared to 2004).

Moto Guzzi

The growth in volumes enabled, for the first time after some years, the redundancy funds not to be use, thus improving the relationships between the company and the unions.

Union agreements were signed to introduce flexible work hours for 2005 and 2006.

The company also started discussions to carry forward in 2006 a plan to reorganise its productive activities and to restructure some sectors of the factory, with the aim of concentrating the activities of the plant at Mandello solely on the assembly of engines and vehicles.

5.4 RESOURCE MANAGEMENT AND DEVELOPMENT

2005 saw the implementation of new Management and Development programmes for human resources with particular reference to three specific projects: People Satisfaction - Talent Recruiting - Key people.

People Satisfaction

In response to the indications that emerged from the mood survey carried out in 2004 an Operational plan for 2005 was developed with particular regard to the areas of “Communication”, “Involvement”, “Training”, “Resource Management and Development” and “Work Life balance”.

During November 2005 the survey was repeated for all Group staff by extending the initiative to Aprilia and Moto Guzzi both in Italy and abroad. Following the results an improvement plan will be drawn up, as with the previous survey, to be implemented during 2006.

Talent Recruitment

The project, launched in 2004 with the aim of selecting talented graduates from engineering and economics faculties, continued also in 2005 with Career days undertaken at the Luigi Bocconi University in Milan, the Milan Polytechnic and the L.U.I.S.S Guido Carli University of Rome, with the presence of around 300 graduates from the universities involved.

Following the selections, around 30 apprenticeship projects were launched, with the award of some study grants and, for some candidates, the possibility of a permanent contract.

The project will also continue in 2006, with the involvement of other Italian universities.

Key People

In 2005, the project – aimed at activating an exchange between the company and key interlocutors – was put into operation with the nomination of the key resources and the activation of the "individual value creation plans", for the resources under Piaggio and Derbi.

During 2006, the identification of the Key People in Aprilia and MotoGuzzi with the related application of the policy will take place.

6. FINANCIAL AND BUSINESS PERFORMANCE OF THE PIAGGIO GROUP

BUSINESS PERFORMANCE

Consolidated net sales of the Piaggio Group totalled 1,451.8 ML€, of which 1,135.3 ML€ relating to Piaggio and 351.0 ML€ relating to Aprilia, with an overall increase of 367.6 ML€, or 33.9%, compared to 1,084.2 ML€ in 2004, of which 351.0 ML€ was due to the different consolidation area.

The further increase in net sales can be attributed to the 2 wheel business which, thanks to the launch of new products which occurred in the higher range segments, recorded an increase of 0.6% compared to the previous year.

Also the LTV Business saw an improvement compared to 2004 (+27.9% in terms of net sales), largely due to the performance of the Indian market where the Piaggio Group strengthened its presence thanks to the increase, compared to the previous year, in sales volumes of 40.6% and in net sales of 46.2%.

Gross margin

Gross margin was 438.7 ML€, up by 115.8 ML€ compared to the previous year (+39.1%).

As a percentage of net sales, efficiency gains improved the ratio from 29.8% in 2004 to 30.2% in 2005.

Operating costs

Operating costs, 343.9 ML€ (+83.3 ML€ compared to 2004), included amortisation and depreciation of 45.4 ML€ and costs of 298.5 ML€, of which research and developments costs were 25.7 ML€.

Amortisation of the capitalised research and development costs at 31 December 2005 totalled 32.7 ML€. The total research and development costs recorded in 2005 income statement was 58.4 ML€, while total spending, including the capitalised portion, was 57.6 ML€ (-0.8 ML€ compared to 2004).

Following the adoption of new international accounting standards, operating costs also include income and charges which mainly arise from:

- 18.6 ML€ anti-pollution incentives from the Ministry of the Environment;
- 2.0 ML€ extraordinary income;
- (3.5) ML€ writedowns of intangible assets;
- (2.3) ML€ writedowns of tangible assets;

- (23.0) ML€ provision for risks and other provisions;
- (6.0) ML€ income and non-income taxes.

EBITDA

Group consolidated **EBITDA** at 31.12.2005 – recorded in the table on Page 3 - was 184.8 ML€ (12.7% of net sales), compared to 122.7 ML€ in the previous year (11.3% of net sales).

Depreciation, amortisation and writedowns

The amortisation of productive assets included under industrial costs totalled 45.1 ML€.
Amortisation included under operating costs totalled 45.4 ML€, of which 32.7 ML€ related to research and development as already set out.
Therefore, the total cost of depreciation and amortisation involved in creating the operating income totalled 90.5 ML€.
Following the adoption of the new IAS/IFRS international accounting standards, the consolidation difference recorded in the Group balance sheet at January 1st, 2004 is no longer amortised, but is, on at least an annual basis, subjected to an impairment test. The impairment test carried out confirmed that the values recorded on the balance sheet need not be subjected to writedown. As for the acquisition of Aprilia, the goodwill deriving from the operations was recorded as the value of the Aprilia brand. The amortisation of the brands recorded in the Group financial statement totalled 8,1ML€ at December 31, 2005.

Operating income

The trend in net sales and costs set out above led to **operating income** of 94.3 ML€ compared to 62.3 ML€ in the previous year. The ratio of operating income to net sales thus rose from 5.7% in 2004 to 6.5% in 2005.

Financial charges

Net these totalled 30.3 ML€ (2.1% of net sales), compared to 21.4 ML€ in 2004 (2.0% of net sales)

Net income

Net income stood at 38.1 ML€ compared to 26.3 ML€ in the previous year. The net profit attributable to minority interest was 0.2 ML€ compared to 0.3 ML€ in 2004.

FINANCIAL MANAGEMENT

This produced a positive cash flow of 110.1 ML€, up compared to the previous year. As shown in the cash flow statements, cash flow was particularly influenced by cash flow from operations of 128.6 ML€, to which should be added further efficiency gains achieved in the management of working capital, which fell by 70.2 ML€.

ASSET MANAGEMENT

Net working capital

Working capital was an positive for 43.7 ML€, down compared to the values at December 31, 2004 (the reduction was 70.2 ML€), thanks also to management initiatives to limit stocks and to control credit.

Fixed assets / Equity investments

Group investment in the year totalled 99.9 ML€, including 14.9 ML€ for the financial lease of the Guzzi premises in Mandello del Lario and mainly concerned development costs for new products as well as moulds and equipment for the broadening of the two wheel product range, especially for licence-plated vehicles with the related new engines, to which may be added investment in software and investment to complete the new workshops.

The consolidation difference which emerged at 31 December 2004 from the acquisition of the Aprilia Group, as envisaged by IFRS 3 was allocated to the Aprilia brand for 75.3 ML€ since it was due to the higher value paid during the acquisition of the incorporated company, supported also by the expert study of the value of the brand undertaken by an independent third party.

In addition, on the basis of the contractual agreements signed for the acquisition of the Aprilia Group, Piaggio issued three different types of financial instrument in favour of the banks, EMH and the former Aprilia shareholders, by virtue of which, among other things, the definitive acquisition cost was subject to the achievement of certain financials and economics parameters.

In light of the positive consolidated result in 2005 and the forecasts from the Business Plan for 2006-2008 approved by the company's Board of Directors, the adjustment of the initial acquisition cost linked to the first two financial instruments was considered likely, and was estimated at 62.2 ML€. This amount was recorded as goodwill under intangible assets with a counter entry, in accordance with the particular nature of the instruments, under shareholders' equity for 56.5 ML€ and greater financial payables for 5.7 ML€.

The occurrence of the conditions envisaged for the exercise of the warrants will mean for Piaggio the achievement of economic and financial objectives such that the asset value of the Group will be an expression of the completion of the process to relaunch the company which started with the acquisition of IMMSI.

Sources of financing and Net Financial Position

Group shareholders' equity at December 31, 2005 was 348.5 ML€ compared to 251.2 ML€ in 2004, owing to the profit for the year, as well as the impact of the fair value assessment of the warrants issued in favour of the banks during the Aprilia acquisition.

The net financial position at the end of 2005 was 411.4 ML€, compared to 521.5 ML€ at December 31, 2004. As already highlighted in the previous paragraph, following the assessment of the EMH financial instrument, the initial value of which of 3.5 ML€ had already been recorded under financial payables at

December 31, 2004, the net financial position rose by 5.7 ML€ following the assessment carried out on December 31, 2005.

On April 21, 2005 Piaggio Finance S.A., a company set up under the law of Luxembourg and wholly owned by Piaggio & C. S.p.A., issued a “Senior Notes” bonded loan for 150 ML€ at an annual 10% interest rate, to be paid on October 31 and 30 April every year, and ending on April 30, 2012.

The bonds, regulated by the law of the State of New York (U.S.A.), were placed with institutional investors and are listed on the Irish stock exchange. The rating of the bonds is B for Standard & Poor’s and B2 for Moody’s.

With the funds from the debenture loan the Company repaid all of the debenture loan issued by Aprilia Luxembourg S.A. for an amount of 100 ML€ and which fell due on May 2, 2005, as it had committed itself to do on the basis of the contractual agreements on acquiring Aprilia S.p.A.

As guarantee of the fulfilment of the obligations envisaged by the regulations of the debenture loan, the Company provided a personal guarantee.

In December the Company refinanced the syndicated loan of 165 ML€ on more advantageous terms as well as the credit facility provided by Banca Intesa for 27 ML€ and the 125 ML€ in operative credit lines provided as part of the framework agreement falling due in June 2007. The new loan, for a total amount of 250 ML€, was granted by Mediobanca and Banca Intesa and enabled the Company to reduce the cost of its debt, to extend the repayment profile (the final due date being in December 2012), to cancel the guarantees which hung over the debt which was repaid in advance, and to select the number of counterparties.

7. FINANCIAL AND BUSINESS PERFORMANCE OF PIAGGIO & C. S.p.A.

On December 31, 2005 PIAGGIO & C. S.p.A. merged with APRILIA S.p.A. with accounting and tax effect as from January 1st, 2005.

The merger deficit, which emerged following the aforementioned operations, of 44,205 thousand euro was allocated to Aprilia brand due, as supported also by the expert analysis carried out on the value of the brand by an independent third party, to the higher value paid during the acquisition of the merged company.

The financial statements for 2004, shown for comparative purposes, relate to Piaggio & C. S.p.A. before the merger. In order to allow a comparison of the values the table below compares the values for 2005 with those from the accumulation of the two companies involved in the merger.

Income statement (reclassified)		**December 2005**	**December 2004**
			Aggregated
Net sales		**1,129.9**	**1,111.2**
EBITDA		**143.3**	**75.8**
Operating income		**38.5**	**(22.6)**
Income before tax		**5.2**	**(147.7)**
Net income (loss)		**(4.5)**	**(154.9)**
Operating income as % of net sales	%	3.4%	-2.0%

Net income as % of net sales	%	-0.4%	-13.9%
EBITDA (from operations)		**143.3**	**(1.8)**
EBITDA margin as % of net sales	%	12.7%	11.3%

Balance sheet

Net working capital	(8.7)	(12.1)
Plant and equipment	190.9	178.8
Intangible assets	391.1	426.1
Financial assets	131.6	184.1
Provision for risks and charges	(153.4)	(191.8)
Net invested capital	**551.5**	**585.1**
Net financial position	366.1	395.3
Shareholders' equity	185.4	189.8
Sources of funds	**551.5**	**585.1**

Change in net financial position

Opening net financial position	**(395.3)**	**n.a.**
Cash Flow from operations (Income+Amortisation/depreciation)	100,3	
(Increase)/Reduction in working capital	(3,4)	
(Increase)/Reduction in investment	(29.4)	
Change in provision for risks and charges	(38.4)	
Change in Shareholders' equity	0.1	
Total Change	***29.1***	
Closing net financial position	**(366.1)**	**n.a.**

INCOME STATEMENT

The net sales of Piaggio & C. S.p.A. totalled 1,129.9 ML€, of which 871.0 ML€ was for Piaggio and 278.9 ML€ for Aprilia, with an overall increase of 18.7 ML€ compared to the aggregate figure for 2004, of which 2.8 ML € was for Piaggio & C and 15.9 ML€ for Aprilia.

The company's **EBITDA**, 145.6 ML€, compared with an aggregate figure for 2004 of 75.8 ML€, (12.9% of net sales). In 2005 the costs for raw materials, services and other charges totalled 1,002.4 ML€ overall, largely in line with the figure for the previous year, while the cost of labour rose by 5.1 ML€, compared to the aggregate figure of the previous year during which, however, Aprilia had stopped production for around 2 months.

Operating income

The aforementioned trend in net sales and costs, as well as amortisation and depreciation of 101.6 ML €, led to operating **income** of 40.9 ML€ compared to an aggregated loss of 22.6 ML€ in the previous year. The ratio of operating income to net sales thus rose from –2% in 2004 to 3.6% for 2005.

Net income

Net income, after taking into account net financial charges for 3.0 ML€, writedowns of equity investments for 41.2 ML€, extraordinary income for 10.8 ML€, and tax for 9.7 ML€, stood at a loss of 4.5 ML€ compared with an aggregate figure loss of 154.9 ML€ in the previous year.

FINANCIAL MANAGEMENT

Operations absorbed cash for 3.8 ML€, as shown in the cash flows statement attached to the company's financial statements.

ASSET MANAGEMENT

Working capital

Working capital at December 31, 2005 was a negative amount of 6.7 ML€, compared to the negative 12.1 ML€ for 2004 as an aggregate.

Fixed Assets / Equity investments

Company investments totalled 37.5 ML€, to which following the Aprilia merger may be added 24.6 ML€ of the merged company and mainly concerned development costs for new products as well as moulds and equipment for the enlargement of the two wheel product range, in particular for licence-plated vehicles with the related new engines, as well as, for 12.0 ML€, the repurchase by the subsidiary Aprilia Leasing of the land and buildings it held.

The total value of the equity investments and intangible assets, including the merger deficit, was 522.7 ML€ overall. The merger deficit, which emerged following the operation to merge Piaggio and Aprilia, of 44.2 ML€ was allocated to Aprilia brand as being due to the higher value paid during the acquisition of the merged company, which was also supported by the expert analysis carried out on the value of the brand by an independent third party.

Sources of funds and net financial position

Company shareholders' equity at December 31, 2005 was 185.3 ML€ compared to 189.9 ML€ in 2004. The net financial position at the end of 2005 stood at 366.1 ML€, compared to 395.3 ML€ at December 31, 2004.

8. SIGNIFICANT SUBSEQUENT EVENTS TO DECEMBER 31, 2005

During January 2006 Piaggio appointed some leading Italian and foreign investment banks to assist it in the process of market listing and activities are still ongoing.

During February 2006 Piaggio & C S.p.A. ended the tax dispute outstanding at 31 December 2005 with the repudiation of just a part of the prior losses under discussion.

As from January 1st, 2006 AWS USA Inc. was incorporated by Piaggio USA Inc. The latter, during February 2006 then changed its registered name to Piaggio Group Americas Inc.

During February 2006 the liquidation of Piaggio Argentina was completed.

9. BUSINESS OUTLOOK

In 2006 the Piaggio Group will continue with the objective of consolidating its leadership in the two wheel market, completing the turnaround of Aprilia and Moto Guzzi, by relying on the diversification of the business portfolio and on achieving an optimal size for the achievement of related efficiencies.

In the Light-Transportation Vehicles business, the main efforts are aimed at enhancing the production capacity of the associated Indian company, already started in 2005, in order to consolidate the current offer of three wheel vehicles and to expand the range of products offered with the introduction of four wheel vehicles

10. TRANSACTIONS WITH RELATED PARTIES

Payables and receivables at December 31, 2005 with regard to parent companies, subsidiaries and associated companies are summarised in the tables attached to this Report and derive from transactions carried out at normal market values. The table which follows completes the information regarding dealings with other related parties.

All the transactions are undertaken in accordance with normal market conditions or specific regulatory arrangements.

Main income statement or balance sheet entries	ML€	Description of the nature of the dealings
Dealings with related parties		
Financial assets not included under fixed assets	9.8	Five-year loan (due 23 September 2008) at fixed rate (2.5%) capitalised annually, provided to Scooter Holding 1 S.r.l. (formerly Piaggio Holding S.p.A.)
Equity investment Aprilia	0.05	Studio D'Urso, Munari, Gatti – Accessory charges on acquisition
Equity investment Aprilia	0.2	Lehman Brothers – Accessory charges on acquisition
Payables for invoices to be received	0.05	Studio d'Urso, Munari, Gatti – Costs for legal consultancies
Payables for invoices to be received	0.2	Lehman Brothers -
Financial income	0.3	Interest on Scooter Holding 1 S.r.l. loan
Off balance sheet commitments:		
Lehman Brothers USD 3.5 ML	2.9	Contract to cover exchange risk

Deutsche Bank Quanto Basis Collar Swap	-181.0	Interest rate swap contract

In addition, note should be made that the following banks are, through PB s.r.l., part of the shareholding structure in Piaggio Holding Netherlands BV, the shareholder in Piaggio & C. S.p.A.:

1. Intesa Group
2. Monte dei Paschi di Siena Group
3. Unicredito Group
4. Banca Nazionale del Lavoro Group
5. Banca Popolare Italiana Group
6. Interbanca
7. Cassa di Risparmio di Firenze
8. Banca di Roma
9. Centrobanca
10. Banca Commercio e Industria
11. Cassa di Risparmio di Volterra
12. Cassa di Risparmio di San Miniato
13. ICCREA
14. Mediocredito del Trentino
15. Mediocredito del Friuli
16. Banca Popolare delle Marche.

With reference to some of these banks, it is noted that the Piaggio Group had outstanding financing and derivative operations at December 31, 2005, as described in more detail in the Explanatory notes. In addition, as a natural consequence of the above, the following directors of Piaggio & C S.p.A. also have senior positions in the lending institutions with which the Group has dealings:

- Gaetano Miccichè
- Carlo Pirzio Biroli.

11. OTHER INFORMATION

11.1 COMPANY INFORMATION

On February 10, 2005 Piaggio signed a contract with Almec S.p.A. regarding the sale to the latter of the remaining equity investment held by Piaggio in Almec, representing 30% of the share capital for a payment of 991 thousand euro.

During May the Board of Directors of the associated Chinese company Piaggio Foshan Motorcycle Co. Ltd resolved to modify the name of the company from “Piaggio Foshan Motorcycle Co. Ltd” to “Zongshen Piaggio Foshan Motorcycle Co. Ltd”; this resolution was put for approval to the local authorities.

On June 7, 2005 the sale was completed of all the shares held through the subsidiary Nacional Motor SA in Moto Sport SA, which is no longer part of the Piaggio Group.
Mitsuba FN Europe resolved on 30.03.05 for a share capital increase from 500,000 euro to 1,000,000 euro and Piaggio did not exercise its option for its shares and, therefore, the equity investment fell from 20% to 10%.
On June 14, 2005 the cessation of the subsidiary Universal Dynamic Investment Ltd was declared following its voluntary liquidation.
On November 29, 2005 the merger act for the incorporation of Aprilia S.p.A. into Piaggio & C S.p.A. was carried out, with effect from December 31, 2005 and accounting and tax effect as from January 1st, 2005.
On December 15, 2005, the Board of Directors of Piaggio & C. S.p.A. decided to start procedures for the admission to a stock market listing for the company's shares on the Italian stock market.
On December 31, 2005 Piaggio Vespa B.V. acquired from AWS BV the stakes in AWS USA Inc.

11.2 DISPUTES

On January 5, 2005 AON S.p.A. notified Piaggio by summons of their complaint regarding the illegitimate termination of the brokerage contract and sought 184,000 euro by way of compensation, as well as further damages to be established on an equitable basis. Piaggio appeared in court and contested the claims of the other party. At the year end the proceedings are still at a preliminary stage.
The case brought by Leasys S.p.A./Savarent at the Court of Pisa – Pontedera section, has still not reached the preliminary investigation stage.
As for tax disputes, it should be noted that some companies, P&D S.p.A. in liquidation and Almec S.p.A., are still involved in tax disputes for which it is expected that there will not be expenses for the companies and the Group. As a consequence, for the disputes, no provisions have been made, considering the very slight risk. Other tax disputes are the responsibility of some foreign subsidiaries of the Group such as Piaggio Espana S.A. and Nacional Motor S.A., for which the companies have arranged to allocate the contested sums or have already provided for the payment of the contested amounts, albeit waiting for the final court decision.

11.3 CORPORATE GOVERNANCE

The organisation and management model already approved by the Board of Directors of Piaggio & C. S.p.A., was also implemented in Aprilia SpA and Moto Guzzi SpA. In particular the respective Boards of Directors approved the organisation and management model and appointed a Supervisory Board consisting of three members, i.e. Giovanni Barbara, Enrico Ingrillì and Gianclaudio Neri.
As from December 31, 2005, following the merger of Aprilia S.p.A. into Piaggio & C S.p.A., the Supervisory Board has been disbanded.
During 2005, there were no events that conflicted with the procedures and organisational model adopted by the Group.

11.4 STOCK OPTION PLAN

At the year end for 2005, the stock option plan for the Chief Executive Officer and for the directors identified by the latter, as approved by the Board of Directors on May 4, 2004, on the basis of the resolutions of the Incentive Plan Committee, remained in force.

The plan envisages the allocation of 24,401,084 options which may be exercised for the purchase of a similar number of shares.

The stock option plan envisages that the options, assigned by the Incentive Plan Committee to the CEO and by the CEO to directors he has identified, can be exercised following checks carried out by the Incentive Plan Committee on the basis of the consolidated financial statements at December 31, 2007 as approved by the Board of Directors, subordinately to achieving the Equity Value targets.

Should the company be admitted to listing on the Stock Exchange or should there be a change of control in the company before the vesting date, the exercise of the options will be brought forward in relation to the confirmation of the event considered.

It should be noted that at the year end date 21,372,771 options were allocated out of a total of 24,401,084 envisaged by the incentive plan with an exercise price of € 0.98 per share for 18,504,771 options and of 1.72€ per share for 2,868,000 options.

* * * * *

RESOLUTION PROPOSALS

Shareholders,

If you approve the financial statements of Piaggio & C. S.p.A. at December 31, 2005, submitted for your attention together with this Report, we propose to carry forward the loss for 2005 of € 4,496,475.

Shareholders' equity, following these operations, would be made up as follows:

Share capital	€ 194,827,431
Share premium reserve	€ 24,500,000
Legal reserve	€ 723,041
Other reserves	€ (2)
Losses carried forward	€ (34,707,161)
TOTAL	€ 185,343,309

Milan, March 8, 2006

For the Board of Directors
The Chairman
Roberto Colaninno

RECEIVABLES					
COMPANY	TRADE RECEIVABLES	RECEIVABLES HELD AS ASSETS	FINANCIAL RECEIVAB LES	OTHER RECEIVA BLES	PAYMENTS ON ACCOUNT FOR ASSETS/SUPPLIES
PARENT COMPANIES					
IMMSI SPA					4,298
PIAGGIO HOLDING NETHERLANDS BV					
SUBSIDIARIES					
P & D SPA				4,800	
PIAGGIO ASIA PACIFIC	88,933				
PIAGGIO BENELUX	1,099,769			50,000	
PIAGGIO DEUTSCHLAND	2,492			260,000	
PIAGGIO ESPANA	8,917,119			160,000	
PIAGGIO FRANCE	6,176,556			7,288,525	
PIAGGIO VEHICLES	369,528			1,414,761	304,059
PIAGGIO HELLAS	5,569,711			120,000	
PIAGGIO HRVATSKA	418,068			65,000	
PIAGGIO INDOCHINA	1,000,436				
PIAGGIO LIMITED	211,564			345,468	
PIAGGIO PORTUGAL	270,994			10,000	
PIAGGIO USA	8,668,887			483,358	
NACIONAL MOTOR S.A.	2,201,923	28,935,356		1,222,798	
DERBI ITALIA SRL				1,348,161	
PIAGGIO VESPA B.V.	4,471,799				
PIAGGIO FINANCE S.A.				164,840	
MOTO GUZZI SPA	3,137,759		20,448,441	6,429,974	
MOTO LAVERDA SRL	86,299		1,689,820		
APRILIA BRASIL					
APRILIA MOTORRAD GMBH	414,715				
APRILIA HELLAS	4,684,192				
APRILIA JAPAN CORPORATION	99,540				
APRILIA WORLD SERVICE BV	25,377,807				
APRILIA WORLD SERVICE USA	1,083,067				
APRILIA LEASING SPA					
MOTOCROSS COMPANY SRL	556,786				
APRILIA MOTO UK LTD	6,989				
ASSOCIATED COMPANIES					
FONDAZIONE PIAGGIO	24,350		123,402	494,510	
PIAGGIO FOSHAN	378,686	3,776,189		64,000	

PAYABLES			
COMPANY	TRADE PAYABLES	FINANCIAL PAYABLES	OTHER PAYABLES
PARENT COMPANIES			
IMMSI SPA	1,352,732		
PIAGGIO HOLDING NETHERLANDS BV		54,529	
SUBSIDIARIES			
P & D SPA		585,529	1,210
PIAGGIO ASIA PACIFIC	736,542		
PIAGGIO BENELUX	5,600		
PIAGGIO DEUTSCHLAND	17,753		4,349,877
PIAGGIO ESPANA	41,471		3,504,768
PIAGGIO FRANCE	72,668		
PIAGGIO VEHICLES	1,867,813		
PIAGGIO HELLAS	14,849		
PIAGGIO HRVATSKA			
PIAGGIO INDOCHINA	13,916		
PIAGGIO LIMITED	73,957		
PIAGGIO PORTUGAL	3,746		
PIAGGIO USA			
NACIONAL MOTOR S.A.	1,752,842		
DERBI ITALIA SRL	16,465		
DERBI RACING S.L.			
PIAGGIO VESPA B.V.		19,465,000	
MOTO GUZZI SPA	3,948,441		
PIAGGIO FINANCE S.A.		150,000,000	
PIAGGIO CHINA	11,351		
APRILIA WORLD SERVICE BV	3,771,144		
APRILIA WORLD SERVICE USA	145,751		
MOTO LAVERDA SRL	929,604		
MOTOCROSS COMPANY SRL	309,498		
APRILIA MOTORRAD GMBH	4,346		
APRILIA JAPAN CORPORATION	31,021		
ASSOCIATED COMPANIES			
FONDAZIONE PIAGGIO	122,365		612
PIAGGIO FOSHAN	2,491,168		

INCOME STATEMENT				
COMPANY	NET SALES	SALE OF TANGIBLE ASSETS	COSTS	PURCHASE OF TANGIBLE ASSETS
PARENT COMPANIES				
IMMSI SPA	0		3,950,943	690,893
PIAGGIO HOLDING NETHERLANDS BV	0		288,450	
SUBSIDIARIES				
P & D SPA			159,571	
PIAGGIO ASIA PACIFIC	1,605,296		494,915	
PIAGGIO BENELUX	11,030,826		12,150	
PIAGGIO DEUTSCHLAND	49,953,145		156,824	
PIAGGIO ESPANA	86,314,449		317,140	
PIAGGIO FRANCE	81,783,959		157,713	
PIAGGIO VEHICLES	4,230,845		4,129,107	
PIAGGIO HELLAS	29,197,715		9,269	
PIAGGIO HRVATSKA	8,498,075		1,130	
PIAGGIO INDOCHINA	5,599,269		0	
PIAGGIO LIMITED	21,136,523		406,696	
PIAGGIO PORTUGAL	1,774,728		6,369	
PIAGGIO USA	26,394,484		229,656	
NACIONAL MOTOR S.A.	5,400,124		6,999,343	
DERBI ITALIA SRL	0		19,257	
DERBI RACING SL	69,876		3,527,522	
PIAGGIO VESPA B.V.	0		727,892	
MOTO GUZZI SPA	4,775,421		3,231,912	401,043
APRILIA LUXEMBOURG	824,663		0	
PIAGGIO FINANCE S.A.	0		10,838,882	
APRILIA WORLD SERVICE BV	128,715,617		4,294,500	
APRILIA WORLD SERVICE USA	164,287		1,456	
MOTO LAVERDA SRL	45,121		143,496	
APRILIA HELLAS	7,753,049		0	
APRILIA LEASING SPA	46,435		2,185,578	
APRILIA MOTORRAD GMBH	0		2,264	
APRILIA JAPAN CORPORATION	99,206			
APRILIA RESEARCH AND DEVELOP.	0		1,093,453	
MOTOCROSS COMPANY SRL	6,206		1,271,285	
ASSOCIATED COMPANIES				
FONDAZIONE PIAGGIO	0		103,291	
PIAGGIO FOSHAN	106,297		3,323,451	

PIAGGIO & C. S.p.A. - FINANCIAL STATEMENTS AT DECEMBER 31, 2005

AMOUNT €/000

FULL NAME	POSITION HELD	PERIOD	RETRIBUTION FOR THE POSITION IN THE COMPANY WHICH DRAWS UP THE FINANCIAL STATEMENTS (*)	NON MONETARY BENEFITS	BONUSES AND OTHER INCENTIVES	OTHER RETRIBUTION
BOARD OF DIRECTORS						
Roberto COLANINNO	Chairman	01/01/05 - 31/12/05	**540**			
Rocco SABELLI	Chief Executive Officer	01/01/05 - 31/12/05	**640**		**600**	
Matteo COLANINNO	Director	01/01/05 - 31/12/05	**20**			
Graham CLEMPSON	Director	01/01/05 - 31/12/05	**20**			
Carlo PIRZIO BIROLI	Director	01/01/05 - 31/12/05	**40**			
Piero FARAONI	Director	01/01/05 - 04/03/05	**-**			
Daniele DISCEPOLO	Director	05/03/05 - 31/12/05	**15**			
Luciano Pietro LA NOCE	Director	01/01/05 - 31/12/05	**40**			
Giorgio MAGNONI	Director	01/01/05 - 31/12/05	**20**			
Gaetano MICCICHE'	Director	01/01/05 - 31/12/05	**20**			
BOARD OF STATUTORY AUDITORS						
Giovanni BARBARA	Chairman	01/01/05 - 31/12/05	**57**			
Attilio Francesco ARIETTI	Standing auditor	01/01/05 - 31/12/05	**30**			
Alessandro LAI	Standing auditor	01/01/05 - 31/12/05	**46**			
Mauro GIRELLI	Alternate auditor	01/01/05 - 31/12/05				
Maurizio MAFFEIS	Alternate auditor	01/01/05 - 31/12/05				
SUPERVISORY BODY						
Enrico INGRILLI'	Chairman	01/01/05 - 31/12/05	**60**			
Giovanni BARBARA	Member	01/01/05 - 31/12/05	**40**			
Gianclaudio Neri	Member	01/01/05 - 31/12/05				

(*) including retribution paid by the merged company Aprilia S.p.A.

PIAGGIO & C. GROUP

CONSOLIDATED FINANCIAL STATEMENTS 2005

AND

EXPLANATORY NOTES

INCOME STATEMENT				
Values in €/000	Note	2005	2004	Change
Net sales	4	1,451,781	1,084,229	367,552
Raw materials and supplies	5	847,171	605,393	241,778
Services, leases, rentals and use of third party assets	6	298,925	225,512	73,413
Personnel	7	225,500	157,172	68,328
Depreciation of tangible assets	8	42,464	34,910	7,554
Amortisation of intangible assets	8	48,040	25,425	22,615
Other operating incomes	9	143,222	70,445	72,777
Other operating costs	10	38,643	43,929	(5,286)
Operating income		94,260	62,333	31,927
Income (loss) from equity investments		(10)		(10)
Financial incomes	11	14,767	7,974	11,827
Financial charges	11	(45,058)	(29,324)	(20,768)
Income before tax		63,959	40,983	22,976
Income taxes	12	25,891	15,429	10,462
Result from continuing operations		38,068	25,554	12,514
Result from discontinued operations	13		792	(792)
Consolidated income		38,068	26,346	11,722
Attributable to:				
Group interests		37,883	26,033	11,850
Minority interests		185	313	(128)
Profit per share (figures in €)		0.101	0.069	0.032

Balance sheet				
Values in €/000	Note	12/31/2005	12/31/2004	Change
ASSETS				
Non-current assets				
Intangible assets	14	624,746	580,620	44,126
Property, plant and machinery	15	259,591	239,248	20,343
Investment Property	16	506	121	385
Equity investments	17	650	1,579	(929)
Other financial assets	18	10,354	12,697	(2,343)
Receivables due from tax authorities (long-term)	19	7,156	1,925	5,231
Deferred tax assets	20	35,135	38,573	(3,438)
Trade receivables and other receivables	21	7,140	11,769	(4,629)
Total non-current assets		945,278	886,532	58,746
Assets held for sale		55	626	(571)
Current assets				
Trade receivables and other receivables	21	176,772	252,539	(75,767)
Receivables due from tax authorities (short-term)	19	12,440	20,834	(8,394)
Inventories	22	192,029	212,473	(20,444)
Financial assets held for trading	23	137	0	137
Cash and cash equivalents	24	42,770	35,198	7,572
Total current assets		424,148	521,044	(96,896)
Total Assets		*1,369,481*	*1,408,202*	*(38,721)*
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity of the Group		348,213	250,909	97,304
Minority interest		254	326	(72)
Total shareholders' equity	25	348,467	251,235	97,232
Non-current liabilities				
Financial liabilities	26	375,596	266,309	109,287
Trade payables and other payables (long-term)	27	13,403	10,540	2,863
Reserves for employee severance indemnity and staff benefits	30	77,068	77,409	(341)
Other long-term provisions	28	44,552	47,391	(2,839)
Deferred tax liabilities	29	35,002	36,636	(1,634)
Total non-current liabilities		545,621	438,285	107,336
Current liabilities				
Financial liabilities due within 12 months	26	88,488	302,853	(214,365)
Trade payables	27	296,616	314,217	(17,601)
Tax payables	31	14,348	15,274	(926)
Other short-term payables	32	56,237	60,574	(4,337)
Current portion of other long-term provision	28	19,704	25,764	(6,060)
Total current liabilities		475,393	718,682	(243,289)
Total shareholders' equity and liabilities		*1,369,481*	*1,408,202*	*(38,721)*

CASH FLOWS STATEMENT (Values in €/000)	**2005**	**2004**	**change**
Operating activities			
Consolidated income	37,833	26,033	11,800
Allocation of income to minority interest	185	313	(128)
Tax	25,891	15,429	10,462
Depreciation of property, plant and machinery	42,464	34,908	7,556
Amortisation of intangible assets	48,040	25,425	22,615
Accrual to provisions for risks and reserves for pensions and employee benefits	28,653	20,520	8,133
Writedowns / (Revaluations)	10,932	11,104	(172)
Loss / (gain) on disposal of property, plant and machinery	(1,346)	0	(1,346)
Loss / (gain) on fair value valuation of financial assets	(483)	0	(483)
Financial income	(14,767)	(7,974)	(6,793)
Financial charges	45,058	29,324	15,734
Income from government grants	(19,196)	(2,243)	(16,953)
Changes in operating assets and liabilities :			
(Increase)/Decrease in trade accounts receivable	51,669	(13,536)	65,205
(Increase)/Decrease in other receivables	24,856	(14,350)	39,206
(Increase)/Decrease in inventories	20,444	2,577	17,867
Increase/(Decrease) in trade accounts payable	(18,816)	(11,197)	(7,619)
Increase/(Decrease) in other payables	1,609	27,632	(26,023)
Increase/(Decrease) in current portion of provisions for risks	(24,345)	(50,176)	25,831
Increase/(Decrease) in non-current portion of provisions for risks	(2,839)	12,759	(15,598)
Increase/(Decrease) in reserves for pensions and employee benefits	(10,709)	5,133	(15,842)
Other changes	(314)	(14,978)	14,664
Cash generated from operations	244,819	96,703	148,116
Interests paid	(46,210)	(23,459)	(22,751)
Taxes paid	(22,270)	(22,650)	380
Net cash from operations	176,339	50,594	125,745
Investments activities			
Acquisition of subsidiaries, net of net financial position	0	(99,488)	99,488
Investment in property, plant and machinery	(62,562)	(41,601)	(20,961)
Proceeds from disposal of property, plant and machinery	4,677	(627)	5,304
Investment in intangible assets	(37,179)	(28,499)	(8,680)
Proceeds from disposal of intangible assets	692	112	580
Acquisition of equity investments	0	(1,443)	1,443
Increase in value of equity investment due to valuation of financial instruments	(62,156)	0	(62,156)
Proceeds from disposal of equity investments	1,412	1,427	(15)
Loans granted	0	(3,124)	3,124
Repayment of loans granted	2,343	192	2,151
Purchase of financial assets	0	(45)	45
Proceeds from disposal of financial assets	0	638	(638)
Interests received	13,662	6,379	7,283
Proceeds from assets held for disposal or sale	0	6,796	(6,796)
Other cash flows from assets held for disposal or sale	0	511	(511)
Income from government grants	19,196	0	19,196

Cash flow from investing activities	(119,915)	(158,772)	38,857
Financing activities			
Increase in share capital by Group shareholders	0	49,980	(49,980)
Increase in net equity due to valuation of financial instruments	56,466	0	56,466
Increase in net equity Reserves for Stock options	1,300	0	1,300
Increase in net equity Reserves due to fair value valuation of derivative financial instruments	432	0	432
Loans received	319,910	79,777	240,133
Payable on financial instruments	5,690	0	5,690
Cash outflow for repayment of loans	(355,628)	(92,192)	(263,436)
Finance through leasing	0	722	(722)
Repayment of finance leases	11,484	0	11,484
Dividends paid to Minority shareholders	(220)	(346)	126
Cash flow from financing activities	39,434	37,941	1,493
Increase / (Decrease) in cash and cash equivalents	95,858	(70,237)	166,095
Opening balance	(63,249)	7,552	(70,801)
Effect of foreign exchange rate changes	(1,954)	(564)	(1,390)
Closing balance	*30,655*	*(63,249)*	*93,904*

CHANGES IN SHAREHOLDERS' EQUITY 2004/2005

(in thousands of euro)	Share capital	Share premium reserve	Legal reserve	Reserve from valuation of financial instruments	Reserve from IAS transition	Reserve for Group consolidation	Reserve for Group conversion	Reserve for Stock Options	Retained earnings (Accumulated losses)	Profit (loss) for the year	Consolidated Group Shareholders' equity	Minority interest – capital and reserves	TOTAL SHARE-HOLDERS' EQUITY
Balance at December 31, 2004	194,827	24,500	671	0	(4,113)	993	308	966	6,724	26,033	250,909	326	251,235
Translation of financial statements into currency							1,224				1,224		1,224
Change to IAS reserves				56,898				1,300			58,198		58,198
Allocation of profit			52						25,980	(26,033)	0	(220)	(220)
Other movements											0	(37)	(37)
Consolidated net income										37,883	37,883	185	38,068
Balance at December 31, 2005	*194,827*	*24,500*	*723*	*56,898*	*(4,113)*	*993*	*1,532*	*2,266*	*32,704*	*37,883*	*348,213*	*254*	*348,467*

CHANGES IN SHAREHOLDERS' EQUITY 2003/2004

(in thousands of euro)	Share capital	Share premium reserve	Payments to share capital increase	Legal reserves	Extraordinary reserve	Revaluation reserve	Reserve from IAS transition	Group consolidation reserve	Group conversion reserve	Reserve for Stock options	Retained earnings (Accumulated losses	Profit (loss) for the year	Consolidated Group Shareholders' equity	Minority interest – capital and reserves	TOTAL SHAREHOLDERS' EQUITY
At January 1st, 2004	169,347	292,987	32,000	671	48	8,365	(4,113)	993	1,258	0	(188,232)	(138,443)	174,881	989	175,870
Translation of financial statements into currency									(950)				(950)	(470)	(1,420)
Change to IAS reserves													0		0
Allocation of profit											(138,443)	138,443	0	(343)	(343)
Other movements	25,480	(268,487)	(32,000)		(48)	(8,365)				966	333,399		50,945	(163)	50,782
Consolidated net income												26,033	26,033	313	26,346
At December 31, 2004	*194,827*	*24,500*	*0*	*671*	*0*	*0*	*(4,113)*	*993*	*308*	*966*	*6,724*	*26,033*	*250,909*	*326*	*251,235*

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2005		
Chapter	**Note no.°**	**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 CONSOLIDATED INCOME STATEMENT*
	4	Net sales
	5	Costs for materials
	6	Costs for services and use of third party assets
	7	Personell
	8	Amortisation and impairment costs
	9	Other income from operations
	10	Other operating costs
	11	Net financial income (charges)
	12	Tax
	13	Profit / (loss) from discontinuing operations
D		*INFORMATION ON THE CONSOLIDATED BALANCE SHEET*
D1		*ASSETS*
	14	Intangible assets
	15	Property, plant and machinery
	16	Property investments
	17	Equity investments
	18	Other financial assets
	19	Receivables due from Tax authorities
	20	Deferred tax assets
	21	Trade receivables and other receivables
	22	Inventories
	23	Other financial assets
	24	Cash and cash equivalents
D2		*LIABILITIES*
	25	Share capital and reserves
	26	Financial liabilities
	27	Trade payables and other payables
	28	Provisions
	29	Deferred tax liabilities

A) GENERAL ASPECTS

Piaggio & C. 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 financial statement documents. The main activities of the company and its subsidiaries (the Group) are described in the Board of 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.

At December 31, 2005, the structure of the Piaggio Group was that in the annex to the Directors' Report and can be taken as read also here.

Compared to December 31, 2004 the consolidation area changed following the disposal of Moto Sport S.A. which occurred during the first half of 2005.
It should be noted that the income statement figures for 2004 shown for comparative purposes in these financial statements do not include the consolidation of the Aprilia Group. In the consolidated financial statements for 2004 the Aprilia Group was only consolidated at the balance sheet level since it was acquired in December 2004.
With effect from December 31, 2005, the Parent company Piaggio & C. S.p.A. incorporated Aprilia S.p.A. with accounting and tax effect from January 1st, 2005.
These financial statements are subject to audit by Deloitte & Touche S.p.A.

CONFORMITY TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The consolidated financial statements for 2005 have been prepared for the first time in conformity with the International Financial Reporting Standards (IAS/IFRS), in force at the financial statement date, issued by the International Accounting Standards Board and approved by the European Commission. Account was also taken of the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously called the Standing Interpretations Committee ("SIC").
The consolidated financial statements for 2004 were drawn up in accordance with accounting principles generally accepted in Italy.
Since the preparation of the consolidated financial statements at December 31, 2005 in accordance with the IFRS has led to a change in the consolidated accounting standards drawn up in accordance with accounting principles generally accepted in Italy, in order to enable comparison with the previous year, the Piaggio Group has prepared a document entitled "Transition to the International Financial Reporting Standards (IFRS)", which is attached to these Explanatory notes and contains the application and quantification of the impact of the transition to the IFRS on the financial statements at December 31, 2004 compared to the statements prepared in accordance with accounting principles

generally accepted in Italy., resulting from the application of IFRS 1 (First Time Adoption of International Financial Reporting Standards).

The figures in the consolidated financial statements for the year ended at December 31, 2004, presented for comparative purposes, are those indicated in the aforementioned Appendix, to which reference should be made for a complete analysis of the effects arising from the first-time application of the International Financial Reporting Standards and which records, besides the reconciliations with the figures according to Italian and International Financial Reporting Standards, also the explanatory notes to illustrate the main differences. This information has already been supplied as part of the Half Yearly report at June 30, 2005, in which the Group had already arranged to draw up a document entitled “Appendix to the Half Yearly Report Transition to the International Financial Reporting Standards (IFRS)”.

It is also pointed out that some reclassifications have been made compared to the data published in the Appendix to the Half Yearly report of June 30, 2005. The comparative figures for prior periods have been reclassified as a consequence. These changes have had no significant impact on the profit from ordinary activities, operating income, net income and consolidated Shareholders’ equity. In particular:

- as part of a complex reorganisation of the Aprilia Group’s property investments which may be referred to the parent company, around 11 million euro of land has been reclassified. Its fair value has been determined on the basis of an expert investigation by a third party.
- In order to ensure a coherent representation of the different categories of intangible assets there has been a reclassification from concessions to patent rights of around €/000 3,690 relating to software.

In drawing up the financial statements at December 31, 2005 the same principles and criteria applied in drawing up the reconciliation to the IFRS shown in the Appendix have been used.

The International Financial Reporting Standards have been applied omogeously for the companies of the Group.

The financial statements of the subsidiaries, used for the consolidation, have been appropriately modified and reclassified, where necessary, to make them conform to International Financial Reporting Standards and to the same classification criteria within the Group.

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 Table of changes to Shareholders’ equity, the Cash Flows Statement and these Explanatory 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 separate indication of assets, liabilities and shareholders’ equity.

The 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 classification of items by their nature. The overall operating profit is shown which includes all the income and cost items, independently of their repetition or fact of falling outside normal operations, except for the items of financial operations included under operating profit and profit before tax. In addition, the income and cost items arising from discontinuing operations, including any capital gains or losses net of the tax effetc, are recorded in a specific line item in the financial statements before Group net profit 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 drawn up by applying the indirect method. The cash and cash equivalents included in the cash flow statement include the balance sheet data for this item at the reference date. Cash flows arising from transactions in foreign currency have been converted at the average exchange rates for the year 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 Financial Reporting Standards, with a separate indication of the result for the year and of every individual revenue, income, charge and expense that has not been accounted for in 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 & C. Group 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 G.

The nonoperating and in liquidation subsidiaries have not been consolidated and have been valued at cost, written-down for impairment losses.

2. CONSOLIDATION PRINCIPLES AND EVALUATION CRITERIA

The consolidated financial statements at December 31, 2005 include, using the line-by-line method, the financial statements of the parent company and of 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 control the list of which is supplied in section G.

At December 31, 2005 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	6	23	29			0	29
Consolidated on an equity basis		3	3	2		2	5
Valued at cost		1	1	4	3	7	8
Total companies	**6**	**27**	**33**	**6**	**3**	**9**	**42**

2.1 Consolidation accounting 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 line items the share of shareholders' equity and net profit for the year.

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 (January 1st, 2004). Therefore, as from this date the Group has stopped amortising goodwill, subjecting it instead to an impairment test.

The share 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 line item called "Minority interest".

Subsidiaries

These are companies where the Group exercises control. Such control 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 financial statements of the subsidiaries are included in the consolidated financial statements as from the date on which control is assumed until such time as that control ceases to exist. The shares of shareholders' equity and income attributable to minority interest are indicated separately, respectively in the consolidated balance sheet and income statement.

The consolidated financial statements do not include inactive subsidiaries or those which generate insignificant turnover. Their influence over the total assets, liabilities, financial position and income of the Group is not significant.

Associated companies

These are companies in which the Group exercises significant influence, but not joint control, over their financial and operational policies. The consolidated financial statements include the share due to the Group of the results of the associated companies, accounted for using the equity method, as from the date on which such notable influence starts until such time as it ceases to exist. Should the Group share 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 written off and further losses is not recorded, except and to the extent that the Group is obliged to cover them.

Joint control companies

These are businesses over whose activities the Group has joint control, established by contractual agreements; 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, the unrealised profits 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 in the "Income (loss) from equity investments".

Transactions eliminated in the consolidation process

In the preparation of 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 share of equity investment in those companies.

Transactions in foreign currency

Transactions in currencies other than Euros are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial statement date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the financial statement date. Gains and losses arising on retranslation are included in net profit or loss for the period

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 financial statements.

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 for the financial statements (current exchange rate method). Income and charges are converted to 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 annulled, 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 income statements and balance sheets of the companies included in the consolidation area are shown in the table below.

Description of the currencies	Exchange rate at 31/12/05	Average exchange rate 31/12/05	Exchange rate at 31/12/2004	Average exchange rate 31/12/004
US dollar	1.17970	1.24470	1.3621	1.2439
Pound sterling	0.68530	0.68386	0.70505	0.67867
Indian rupee	53.16790	54.85999	59.7404	56.3378
Singaporean dollar	1.96280	2.07051	2.2262	2.10156
Chinese remimbi	9.52040	10.18438	11.2781	10.2992
Croatian kune	7.37150	7.40015	7.69424	7.4893
Swiss francs	1.55510	1.54831	1.54290	1.54382
Japanese yen	138.90000	136.84570	139.65	134.4450

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 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 potential 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 share 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 reductions in value 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 has chosen not to apply IFRS 3-*Business combinations* retroactively to company acquisitions that took place before January 1st, 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 January 1st, 2004, following the acquisitions that occurred in 2004, further goodwill was generated, the amount of which was redetermined 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 respected: 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 the basis of a straight-line criterion, 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 evaluated 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 checks to identify any reductions in value annually, 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 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
Brands	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 to the financial statements, as allowed by IFRS 1. For the evaluation of the property, plant and machinery, therefore, the preference was not to use accounting with 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. Tangible assets in process of formation are valued at cost and are depreciated as from the period in which they come 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 amortised.
The assets owned through financial leasing contracts, 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 current value, or, if lower, at the discounted present value of the minimum payments due for the leasing. The corresponding liability due to the lessor is represented 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.
The leases in which the lessor largely keeps all the risks and benefits linked to ownership of the assets are classified as operational leases. The costs in relation to operational leases are recorded on a straight-line basis on the income statement over the duration of the leasing contract.
The profit and loss 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 writedown. 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 use value. In assessing the use value, the estimated future cash flows are discounted to their current value by using a rate gross of tax which reflects the current market valuations of the current 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 writedown 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 writedown 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.

Investment property

International Financial Reporting 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 are assessed 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.

Some land and buildings held by the Group fall into this category and generate cash flow largely independently from the other tangible assets held by the Group.

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 respected only when the sale is highly likely, the asset (or group of assets) is available for immediate sale in its current condition and the company management has made a commitment for the sale, which should take place within twelve months of the classification under this heading.

Financial assets

Financial assets are recorded and cancelled from the balance sheet on the basis of the date of their trading and are initially valued at cost, including the charges directly connected with the acquisition.

Inventories

Inventories are recorded at the lower of the acquisition or production cost, determined by allocating to products the costs directly incurred as well as the share 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 acquisition or production cost is determined in accordance with the average weighted cost method.

For raw materials and products in the process of formation, 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 writedowns.

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 to the various forecast cash flows a discount rate that corresponds to the Euribor 20 year Swap rate plus a spread of AA rated Government securities.

Factoring operations

The Group disposes of a significant share of its trade receivables through factoring operations. The disposals can be without recourse, and in this case there are no recourse risks, leading to the cancellation 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 ceded is paid by the debtor. The payments in advance 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 and bank current accounts and on demand deposit accounts and other short-term financial investments with high liquidity, which are readily cash convertible 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 with the amortised cost method, calculated through the application of the real interest rate. Financial liabilities covered by derivative financial instruments are valued at their current value, in accordance with the approach established for hedge accounting, applicable to the fair value hedge: profits and losses arising from the subsequent assessment at current value, due to variations in interest rates are recorded on the income statement and are offset with the effective share of the loss and the profit arising from subsequent evaluations at current value of the instrument covered.

Derivative financial instruments and accounting of hedging operations

The Group's activities are mainly exposed to financial risks through changes in exchange and interest rates. The Group uses derivative financial instruments (mainly forward currency contracts) to hedge the risks deriving from changes of foreign currencies in certain irrevocable commitments and in envisaged future transactions. The use of these derivative financial instruments is regulated by written procedures on the use of derivative financial instruments in line with the Group's risk management policies.

Derivative financial instruments are initially recorded at cost, and adjusted to the fair value at subsequent period end dates.

Derivative financial instruments are used solely with the intent of providing hedge 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 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:

- <u>Fair value hedge: (hedge of the market value)</u> If one derivative financial instrument is designated as 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, the gain or loss arising from subsequent assessments of the fair value of the hedging instrument are recorded on the income statement. The profit or loss on the item hedged, attributable to the risk hedged, change the book value of that item and are recorded on the income statement.
- <u>Cash flow hedge</u> If a derivative financial instrument is designated as hedge for 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, (e.g. Interest Rate Swap) the effective share of profits or losses for the derivative financial instrument is recorded under shareholders' equity. The accumulated profit or loss are cancelled from shareholders' equity and recorded on the income statement in the same period in which the transaction subject to hedge is recorded. The profit or loss associated with hedge or that part of the hedge that is ineffective, are immediately recorded on the income statement. If a hedging instrument or a hedging report are closed, but the transaction subject to the hedge has not yet taken place, the accumulated profits and losses, which until that moment had been recorded under shareholders' equity, are recorded on the income statement when the related transaction occurs. If the transaction that was subject to the hedgeis no longer considered likely to occur, then the unrealised profits or losses held under shareholders' equity are immediately recorded on the income statement

If hedge accounting cannot be applied, the profits or losses arising from the evaluation at the current value of the derivative financial instrument are immediately recorded on the income statement.

<u>Long-term provisions</u>

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 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 current value of money and the specific risks connected to the liabilities.

Reserve fo Pension funds and Employee benefits

With the adoption of the IFRS, employee severance 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 current value of liabilities for defined benefit plans adjusted to take account of actuarial profits 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 current 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 profits 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 current value of the stock options at the date of allocation is recorded wholly on the income statement under staff costs with a counter entry recognised directly under shareholders' equity should the assignees of the instruments representing capital become right holders at the moment of allocation.
In the case in which a "vesting period" is envisaged in which certain conditions must apply before the assignees can become right holders, the cost of compensation, determined on the basis of the current value of the portions at the allotment date, is recorded under staff 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 done by using the Black Scholes method. Changes in the current value of the options subsequent to the allotment date have no impact on the initial evaluation.

Deferred taxes

Deferred taxes are determined on the basis of the temporary taxable differences between the value of assets and liabilities and their fiscal 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 probable. 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 tax assets and liabilities are determined on the basis of the tax rates which it is expected will be applied in the period in which such deferments will occur, considering the rates in force or those known to be issued. Deferred tax assets and liabilities are charged directly to the income statement, except for those which relate to items that are directly recorded under shareholders' equity, in which case also the related deferred tax assets or liabilities are charged to shareholders' equity.

Deferred tax assets and liabilities are compensated when there is a legal right to compensate the current tax assets and liabilities and when they refer 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 the 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 accruals basis.

Grants

Grants related to assets are stated in the balance sheet when the entitlement to receive them is certain and are recognized in the income statement over the useful life of the assets to which they relate.

Grants related to income are stated in the balance sheet when the entitlement to receive them is certain and are disclosed in the income statement to match the related expenditure that they are intended to compensate.

Financial income

Financial income is recorded on an accruals basis. It includes interest income on invested funds, positive exchange rate differences and income arsing from derivative financial instruments, 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 accruals basis. They include interest payable on financial payables calculated by using the effective interest rate method, negative exchange rate differences, and losses on derivative financial instruments. The share of interest charges for financial lease payments is charged to the income statement using the real interest rate method.

Dividends

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

Income taxes

Tax for the period 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 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 accredited to shareholders' equity, in which case the tax effect is recognised directly under shareholders' equity.

They are shown under the item "Payables due to tax authorities" net of payments on account and withholding taxes paid. No provision has been made for any tax liabilities arising in the event of the distribution of pending tax reserves indicated in the financial statements of individual Group companies because no such distribution is envisaged.

Earnings per share

Earning per share is calculated by dividing the profit or loss attributable to parent company shareholders by the weighted average of the ordinary shares in circulation during the period. The diluted earning per share is calculated by dividing the profit or loss attributable to parent company shareholders by the weighted average for the shares in circulation, taking account of the effects of all the potential ordinary shares with a dilating effect (for example, stock option plans for employees).

On the basis of the provisions of IAS 33 since Piaggio & C. S.p.A. is not listed on any financial market, the aforementioned calculation has not been made.

Use of estimates

The preparation of the financial statements and the related notes in application of the IFRS requires on the part of management the making of estimates and assumptions that have an impact on the values of assets and liabilities in the financial statements and on the information in relation to potential 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 assess the tangible and intangible assets subject to impairment tests (see Losses of value), besides recording provisions for risks on receivables, for obsolescence of stocks, amortisation, writedowns 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.

Transactions with related parties

Transactions with related parties are shown in the Directors' Report which is to be referred to for this heading also.

Changes in the consolidation area

During 2005 there were no changes to the consolidation area.

As already described in the Foreword to this Note, during December 2004 the acquisition of the Aprilia

Group was completed, and in the financial statements at December 31, 2004 this was consolidated only at the balance sheet level. Therefore the income statement figures for 2004 used for comparative purposes do not include the figures for the subsidiaries of Aprilia S.p.A. and for Aprilia itself (hereafter termed the Aprilia Group). For a better comprehension we disclose the 2005 Aprilia figures in the comments to the income statements.

New accounting standards

There were no accounting standards or interpretations reviewed or issued, with effect from January 1st, 2005, which had a significant impact on the Group's financial statements.

During December 2004 the IASB issued an amendment to IAS 19 – Employee benefits, allowing the option to recognise actuarial profits and losses as soon as they become evident, not directly on the income statement, but in a specific heading under shareholders' equity.

The amendment also provides a guide to the allocation among the various Group companies of a group defined benefit plan. The amendment will be effective as from January 1st, 2006. The Group is considering the impact of the amendment, albeit the items are not significant.

In April 2005 the IASB issued an amendment to IAS 39 – Financial Instruments: Recognition and Measurement - which allows an infragroup transaction which is considered highly probable to be considered as a covered item in a cash flow hedge against exchange rate risks, should the transaction be carried out in a currency other than the trading currency of the business which carried out the transaction and the consolidated financial statements are exposed to exchange rate risk.

The amendment also specifies that if the cover of an expected infragroup transaction meets the requirements for hedge accounting, all profits or losses directly recorded under shareholders' equity in accordance with the rules of IAS 39 must be reclassified to the income statement in the period in which the exchange rate risk of the transaction covered has its impact on the consolidated income statement.

In June 2005 the IASB issued a final amendment to IAS 39 – Financial Instruments: Recognition and Measurement - which limits the use of the option of designating every financial asset or liability as an item assessed at fair value directly on the income statement (the so-called "fair value option"). This revision of the standard limits the use of this option to those derivative financial instruments that meet the following conditions:

- The designation in accordance with the fair value option eliminates or significantly reduces a deficit in the accounting;
- A group of financial assets, financial liabilities or both is managed and their performance is assessed on the basis of the fair value in accordance with a documented risk and investment management strategy, and
- An instrument contains an implicit derivative financial instrument which satisfies particular conditions.

These amendments to IAS 39 will take effect as from January 1st, 2006. The Group is assessing any impact which these changes may have, even if these transactions are not among those that the Company normally adopts.

In August 2005 the IASB issued the new accounting standard IFRS 7 –Financial Instruments: Disclosures- and a complementary amendment to IAS 1 – Presentation of the Financial Statements: Additional information relating to capital. IFRS 7 requires additional information regarding the importance of the derivative financial instruments in terms of the financial performance and position of a company. This information includes some requirements which were previously included in accounting standard IAS 32 – Financial Instruments: Disclosure and Presentation: The new accounting standard also requires information relating to the level of exposure to risk arising from the use of derivative financial instruments, and a description of the objectives, policies and procedures put into place by management to manage such risks. The amendment to IAS 1 introduces requirements relating to information to be provided concerning a company's capital. IFRS 7 and the amendment to IAS 1 are effective as from January 1st, 2007.

In August 2005 the IASB issued an amendment to IAS 39 and IFRS 4 dedicated to the accounting treatment of guarantees issued. On the basis of this amendment the liability arising from financial guarantee contracts must be recorded on the balance sheet of the guarantor and assessed as follows:

- Initially at fair value;
- subsequently, at the higher of (i) the best estimate of the cost required to meet the obligation at the period end date, on the basis of the provisions of IAS 37 – Provisions, Contingent liabilities and Contingent assets, and (ii) the initially recorded total less any accumulated amortisation recorded in accordance with the requirements of IAS 18 – Revenue .

These amendments will be effective as from January 1st, 2006. The Group is assessing any impact which these changes might have.

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 has helped to define with the introduction in the 40s 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 marketing of the products occurs through dealers, for the two, three and 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 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, 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 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 on the basis of a logic 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 global strategies aimed at looking for synergies which can increase the value of the Group and emphasise its distinct features.
These synergies arise 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 considerations above it may be considered that the activities of the Piaggio Group and the related strategies, as also the underpinning activities linked to Managerial control, have been established in the single segment of “light wheeled transport”.
The following table presents the economic and financial data for the Group at December 31, 2005:

(in millions of euro)	*Consolidated*
NET SALES	
Sales to third parties	1,451.8
Intersector sales	
TOTAL NET SALES	**1,451.8**
Gross industrial margin	438.7
Net financial charges	(30.3)
Income from equity investments	
Income before tax	64.0
Tax	(25.9)
Minority interest	(0.2)
NET INCOME	**37.9**
OTHER INFORMATION	
Increases to tangible and intangible assets	99.7

Secondary segment: market segments

(in millions of euro)	*2W*	*LTV*	*Other*	*Consolidated*
NET SALES				
Sales to third parties	1,130.6	303.9	17.3	1,451.8
Intersector sales				
TOTAL NET SALES	*1,130.6*	*303.9*	*17.3*	*1,451.8*
Gross industrial margin				438.7
Financial charges				(30.3)
Income from equity investments				0
Income before tax				64.0
Tax				(25.9)
Minority interest				(0.2)
NET INCOME				*37.9*
OTHER INFORMATION				
Increases to tangible and intangible assets				99.7

Third segment: geographic area

The following table gives the economic and financial figures for the Group in relation to the “original” geographic areas at December 31, 2005, based on the country of the company which has made the net sales or which holds the assets.

The breakdown of net sales by geographic area of “destination”, i.e. by reference to the nationality of the customer, is analysed both in the Directors’ Report and in the comments in this note regarding income statement items.

(in millions of euro)	*Italy*	*Europe*	*India*	*USA*	*Rest of the world*	*Adjustments*	*Consolidated*
NET SALES							
Sales to third parties	587.9	610.1	157.2	48.5	48.1	0	1,451.8
Intersector sales							
TOTAL NET SALES	587.9	610.1	157.2	48.5	48.1	0	1,451.8
BALANCE SHEET							
TOTAL ASSETS	1,256	347.4	59.6	22.3	6.7	(322.5)	1,369.5
TOTAL LIABILITIES	1,256	347.4	59.6	22.3	6.7	(322.5)	1,369.5

C) INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

(values expressed in thousands of euro)

		Year ended December 31, 2005	*Year ended December 31, 2004*

4. Net sales	€/000	1.451.781	1.084.229
Net sales	€/000	1.451.781	1.084.229

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

This heading does not include transport costs which are recharged to customers (€/000 35,296) and advertising cost recoveries invoiced (€/000 5.501), which are shown under other income from operations.

The net sales for disposals of assets involving the core business of the Group essentially refers to the marketing of vehicles and parts on European and non-European markets.

During 2005 net sales rose by €/000 367,552. The increase was due for €/000 351,006 to the Aprilia Group, which in 2004 was only consolidated at the balance sheet level.

It should also be noted that the increase in sales was due for around €/000 66,300 to Light-Transportation Vehicles (LTV), which were also boosted in 2005 by the performance of the Indian subsidiary Piaggio Vehicles, which enhanced its presence on the Indian market with an increase in sales of 45.3%.

In this analysis it is also necessary to remember that sales in 2004 included sales of engines to the Aprilia Group for approximately 29.9 million euro.

The fall in reclassified net sales in the remaining heading "Other" is due to the ending of sales of engines to Aprilia, which until 2004 were included under this heading.

Net sales by geographic area

The division of net sales by geographic area is shown in the following table:

(in thousands of euro)	*Year ended December 31, 2005*		*Year ended December 31, 2004*		*Changes*	
	amount	*%*	*Amount*	*%*	*amount*	*%*
Italy	587,858	40.5	468,361	43.2	119,497	25.5
Europe	610,100	42.0	453,101	41.8	156,999	34.6
India	157,182	10.8	108,230	10.0	48,952	45.2
North America	48,515	3.3	25,207	2.3	23,308	92.5
Rest of the world	48,126	3.3	29,330	2.7	18,796	64.1
TOTAL	1,451,781	*100.0*	1,084,229	*100.00*	367,552	*33.9*

	€/000	*Year ended December 31, 2005*	*Year ended December 31, 2004*
5. Raw materials and supplies	€/000	847,171	605,393

These totalled €/000 847,171 overall, compared to €/000 605,393 at December 31, 2004, and €/000 207,365 were due to the Aprilia Group.

The ratio to net sales, of approximately 58.3% in the year ended at December 31, 2005, rose by approximately 2.5% compared to the year ended at December 31, 2004 (55.8%). Nonetheless, it should also be stressed that during 2004 Piaggio recorded net sales for the sale of engines to Aprilia, of approximately 29.9 million euro, net sales which in 2005 were eliminated at a consolidated level, thus causing a rise in the ratio in question which on a constant sales basis (excluding engines in 2004) would have been 57.7%. The remaining 0.6% is explained by the differing production model of the plants at Scorzé and Mandello compared to those at Pontedera.

In the following table there is the detailed content of this financial statement heading:

(in thousands of euro)	*Year ended December 31, 2005*	*Year ended December 31, 2004*	*Change*
Raw materials, consumables and goods for resale	827,062	603,576	223,486
Change in inventories of raw materials, consumables and goods for resale	(6,229)	(7,411)	1,182
Change in work in progress of semi-finished and finished products	26,338	9,228	17,110
Total cost of purchases	*847,171*	*605,393*	*241,77*

		Year ended December 31, 2005	*Year ended December 31, 2004*
6. Services, leases, rentals and use of third party assets	€/000	298,925	225,512

These totalled €/000 298,925 overall compared to €/000 225,512 at December 31, 2004.
The heading in question was as follows:

(in thousands of euro)	*Year ended December 31, 2005*	*Year ended December 31, 2004*	*Change*
Staff costs	11,566	8,208	3,358
Accessory purchase costs	603	3,348	(2,745)
Cleaning and maintenance	6,802	7,607	(805)
Energy, telephone and telex	15,232	10,952	4,280
Commissions paid	2,532	2,056	476
Advertising and promotion	44,396	31,556	12,840
Technical, legal and tax consultancy and services	69,381	41,754	27,627
Company boards operating costs	2,632	2,394	238
Insurance	4,277	2,416	1,861
Third party work	26,875	35,329	(8,454)
Transport costs and parts	44,100	31,204	12,896
Travel documents	627	1,322	(695)
Other commercial expenses	11,274	9,715	1,559
Product liability costs	14,886	20,670	(5,784)

Other	30,402	9,982	20,420
Costs for use of third party assets	13,340	6,999	6,341
Total costs for services, leases, rentals and use of third party assets	*298,925*	*225,512*	*73,413*

The initial income statement consolidation of the Aprilia Group entailed costs of €/000 87,261.

On a constant size basis, therefore, the Piaggio Group would have seen costs in 2005 fall by €/000 13,848.

The item "Technical, legal and tax consultancy and services" mainly includes outsourced services of €/000 20,485, warehouse management services €/000 11,568, audit costs for €/000 700 and management services provided by the parent company IMMSI SpA for €/000 4,661. The costs for use of assets include leasing rentals for business properties €/000 2,132, as well as lease payments for car hire, computers and photocopiers.

Staff costs include temporary labour for €/000 1,940.

Third party work of €/000 26,875, refers to production parts and indicates a fall in the absolute value mainly owing to the change in supply of the "mini cars", which during 2004 were wholly managed as a semi-finished product, while during 2005 they were in part purchased as finished products.

Transport costs and parts of €/000 44,100, had a ratio to net sales in percentage terms which was broadly stable over the two years.

Product liability costs fell significantly in absolute terms mainly due to the termination of the Post Office contract in relation to previous years.

		Year ended December 31, 2005	*Year ended December 31, 2004*
7. Personnel	€/000	225,500	157,172

The breakdown of costs incurred for staff was as follows:

(in thousands of euro)	*Year ended December 31, 2005*	*Year ended December 31, 2004*	*Change*
Salaries and wages	165,678	112,367	53,311
Social security charges	45,175	35,571	9,604
Employee severance indemnity	10,368	7,336	3,032
Other costs	4,279	1,898	2,381
Total	*225,500*	*157,172*	*68,328*

The overall increase of €/000 68,328 compared to the values recorded in the previous year was due for €/000 60,356 to the initial income statement consolidation of the Aprilia Group. It should also be noted that there was an increase in the average number of staff during 2005 compared to 2004.

On the basis of the requirements of the International Accounting Standards (IAS 19) the company has discounted the value of the payable for employee severance. The main parameters used are the following:

	years 1 > 5	*years 6 > 10*	*Years 11 > 15*	*years > 15*
Inflation rate		1.60%		
Discount rate	3.05%	3.42%	3.70%	3.92%
Revaluation rate for accrued emp. Severance		2.95%		
Rate of emp. indemnity		7.40%		
Annual salary increase percentage		3.00%		

The overall impact at December 31, 2005 of such discounting was an increase in liabilities of €/000 3,779 with an impact on the income statement in the year owing to lower interest of €/000 1,137, mainly due to the increase in the discounting rate in light of the increase in the cost of borrowing.

Here below is an analysis of the average breakdown of the workforce:

	Average number	*Number at*		
Role	*2005*	*December 31, 2005*	*December 31, 2004*	*Change*
Directors	114	115	118	(3)
Senior	2,115	2,111	2,074	37
Technical staff and	4,420	4,127	3,979	148
Total	*6,649*	*6,353*	*6,171*	*182*

		Year ended December 31, 2005	*Year ended December 31, 2004*
8. Amortisation and depreciation	€/000	90,504	60,334

Here below is a summary of the amortisation and depreciation in 2005, divided into different categories:

(in thousands of euro)	*Year ended December 31, 2005*	*Year ended December 31, 2004*	*Change*
Property, plant and machinery			
Buildings	3,361	2,419	942
Plant and machinery	12,940	10,837	2,103
Industrial and commercial equipment	22,505	19,447	3,058
Other assets	3,658	2,207	1,451
Total depreciation of tangible assets	*42,464*	*34,910*	*7,554*

(in thousands of euro)	*Year ended December 31, 2005*	*Year ended December 31, 2004*	*Change*
Intangible assets			
Development costs	32,483	20,374	12,109
Industrial patent rights and intellectual property rights	3,836	4,148	(312)
Concessions, licences, trademarks and similar rights	11,159	333	10,826
Other	562	569	(7)
Total amortisation of intangible assets	*48,040*	*25,424*	*22,616*

As set out in more detail in the paragraph on intangible assets as from January 1st, 2004 goodwill is no longer amortised, but is subjected annually to an impairment test. The impairment test carried out at December 31, 2005 confirmed the full recoverability of the values expressed in the financial statements.

Depreciation of property, plant and machinery includes deprecation relating to the Aprilia Group of €/000 11,251.

Amortisation under the item “Concessions, licences, trademarks and similar rights” includes the amortisation of the Aprilia brand for €/000 5,987. Overall amortisation of intangible assets includes amortisation due to the Aprilia Group of €/000 20,699.

		Year ended December 31, 2005	*Year ended December 31, 2004*
9. Other operating incomes	€/000	143,222	70,445

This heading was as follows:

(in thousands of euro)	*Year ended December 31, 2005*	*Year ended December 31, 2004*	*Change*
Contributions to the operating account	23,496	2,243	21,253
Additions to assets y internal production	22,584	17,337	5,247
Net sales and other income:			
- Rent receipts	2,054	115	1,939
- Capital gains on assets	1,582	178	1,404
- Sale of miscellaneous materials	2,965	677	2,288
- Recovery of transport costs	35,296	30,665	4,631
- Recovery of advertising costs	5,501	100	5,401
- Recovery of other costs	18,898	1,910	16,988
- Compensation	295	1,215	(920)
- Licence rights and know-how	2,122	1,351	771
- Extraordinary gains	5,003	1,310	3,693
- Other income	23,426	13,344	10,082
Total other operating income	*143,222*	*70,445*	*72,777*

The item contributions to the operating account refers for €/000 18,624 to the eco-incentives supplied by the Ministry of the Environment in June 2005 in conformity with the programme agreement signed on 12.2.2002 and the supplementary act signed on 18 April 2005, relating to sales of environmentally friendly vehicles between June 2003 and July 2004 (€/000 11,246 Piaggio, €/000 7,378 Aprilia).
The increase of €/000 72,777 recorded in the year was due for €/000 45,832 to the consolidation of the Aprilia Group.
The item recovery of transport costs refers to costs recharged to customers, the charges for which are classified under "services".

		Year ended December 31, 2005	*Year ended December 31, 2004*
10. Other operating costs	€/000	38,643	43,929

This heading is as follows:

(in thousands of euro)	*Year ended December 31, 2005*	*Year ended December 31, 2004*	*Change*
Non-income tax and duties	6,032	2,050	3,982
Capital losses from disposal of assets	236	94	142
Various subscriptions	602	834	(232)
Writedowns of intangible assets	3,607	2,243	1,364
Writedowns of tangible assets	2,349	934	1,415
Writedowns of receivables in working capital	4,976	7,670	(2,694)
Provision for risks	8,692	8,310	382
Other provisions	9,593	12,864	(3,271)
Provision of writedown of equity investments	0	196	(196)
Other operating costs	2,556	8,734	(6,178)
Total	*38,643*	*43,929*	*(5,286)*

Considering that the initial consolidation of the Aprilia Group led to the recording of charges of €/000 17,782, on a constant size basis, the Group would have seen lower costs of €/000 23,068.
The item Non-income tax and duties includes the overall cost of €/000 2,445 incurred by the Group's Italian companies for the issue of conformity certificates as from January 1st, 2005. This cost was charged to dealers and the recovery is shown under other income from operations.
During 2005 there was a writedown of development costs and tangible assets for which there was no further useful life, of €/000 3,607.

		Year ended December 31, 2005	*Year ended December 31, 2004*
11. Net financial incomes (charges)	€/000	(30,291)	(21,350)

Here below is the breakdown of financial charges and income:

(in thousands of euro)	*Year ended December 31, 2005*	*Year ended December 31, 2004*	*Change*
Income:			
Receivables from other companies held as assets	1	-	1
Other income from associated companies	155	-	155
Other income from third parties:			
- Interest due from customers	617	116	501
- Interest on bank and postal accounts	707	253	454
- Interest on financial receivables	2,942	239	2,703
- Income on interest rate hedging	2,695	1,024	1,671
- Other	254	221	33
Total other income from third parties	7,215	1,853	5,362
TOTAL	7,371	1,853	5,518
Profits on exchange rates:			
- Income on contract swaps	3	0	3
- Translation gains	6,798	3,654	3,144
- Translation gains for different currencies	595	2,467	(1,872)
Profits on exchange rates	7,396	6,121	1,275
Total financial income	*14,767*	*7,974*	*6,793*

(in thousands of euro)	*Year ended December 31, 2005*	*Year ended December 31, 2004*	*Change*
Charges:			
Financial charges due to parent companies	0	518	(518)
Financial charges due to associated companies	0	7	(7)
Financial charges due to others:			
- Interest on bank accounts	2,241	1,409	832
- Interest on bonded loan	13,725	0	13,725
- Interest on bank loans	13,536	11,073	2,463
- Interest due to other lenders	2,051	2,383	(332)
- Interest due to suppliers	0	40	(40)
- Cash discounts for customers	1,724	1,544	180
- Banking fees on loans	197	3,795	(3,598)
- Charges on interest rate hedging	0	1,024	(1,024)
- Other	1,413	1,221	192
Total financial charges due to others	37,974	22,489	15,485
Total	37,974	23,014	14,960
Losses on exchange rates:			
- Charges on contract swaps	0	25	(25)
- Translation losses	7,084	4,159	2,925
- Translation losses for other currencies	0	2,126	(2,126)
Losses on exchange rates	7,084	6,310	774
Total financial charges	45,058	29,324	15,734
TOTAL FINANCIAL INCOME (CHARGES)	*(30,291)*	*(21,350)*	*(8,941)*

The net impact on this item arising from the consolidation of the Aprilia Group income statement was €/000 4,841. The increase was also due to the interest on the bonded loan (€/000 13,725) issued by

Piaggio & C. S.p.A. in order to repay the previous loan issued by Aprilia Finance.

Note should also be taken of the increase in the item interest due to other lenders.

		Year ended December 31, 2005	*Year ended December 31, 2004*
12. Income taxes	€/000	25,891	15,429

Income taxes were as follows:

(in thousands of euro)	*Year ended December 31, 2005*	*Year ended December 31, 2004*	*Change*
Current taxes	19,920	14,940	4,980
Deferred taxes	5,971	489	5,482
Total	25,891	15,429	10,462

The amount of €/000 25,891 is given by the sum of the current taxes for companies consolidated on a line-by-line basis of €/000 19,920 and the deferred tax liabilities for the period, as well as the deferred tax liabilities arising from consolidation differences of €/000 5,971.

Current taxes consist of IRAP (regional tax on productive activities) for €/000 9,368 (chargeable for €/000 9,350 to Piaggio & C. and for €/000 18 to Derbi Italia Srl) and the sum of the income taxes for the individual companies of €/000 10,552 (mainly consisting of income tax on Piaggio Vehicles Pvt Ltd).

Against a ratio of tax from the financial statements to the consolidated pre-tax income of 40%, the ratio of current taxes to pre-tax income, stripped of the effects of consolidations, is 36%.

During 2005 the Group benefited from a theoretical tax saving of €/000 9,192 thanks to the offset of prior tax losses by the Parent company, Piaggio Espana S.A. and Nacional Motor S.A.

IRAP	9,368,000	
Other current taxes	10,552,062	
Total current taxes	19,920,062	36%
Deferred taxes	1,300,477	
Differences between IAS and Consolidation	4,670,461	
Total deferred taxes and IAS	5,970,938	
TOTAL TAXES	25,891,000	40%
Aggregated pre-tax income	54,796,766	
Consolidated pre-tax income	63,959,000	
PERMANENT DIFFERENCES (positive)	(2,457,767)	
THEORETICAL TAX SAVING	9,192,761	53%

		Year ended December 31, 2005	Year ended December 31, 2004
13. Profit/(Loss) from discontinuing operations	€/000	0	792

At the end of the year there were no profits or losses from discontinued operations.

INFORMATION ON THE CONSOLIDATED BALANCE SHEET

ASSETS

		December 31, 2005	December 31, 2004
14. Intangible assets	€/000	624,746	580,620

In thousands of euro	*Values at 31.12.2004*	*Additions*	*Disposals*	*Other movements*	*Values at 31.12.2005*
Original cost	190,624	29,178	2,719	(11,712)	205,371
Writedowns	2,491	3,140	1,195	(1,060)	3,376
Accumulated amortisation	109,311	32,724	587	(11,185)	130,263
Development costs	78,822	(6,686)	937	533	71,732
Original cost	63,275	7,193	2,051	(3,484)	64,933
Writedowns	0	241	0	0	241
Accumulated amortisation	54,657	6,256	2,005	(2,795)	56,113
Industrial patent rights and intellectual property rights	8,618	696	46	(689)	8,579
Original cost	151,912	795	340	10,632	162,999
Writedowns	3,520	0	0	(1,006)	2,514
Accumulated amortisation	26,627	8,498	235	10,807	45,697
Concessions, licences, trademarks	121,765	(7,703)	105	831	114,788
Original cost	481,020	62,163	(109)	(238)	543,054
Writedowns	0	116	0	0	116
Accumulated amortisation	113,549	0	0	(1)	113,548
Goodwill	367,471	62,047	(109)	(237)	429,390
Original cost	27,230	13	752	(5,201)	21,290
Writedowns	2	110	0	3	115
Accumulated amortisation	23,284	562	1,040	(1,888)	20,918
Other intangible assets	3,944	(659)	(288)	(3,316)	257
Original cost	914,061	99,342	5,753	(10,003)	997,647
Writedowns	6,013	3,607	1,195	(2,063)	6,362

Accumulated amortisation	327,428	48,040	3,867	(5,062)	366,539
TOTAL	*580,620*	*47,695*	*691*	*(2,878)*	*624,746*

The above table records the composition of intangible assets at December 31, 2005 and at December 31, 2004, as well as changes during the year.

The column entitled other movements includes some reclassifications and conversion differences.

		December 31, 2005	*December 31, 2004*
Development costs	€/000	71,732	78,822

Development costs, €/000 71,732, 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 assets in process of formation for €/000 22,506 which represent costs for which the conditions for capitalisation exist, but in relation to products that will go into production in periods following that of the financial statements.

In relation to development costs in the period in question the main projects capitalised refer to the new Vespa Lx and GTS250 vehicles, the new Guzzi models (Nevada, Breva 750, Breva 1100 and Griso 1100), the new engines from 50 to 750 cc for all the vehicles under the Piaggio and Aprilia brands, new Euro 3 engines, and new versions and/or restyling of vehicles that are already in production.

The writedown of €/000 3,140 mainly consists of the writedown made by the Parent company to some projects which were capitalised in previous periods and which no longer have a future use on the basis of the new strategic guidelines.

Developments included under this item are amortised on a straight-line basis over 3 years, in consideration of their residual usefulness.

		December 31, 2005	*December 31, 2004*
Industrial patent rights and intellectual property rights	€/000	8,579	8,618

The item in question largely consists of software. It includes assets in the process of formation for €/000 864.

The increases in the year refer mainly to software for applications in administration, quality assurance, marketing, personnel and systems.

Software costs include €/000 605 incurred by the Parent company for the purchase of the SAP licences at the end of 2004 under a financial leasing contract.

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

		December 31, 2005	*December 31, 2004*
Concessions, licences and trademarks	€/000	114,788	121,765

Concessions, Licences, Trademarks and similar rights, of €/000 114,788, is made up as follows:

	Net value at December 31, 2005	*Net value at December 31, 2004*
Guzzi	30,253	31,700
Aprilia	83,816	89,365
Laverda	620	700
Minor brands	99	-
Total Brands	*114,788*	*121,765*

The gross value of Aprilia is €/000 89,803

The values of Aprilia and Moto Guzzi are based on the investigation of an independent third party drawn up in 2005. These brands are amortised over a maximum period of 15 years.

The following table summarises the impact of the application of IFRS3 on the purchase of the Aprilia Group:

Company purchased : Aprilia S.p.A		
Registered office: Via Galileo Galilei n. 1 30033 Noale (VE)		
Acquisition date		December 30, 2004
Percentage of votes acquired		100%
Total price paid at 31.12.2004	€/000	88,491
- Total assets acquired at 31.12.2004	€/000	(371,635)
+ Total liabilities acquired at 31.12.2004	€/000	344,443
Accessory charges on acquisition	€/000	247
Total	*€/000*	*61,546*
Attribution of increased value to Aprilia brand	€/000	89,803
Provision for deferred taxes on the increased value of the Aprilia brand	€/000	(28,257)
Total	€/000	61,546
Valuation of financial instruments at December 31, 2005	€/000	62,156
Attribution of higher value to goodwill	€/000	62,156

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 envisages a sale price that can never exceed the overall issue price by more than twelve times. Therefore the maximum commitment on 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 commented on under "payables due to banks", 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 consolidated income for 2005 and the forecasts from the Business Plan 2006-2008 which is being approved by the Board of Directors of the company, the adjustment of initial purchase cost has been considered likely in relation to the first two financial instruments and has been estimated at €/000 62,156. At the moment it is not believed that the Aprilia shareholders' financial instruments will give rise to an increase in the purchase value of the Aprilia Group. The occurrence of the conditions envisaged for the exercise of the warrants represents for the company the achievement of economic and financial objectives such that the asset value of the Group will express the completion of the relaunch started with the acquisition of IMMSI.

Since the payment is deferred the cost is represented by the current value of the same determined in accordance with the following parameters:

In thousands of euro	Amount	Current value	Time	Discount rate
Warrant	64,206	56,465	2.33	5.66%
EMH financial instruments	6,500	5,690	2.42	5.66%
Aprilia shareholders financial instruments	10,000			
Total	80,706	62,156		

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 56,465, in the financial instruments fair value reserve and for €/ /000 5,690 to medium and long-term financial payables.

They totalled €/000 257 overall.

		December 31, 2005	*December 31, 2004*
Goodwill	€/000	429,390	367,471

The composition of goodwill is shown in the following table:

In thousands of euro	*December 31, 2005*	*December 31, 2004*
Piaggio & C.	330,590	330,590
Nacional Motor	31,237	31,237
Piaggio Vehicles	5,408	5,644
Aprilia	62,155	0
TOTAL	429,390	367,471

The item Goodwill derives from the greater value paid compared to the corresponding share of the investee companies' shareholders equity at the time of the purchase, reduced by the related accumulated amortisation until December 31, 2003. During first-time adoption of the IFRS, in fact, the Group chose not to apply IFRS 3-Business combinations retroactively to purchases of companies prior to January 1st, 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 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 was attributed to goodwill.

The transactions which gave rise to the item concerned are:

a) the purchase by MOD S.p.A. of the Piaggio & C. Group, completed during 1999 and 2000 (net value at January 1st, 2004: €/000 330,590).

- the purchase, completed in 2001, by Piaggio & C. S.p.A. of 49% of Piaggio Vehicles Pvt. Ltd from the shareholder Greaves Ltd (net value at December 31, 2003: €/000 5,192). To this may be added the subsequent purchase by Simest S.p.A. of a 14.66% stake in the share capital of Piaggio Vehicles Pvt. Ltd., which led to complete control of the subsidiary;
- the purchase, 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 January 1st, 2004.

As highlighted in setting out the accounting principles, from January 1st, 2004 goodwill is no longer amortised, but is annually, or more frequently if specific events or changed circumstances indicate the possibility of it having suffered a loss of value, 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 money 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 1.5%.

The impairment test carried out at December 31, 2005 confirmed that for the values expressed in the balance sheet there was no need to make changes. 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.

The increase recorded in the year of €/000 62,156 was due to the evaluation of the financial instruments linked to the purchase of the Aprilia Group, as described in the previous paragraph.

		December 31, 2005	*December 31, 2004*
15. Property, plant and machinery	€/000	259,591	239,248

The following table shows the breakdown of tangible assets at December 31, 2005 and December 31, 2004, as well as changes in the year.

In thousands of euro	Values at 31.12.2004	Additions	Disposals	Other changes	Values at 31.12.2005
Original cost	136,340	20,612	483	2,517	158,986

Writedowns	0	0	0	0	0
Accumulated amortisation	31,155	3,361	185	299	34,630
Land and buildings	105,185	17,251	298	2,218	124,356
Original cost	266,419	17,100	8,212	5,424	280,731
Writedowns	55	193	0	(75)	173
Accumulated amortisation	202,779	12,940	7,765	160	208,114
Plant and machinery	63,585	3,967	447	5,339	72,444
Original cost	445,096	21,536	6,531	(54,036)	406,065
Writedowns	2,291	2,156	408	(545)	3,494
Accumulated amortisation	384,268	22,505	5,857	(52,106)	348,810
Industrial and commercial equipment	58,537	(3,125)	266	(1,385)	53,761
Original cost	53,636	2,929	7,433	481	49,613
Writedowns	167	0	0	16	183
Accumulated amortisation	41,528	3,658	4,659	(127)	40,400
Other assets	11,941	(729)	2,774	592	9,030
Original cost	901,491	62,177	22,659	(45,614)	895,395
Writedowns	2,513	2,349	408	(604)	3,850
Accumulated amortisation	659,730	42,464	18,466	(51,774)	631,954
TOTAL	239,248	17,364	3,785	6,764	259,591

		December 31, 2005	*December 31, 2004*
Land and buildings	€/000	124,356	105,185

Land and buildings, net of related amortisation, were as follows:

In thousands of euro	*December 31, 2005*	*December 31, 2004*	Change
Land	40,852	13,406	27,446
Industrial buildings	78,247	83,906	(5,659)
Civil engineering buildings	438	184	254
Light construction	576	602	(26)
Other	1,303	3,303	(2,000)
Assets in process of formation	2,940	3,784	(844)
Total	124,356	105,185	19,171

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

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

The increase recorded is largely due to the purchase through a property-leasing contract signed by Moto Guzzi S.p.A. for €/000 14,825 of the factory at Mandello del Lario. In addition, following some property transactions within the Aprilia Group some of the value previously attributed to buildings was reclassified to land.

Disposals mainly refer to the sale of the building at Arcore undertaken by the Parent company, following which a capital gain of €/000 681 was recorded.

At December 31, 2005 the assets held through leasing contracts were:

Mandello del Lario factory	14,662	Net value
Aprilia light construction	757	Net value
Cars	29	Net value
Sap	605	Net value

Buildings are depreciated in accordance with the rates considered suitable to represent the useful life of the buildings and in any case in accordance with a straight-line depreciation plan.

Operative buildings are depreciated on the basis of the following rates between 3% and 5%, while light construction is amortised on the basis of rates between 7% al 10%.

Land is not amortised.

		December 31, 2005	*December 31, 2004*
Plant and machinery	€/000	72,444	63,585

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

In thousands of euro	*December 31, 2005*	*December 31, 2004*	Change
Non-specific plant	36,164	32,351	3,813
Automatic machines	5,835	7,242	(1,407)
Moulds and sundry equipment	296	328	(32)
Other	16,535	17,601	(1,066)
Assets in process of formation	13,614	6,063	7,551
Total	72,444	63,585	8,859

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

“Other” mainly includes non-automatic machinery and robotised centres.

The main investment changes concerned:

- various interventions on plant and machinery in the Pontedera factories;
- investment in plant by Piaggio Vehicles Pvt. Ltd aimed at increasing production capacity.

Plant and machinery are amortised on the basis of the following rates:

- non-specific plant: 10%;
- specific plant and non-automatic machines: 10%;
- specific plant and automatic machines: 17.5%;
- electrolytic cells: 20%;
- moulds and sundry equipment: 15%;

- robotic work centres: 22%.
- testing equipment: 30%;
- miscellaneous equipment: 25%.

		December 31, 2005	*December 31, 2004*
Industrial and commercial equipment	€/000	53,761	58,537

The value of Industrial and commercial equipment, at €/000 53,761, is largely made up of production equipment for Piaggio & C. S.p.A., Aprilia S.p.A., Moto Guzzi S.p.A., Nacional Motor S.A. and Piaggio Vehicles Pvt. Ltd. which is already being depreciated and assets in process of formation for €/000 7,768.
The main investment in equipment concerned moulds for the new vehicles launched during the year or for which launch is planned by the end of the first half of 2006, moulds for new engines and specific equipment for the assembly lines.
"Transfers from assets in process of formation" mainly includes costs capitalised in prior years by Piaggio & C. S.p.A.
Industrial and commercial equipment is depreciated on the basis of the rates considered adequate by the Group to represent its useful life and in particular:

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

		December 31, 2005	*December 31, 2004*
Other tangible assets	€/000	9,030	11,941

Other assets, net of the related amortisation, are as follows:

In thousands of euro	*December 31, 2005*	*December 31, 2004*	Change
EDP systems	2,766	3,416	(650)
Office furniture and equipment	2,510	3,039	(529)
Vehicles	742	1,139	(397)
Cars	1,363	1,300	63
Other	1,415	2,292	(877)
Assets in process of formation	234	755	(521)
Total	9,030	11,941	(2,911)

The item includes €/000 176 for financial leases entered into by Group companies.

<u>Guarantees</u>

At December 31, 2005 the Group had land and buildings encumbered by mortgage liens or privileges to lending institutions to guarantee loans received in previous years and which were in the process of being extinguished following their early repayment.

		December 31, 2005	*December 31, 2004*
16. Investment property	€/000	506	121

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

The income recorded in 2005 on the related property rentals was approximately €/000 93.

		December 31, 2005	*December 31, 2004*
17. Equity investments	€/000	650	1,579

Equity investments are as follows:

In thousands of euro	*December 31, 2005*	*December 31, 2004*	Change
Equity investments in subsidiaries	41	970	(929)
Equity investments in joint ventures	0	0	0
Equity investments in associated companies	609	609	0
Total	650	1,579	(929)

The change in the period is shown in the following table:

In thousands of euro	Book value at December 31, 2004	Increases	Revaluations /Writedowns	Disposals	Book value at 31, December 2005
Subsidiaries					
Valued in accordance with the equity method					
Custom Insurance Company Ltd (in liquidation)	929			(929)	0
Piaggio China Co. Ltd – Hong Kong	0				0
Aprilia World Service do Brasil	0				0
Evaluations in accordance with the cost method					
Piaggio Argentina S.A. (in liquidation)	41				41
Total subsidiaries	970	0	0	(929)	41
Joint-venture					
Valued in accordance with the equity method:					
Piaggio Foshan Motorcycles Co. Ltd – China	0	6,459	(6,459)		0
Total subsidiaries	0	6,459	(6,459)		0
Associated companies					

Valued in accordance with the equity method:					
Mitsuba F.N. Europe S.p.A. – Pisa	0				0
Valued in accordance with the cost method:					
S.A.T. S.A. – Tunisia	45				45
Motoride.com – Milan (in liquidation)	518				518
Pontech Soc. Cons. a.r.l. – Pontedera	21				21
D.E.V. Diffusione Europea Veicoli Srl	5				5
Marker Srl	20				20
Total associated companies	609	0	0	0	609

In reference to Soc. Motoride.com in liquidation, on the basis of information currently available, it is believed that the value of the equity investment is recoverable.

		December 31, 2005	December 31, 2004
Equity investments in subsidiaries	€/000	41	970

The decrease of €/000 930 recorded in equity investments in subsidiaries is related to the commencement of liquidation of Custom Insurance Company Ltd

Piaggio Argentina S.A. was liquidated in January 2006. It was valued at cost since it was not operative.

It should be noted that Aprilia World Service do Brasil Ltd, at the end of 2005 had negative shareholders' equity of €/000 301, against which a provision for risks of a similar amount has been recorded.

		December 31, 2005	December 31, 2004
Equity investments in joint ventures	€/000	0	0

The equity investment in Piaggio Foshan Motorcycles Co. Ltd was 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 value of the equity investment remained constant, in that the increase of €/000 6,459, recorded in the period, in relation to the equity investment in Piaggio Foshan Motorcycles was offset by a writedown of a similar amount.

In particular the increase of the equity investment in Piaggio Foshan Motorcycles Ltd, recorded in the period refers to the value of the repayment of payables (2nd share) undertaken in favour of Piaggio Foshan in accordance with the agreement in the joint venture contract signed on 15/04/2004 between

Piaggio & C. and its historic partner Foshan Motorcycle Plant, on the one hand, and the Chinese company Zongshen Industrial Group Company Limited, on the other.
In relation to the writedown of the equity investment in Piaggio Foshan Motorcycles Ltd, undertaken in the period, it is specified that, considering the likely business performance of the company in the near future, it is not considered necessary to adjust the book value of the same at the cost incurred for the further repayment of payables (2nd share) but rather to maintain the value at zero by using, for the writedown of €/000 6,459, the risk provision set aside in previous years.
In relation to the loans provided by banking institutes to the subsidiary Piaggio Foshan Motorcycle Co. Ltd, the parent company has issued bank guarantees.
The following table summarises the main financial highlights of the joint ventures:

Piaggio Foshan Motorcycle Co.		45% (*)
	Dec-05	Dec-05
(in thousands of euro)		
NET TRADE RECEIVABLES	75	34
STOCKS	1,685	758
TRADE PAYABLES	(3,921)	(1,765)
PAYABLES DUE TO P&C	(4,087)	(1,839)
OTHER RECEIVABLES	2,429	1,093
OTHER PAYABLES	(1,149)	(517)
WORKING CAPITAL	(4,969)	(2,236)
TANGIBLE ASSETS	17,166	7,725
INTANGIBLE ASSETS	4	2
NET TANGIBLE ASSETS	17,170	7,726
TOTAL ASSETS	17,170	7,726
NET INVESTED CAPITAL	12,201	5,491
Other provisions	73	33
PROVISIONS	73	33
FINANCIAL PAYABLES	17,274	7,773
FINANCIAL PAYABLES (Not guaranteed by Piaggio)	0	0
SHORT-TERM FINANCIAL RECEIVABLES AND CASH	(454)	(204)
FINANCIAL POSITION	16,820	7,569
SHARE CAPITAL	26,884	12,098
OTHER RESERVES	35,931	16,169
PROFIT/LOSS FROM PREVIOUS YEARS	(65,063)	(29,278)
RESULT FOR THE YEAR	(2,443)	(1,099)
SHAREHOLDERS' EQUITY	(4,691)	(2,111)

TOTAL SOURCE OF FUNDS	12,201	5,491
(*) percentage owned by Piaggio & C. S.p.a.		

		December 31, 2005	*December 31, 2004*
Equity investments in associated companies	€/000	609	609

This item doesn't show any changes.

		December 31, 2005	*December 31, 2004*
18. Other financial assets	€/000	10,354	12,697

This item refers for €/000 9,790 to financial receivables owed by Piaggio & C. S.p.A. to Scooter Holding 1 S.p.A., formerly Piaggio Holding S.p.A., in relation to the loan extended to the former, by virtue of the contractual agreements for the purchase of the Piaggio Group. This loan, in relation to the MV Agusta transaction, lasts for 5 years (matured September 23, 2008) with interest at a fixed rate (2.5%) which is capitalised annually.

The item also includes equity investments in other companies detailed below:

(in thousands of euro)	Book value at December 31, 2004	Additions / Disposals	Revaluations / Writedowns	Book value at December 31, 2005
Other companies				
Valued at cost:				
Bic Liguria S.p.A.	5	0	0	5
Cirio Holding formerly Centrofinanziaria S.p.A.	0	0	0	0
Consorzio Pisa Ricerche	76	0	0	76
Centro per l'innovazione – Pisa	3	0	0	3
A.N.C.M.A. – Rome	1	0	0	1
E.CO.FOR. S.p.A. – Pontedera	61	0	0	61
Consorzio Fiat Media Center – Turin	3	0	0	3
Consorzio Motolog	52	(52)		0
S.C.P.S.T.V.	21	0	0	21

Other (Aprilia Group)	5	0	0	5
Acciones Banco Santander Central Hispano	5	0	0	5
Acciones Depuradora	3	0	0	3
Total other companies	235	(52)	0	183

		December 31, 2005	*December 31, 2004*
19. **Receivables due from Tax authorities**	€/000	19,596	22,760

Receivables due from Tax authorities totalled €/000 19,596 as follows:

(in thousands of euro)	*December 31, 2005*	*December 31, 2004*	Change
Receivables due from Tax authorities for sales tax	10,753	10,919	(166)
Receivables due from Tax authorities for income tax	8,617	11,834	(3,217)
Other receivables due from the public administration	226	7	219
Total tax receivables	19,596	22,760	(3,164)

Receivables due from Tax authorities included under non-current assets totalled €/000 7,156, compared with €/000 1,925 at December 31, 2004, while receivables due from Tax authorities included in current assets totalled €/000 12,440 compared with €/000 20,834 at December 31, 2004.

		December 31, 2005	*December 31, 2004*
20. Deferred tax assets	€/000	35,135	38,573

Deferred tax assets include:

1. deferred tax assets mainly refer to:
   - the cancellation of the unrealised intercompany capital gains with third parties (€/000 3,566);
   - the tax impact of other adjustments to the consolidated figures (€/000 2,339) and prudentially recorded for the amount considered reasonably recoverable today on the basis of the economic and income plans of the companies concerned;
2. deferred tax assets at Nacional Motor S.A. for €/000 11,419 overall. On the basis of existing legislation in Spain, these assets can be used to cover taxes for the 15 years following the date of recording. The first part of these assets, for an amount of around €/000 3,571 will mature during 2008.
3. deferred tax assets of the Parent company for €/000 17,811 overall.

As part of the assessment made to define the deferred tax assets the Group mainly took into account the following considerations:

1. the tax regulations of the various countries in which it is present, their impact in terms of the emergence of temporary differences and possible tax benefits arising from the use of past tax losses, taking their expiry date into account

2. the economic results forecast over the medium term for each company and the economic and tax impacts arising from the implementation of the organisational rearrangement.

	Total of temporary differences	rate	Tax effect
Writedown of equity investments	5,233	0.3300	1,727
Restructuring provision	1,325	0.3300	437
Provisions for risks	21,449	0.3725	7,990
Provisions for charges	21,536	0.3725	8,022
Provision for writedown of receivables	9,396	0.3300	3,101
Provision for obsolescence of stocks	27,723	0.3725	10,327
Other	4,667	0.3725	1,738
Total	91,329		33,342
Prepaid tax assets recognised on temporary differences			14,350
Prepaid tax assets not recognised on temporary differences			18,992

(in thousands of euro)	Previous losses	rate	Tax effect
Piaggio & C:	89,004	0.330	29,371
Aprilia	97,048	0.330	32,026
Piaggio Espana	3,170	0.350	1,110
National Motor	65,355	0.350	22,874
Piaggio Goodwill	1,312	0.275	361
Moto Guzzi	39,514	0.330	13,040
Piaggio Deutschland	2,800	0.265	742
Aprilia Motorad	3,800	0.265	1,007
Derbi Italia	880	0.330	290
Derbi Racing	5,779	0.350	2,023
Total	308,662		102,843
Prepaid tax assets recognised on losses			14,879
Prepaid tax assets not recognised on losses			87,964

		December 31, 2005	*December 31, 2004*
21. Trade receivables and other receivables	€/000	183,912	264,308

Trade receivables and other receivables included under non-current assets totalled €/000 3,363 compared to €/000 11,769 at December 31, 2004, while those included in current assets totalled €/000 180,549 compared to €/000 252,539 at December 31, 2004.

		December 31, 2005	*December 31, 2004*

Trade receivables and other receivables included in the non-current part	€/000	7,140	11,769

The heading mainly includes receivables due from Piaggio Foshan Motorcycles for €/000 3,776. The amount is correlated to the agreements contained in the joint venture contract with the Chinese partner Zongshen Industrial Group Company Limited which, in reference to the aforementioned receivable, envisage that under certain conditions, Piaggio Foshan may pay 4.5 million USD as soon as possible, including in more than one instalment, by April 15, 2007 and in any case no later than April 15, 2009.
In relation to the risks which may arise from the aforementioned agreements, a specific allocation is recorded under liabilities which is considered sufficient on the basis of the information available.
The account also includes the time deposits of Nacional Motor S.A. and of the parent company.

		December 31, 2005	*December 31, 2004*
Trade receivables and other receivables included under current assets	€/000	176,772	252,539

Trade receivables and other receivables included in current assets totalled €/000 176,772 compared to €/000 252,539 at December 31, 2004 and may be analysed as follows:
Trade receivables and other receivables included under current assets are represented by:

(in thousands of euro)	*December 31, 2005*	*December 31, 2004*	Change
Receivables due from customers	150,851	207,496	(56,645)
Receivables due from associated companies	962	7,380	(6,418)
Receivables due from others	23,968	33,663	(9,695)
Other non-financial current assets	991	4,000	(3,009)
Total	176,772	252,539	(75,767)

Trade receivables is made up of the receivables, referring to normal sale transactions, shown net of a provision for risks on receivables of €/000 23,601.
The parent company normally cedes its receivables with and without recourse. At December 31, 2005 receivables ceded with recourse totalled €/000 32,158 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 with recourse. At December 31, 2005 trade receivables disposed of with recourse totalled €/000 37,673 overall.
The change in bad debt provision was as follows:

December 31, 2004	50,900
Increases for provisions	4,976
Decreases for applications	(32,275)

December 31, 2005	23,601

		December 31, 2005	*December 31, 2004*
22. Inventories	€/000	192,029	212,473

At December 31, 2005 this totalled €/000 192,029 compared to €/000 212,473 at the end of 2004, as follows:

(in thousands of euro)	*December 31, 2005*	*December 31, 2004*	Change
Raw materials and consumables	82,607	97,486	(14,879)
Obsolescence provision	(11,519)	(22,135)	10,616
	71,088	75,351	(4,263)
Products in process of formation	16,466	18,602	(2,136)
Obsolescence provision	(1,048)	(1,412)	364
	15,418	17,190	(1,772)
Finished products and goods for resale	122,661	143,710	(21,049)
Obsolescence provision	(17,170)	(23,795)	6,625
	105,491	119,915	(14,424)
Payments on account	32	17	15
TOTAL	192,029	212,473	(20,444)

		December 31, 2005	*December 31, 2004*
23. Financial assets held for trading	€/000	137	0

This refers mainly to receivables of the Parent company in relation to the Piaggio Foundation.

		December 31, 2005	*December 31, 2004*
24. Cash and cash equivalents	€/000	42,770	35,198

These totalled €/000 42,770 compared to €/000 35,198 at December 31, 2004, as shown below:

(in thousands of euro)	*December 31, 2005*	*December 31, 2004*	Change
Bank and post office deposits	42,498	34,818	7,680
Cheques	212	290	(78)
Cash on hand	60	90	(30)
Total	42,770	35,198	7,572

LIABILITIES

		December 31, 2005	*December 31, 2004*
25. Shareholders' equity	€/000	348,467	251,235

		December 31, 2005	December 31, 2004
Share capital	€/000	194,827	194,827

Share capital at December 31, 2005, fully subscribed and paid up, consisted of 374,668,137 ordinary shares with a nominal value of € 0.52 each, for a total of € 194,827,431 following the transaction to increase the share capital as set out in the extraordinary resolution of 22 December 2004.

		December 31, 2005	*December 31, 2004*
Share premium reserve	€/000	24,500	24,500

Following payment of the capital, approved by the shareholders' meeting on 22 December 2004, the share premium reserve stood at €/000 24,500.

		December 31, 2005	*December 31, 2004*
Legal reserve	€/000	723	671

Following the resolution passed by the shareholders' meeting on May 6, 2005 regarding the destination of the profit from the financial statements at December 31, 2004, the legal reserve rose from €/000 671 to €/000 723.

		December 31, 2005	*December 31, 2004*
Other reserves and profit/loss carried forward	€/000	90,280	4,878

The breakdown of this item was follows:

(in thousands of euro)	*December 31, 2005*	*December 31, 2004*	Change
Conversion reserve	1,532	308	1,224
Stock option reserve	2,266	966	1,300
Reserve from valuation of financial instruments	56,898	0	56,898
IFRS transition reserve	(4,113)	(4,113)	0
Total other reserves	56,583	(2,839)	59,422
Consolidation reserve	993	993	0
Profit / (loss) brought forward	32,704	6,724	25,980

The consolidation reserve was generated following the purchase in January 2003, by Piaggio & C. S.p.A. of the equity investment held by Daihatsu Motor Co. Ltd in P&D S.p.A., equal to 49% of the share capital.

		December 31, 2005	*December 31, 2004*
Minority interest – capital and reserves	€/000	254	326

The period end values mainly refer to the minority shareholders in Piaggio Hrvatska Doo.

Reconciliation of shareholders' equity and result for the period of the parent company and consolidated shareholders' equity and result for the year.

	Net income at	Shareholders' equity at
Piaggio & C. S.p.A.	(4,496)	185,343
Application of the IAS standards to the financial statements of Group companies	24,873	101,827
Difference between the book value of the equity investments in companies consolidated on a line-by-line basis, non-consolidated subsidiaries and associated companies, and assessment of the same on an equity basis	14,704	66,131
Elimination of unrealised infragroup profits with third parties mainly for capital gains on the disposal of assets and for sales of warehouse inventories, net of the related tax effect where applicable	2,987	(4,534)
Piaggio Group & C.	38,068	348,767

		December 31, 2005	*December 31, 2004*
26. Financial liabilities	€/000	464,084	569,162

Financial liabilities included under non-current liabilities totalled €/000 375,596 compared with €/000 266,309 at December 31, 2004, while financial liabilities included under current liabilities totalled €/000 88,488 compared with €/000 302,853 at December 31, 2004.

The table below shows, by type of financial debt, the amounts of the aforementioned financial liabilities:

(in thousands of euro)	*December 31, 2005*	*December 31, 2004*	Change
Non-current items			
Medium/long-term loans	187,803	243,870	(56,067)
Bonds falling due after 12 months	143,951	0	143,951
Other medium/long-term loans			
of which leasing	11,385	44	11,341
of which payables due to other lenders	32,401	22,395	10,006
of which payables due to parent companies	55	0	55
Total Loans after 12 months	43,841	22,439	21,402

Total	375,596	266,309	109,287

(in thousands of euro)	*December 31, 2005*	*December 31, 2004*	Change
Current items			
Payables for current account and advances received	43,647	136,865	(93,218)
Payables due to factoring companies	32,502	58,347	(25,845)
Bonds falling due within the year		100,000	(100,000)
Current portion of medium/long-term loans			
of which leasing	903	67	836
of which due to banks	6,172	3,596	2,576
of which payables due to other lenders		3,635	1,629
of which payables due to other parent companies		343	(343)
Total Loans within the year		7,641	4,698
Total	88,488	302,853	(214,365)

Payables for current account and advances received in 2005 included €/000 12,115 for current account overdrafts compared to €/000 98,447 in 2004.

In April Piaggio & C. S.p.A. issued through a wholly owned vehicle, Piaggio Finance S.A. (Luxembourg), a bonded loan for institutional investors in the High Yield Bond market for a nominal amount of €/000 150,000, falling due on April 30, 2012 and with a half yearly coupon with a fixed annual nominal rate of 10%. The issue, which was assessed by Standard & Poor's with a B rating and by Moody's with B2, enabled the necessary market conditions to be found to repay the bonded loan of €/000 100,000 issued by Aprilia in 2002 and falling due on May 2, 2005. With the excess funds Piaggio repaid some current financial payables.

December saw the voluntary early complete repayment of the syndicated loan of €/000 165,295 and the credit facility of €/000 27,005 made available by Banca Intesa Mediocredito, both conceded to the Parent company Piaggio & C. S.p.A. for a total of €/000 192,300. The loan provided by Banca Intesa Mediocredito included guarantees which currently are being eliminated. In addition, Piaggio & C. S.p.A. arranged early termination of the framework agreement for the concession of operational credit lines for €/000 125,000 overall signed with a pool of banks.

The repayment was made through the opening of a new loan provided by Mediobanca – Banca di Credito Finanziario S.p.A., as a bank agent, in a pool with Banca Intesa S.p.A. each for 50% for a nominal overall amount of €/000 250,000, broken down into a tranche of nominal payments of €/000 150,000 for the loan and €/000 100,000 for the credit line. The economic terms also envisage a 7-year duration, with an interest free period of 18 months and 11 half-yearly instalments with the last payment on December 23, 2012 for the loan tranche, a variable interest rate set to the Euribor 6-month rate to which an initial margin of 1.30% is added. This is variable up to a maximum of 2.10% and a minimum of 0.65% depending on the Financial Debt/ EBITDA ratio. For the tranche relating to the opening of the credit line there is a commission for non-use of 0.25%. The contract does not envisage the issue of guarantees, while, in line with market practice, it does include respect for some financial parameters.

Other medium and long-term loans, considering the current portion, of €/000 96,630 are mainly made up as follows:

- finance leasing for €/000 12,288 of which €/000 11,722 conceded by Locat S.p.A. to Moto Guzzi S.p.A. and €/000 566 conceded by Italease Factoring S.p.A. to Piaggio & C. S.p.A.
- 5 mortgages supplied without any guarantee, with €/000 1,452 from Unicredito Italiano with EIB funds at a variable rate and falling due on July 1st, 2007 (non-current part of €/000 968); €/000 1,937 from the European Investment Bank with a guarantee from Banca Toscana at a variable rate falling due June 30, 2007 (non-current part of €/000 1,291); €/000 1,130 from Mediocredito Centrale at a discounted rate in accordance with Law 49 art. 7 on international cooperation falling due on June 16, 2008 (non-current part €/000 452); €/000 4,119 from Efibanca at a variable rate falling due on December 28, 2009 (non-current part €/0001,030); and finally €/000 29,000 from a pool of 14 banks which, during the Aprilia closing, for 34 million euro sold Piaggio & C. S.p.A. non self-liquidating financial receivables claimed by the same lenders from Aprilia S.p.A. for a nominal value of 98.1 million euro (the conditions for this latter loan envisage a fixed interest rate of 3.69% with annual capitalisation and repayment in a single capital and interest instalment at the final expiry date, set for December 31, 2009, aligned with the exercise date for the warrants issued and signed by the same lenders during the Aprilia closing);
- a loan of €/000 1,045 provided by Interbanca in accordance with Law 346/88 and guaranteed by a lien on property;
- beneficial loans for €/000 13,763 provided by Simest and by the Ministry of Productive Activities using regulations to encourage exports and investment in research and development (non-current part of €/000 13,357);
- loans for €/000 16,027 agreed by the Catalan Institute of Finance in favour of Nacional Motor S.A.U. of which €/000 3,400 was encumbered by a lien (non-current part €/000 5,089).
- share of €/000 3,806 supplied by other banks involved in the syndicated loan for €/000 16,428 overall (of which €/000 12,621 is included in the loans from the Catalan Institute of Finance above);
- €/000 9,190 refers to the sums owed to Interbanca as provider of the EMH financial instruments.

Derivative financial instruments

Interest rate risk

The Group at December 31, 2005 had the interest rate swap contract outstanding with a maturity date of June 29, 2006 "3.5 years Eur quanto basis collar swap – new trade", for a notional amount of €/000 180,760, with the following features:

Charged to the Group	Charged to the Counterpart
1.7 * US LIBOR 12 months set in arrears < with the following features: floor: 3% Cap: 5.20%	6-month Euribor with maximum increase of 0.30% compared to the previous coupon

European knock out barrier: 5.50% from 29.12.02 to 28.06.04; 5.75% from 29.06.04 to 28.06.05; 6.10% from 29.06.05 to 28.06 06 Option: At each expiry date from 30.06.04 onwards, the bank has the right to change the rate paid by Piaggio from a variable to a fixed rate at 4.40% for the residual life of the swap.	

This hedging operation has as its benchmark the medium-term financial payables granted to Piaggio & C. S.p.A. and Nacional Motor S.A. In detail the benchmark is with the loan contract of 150 ML€ provided by Banca Intesa and Mediobanca to Piaggio & C. S.p.A., falling due in 2012 and with amortisation as from 2007, compared to the medium/long-term loans of Nacional Motor S.A.U. which have a residual debt of 19.8 ML€ and fall due in 2013, and to other medium/long-term loans at a variable rate for an overall amount of 16.9 ML€. The companies generally pay interest on these loans on a half-yearly basis with a spread above the Euribor rate for the period, thus creating exposure to the risk of fluctuation in this financial parameter. The outstanding derivative financial instrument has a lower nominal value than the aforementioned outstanding loans and has a time horizon which is shorter than that of the underlying financial payables as well as mirror coupon flows in terms of date and reference parameter (Euribor). Consequently, by not formally respecting the hedge accounting rules, it was not classified as cover.

Exchange rate risk

During 2005 Piaggio adopted a new exchange rate risk management policy which aims to neutralise the possible negative effects of the changes in exchange rates on company cash-flow, through the cover of business risk, which concerns the changes in company profitability compared to the annual plan in the 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 on the balance sheet for receivables or payables in foreign currency and that recorded in the related cash 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 cover 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 cover must be equal at any moment to 100% of the exposure to settlement imports, exports or net for each currency.

In reference to contracts which are made to cover exchange rate risk on receivables and payables in foreign currency (settlement risk), at December 31, 2005 for Piaggio & C. S.p.A. there are forward purchases of JPY/000 172,000 equivalent to €/000 1,230 (valued at the forward exchange rate) and forward sales transactions for a value of USD/000 9,580 and CHF/000 2,300 corresponding overall to €/000 9,549 (valued at forward exchange rates); as for the companies in the former Aprilia Group, at December 31, 2005 there were outstanding forward sales transactions for a value of USD/000 6,110, GBP/000 3,700 and JPY/000 371,000 corresponding overall to €/000 13,218.

In reference to the contracts in place for the cover of exchange rate risk on forecast transactions (business risk), at December 31, 2005 in Piaggio & C. S.p.A. there were forward purchase transactions of JPY/000 1,770,000 corresponding to €/000 12,712 and forward sales transactions for a value of USD/000 11,800, GBP/000 10,775 and CHF/000 7,825 corresponding overall to €/000 31,037 (valued at forward exchange rates); as for the companies in the former Aprilia Group, at December 31, 2005 there were outstanding forward sales transactions for a value of GBP/000 10,920 corresponding to €/000 15,914.

		December 31, 2005	*December 31, 2004*
27. Trade payables and other payables	€/000	310,019	324,757

Trade payables and other payables included under non-current liabilities totalled €/000 13,403 compared with €/000 10,561 at December 31, 2004, while trade payables included in current liabilities totalled €/000 296,616 compared with €/000 314,219 at December 31, 2004.

(in thousands of euro)	*December 31, 2005*	*December 31, 2004*	Change
Non-current liabilities			
Payables due to suppliers	223	1,352	(1,129)
Tax payables for indirect and other taxes	797	1,167	(370)
Payables due to social security institutions	1,116	1,422	(306)
Other payables	11,267	6,599	4,668
Total non-current	13,403	10,540	2,863

(in thousands of euro)	*December 31, 2005*	*December 31, 2004*	Change
Current liabilities			
Payables due to suppliers	292,587	310,274	(17,687)
Trade payables due to associated companies	2,614	3,090	(476)
Trade payables due to parent companies	1,415	853	562
Total	296,616	314,217	(17,601)

		December 31, 2005	*December 31, 2004*
28. Provisions	€/000	64,256	73,155

This item was as follows:

(in thousands of euro)	December 31, 2005	December 31, 2004	Change
Provision for product liability	19,893	20,844	(951)
Provision for promotional costs	4,064	4,064	0
Provision for risks on equity investments	5,906	6,933	(1,027)
Provisions for reconstructing	6,172	9,895	(3,723)
Provision for contractual risks	13,344	5,444	7,900
Other provisions for risks and charges	14,877	25,975	(11,098)
Total	64,256	73,155	(8,899)

The share between the current and non-current portion of long-term provisions is as follows:

(in thousands of euro)	December 31, 2005	December 31, 2004	Change
Non-current portion			
Provision for product liability	10,425	10,422	3
Provision for risks on equity investments	5,906	5,550	356
Provision for contractual risks	13,344	5,444	7,900
Other provisions for risks and charges	14,877	25,975	(11,098)
Total non-current portion	44,552	47,391	(2,839)

(in thousands of euro)	December 31, 2005	December 31, 2004	Change
Current portion			
Provision for product liability	9,468	10,422	(954)
Provision for promotional expenses	4,064	4,064	0
Provision for risks on equity investments		1,383	(1,383)
Provisions for restructuring	6,172	9,895	(3,723)
Total current portion	19,704	25,764	(6,060)

The product liability provision relates to allocations for technical assistance on products with customer service which it is estimated will be provided over the contractually envisaged guarantee period. This period ranges depending on the type of asset 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 3,237 and was used for €/000 4,273 in relation to charges incurred during the year.

Provision for promotional expenses includes the charges which it is expected to incur in relation to the campaigns already defined aimed at reducing the sales network’s stock of products.

The provision for risks on equity investments includes the share of negative shareholders’ equity in the Piaggio Foshan joint venture, the changes which it envisages can derive from the same as well as an allocation of €/000 621 equal to the negative shareholders’ equity at December 31, 2005 of the subsidiaries Piaggio China Co. ltd and AWS do Brasil.

The provision for charges for company restructuring refers to future charges which it is expected to incur in reference to operations to reorganise the company as duly identified.

The provision of contractual risks of €/000 12,900 refers to charges which may arise from the ongoing negotiation of a supply contract.

"Other provisions" mainly relate to Piaggio & C. S.p.A. and Aprilia for:

- Provision for risks and charges in relation to legal risks for an amount di €/000 7,203
- Provision for risks and charges for planned maintenance of €/000 3,122
- Provision for risks and charges for taxes of €/000 1,000.

The residual part relates to allocations made by foreign associated companies.

The change in the provisions for risks that occurred during the year was as follows:

(in thousands of euro)	31/12/04	allocations	applications	reclassifications	Exchange rate difference	31/12/05
Provision for product liability	20,844	5,721	(6,758)		86	19,893
Provision for promotional expenses	4,064					4,064
Provision for risks on equity investments	6,933		(1,027)			5,906
Provisions for restructuring	9,895	1,044	(4,767)			6,172
Provision for contractual risks	5,444	6,200		1,700		13,344
Other provisions for risks and charges	25,975	5,312	(14,801)	(1,700)	91	14,877
Total	73,155	18,277	(27,353)	0	177	64,256

		December 31, 2005	*December 31, 2004*
29. Deferred tax liabilities	€/000	35,002	36,636

The provision for deferred tax liabilities refers for €/000 28,257 to the effect of tax on the recording of Aprilia. The remainder is related to temporary differences calculated by other Group companies.

		December 31, 2005	*December 31, 2004*
30. Reserves for employee severance indemnity and staff benefits	€/000	77,068	77,409

(in thousands of euro)	*December 31, 2005*	*December 31, 2004*	Change
Pension funds	434	892	(458)
Employee severance indemnity	76,634	76,517	117
Total	77,068	77,409	(341)

The change to the funds is as follows:

	Balance at 31.12.04	Provisions	Applications	Balance at 31.12.05

Pension funds	892	8	(466)	434
Emp.severance indemnity	76,517	10,368	(10,251)	76,634
Total	77,409	10,376	(10,717)	77,068

The provisions for pensions are mainly composed of 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.

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 a 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 for compensation corresponds to the current value of the options, which the company has set with application of the Black-Scholes assessment 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 among personnel costs on the basis of a criterion of constant shares over the period between the date of allocation and that of maturity, with a counter entry recognised directly against shareholders' equity.

In accordance with CONSOB resolution no. 11971/99 and subsequent modifications the following table shows the options allocated to directors:

		Options held at the start of the period			Options assigned at the start of the period			Options exercised during the period			Options expired during the period	Options held at the end of the period		
Full name	Position held	Number of Options	Average exercise price	Average maturity	Number of options	Average exercise price	Average maturity	Number of Options	Average exercise price	Average maturity	Number of options	Number of options	Average exercise price	Average maturity
Rocco Sabelli	Chief Executive Officer	5,490,244	0.983	31/12/07	-	-	-	-	-	-	-	5,490,244	0.983	31/12/07

		December 31, 2005	*December 31, 2004*
31. Tax payables	€/000	14,348	15,274

"Tax payables" totalled €/000 14,348, compared to €/000 15,274 in 2004.

As for the current tax heading the breakdown was as follows:

(in thousands of euro)	*December 31, 2005*	*December 31, 2004*	Change
Payable for income tax	4,076	6,111	(2,035)
Payable for non-income tax	814	88	726
Payables due to Tax authorities for:			

- sales tax	2,149	1,915	234
- tax withholdings made	7,294	4,974	2,320
- other	15	2,186	(2,171)
Total	9,458	9,075	383
TOTAL	14,348	15,274	(926)

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 national laws applicable.

Payables for tax withholdings made refer mainly to withholdings on employees' earnings, on employment termination bonuses and on self-employed earnings.

		December 31, 2005	*December 31, 2004*
32. Other short term payables	€/000	56,237	60,574

(in thousands of euro)	*December 31, 2005*	*December 31, 2004*	Change
Guarantee deposits	2,028	4,881	(2,853)
Payables due to staff	29,547	20,671	8,876
Various payables due to third parties	24,662	35,022	(10,360)
Total	56,237	60,574	(4,337)

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 severance indemnities accrued at the latter by employees who are part of the company branch sold dealing with the receipt, packaging, stockholding and physical distribution of parts and accessories. At the end of the year the deposit totalled €/000 1,457.

Payables due to employees includes the amount for holidays accrued but not taken of €/000 8,155 and other payments (December salaries, liquidations, etc.) to be made for €/000 21,392.

E) Transactions with related parties

As for the main economic and financial transactions that Group companies had with related parties, refer to the specific paragraph in the Directors' Report.

F) Commitments and risks

33. Commitments

Commitments for the issue of "Operation Aprilia" financial instruments

- Aprilia shareholders 2004/2009 financial instruments which include a realisation price that can never be more than €/000 10,000.

34. Guarantees provided

The main guarantees provided by lending institutions on behalf of Piaggio & C. S.p.A in favour of third parties are:

Bank guarantee from Cassa di Risparmio di Pisa 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 La Spezia Customs Authority	200
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
Stand by letter of credit issued by BNL in favour of DAIHATSU MOTOR CO. for JPY 300,000,000 Counter value of €/000 2,160 – used for €/000 1,296	864
Stand by letter of credit issued by MPS in favour of DAIHATSU MOTOR CO. for JPY 180,000,000 Counter value of €/000 1,296 – used for €/000 778	518
MPS bank guarantee issued in favour of Cheng Shin Rubber for €/000 600 - used for €/000 448	152
Bank guarantee for the credit line of USD 8,100,000 agreed with the Banca di Roma for the associated company Piaggio Foshan	6,866
BNL bank guarantee issued in favour of PPTT - Rome to guarantee contractual obligations for the supply of vehicles	2,040
Banca Intesa bank guarantee issued in favour of AMIAT – Turin to guarantee contractual obligations for the supply of vehicles	230
Banca Intesa bank guarantee issued in favour of the Algerian National Defence Ministry to guarantee contractual obligations for the supply of vehicles	158
Bank guarantee to guarantee the credit line agreed with Banca Intesa BCI to the subsidiary Piaggio Vespa BV for USD 20,000,000	16,953
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 issued on our behalf in favour of SIMEST S.p.A. – Rome for the repurchase of the equity investment in Piaggio Vehicles Ltd corresponding to 2.5% of the share capital of the subsidiary.	400

The main guarantees issued by lending institutions on behalf of the Aprilia Group in favour of the third parties were:

BNL bank guarantee issued in favour of Venice Customs Authority	206
Banca Intesa bank guarantees issued in favour of Venice Customs Authority	165
Banca Intesa bank guarantee issued in favour of SIMEST S.p.A. – Rome	1,576
Banco di Brescia bank guarantee issued in favour of Scorzé local authority to guarantee payment of town planning charges	166
Veneto Banca bank guarantee issued in favour of SIMEST S.p.A. – Rome	443
CA.RI.VE. S.p.A. bank guarantee issued in favour of BMW – Munich	204

35. Subsequent events

At the moment no events have occurred subsequent to December 31, 2005 which require adjustments or additional notes to these financial statements.

Reference should be made to the Directors' Report on Operations for significant events after December 31, 2005.

G) SUBSIDIARIES

Consolidation method	Company name	Share capital (euro)	Total no. of shares	No. of shares owned	% investment in the Share capital
Line by line consolidation	**Piaggio & C. S.p.A.** v.le Rinaldo Piaggio,25 - 56025 Pontedera (PI) – Italy Equity investment of IMMSI S.p.A. at 5.23% Equity investment of Piaggio Holding Netherlands B.V. at 86.92%	194,827,431.24	374,668,137.00	345,268,137.00	92%
Line by line consolidation	**Derbi Italia S.r.l.** v.le Rinaldo Piaggio,25 - 56025 Pontedera (PI) – Italy Equity investment of National Motor S.A. 100%	21,000.00	1 share	1 share	100%
Line by line consolidation	**Derbi Racing S.L.** Calle La Barca. 5-7 - 08107 Martorelles Barcelona – Spain Equity investment by National Motor S.A. at 100%	1,263,000.00	210,500.00	210,500.00	100%
Line by line consolidation	**Derbi Retail Madrid S.L.** Gran Via de las Cortes Catalanas, 411 08015 Barcelona - Spain Equity investment by National Motor S.A. at 100%	603,000.00	100,500.00	100,500.00	100%
Associated company at cost	**Motoride S.p.A. ***** v. Monte Napoleone, 21 – Milan – Italy Equity investment by Piaggio & C. S.p.A. 28.2885%	1,989,973.00	1,989,973.00	562,933.00	28%
Line by line consolidation	**National Motor S.A.** Calle Barcelona, 19 - 08107 Martorelles Barcelona - Spain Equity investment by Piaggio & C. S.p.A. 100%	9,182,190.00	1,530,365.00	1,530,365.00	100%
Line by line consolidation	**P & D S.p.A. ***** v.le Rinaldo Piaggio, 25 - 56025 Pontedera (PI) – Italy Equity investment by Piaggio & C. S.p.A. 100%	416,000.00	800,000.00	800,00.00	100%
Line by line consolidation	**Piaggio Asia Pacific PTE Ltd.** 19 Genting Road - Singapore 349478 Equity investment by Piaggio Vespa B.V.	50,947.62	100,000.00	100,000.00	100%

	100%				
Line by line consolidation	**Piaggio Benelux B.V.** Hoevestein, 48 - 4903 SC Oosterhout Holland Equity investment by Piaggio Vespa B.V. 100%	45,378.00	100.00	100.00	100%
Subsidiary on equity basis	**Piaggio China Co. LTD** Suite 1901, 19/F, Cheung Kong Center, 2 Queen's Road Central Hong Kong Equity investment by Piaggio & C. S.p.A. 99.99999%	10,595,914.21 10,595,914.21 10,256,844.96	12,500,000.00 <-- authorised share cap, <-- subscribed and paid cap,	12,499,999.00	100%
Line by line consolidation	**Piaggio Deutschland Gmbh** Marie-Curie Strasse 8 - 50170 Kerpen (Germany) Equity investment by Piaggio Vespa B.V. at 70% Equity investment by Piaggio Espana S.A. at 30%	5,113,500.00	1,000.00 shares	1,000.00 shares	100%
Line by line consolidation	**Piaggio Espana S.A.** Calle Rosario Pino, 14-16, 4ª Planta (Edificio Rioja) 28020 - Madrid Spain Equity investment by Piaggio Vespa B.V. 100%	2,898,000.00	2,898,000.00	2,898,000.00	100%
Line by line consolidation	**Piaggio Finance S.A.** 10-21, Boulevard du Prince Henri L-1724 Luxembourg RCS Luxembourg B 107.430 - c/o SEB Societé Europeenne de Banque Equity investment by Piaggio & C. S.p.A. 99.99%	31,000.00	15,500.00	15,499.00	100%
Joint venture on equity basis	**Zongshen Piaggio Foshan Motorcycle Co. LTD.** Zhenxing Road, Chengxi Industrial Zone, Zhangcha, Foshan City Guangdong Province - 52800 CHINA Equity investment by Piaggio & C. S.p.A. at 32.5% Equity investment by Piaggio China Co. LTD at 12.5%	25,260,659.49	29,800,000.00	13,410,000.00	45%
Line by line consolidation	**Piaggio France S.A.S.** 32, Rue d'Armaillé, 75017 Paris (France) Equity investment by Piaggio Vespa B.V. 100%	1,209,900.00	32,700.00	32,700.00	100%
Line by line consolidation	**Piaggio Hellas EPE** 259, Imitu Street - 11631 Athens GREECE Equity investment by Piaggio Vespa B.V. 99.9996%	7,080,000.00	236,000.00	235,999.00	100%

Line by line consolidation	**Piaggio Hrvatska D.o.o.** Put Brodarice 6 - 21000 Spalato CROATIA Equity investment by Piaggio Vespa B.V. 75%	52,263.04	400.00	300.00	75%
Line by line consolidation	**Piaggio Indochina PTE Ltd.** 19, Genting Road - 349478 SINGAPORE Equity investment by Piaggio Asia Pacific PTE Ltd 100%	50,947.63	100,000.00	100,000.00	100%
Line by line consolidation	**Piaggio Limited** 1 Boundary Row - London SE1 8HP UNITED KINGDOM Equity investment by Piaggio Vespa B.V. at 99.9996% Equity investment by Piaggio & C. S.p.A. at 0.0004%	364,803.74	250,000.00	250,000.00	100%
Line by line consolidation	**Piaggio Goodwill Limitada** Campo Grande n. 35 - 5° B Lisbon 16003100 PORTUGAL Equity investment by Piaggio Vespa B.V. 100%	5,000.00	1 share	1 share	100%
Line by line consolidation	**Piaggio USA Inc.** 140 East 45th Street, 17th Floor New York, NY 10017 - U.S.A. Equity investment by Piaggio Vespa B.V. 100%	11,090,088.16	13,082,977.00	13,082,977.00	100%
Line by line consolidation	**Piaggio Vehicles Private Limited** E-2, MIDC Area Baramati 413-133 Dist. Pune, Maharashtra, INDIA Equity investment by Piaggio & C. S.p.A. at 97.499997% no. shares 33,149,999 Equity investment by Piaggio Vespa B.V. at 0.000003% no. shares 1	6,394,835.98	34,000,000.00	33,150,000.00	98%
Line by line consolidation	**Piaggio Vespa B.V.** c/o MeesPierson Intertrust Rokin 55, 1012KK Amsterdam HOLLAND Equity investment by Piaggio & C. S.p.A. 100%	91,000.00	200.00 shares	200.00 shares	100%
Associated company at cost	**Pont - Tech , Pontedera & Tecnologia S.c.r.l.** v.le Rinaldo Piaggio,32 - 56025 Pontedera (PI) – Italy Equity investment by Piaggio & C. S.p.A. 20%	104,000.00	9 shares	1 share	20%
Associated company at cost	**S.A.T. Societé d'Automobiles et Triporteurs S.A.** 128 Avenue Jugurtha, Mutueville, 1082 Tunis TUNISIA Equity investment by Piaggio Vespa B.V. 20%	130,934.94	21,000.00	4,200.00	20%

Associated company at cost	**Fondazione Piaggio Onlus** v.le Rinaldo Piaggio, 7 - 56025 Pontedera (PI) – Italy Equity investment by Piaggio & C. S.p.A. 50%	103,291.38	N/A	N/A	50%
Associated company at cost	**Acciones Depuradora Soc. Coop. Catalana Limitada** Agrupacio d'Industrials del Baix Valles Doctor Lluis duran, 76 2° 08100 Mollet del Valles Barcelona – SPAIN Equity investment by National Motor S.A. 22%	60,101.00	1,000.00	220.00	22%
Associated company on equity basis	**Mitsuba F.N. Europe S.p.A.** Loc. Mortellini V. Aurelia Sud - Pisa - Italy Equity investment by Piaggio & C. S.p.A. 10 %	1,000,000.00	1,000,000.00	0.00	10%
Line by line consolidation	**Moto Guzzi S.p.A.** v. E.V. Parodi , 57 - 23826 Mandello del Lario (LC) – Italy Equity investment by Piaggio & C. S.p.A. 100%	2,500,000.00	2,500,000.00	2,500,000.00	100%
Associated company at cost	**D.E.V. - Diffusione Europea Veicoli S.r.l.** *** v. della Bova, 33/3 - 30033 Noale (VE) – Italy Equity investment by Piaggio & C. S.p.A. at 20%	100,000.00	100,000.00 shares	20,000.00 shares	20%
Line by line consolidation	**Moto Laverda S.r.l. ***** v. Galileo Galilei, 15 - 30033 Noale (VE) - Italy Equity investment by Piaggio & C. S.p.A. 100%	80,000.00	80,000.00 shares	80,000.00 shares	100%
Line by line consolidation	**Motocross Company S.r.l. ***** v. Sempione, 26 - 21029 Vergiate (VA) Equity investment by Piaggio & C. S.p..A. 100%	10,000.00	10,000.00 shares	10,000.00 shares	100%
Line by line consolidation	**Aprilia World Service USA, inc.** 109 Smokehill Lane, Suite 190, Woodstock, GA 30188 Equity investment by Piaggio Vespa B.V. at 100%	8,476.73	10,000.00	10,000.00	100%
Line by line consolidation	**Aprilia World Service B.V.** Koperstraat 4 - 4823 AE Breda – Holland Equity investment by Piaggio & C. S.p.A. 100%	30,000,000.00 30,000,000.00 6,657,500.00	600,000.00 <-- authorised cap, <-- subscribed and paid cap,	600,000.00	100%
Line by line consolidation	**Aprilia Research & Development S.A. ***** v. Vitalis di Giovanni n° 28/G, 47891 Galazzano Republic of San Marino Equity investment by Aprilia World Service	260,000.00	500.00	500.00	100%

	B.V. at 100%				
Associated company on equity basis	**Marker S.r.l.** v. Nirone n° 19 - 20121 Milan - Italy Equity investment by Aprilia World Service B.V. at 49%	10,400.00	20,000.00 shares	9,800.00 shares	49%
Line by line consolidation	**Aprilia Hellas S.A.** 4, Rizariou Street & 3-5 Aghiou Ioannou Street 152 33 Chalandri - Greece Equity investment by Aprilia World Service B.V. at 99.8571428571% Equity investment by Piaggio Vespa B.V. at 0.14285714285%	420,000.00	4,200.00 shares	4,200.00 shares	100%
Line by line consolidation	**Aprilia Motorrad GmbH** Am Seestern 3 - 40547 Dusseldorf – Germany Equity investment by Aprilia World Service B.V. 100%	2,125,000,00	2,101.00 shares	2,101.00 shares	100%
Line by line consolidation	**Aprilia Moto UK Limited** *** 15, Gregory Way - SK5 7ST Stockport - Cheshire - UK Equity investment by Aprilia World Service B.V. 100%	3,728,768.42	2,555,325.00 shares	2,555,325.00 shares	100%
Line by line consolidation	**Aprilia Japan Corporation** 3-22-5-402 Shinyokohama Kouhoku-ku Yokohama shi - Kanagawa 222-0033 – Japan Equity investment by Aprilia World Service B.V. 100%	2,159.82	60.00 shares	60.00 shares	100%
Subsidiary on equity basis	**Aprilia World Service Holding do Brasil Ltda.** Rua Professor Alceu Maynard de Araujo, 121, Térreo, San Paolo – Brazil Equity investment by Aprilia World Service BV at 99.999950709%	739,566.93	2,028,780.00	2,028,779.00	100%
Associated company at cost	**Aprilia Brasil S.A.** *** Av.da Carvalho Leal n° 1336, 2° andar, Manaus – Brazil Equity investment by Aprilia World Service Holding do Brasil Ltda at 51%	736,366.29	2,020,000.00	1,030,200.00	51%

*** Companies not active or in liquidation

N/A = Not Applicable

Deloitte.

Deloitte & Touche S.p.A.
Via Tortona, 25
20144 Milano
Italia

Tel: +39 02 83322111
Fax: +39 02 83322112
www.deloitte.it

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, 2005, 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. These consolidated financial statements represent Piaggio & C. S.p.A.'s first annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

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.

   The consolidated financial statements present for comparative purposes the corresponding data for the year 2004 prepared in accordance with IFRS. In addition, the Appendix to the consolidated financial statements "Transition to International Accounting Standards (IAS/IFRS)" 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 Group's 2005 half-yearly interim financial statements, which we have audited and on which we issued a special purpose auditors' report dated September 26, 2005.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma
Torino Treviso Verona

Sede Legale: Via Tortona, 25 - 20144 Milano
Capitale Sociale: sottoscritto e versato Euro 10.327.940,00 - deliberato Euro 10.850.000,00
Partita IVA/Codice Fiscale/Registro delle Imprese Milano n. 03049560166 - R.E.A. Milano n. 1720239

Member of
Deloitte Touche Tohmatsu

3. In our opinion, the consolidated financial statements present fairly the financial position of the Piaggio Group as of December 31, 2005, 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.

DELOITTE & TOUCHE S.p.A.

Signed by
Vincenzo Mignone
Partner

Milan, Italy
March 9, 2006

This report has been translated into the English language solely for the convenience of international readers.

PIAGGIO GROUP

TRANSITION TO INTERNATIONAL ACCOUNTING STANDARDS (IFRS)

The European regulation no. 1606/2002, which passed into Italian law with Law no. 306/2003, requires companies listed on regulated European stock exchanges to adopt international accounting standards (IFRS) in drawing up their consolidated financial statements as from January 1st, 2005. Therefore, the first annual financial statements which the IMMSI Group, of which Piaggio is part, will draw up in accordance with the new international accounting standards are those for the year ending on December 31, 2005.

As for the interim statements, also in light of the Regulation for issuers as modified by CONSOB with Resolution no. 14990 of April 14, 2005, the IMMSI Group and consequently Piaggio have decided to adopt the IAS/IFRS international accounting standards as from the consolidated Half Year Report at 30 June 2005.

In accordance with CONSOB communication DEM/5025723 of April 15, 2005, on May 11, 2005 the independent auditors Deloitte & Touche S.p.A. were given the duty of auditing the figures resulting from the transition to the International Accounting Standards.

On this basis the following are set out:

- ✓ the accounting standards adopted by the Group as from January 1st,2005, 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 (January 1st, 2004);
    - ❖ date of closing of last period in which the financial statements were drawn up in conformity with previous accounting standards (December 31, 2004);

√ the reconciliation statement of the income statement result recorded in the last financial statements drawn up in accordance with previous accounting standards (31 December 2004) with that deriving from the application of the IAS/IFRS for the same period.

Also attached are the IAS/IFRS balance sheets at January 1st, 2004 and December 31, 2004 and the consolidated income statement for the period ended 31 December 2004.

10.5.1 REGULATIONS AND OPTIONS EXERCISED DURING FIRST-TIME APPLICATION OF THE IAS/IFRS AND THE MAIN IAS/IFRS ACCOUNTING STANDARDS ADOPTED BY THE PIAGGIO GROUP

The regulations and the most important options envisaged by the international accounting standards and adopted by the Group are summarised below:

- o 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 ;

- o sector information: the Group, on the basis of the provisions of IAS 14 "Sector information" has identified as its primary system that by activity and secondarily that by geography, on the basis of the location of its customers;

- o optional exemptions envisaged by IFRS 1 on first-time application of the IAS/IFRS (January 1st, 2004):
    - ▸ 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: the Group 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: the Group 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. The Group decided not to apply IFRS 3 "Business combinations" retroactively to mergers that took place before 1 January 2004: 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 and without prejudice to the attribution to goodwill of intangible costs, at January 1st, 2004 of 928 thousand euro, for which, in the absence of the requirements requested by the IAS for their accounting it was arranged to cancel the asset.

○ 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. The Group 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. The Group 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.

10.5.2 MAIN EFFECTS ARISING FROM THE APPLICATION OF THE IAS/IFRS ON THE OPENING BALANCE SHEET AT JANUARY 1st, 2004 AND ON THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2004

Effects of the transition to the IFRS on the Balance sheet at January 1st, 2004

Amounts in €/000	***Italian accounting standards***	***Reclas-sifications***	***Adjust-Ments***	***IAS / IFRS***

ASSETS					**ASSETS**
NON-CURRENT ASSETS					**NON-CURRENT ASSETS**
Intangible assets	421,373	-4,391	-2,311	414,671	***Intangible assets***
Tangible assets	182,241	-6,927	461	175,775	***Tangible assets***
	0	125	0	125	***Property investments***
Equity investments (1)	1,359	-726	0	633	***Equity investments***
Medium/long-term financial assets	0	726	-1	725	***Other financial assets***
Receivables due from Tax authorities (1)	5,657	0	0	5,657	***Receivables due from Tax authorities***
Deferred tax assets (1)	30,095	352	369	30,816	***Deferred tax assets***
Trade receivables and other receivables (1)	3,186	0	515	3,701	***Trade receivables and other receivables***
TOTAL NON-CURRENT ASSETS	**643,911**	**-10,841**	**-967**	**632,103**	**TOTAL NON-CURRENT ASSETS**
	0	**6,798**	**0**	**6,798**	**ASSETS DESTINED FOR DISPOSAL**
CURRENT ASSETS					**CURRENT ASSETS**
Trade receivables and other receivables (2)	109,328	4,344	75,131	188,803	***Trade receivables and other receivables***
Receivables due from Tax authorities (2)	9,050	-347	0	8,703	***Receivables due from Tax authorities***
Deferred tax assets (2)	355	-355	0	0	
Inventories (2)	132,022	0	0	132,022	***Inventories***
Contract work in progress (2)	0	0	0	0	***Contract work in progress***
Accrued income and prepaid expenses (2)	2,287	-2,287	0	0	
Own shares (2)	0	0	0	0	
Other financial assets (3)	9,530	0	0	9,530	***Other financial assets***
Cash and cash equivalents (3)	12,407	0	0	12,407	***Cash and cash equivalents***
TOTAL CURRENT ASSETS	**274,979**	**1,355**	**75,131**	**351,465**	**TOTAL CURRENT ASSETS**
TOTAL ASSETS	**918,890**	**-2,688**	**74,164**	**990,366**	**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"

LIABILITIES					**LIABILITIES**
SHAREHOLDERS' EQUITY					**SHAREHOLDERS' EQUITY**
Group Shareholders' equity	178,967	0	-4,086	174,881	***Consolidated Group Shareholders' equity***
Minority interest	988	0	1	989	***Minority interest – capital and reserves***
TOTAL SHAREHOLDERS' EQUITY	**179,955**	**0**	**-4,085**	**175,870**	**TOTAL SHAREHOLDERS' EQUITY**
NON-CURRENT LIABILITIES					**NON-CURRENT LIABILITIES**
Financial payables	219,508	-2,570	501	217,439	***Financial liabilities***
Trade payables and other payables (4)	19,005	0	0	19,005	***Trade payables and other payables***
Reserves for pensions and similar obligations (4)	55,287	0	2,333	57,620	***Provisions for pensions and similar obligations***
Other long-term provisions (4)	61,431	-34,442	0	26,989	***Other long-term provisions***
Deferred tax liabilities (4)	1,868	0	87	1,955	***Deferred tax liabilities***
TOTAL NON-CURRENT LIABILITIES	**357,099**	**-37,012**	**2,921**	**323,008**	**TOTAL NON-CURRENT LIABILITIES**
	0	**0**	**0**	**0**	**LIABILITIES LINKED TO ASSETS DESTINED FOR DISPOSAL**

CURRENT LIABILITIES					**CURRENT LIABILITIES**
Financial payables	84,295	0	75,192	159,487	***Financial liabilities***
Trade payables (5)	245,257	0	0	245,257	***Trade payables***
Current taxes (5)	13,326	0	0	13,326	***Current taxes***
Other payables (5)	32,903	6,056	136	39,095	***Other payables***
Accrued expenses and deferred income (5)	6,055	-6,055	0	0	
	0	34,323	0	34,323	***Current portion of other long-term provisions***
TOTAL CURRENT LIABILITIES	**381,836**	**34,324**	**75,328**	**491,488**	**TOTAL CURRENT LIABILITIES**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**918,890**	**-2,688**	**74,164**	**990,366**	**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY**

(4) Previously included in the item "Other m/l-term liabilities"

(5) Previously included in the item "Operative liabilities"

EFFECTS OF THE TRANSITION TO THE IFRS ON THE BALANCE SHEET AT JANUARY 1st, 2004 – NOTES TO THE SCHEDULES

(in thousands of euro)

NON-CURRENT ASSETS

Intangible assets

Reclassifications	*January 1, 2004*
To "trade receivables and other receivables" owing to change in layout of balance sheet	*(1,712)*
To reduce "other long-term provisions" owing to change in layout of balance sheet	*(119)*
To reduce "financial liabilities" owing to change in layout of balance sheet	*(2,570)*
Other minor reclassifications	*10*
	(4,391)

Adjustments	*January 1, 2004*
Recording of capitalised financial charges against shareholders' equity	*(1,382)*
Write off of start-up and expansion costs	*(874)*
Write off of improvements to third party assets	*(54)*
	(2,310)

Tangible assets

Reclassifications	*January 1, 2004*
To "property investments" owing to change in layout of balance sheet	*(125)*
To "assets destined for disposal" owing to change in layout of balance sheet	*(6,798)*
Other minor reclassifications	*(4)*
	(6,927)

Adjustments	*January 1, 2004*

Write off of depreciation on land and scrap value of buildings	*591*
Write off of depreciation on assets destined for sale	*247*
Write off of improvements to third party assets	*(538)*
Recording of assets held under financial leasing	*155*
Other minor adjustments	*6*
	461

Property investments

Reclassifications	*January 1, 2004*
From "tangible assets" owing to change in layout of balance sheet	*125*
	125

Adjustments	*January 1, 2004*
	0

Equity investments

Reclassifications	*January 1, 2004*
To "other financial assets" owing to change in layout of balance sheet	*(726)*
	(726)

Adjustments	*January 1, 2004*
	0

Other financial assets

Reclassifications	*January 1, 2004*
From "equity investments" owing to change in layout of balance sheet	*726*
	726

Adjustments	*January 1, 2004*
Other minor adjustments	*(1)*
	(1)

Receivables due from Tax authorities

Reclassifications	*January 1, 2004*
	0

Adjustments *(in thousands of euro)*	*January 1, 2004*
	0

Deferred tax assets

Reclassifications	*January 1, 2004*
From "deferred tax assets" of "current assets" owing to change in layout of balance sheet	*352*
	352

Adjustments	*January 1, 2004*
Accounting of deferred tax assets on IAS/IFRS adjustments	*369*
	369

Trade receivables and other receivables

Reclassifications	*January 1, 2004*
	0

Adjustments	*January 1, 2004*
For sale of receivables with recourse to factoring companies	*516*
Other minor adjustments	*(1)*
	515

ASSETS DESTINED FOR DISPOSAL

Reclassifications	*January 1, 2004*
From "tangible assets" owing to change in layout of balance sheet	*6,798*
	6,798

Adjustments	*January 1, 2004*
	0

CURRENT ASSETS

Trade receivables and other receivables

Reclassifications	*January 1, 2004*
From "accrued income and prepaid expenses" owing to change in layout of balance sheet	*2,287*
From "intangible assets" owing to change in layout of balance sheet	*1,712*
From "receivables due from Tax authorities" owing to change in layout of balance sheet	*347*
Other minor reclassifications	*(2)*

	4,344

Adjustments	*January 1, 2004*
For sale of receivables with recourse to factoring companies	*75,131*
	75,131

Receivables due from Tax authorities

Reclassifications	*January 1, 2004*
To "trade receivables and other receivables" owing to change in layout of balance sheet	*(347)*
	(347)

Adjustments	*January 1, 2004*
	0

Deferred tax assets

Reclassifications	*January 1, 2004*
To "deferred tax assets" under "non-current assets" owing to change in layout of balance sheet	*(352)*
Other minor reclassifications	*(3)*
	(355)

Adjustments	*January 1, 2004*
	0

Inventories

Reclassifications	*January 1, 2004*
	0

Adjustments	*January 1, 2004*
	0

Contract work in progress

Reclassifications	*January 1, 2004*
	0

Adjustments	*January 1, 2004*

	0

Accrued income and prepaid expenses

Reclassifications	*January 1, 2004*
To "trade receivables and other receivables" owing to change in layout of balance sheet	*(2,287)*
	(2,287)

Adjustments	*January 1, 2004*
	0

Own shares

Reclassifications	*January 1, 2004*
	0

Adjustments	*January 1, 2004*
	0

Other financial assets

Reclassifications	*January 1, 2004*
	0

Adjustments	*January 1, 2004*
	0

NON-CURRENT LIABILITIES

Financial liabilities

Reclassifications

(in thousands of euro)	*January 1, 2004*
From "intangible assets" owing to change in layout of balance sheet	*(2,570)*
	(2,570)

Adjustments

(in thousands of euro)	*January 1, 2004*
Assessment of the amortised cost of loans	*(32)*

Recording under current financial payables on assets held under financial leasing	*17*
For sale of receivables with recourse to factoring companies	*516*
	501

Trade payables and other payables

Reclassifications

(in thousands of euro)	*January 1, 2004*
	0

Adjustments

(in thousands of euro)	*January 1, 2004*
For purchases linked to improvements to third party assets	*0*
	0

Reserves for pensions and similar obligations

Reclassifications

(in thousands of euro)	*January 1, 2004*
	0

Adjustments

(in thousands of euro)	*January 1, 2004*
Employee benefits	*2,333*
	2,333

Other long-term provisions

Reclassifications

(in thousands of euro)	*January 1, 2004*
To "current portion of other long-term provisions" owing to change in layout of balance sheet	*(34,323)*
To reduction of "intangible assets" owing to change in layout of balance sheet	*(119)*
	(34,442)

Adjustments

(in thousands of euro)	*January 1, 2004*
	0

Deferred tax liabilities

Reclassifications

(in thousands of euro)	*January 1, 2004*

	0

Adjustments

(in thousands of euro)	*January 1, 2004*
Accounting of deferred tax liabilities on IAS/IFRS adjustments	*87*
	87

CURRENT LIABILITIES

Financial liabilities

Reclassifications

(in thousands of euro)	*January 1, 2004*
	0

Adjustments

(in thousands of euro)	*January 1, 2004*
For sale of receivables with recourse to factoring companies	*75,129*
Recording of current financial payables on assets held under financial leasing	*63*
	75,192

Trade payables

Reclassifications

(in thousands of euro)	*January 1, 2004*
	0

Adjustments

(in thousands of euro)	*January 1, 2004*
	0

Current taxes

Reclassifications

(in thousands of euro)	*January 1, 2004*
	0

Adjustments

(in thousands of euro)	*January 1, 2004*
	0

Other payables

Reclassifications

(in thousands of euro)	*January 1, 2004*
From "accrued expenses and deferred income" owing to change in layout of balance sheet	*6,056*
	6,056

Adjustments

(in thousands of euro)	*January 1, 2004*
Deferred income for discounting of "trade receivables and other receivables"	*136*
	136

Accrued expenses and deferred income

Reclassifications

(in thousands of euro)	*January 1, 2004*
To "trade payables" owing to change in layout of balance sheet	*(6,055)*
	(6,055)

Adjustments

(in thousands of euro)	*January 1, 2004*
	0

Current portion of other long-term provisions

Reclassifications

(in thousands of euro)	*January 1, 2004*
From "other long-term provisions" owing to change in layout of balance sheet	*34,323*
	34,323

Adjustments

(in thousands of euro)	*January 1, 2004*
	0

EFFECTS OF THE TRANSITION TO THE IFRS ON THE INCOME STATEMENT AT DECEMBER 31, 2004

	Italian Accounting	***Reclass-ifications***	***Adjust-ments***	***IAS / IFRS***

Amounts in €/000	*Standards*				
ASSETS					**ASSETS**
NON-CURRENT ASSETS					**NON-CURRENT ASSETS**
Intangible assets	533,461	-3,627	50,786	580,620	*Intangible assets*
Tangible assets	237,257	-238	2,228	239,247	*Tangible assets*
	0	121	0	121	*Property investments*
Equity investments (1)	2,324	-744	0	1,580	*Equity investments*
Medium/long-term financial assets	0	10,017	2,680	12,697	*Other financial assets*
Receivables due from Tax authorities (1)	0	1,926	0	1,926	*Receivables due from Tax authorities*
Deferred tax assets (1)	0	38,351	223	38,574	*Deferred tax assets*
Trade receivables and other receivables (1)	23,331	-12,079	516	11,768	*Trade receivables and other receivables*
TOTAL NON-CURRENT ASSETS	**796,373**	**33,727**	**56,433**	**886,533**	**TOTAL NON-CURRENT ASSETS**
	0	**626**	**0**	**626**	**ASSETS DESTINED FOR DISPOSAL**
CURRENT ASSETS					**CURRENT ASSETS**
Trade receivables and other receivables (2)	235,587	-40,858	57,810	252,539	*Trade receivables and other receivables*
Receivables due from Tax authorities (2)	0	20,834	0	20,834	*Receivables due from Tax authorities*
Deferred tax assets (2)	0	0	0	0	
Inventories (2)	212,473	0	0	212,473	*Inventories*
Contract work in progress (2)	0	0	0	0	*Contract work in progress*
Accrued income and prepaid expenses (2)	6,745	-6,745	0	0	
Own shares (2)	0	0	0	0	
Other financial assets (3)	9,782	-9782	0	0	*Other financial assets*
Cash and cash equivalents (3)	35,197	0	0	35,197	*Cash and cash equivalents*
TOTAL CURRENT ASSETS	**499,784**	**-36,551**	**57,810**	**521,043**	**TOTAL CURRENT ASSETS**
TOTAL ASSETS	**1,296,157**	**-2,198**	**114,243**	**1,408,202**	**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"

LIABILITIES					**LIABILITIES**
SHAREHOLDERS' EQUITY					**SHAREHOLDERS' EQUITY**
Group Shareholders' equity	231,746	0	19,162	250,908	*Consolidated Group Shareholders' equity*
Minority interest	327	0	0	327	*Minority interest – capital and reserves*
TOTAL SHAREHOLDERS' EQUITY	**232,073**	**0**	**19,162**	**251,235**	**TOTAL SHAREHOLDERS' EQUITY**
NON-CURRENT LIABILITIES					**NON-CURRENT LIABILITIES**
Financial payables	259,980	2,592	3,736	266,308	*Financial liabilities*
Trade payables and other payables (4)	10,541	0	0	10,541	*Trade payables and other payables*
Reserves for pensions and similar obligations (4)	71,601	892	4,916	77,409	*Provisions for pensions and similar obligations*
Other long-term provisions (4)	89,802	-42,412	0	47,390	*Other long-term provisions*
Deferred tax liabilities (4)	0	8,395	28,241	36,636	*Deferred tax liabilities*
TOTAL NON-CURRENT LIABILITIES	**431,924**	**-30,533**	**36,893**	**438,284**	**TOTAL NON-CURRENT LIABILITIES**

	0	**0**	**0**	**0**	**LIABILITIES LINKED TO ASSETS DESTINED FOR DISPOSAL**
CURRENT LIABILITIES					**CURRENT LIABILITIES**
Financial payables	241,832	2,925	58,097	302,854	***Financial liabilities***
Trade payables (5)	314,217	0	0	314,217	***Trade payables***
Current taxes (5)	15,274	0	0	15,274	***Current taxes***
Other payables (5)	43,427	17,056	91	60,574	***Other payables***
Accrued expenses and deferred income (5)	17,410	-17,410	0	0	
	0	25,764	0	25,764	***Current portion of other long-term provisions***
TOTAL CURRENT LIABILITIES	**632,160**	**28,335**	**58,188**	**718,683**	**TOTAL CURRENT LIABILITIES**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,296,157**	**-2,198**	**114,243**	**1,408,202**	**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY**

(4) Previously included in the item "Other m/l-term liabilities"

(5) Previously included in the item "Operative liabilities"

NET FINANCIAL POSITION	**-456,831**	**-5,143**	**-59,529**	**-521,503**	**NET FINANCIAL POSITION**

INCOME STATEMENT | **INCOME STATEMENT**

Net sales	1,084,239	0	-10	1,084,229	***Net sales***
Costs for materials	604,048	1,344	0	605,392	***Costs for materials***
Costs for services and use of third party assets (1)	225,133	0	379	225,512	***Costs for services and use of third party assets***
Labour costs	155,420	786	966	157,172	***Personnel costs***
Depreciation of tangible assets	35,124	0	-215	34,909	***Depreciation of tangible assets***
Amortisation of intangible assets (consolidation difference)	24,000	0	-24,000	0	***Amortisation of goodwill***
Amortisation of intangible assets (other)	27,886	-1,316	-1,145	25,425	***Amortisation of intangible assets***
Contributions	0	0	0	0	
Adjustments and allocations to the provision for risks and charges	10,892	-10,892	0	0	
Other income (2)	62,876	7,816	-247	70,445	***Other income from operations***
Other costs (2)	23,691	20,253	-17	43,927	***Other costs from operations***
Capital and extraordinary gains	8,608	-8,608	0	0	
Capital losses and other charges	8,528	-8,528	0	0	
Operating profit (EBIT)	**41,001**	**-2,438**	**23,775**	**62,338**	***Operating profit (loss)***
Net income from equity investments	3	-3	0	0	***Profit on equity investments***
Financial income (3)	7,897	0	79	7,976	***Financial income***
Financial charges (3)	27,892	0	1,437	29,329	***Financial charges***
Value adjustments to financial assets	-196	196	0	0	
Income before tax	**20,813**	**-2,245**	**22,418**	**40,986**	***Result before tax***
Tax	16,751	-1,452	133	15,432	***Tax***
Net income for the period	**4,062**	**-793**	**22,284**	**25,554**	***Result for the period from continuing operation***
	0	792	0	**792**	***Profit (loss) from discontinuing operation***
Total net income for the period	**4,062**	**0**	**22,284**	**26,346**	***Total net income for the year***
Minority interest	313	0	0	313	***Minority interest***
Group net income for the period	**3,749**	**0**	**22,284**	**26,033**	***Group net income for the year***

(2) Previously included in the item "Other (costs) income, net"

(3) Previously included in the item "Financial income and charges, net"

EFFECTS OF THE TRANSITION TO THE IFRS ON THE INCOME STATEMENT AT DECEMBER 31, 2004 – NOTES TO THE SCHEDULES

NON-CURRENT ASSETS

Intangible assets

Reclassifications

(in thousands of euro)	*December 31, 2004*
To "trade receivables and other receivables" owing to change in layout of balance sheet	*(2,104)*
To reduce "financial liabilities" owing to change in layout of balance sheet	*(1,523)*
	(3,627)

Adjustments

(in thousands of euro)	*December 31, 2004*
Recalculation of goodwill	*(47,502)*
Write off of amortisation on goodwill	*24,000*
Recording of capitalised financial charges against shareholders' equity	*(1,194)*
Write off of start-up and expansion costs	*(379)*
Write off of improvements to third party assets	*(366)*
Financial leasing SAP Licences	*757*
Allocation of goodwill to "other intangible assets"	*75,466*
	50,782

Tangible assets

Reclassifications

(in thousands of euro)	*December 31, 2004*
To "property investments" owing to change in layout of balance sheet	*(121)*
To "assets destined for disposal" owing to change in layout of balance sheet	*(117)*
	(238)

Adjustments

(in thousands of euro)	*December 31, 2004*
Write off of depreciation on land and scrap value of buildings	*928*
Write off of improvements to third party assets	*1,104*
Recording of assets held under financial leasing	*196*
	2,228

Property investments

Reclassifications

(in thousands of euro)	*December 31, 2004*
From "tangible assets" owing to change in layout of balance sheet	*121*
	121

Adjustments

(in thousands of euro)	*December 31, 2004*
	0

Equity investments

Reclassifications

(in thousands of euro)	*December 31, 2004*
To "other financial assets" owing to change in layout of balance sheet	*(235)*
To "assets destined for disposal" owing to change in layout of balance sheet	*(509)*
	(744)

Adjustments

(in thousands of euro)	*December 31, 2004*
	0

Other financial assets

Reclassifications

(in thousands of euro)	*December 31, 2004*
From "equity investments" owing to change in layout of balance sheet	*235*
From current "other financial assets" owing to change in layout of balance sheet	*9,782*
	10,017

Adjustments

(in thousands of euro)	*December 31, 2004*
Valorisation of Mirror Trade	*2,680*
	2,680

Receivables due from Tax authorities

Reclassifications

(in thousands of euro)	*December 31, 2004*
From "trade receivables and other receivables" owing to change in layout of balance sheet	*1,926*
	1,926

Adjustments

(in thousands of euro)	*December 31, 2004*
	0

Deferred tax assets

Reclassifications

(in thousands of euro)	*December 31, 2004*
From "deferred tax assets" under "current assets" owing to change in layout of balance sheet	*38,351*
	38,351

Adjustments

(in thousands of euro)	*December 31, 2004*
Accounting of deferred tax assets on IAS/IFRS adjustments	*223*
	223

Trade receivables and other receivables

Reclassifications

(in thousands of euro)	*December 31, 2004*
From current "trade receivables and other receivables" owing to change in layout of balance sheet	*6,848*
To current "trade receivables and other receivables" owing to change in layout of balance sheet	*(18,926)*
	(12,078)

Adjustments

(in thousands of euro)	*December 31, 2004*
For sale of receivables with recourse to factoring companies	*516*
	516

ASSETS DESTINED FOR DISPOSAL

Reclassifications

(in thousands of euro)	*December 31, 2004*
From "tangible assets" owing to change in layout of balance sheet	*117*
From "financial assets" owing to change in layout of balance sheet	*509*
	626

Adjustments

(in thousands of euro)	*December 31, 2004*
	0

CURRENT ASSETS

Trade receivables and other receivables

Reclassifications

(in thousands of euro)	*December 31, 2004*
From "accrued income and prepaid expenses" owing to change in layout of balance sheet	*6,745*
From "intangible assets" owing to change in layout of balance sheet	*2,104*
To "receivables due from Tax authorities" owing to change in layout of balance sheet	*(22,760)*
To "deferred tax assets" owing to change in layout of balance sheet	*(38,351)*
To non-current "trade receivables and other receivables" owing to change in layout of balance sheet	*(7,523)*
From non-current "trade receivables and other receivables" owing to change in layout of balance sheet	*18,926*
	(40,859)

Adjustments

(in thousands of euro)	*December 31, 2004*
For sale of receivables with recourse to factoring companies	*57,832*
Other minor adjustments	*(22)*
	57,810

Receivables due from Tax authorities

Reclassifications

(in thousands of euro)	*December 31, 2004*
From "trade receivables and other receivables" owing to change in layout of balance sheet	*20,834*
	20,834

Adjustments

(in thousands of euro)	*December 31, 2004*

	0

Deferred tax assets

Reclassifications

(in thousands of euro)	*December 31, 2004*
	0

Adjustments

(in thousands of euro)	*December 31, 2004*
	0

Inventories

Reclassifications

(in thousands of euro)	*December 31, 2004*
	0

Adjustments

(in thousands of euro)	*December 31, 2004*
	0

Contract work in progress

Reclassifications

(in thousands of euro)	*December 31, 2004*
	0

Adjustments

(in thousands of euro)	*December 31, 2004*
	0

Accrued income and prepaid expenses

Reclassifications

(in thousands of euro)	*December 31, 2004*
To "trade receivables and other receivables" owing to change in layout of balance sheet	*(6,745)*
	(6,745)

Adjustments

(in thousands of euro)	*December 31, 2004*
	0

Other financial assets

Reclassifications

(in thousands of euro)	*December 31, 2004*
To non-current "other financial assets" owing to change in layout of balance sheet	*(9,782)*
	(9,782)

Adjustments

(in thousands of euro)	*December 31, 2004*
	0

NON-CURRENT LIABILITIES

Financial liabilities

Reclassifications

(in thousands of euro)	*December 31, 2004*
From "intangible assets" owing to change in layout of balance sheet	*(1,523)*
From "other long-term provisions" owing to change in layout of balance sheet	*4,115*
	2,592

Adjustments

(in thousands of euro)	*December 31, 2004*
Assessment of "Mirror Trade"	*2,680*
Recording of non-current financial payables on assets held under financial leasing	*539*
For sale of receivables with recourse to factoring companies	*516*
	3,735

Trade payables and other payables

Reclassifications

(in thousands of euro)	*December 31, 2004*
	0

Adjustments

(in thousands of euro)	*December 31, 2004*
	0

Reserves for pensions and similar obligations

Reclassifications

(in thousands of euro)	*December 31, 2004*
From "other long-term provisions" owing to change in layout of balance sheet	*892*
	892

Adjustments

(in thousands of euro)	*December 31, 2004*
Employee benefits	*4,916*
	4,916

Other long-term provisions

Reclassifications

(in thousands of euro)	*December 31, 2004*
To "current portion of other long-term provisions" owing to change in layout of balance sheet	*(25,764)*
To "deferred tax assets" owing to change in layout of balance sheet	*(8,395)*
To "non-current financial liabilities" owing to change in layout of balance sheet	*(4,115)*
To "current financial liabilities" owing to change in layout of balance sheet	*(3,246)*
To "provisions for pensions and similar obligations" owing to change in layout of balance sheet	*(892)*
	(42,412)

Adjustments

(in thousands of euro)	*December 31, 2004*
	0

Deferred tax liabilities

Reclassifications

(in thousands of euro)	*December 31, 2004*
From "other long-term provisions" owing to change in layout of balance sheet	*8,395*
	8,395

Adjustments

(in thousands of euro)	*December 31, 2004*
Accounting of Aprilia acquisition	*28,111*
Accounting of deferred tax liabilities on IAS/IFRS adjustments	*129*
	28,240

CURRENT LIABILITIES

Financial liabilities

Reclassifications	*December 31, 2004*
	0

Adjustments	*December 31, 2004*
For sale of receivables with recourse to factoring companies	*57,831*
Recording of current financial payables on assets held under financial leasing	*266*
	58,097

Trade payables

Reclassifications	*December 31, 2004*
	0

Adjustments	*December 31, 2004*
	0

Current taxes

Reclassifications	*December 31, 2004*
	0

Adjustments	*December 31, 2004*
	0

Other payables

Reclassifications	*December 31, 2004*
From "accrued income and prepaid expenses" owing to change in layout of balance sheet	*17,410*
From "payables due to social security institutions current portion" owing to change in layout of balance sheet	*10,468*
Reclassification of current portion of "other payables" owing to change in layout of balance sheet	*32,607*
	60,485

Adjustments	*December 31, 2004*
Write off of "costs for improvements to third party assets"	*21*
Discounting of trade receivables	*70*
	91

Accrued income and prepaid expenses

Reclassifications	*December 31, 2004*
To "trade payables" owing to change in layout of balance sheet	*(17,410)*
	(17,410)

Adjustments	*December 31, 2004*
	0

Current portion of other long-term provisions

Reclassifications	*December 31, 2004*
From "other long-term provisions" owing to change in layout of balance sheet	*25,764*
	25,764

Adjustments	*December 31, 2004*
	0

INCOME STATEMENT

Net sales

Reclassifications	*December 31, 2004*
	0

Adjustments	*December 31, 2004*

Discounting of "trade receivables and other receivables"	*(10)*
	(10)

Costs for materials

Reclassifications	*December 31, 2004*
From "non-recurring charges"	*28*
From "amortisation of intangible assets" on contributions to suppliers	*1,316*
	1,344

Adjustments	*December 31, 2004*
	0

Costs for services and use of third party assets

Reclassifications	*December 31, 2004*
	0

Adjustments	*December 31, 2004*
For recording of costs for improvements to third party assets	*465*
For write off of costs on leased assets	*(86)*
Other minor adjustments	*(1)*
	378

Personnel costs

Reclassifications	*December 31, 2004*
From "capital losses and other charges" owing to a change in the layout of the Income statement	*786*
	786

Adjustments	*December 31, 2004*
For valorisation of Stock options	*966*
	966

Depreciation of tangible assets

Reclassifications	*December 31, 2004*
	0

Adjustments	*December 31, 2004*

Write off of depreciation on land and scrap value of buildings	*(16)*
Depreciation on assets held under leasing	*23*
	7

Amortisation of goodwill

Reclassifications	*December 31, 2004*
	0

Adjustments	*December 31, 2004*
Write off of amortisation on goodwill	*(24,000)*
	(24,000)

Amortisation of intangible assets

Reclassifications	*December 31, 2004*
To "costs for materials"	*(1,316)*
	(1,316)

Adjustments	*December 31, 2004*
Write off of amortisation for assessment of amortised cost on loans	*(538)*
Write off of amortisation on improvements to third party assets	*(327)*
Write off of amortisation on start-up and expansion costs	*(502)*
	(1,367)

Contributions

Reclassifications	*December 31, 2004*
	0

Adjustments	*December 31, 2004*
	0

Adjustments and allocations to the provision for risks and charges

Reclassifications	*December 31, 2004*
To "other costs from operations" owing to a change in the layout of the Income statement	*(10,892)*
	(10,892)

Adjustments	*December 31,*

	2004
	0

Other income from operations

Reclassifications	*December 31, 2004*
From "capital and extraordinary gains" owing to a change in the layout of the Income statement	*7,569*
From "Change for works capitalised on the income statement" owing to a change in the layout of the Income statement	*17,337*
	24,906

Adjustments	*December 31, 2004*
	0

Other costs from operations

Reclassifications	*December 31, 2004*
From "capital losses and other charges" owing to a change in the layout of the Income statement	*7,224*
From "adjustments and allocations" owing to a change in the layout of the Income statement	*10,892*
From "Value adjustments to financial assets" owing to a change in the layout of the Income statement	*196*
From "tax" owing to a change in the layout of the Income statement	*1,942*
	20,254

Adjustments	*December 31, 2004*
Other minor adjustments	*(17)*
	(17)

Capital and extraordinary gains

Reclassifications	*December 31, 2004*
To " profit from discontinued opertions " owing to a change in the layout of the Income statement	*(792)*
To "other operating income" owing to a change in the layout of the Income statement	*(7,569)*
	(8,361)

Adjustments	*December 31, 2004*
Adjustment for proceeds from disposal of assets	*(247)*
	(247)

Capital losses and other charges

Reclassifications	*December 31, 2004*
To "other costs from operations" owing to a change in the layout of the Income statement	*(7,224)*
To "personnel costs" owing to a change in the layout of the Income statement	*(786)*
To "costs for raw materials and supplies" owing to a change in the layout of the Income statement	*(28)*
To "tax" owing to a change in the layout of the Income statement	*(490)*
	(8,528)

Adjustments	*December 31, 2004*
	0

Profit on equity investments

Reclassifications	*December 31, 2004*
To "other costs from operations" owing to a change in the layout of the Income statement	*(196)*
	(196)

Adjustments	*December 31, 2004*
	0

Financial income

Reclassifications	*December 31, 2004*
Other minor reclassifications	*3*
	3

Adjustments	*December 31, 2004*
Interest income on discounting of receivables	*79*
Other minor adjustments	*(1)*
	78

Financial charges

Reclassifications	*December 31, 2004*
	0

Adjustments	*December 31, 2004*
Benefits for employees from the actuarial assessment of the employee leaving entitlement reserve	*(1,018)*
Amortized cost	*(408)*
Other minor adjustments	*(11)*

	(1,437)

Value adjustments to financial assets

Reclassifications	*December 31, 2004*
To "other costs from operations" owing to a change in the layout of the Income statement	*196*
	196

Adjustments	*December 31, 2004*
	0

Profit (loss) from assets held for sale

Reclassifications	*December 31, 2004*
From "capital and extraordinary gains" owing to a change in the layout of the Income statement	*792*
	792

Adjustments	*December 31, 2004*
	0

Tax

Reclassifications	*December 31, 2004*
To "other costs from operations" owing to a change in the layout of the Income statement	*(1,942)*
From "capital losses and other charges" owing to a change in the layout of the Income statement	*490*
	(1,452)

Adjustments	*December 31, 2004*
For change in taxable income	*133*
	133

* * * * *

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's consolidated financial statements. The values indicated are shown gross of the related tax effect, which is summarized separately under "Accounting of deferred tax assets/ liabilities".

A - Business combinations

As mentioned previously, the Group 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 consolidated financial statements at January 1st, 2004 the overall net value of goodwill was 367 million euro, and at December 31, 2004 was 388.9 million euro. In the income statement for 2004 in accordance with the previous accounting standards amortisation of goodwill was recorded of 24.0 million euro at December 31, 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 2004 (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 consolidation difference generated through the acquisition of the Aprilia Group. At December 31, 2004 the consolidation difference arising from the acquisition of the Aprilia Group was attributed to the heading 'brands and licences' for a total of 75.3 million euro.

A check was carried out of any impairment to goodwill, following the procedure required by IAS 16. 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 relating 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 writedown 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. The Piaggio Group 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 are capitalised and subsequently amortised as from the start of production and over the economic life of the related products. The approach followed by the Group 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 writedown 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 - Consolidation area

No changes in the consolidation area have been made following the application of the new accounting standards.

C - Write off of capitalised costs

On the basis of Italian accounting standards the Group 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.

In particular, the share capital increase costs which, in accordance with Italian accounting standards, are capitalised and amortised, in accordance with the IFRS have been directly set against the increase in share capital and charged to shareholders' equity.

The overall impact of these write off was 1.4 million euro at January 1st, 2004, and 1.1 million euro at December 31, 2004.

D - 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 January 1st, 2004 of 0.6 million euro, and at December 31, 2004 of 0.6 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 held for sale and related liabilities

In accordance with the provisions of IFRS 5, the Group 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, the Group 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 the Group 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, the Group records specific writedowns when it is expected that the asset will no longer be used. In addition, should there be indications of impairment, the Group 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.

E - Financial leasing

The Piaggio Group, which already in previous financial statement used the international accounting standard no. 17 regarding financial leasing contracts, to the exclusion of some contractual operations which were not considered significant, has, in relation to the transition to the IAS/IFRS, reviewed and adjusted these contractual operations to this standard.

F - Employee benefits

The Group 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 severance 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, the Group has decided to recognise all the accumulated actuarial profits and losses at January 1st, 2004 by charging them directly to the reserve for shareholders' equity. The amounts recorded to adjust the previous employee severance indemnity balances amounted to 2.3 million euro at the transition date and 3.3

million euro at December 31, 2004.

It follows that the costs relating to pension pans and other benefits to be paid at the end of the employment relationship, and which are recorded in the 2004 IFRS income statement, do not include any amortization of actuarial profits and losses which were not previously recorded in the financial statements.

I - Disposal of receivables

The Piaggio Group 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 75.6 million euro, and 58.3 million euro respectively in the periods of January 1st, 2004 and December 31, 2004.

L - Provisions for 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.

M - 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.

N - 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 01.01.2004

Amounts in €/000

	January 1, 2004	
SHAREHOLDERS' EQUITY	**PIAGGIO**	**REF**
Values in accordance with Italian Accounting standards	**179,955**	
Business combinations	0	A
Write off of start-up and expansion costs	(874)	B
Improvements to third party assets	(585)	B
Write off of amortisation provision for land and buildings destined for sale	247	C
Discorporation of value of land	591	C
Recording of assets held under financial leasing	73	D
Equity investments and shares	0	E
Recording and assessment of derivatives	0	F
Own shares	0	G
Disposal of receivables	0	H
Employee benefits	(2,333)	I
Reserves for risks and charges	0	L
Financial charges	(1,348)	M
Discounting of receivables	(139)	M
Accounting of deferred tax liabilities	283	N
Values according to IAS / IFRS	**175,870**	

(in €/000)	Shareholders' equity December 31, 2004	Net income December 31, 2004	REF
Values according to Italian Accounting standards	**232,073**	**3,747**	
Business combinations	51,969	23,999	A
Write off of capitalised costs	(835)	366	B
Property, plant and machinery	928	(231)	C
Financial leasing	125	62	D
Equity investments and shares	0	130	E
Recording and assessment of derivatives	0	0	F
Own shares	0	0	G
Disposal of receivables	0	0	H

Employee benefits	(4,916)	(1,015)	I
Other adjustments	(90)	(893)	L
Accounting of deferred tax liabilities	(28,019)	(132)	M
Adjustment for minority interest	0	0	
Values according to IAS / IFRS	**251,235**	**26,033**	