PIAGGIO & C. s.p.a.

IMMSI Group

Share capital 201,664,853.52 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

Half Year Report
June 30, 2006

Contents

Summary

COMPANY BOARDS –

Board of Directors[1]	
Chairman	Roberto Colaninno
Deputy Chairman	Matteo Colaninno
Chief Executive Officer	Rocco Sabelli
Directors	Giangiacomo Attolico Trivulzio
	Michele Colaninno
	Franco Debenedetti (3), (4)
	Daniele Discepolo (2), (5)
	Luciano La Noce (3), (4)
	Giorgio Magnoni
	Luca Paravicini Crespi (3), (5)
	Riccardo Varaldo (4), (5)
	(2) Lead Independent Director
	(3) Member of the Appointments Committee
	(4) Member of the Compensation Committee
	(5) Member of the Internal Control Committee
Board of Statutory Auditors	
Chairman	Giovanni Barbara
Standing auditors	Attilio Francesco Arietti
	Alessandro Lai
Substitute auditors	Mauro Girelli
	Maurizio Maffeis
Supervisory Body as per Legislative Decree 231/2001	Enrico Ingrillì
	Giovanni Barbara
	Gianclaudio Neri
General Manager	Gianclaudio Neri
Independent auditors	Deloitte & Touche S.p.A.

[1] Appointed by the ordinary Shareholders' meeting held on 28 August 2006, the Board will serve until approval of the financial statements at 31 December 2008.

PIAGGIO GROUP FINANCIAL HIGHLIGHTS

Amounts in M. €		1st half		2005
		2006	2005	
Income Statement (reclassified)				
Net sales		903.3	814.3	1,451.8
Gross industrial margin		282.0	249.1	438.2
Operating costs		-189.3	-170.7	-343.9
Operating income		92.7	78.4	94.3
Income before tax		78.5	63.8	64.0
Net income		64.8	51.3	38.1
.Minority interest		0.3	0.2	*0.2*
.Group		64.4	51.0	*37.9*
Gross margin as % of net sales	%	31.2	30.6	30.2
Operating income as % of net sales	%	10.3	9.6	6.5
Net income as % of net sales	%	7.2	6.3	2.6
Gross industrial margin=EBITDA (from operations)		**135.0**	**123.9**	**184.8**
Gross industrial margin as % of net sales	%	14.9	15.2	12.7
Balance sheet				
Net working capital		27.4	98.1	44.0
Tangible assets		249.9	255.5	260.1
Intangible assets		623.9	570.2	624.7
Financial assets		7.8	8.8	7.4
Provisions		-169.5	-183.3	-176.3
Net invested capital		**739.5**	**749.3**	**759.9**
Net financial position		326.2	444.8	411.4
Shareholders' equity		413.3	304.5	348.5
Sources of funds		**739.5**	**749.3**	**759.9**
Minority interest		0.6	0.7	0.3
Change in net financial position				
Opening net financial position		**-411.4**	**-521.5**	**-521.5**
Cash Flow from operations (Income + Amortisation)		107.0	96.8	128.6
(Increase)/Decrease in working capital		16.6	16.1	70.2
(Increase)/Decrease in investment		-31.7	-34.3	-136.9
Change in severance indemnity and other provisions		-6.8	-3.9	-10.9
Change in shareholders' equity		0.0	2.0	59.2
Total Change		***85.2***	***76.7***	***110.1***
Closing net financial position		**-326.2**	**-444.8**	**-411.4**

KEY FIGURES BY BUSINESS SECTOR IN THE FIRST HALF OF 2006

	2W				LTV	OTHER	TOTAL
	Piaggio Gilera Vespa	Derbi	Aprilia	Moto Guzzi			
Volumes sold (units)	210.1	20.5	69.2	5.9	75.0	0	**380.7**
Net sales (1) (in thousands of euro)	441.6	39.4	192.8	45.8	178.0	5.7	**903.3**
Employees (no.)	3,255	394	1,130	243	1,713	426	**7,161**
Investment							
- Fixed assets (in thousands of euro)	8.1	2.2	3.5	1.3	0.8	0	**15.8**
- R&D (spending) (in thousands of euro)	13.6	2.0	10.5	1.7	2.0	0	**29.8**
(1) Includes parts and accessories							

KEY FIGURES BY GEOGRAPHICAL AREA IN THE FIRST HALF OF 2006

Amounts in thousands of euro	ITALY	EUROPE	NORTH AMERICA	INDIA	OTHER	TOTAL
Volumes sold	141.4	152.8	12.4	63.7	10.4	**380.7**
Net sales	387.8	351.9	40.2	97.2	26.3	**903.3**
Employees	4,968	692	47	1,413	41	**7,161**
Investment						
- Fixed assets	12.4	2.6	0.1	0.6	0	**15.8**
- R&D (spending)	27.8	2.0	0.0	0	0	**29.8**

GROUP HIGHLIGHTS IN THE FIRST HALF OF 2006

Consolidated net sales rose to 903.3 M. € (+10.9% compared to the first half of 2005), of which 238.6 M. € came from the contribution of the Aprilia and Guzzi brands and 664.7 M. € from the Piaggio, Gilera, Vespa, and Derbi brands and the LTV Business Unit. Net sales for the Piaggio brands rose from 594.7 M. € in the first half of 2005 to 657.1 M. € (+10.5%) in the first half of 2006, including 36.5 M. € for the supply to the Italian Post Office (*Poste Italiane*), while net sales for the Aprilia and Guzzi brands rose overall from 212.2 M. € in the first half of 2005 to 238.6 M. € in the first half of 2006 (+12.4%).

Consolidated EBITDA grew by 9.0% to 135.0 M. €, or 14.9% of net sales, compared to 123.9 M. € in the first half of 2005, or 15.2% of net sales.

Operating income was 92.7 M. €, compared to 78.4 M. € in the first half of 2005 (+18.3%).

In the first half of 2006, the Piaggio Group recorded **net income** of 64.8 M. € compared to 38.1 M. € in 2005 and to 51.3 M. € in the first half of 2005.

The **consolidated net financial position** fell from 411.4 M. € at December 31, 2005 to 326.2 M. € at June 30, 2006, with a positive net change of 85.2 M. €, and of 118.6 M. € compared to 444.8 M. € recorded in the first half of 2005.

Directors' report

FOREWORD

On 11 July 2006 Piaggio & C. S.p.A. was admitted to listing on the Italian equities market (*Mercato Telematico Azionario* or *MTA*)

Therefore, on the basis of the EU Regulation no. 1606/2002, starting with the financial statements for the first half of 2006, the Piaggio Group adopted the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board also for the preparation of the separate financial statements of the parent company. In this half year report the comparative figures of the parent company for the corresponding period in 2005 have, therefore, been restated and recalculated in accordance with the new accounting standards.

For further detail regarding the impact of the new standards on the previously published financial statements for 2005, refer to the specific Appendix to this Half year report.

FINANCIAL AND BUSINESS PERFORMANCE OF THE PIAGGIO GROUP

Business results of the Piaggio Group in the first half of 2006

Net sales

Amounts in M. €	*1st half of 2006*	*1st half of 2005*	*Changes*
Two wheels	719.6	661.4	58.2
Light transportation vehicles	178.0	145.5	32.5
Other	5.7	7.4	-1.7
TOTAL NET SALES	**903.3**	**814.3**	**89.0**

The Group's consolidated net sales in the first half of 2006 stood at 903.3 M. €, up by +10.9% compared to the figure for the same period in 2005.

The increase was due to the improved performance of both the two wheel and light transport vehicle businesses. In particular, compared to the same period in 2005, growth was due to the increases in net sales recorded by the Gilera and Vespa brands for 28.6 M. €, Aprilia and Moto Guzzi for 27.7 M. €, for 32.6 M. € to the increase in the sales of light transportation vehicles, as well as the share of net sales of 36.5 M. €, mainly achieved in the first quarter of 2006 with Poste Italiane S.p.A., relating to the supply contract which the parent company Piaggio & C. won at the end of 2005. These sales largely offset the fall recorded by the Derbi brand.

Under the item "Other" are mainly included sales of engines and income from racing.

The **gross industrial margin,** defined as the difference between "Net sales" and the corresponding "Cost of goods sold" for the period, was 282.0 M. €, up by 13.2% compared to the first half in 2005 and with a ratio to net sales of 31.2% (30.6% in the first half of 2005).

The "Cost of goods sold" includes: material costs (direct and consumables), accessory purchase costs (transport of incoming materials, customs and warehousing), employee costs for direct and indirect labour and related expenses, work undertaken by third parties, energy costs, amortisation of plant, machinery and industrial equipment, external maintenance costs and cleaning, net of other costs recovered through recharging to suppliers.

Consolidated EBITDA – defined as "Operating income" gross of amortisation of intangible assets and depreciation of tangible assets as they result from the consolidated income statement – was 135.0 M. €, up by 9.0% compared to 123.9 M. € in the same period in the previous year. In percentage terms compared to net sales, EBITDA in the first half of 2006 stood at 14.9% compared to 15.2% in the same period in 2005 (-0.3%).

As described in more detail in the explanatory notes to the consolidated financial statements at June 30, 2006, on the basis of CONSOB notice no. DEM/6064293 of 28 July 2006 in relation to the income, balance sheet and financial impact of non-recurring events and operations, it should be noted that operating costs at June 30, 2006 included 4.0 M. € relating to the share of charges which the parent company had already incurred for the listing process, while in the first half of 2005 the consolidated half year statements included income of 18.6 M. € for Ministry of the Environment anti-pollution incentives recognised to Piaggio & C. S.p.A. and Aprilia S.p.A. for sales of environmentally friendly vehicles between June 2003 and July 2004 and which both companies had already passed on to the end customers in previous years.

Net of the impact of the IPO operations and the receipt of the anti-pollution incentives which had opposing effects on the first halves of 2006 and 2005, EBITDA would have been 139.0 M. € at June 30, 2006 and 105.3 M. € at June 30, 2005 (+32.0%), with a ratio to net sales of 15.4% and 12.9% respectively.

Operating costs at June 30, 2006 totalled 189.3 M. €, up by 18.6 M. € compared to 170.7 M. € in the same period in 2005, and consisted of employee costs, costs for services and use of third party assets and operating costs, net of operating income not included in the gross industrial margin. Operating costs also include the amortisation of intangible assets of 22.1 M. € and depreciation of tangible assets which do not form part of the calculation of the gross industrial margin for 2.2 M. €.

As indicated above, operating costs at June 30, 2006 included 4.0 M. € relating to the share of charges which the parent company had already incurred for the listing process.

Given the aforementioned trend in net sales and costs, **operating income** in the first half of 2006 stood at 92.7 M. €, up by 14.4 M. € compared to 78.4 M. € in the same period in 2005. In the first half the increase in profitability was also confirmed (measured as operating income in relation to net sales), standing at 10.3%, compared to 9.6% in the same period in 2005. Net of the effects of the IPO operations and the receipts from the anti-pollution incentives which had opposite impacts on the respective first halves of 2006 and 2005, operating income would have been 96.8 M. € at June 30, 2006 and 59.8 M. € at June 30, 2005 (+62.1%).

Financial charges totalled 14.3 M. €, compared to 14.6 M. € in the first half of 2005, of which 7.8 M. € related to the bond issued by the parent company in 2005.

The first half of 2006 ended with consolidated **net income** of 64.8 M. € compared to net income of 51.3 M. € recorded in the same period of 2005, after taking into account tax of 13.7 M. €.

CONSOLIDATED CASH FLOW STATEMENT

The consolidated cash flow statement prepared in accordance with the models envisaged by the International Financial Reporting Standards (IFRS) is given in the "Consolidated Financial statements and Explanatory notes at June 30, 2006”; the following is a comment relating to the summary statement shown in the Highlights on page 2.

Cash flow generated in the period was 85.2 M. €.

Cash flow from operations, i.e. net income plus amortisation and depreciation, was 107.0 M. €. The positive impact of this flow on the cash generated in the period, also assisted by the positive impact of the decrease in working capital from 44.0 M. € at December 31, 2005 to 27.4 M. € at June 30, 2006 (-16.6 M. €), was partly offset by investment activities for 31.7 M. € and by the change in provisions of 6.8 M. €. This positive performance also benefited by approximately 23 M. € from progress in the plan to implement factoring without recourse on the Italian market, which started in December 2005 and will be completed by the summer.

Investment activities consumed cash assets of 31.7 M. €.

BALANCE SHEET OF THE PIAGGIO GROUP AT JUNE 30, 2006

Working capital – defined as the net total of: trade receivables and other current and non-current receivables, inventories, trade payables and other long-term payables and current trade payables, other receivables (short and long-term receivables due from tax authorities, deferred tax assets) and other payables (payables due to tax authorities and other short-term payables) – stood at 27.4 M. €, down compared to the figures at December 31, 2005 (16.6 M. € the net decrease), and above all sharply down compared to the same period in the previous year (69.9 M. € the difference recorded), thanks in part to the management action taken to limit stocks and manage credit over the last 12 months, as well as the aforementioned progress of the program to implement factoring without recourse on the Italian market.

Tangible assets consist of property, machinery and industrial equipment, net of accumulated depreciation, and assets held for sale, as set out in more detail in the Explanatory notes to the consolidated financial statements at notes no. 16 and 26. At June 30, 2006 these totalled 249.9 M. € overall, down by 10.2 M. € compared to December 31, 2005 and by 6.3 M. € compared to the same period in the previous year.

Intangible assets consist of capitalised research and development costs and the goodwill arising from the merger and acquisitions operations undertaken within the Group since 2000 onwards as set out in more detail in the Explanatory notes to the consolidated financial statements at note no. 15. At June 30, 2006 these totalled 623.9 M. €, broadly in line with the figure at December 31, 2005 (-0.7 M. €) and with a net increase of 53.9 M. € compared to June 30, 2005, largely due to the recording of the higher value arising from the inclusion of the 2004-2009 Warrants issued by Piaggio & C. S.p.A. for the acquisition of Aprilia S.p.A., of 57.0 M. €.

Financial assets, defined by the directors as the total of the items equity investments, other non-current financial assets and the share of the guarantee deposits shown under other current financial assets (see the Explanatory notes no. 18, 19 and 24), totalled 7.8 M. € overall, slightly up (0.4 M. €) compared to December 31, 2005 and up by 1.1 M. € compared to the same period in the previous year.

Provisions consist of the pension and employee benefits provisions (Note no. 32), other long-term provisions (Note no. 30), the current portion of other long-term provisions (Note no. 30), and deferred tax liabilities (Note no. 31), and totalled 169.5 M. € overall, slightly down both compared to December 31, 2005 (-6.8 M. €) and compared to the same period in 2005 (-13.8 M. €).

Net financial position at June 30, 2006 stood at 326.2 M. €, compared to 411.4 M. € at December 31, 2005 and 444.8 M. € for the same period of 2005. The decrease of 85.2 M. € compared to December 31, 2005 was mainly due to the positive trend in cash flow from operations, which was partly helped also by the seasonal nature of the two-wheel business.

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

Amounts in M. €	*June 30, 2006*	*December 31, 2005*
Medium/long-term financial payables	227.2	231.5
Bond	144.2	144.0
Short-term financial payables	38.3	88.5
(Financial assets)	(43.9)	(9.8)
(Liquid assets)	(39.6)	(42.8)
Total	326.2	411.4

Shareholders' equity at June 30, 2006 totalled 413.3 M. €, compared to 348.5 M. € at December 31, 2005.

EMPLOYEES

Group **employees** at June 30, 2006 totalled 7,161 units compared to 6,353 units at December 31, 2005.

The development of the workforce is in line with the seasonal cycle of manufacturing for which use was made of employees on fixed-term contracts.

	Average number		*Number at*	
Level	*01.01-30.06.2006*	*01.01-30.06.2005*	*30-June-06*	*31-Dec.-05*
Directors	115	112	114	115
Senior managers/employees	2,125	2,108	2,148	2,111
Technical staff and workers	4,744	4,578	4,899	4,127
Total	**6,984**	**6,798**	**7,161**	**6,353**

2. SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2006

On 5 July 2006 the initial placement offer of the shares of Piaggio & C. S.p.A. was successfully

completed with overall demand of around 2.4 times the offer.
The price of the public offer and of the institutional placement was set at € 2.30 per share, at the minimum limit of the price range set between € 2.30 and € 3.00, corresponding to a capitalisation of over € 887 million. On 13 July 2006, the Global Coordinators (Banca Caboto S.p.A., Citigroup, Deutsche Bank, Lehman Brothers and Mediobanca) exercised in full the greenshoe option for 17,887,544 shares at the price of € 2.30 per share. The IPO, therefore, involved 137,137,839 ordinary shares of Piaggio & C. S.p.A., or 35.6% of the post-offer share capital, for a value of 315.4 M. €.
On 11 July 2006, with the start of the listing on the Italian stock market, the process was therefore completed which had started in March 2006 with the presentation of the request for listing on the MTA.
Following the admission to listing of the parent company's shares, on 11 and 12 July 13,148,889 shares were issued and assigned to the beneficiaries of the 2004-2007 Stock option plan – who on 15 May had exercised 10,891,789 options and on 4 July 2,257,100 options of the 21,372,771 options overall which had been allocated to them.
Thus, following these operations which affected the share capital of the parent company, at the date of approval of this Half Year report the share capital of Piaggio & C. S.p.A. totalled € 201,664,853.52 fully paid up.

3. OUTLOOK

In keeping with the aim of maintaining its role as a leader in innovation, in the second half Piaggio is due to launch the Piaggio MP3, a new scooter concept aimed both at the most advanced client segments as well as at new segments of users, thanks to new technological solutions perfected by the company and covered by patents.
For the motorbike segment, besides continuing with the initiatives to relaunch the Aprilia and Guzzi brands, the production start-up of a new 650 cc model is planned, the result of collaboration with BMW, on the basis of a five-year supply agreement.
In the light transportation vehicles segment, the main efforts will continue to be directed at supporting the expansion of the Indian market, where an important enhancement to the product range is planned with the introduction of the first version of the 4-wheel transport vehicle by the end of the year.

4. DEALINGS WITH RELATED PARTIES

Net sales, costs, payables and receivables at June 30, 2006 with regard to parent companies, subsidiaries and associated companies relate to the sale of goods or services and derive from transactions carried out at normal market values.
The table which follows completes the information regarding dealings with associated companies, parent companies and other related parties which do not form part of the consolidation of the Piaggio Group.

Main income statement, balance sheet and financial entries

	Regarding:			Nature of the dealings
Amounts in €/000	Associated companies	Parent companies	Other related parties	
Net sales and services	1,045.3	0.0	0.0	Net sales of vehicles and parts and/or recovery of other costs (Piaggio Foshan)
Consumption of raw materials and services	11,770.4	3,396.2	50.0	Acquisition of parts from associated companies, acquisition of services from parent companies (IMMSI)
Positive (negative) balance on other financial income/charges		(70.3)	121.4	Interest income and expense on Scooter Holding 1 Srl loan, bank guarantee commissions
Positive (negative) balance Non-recurring income/charges				
Financial receivables under current assets	123.4	0.0	9,788.6	Receivables due from Fondazione Piaggio, Scooter Holding 1 s.r.l.
Financial payables		54.5		Payables due to Piaggio Holding Netherlands B.V.
Trade receivables and other receivables	4,815.9	22.7		Receivables arising from sales transactions for vehicles, parts and/or recovery of other costs (Piaggio Foshan and Fondazione Piaggio)
Trade payables and other	7,089.6		50.0	Payables arising from the purchase of parts and/or vehicles and services (Piaggio Foshan and Fondazione Piaggio)

5. THE MARKET

5.1 TWO-WHEEL MARKET

In the first half of 2006 the world market for motorised two-wheel transport (scooters and motorbikes) saw a change in trend compared to the same period in the previous year, returning under 20 million vehicles sold (- 4% compared to the same period in 2005).

Without question Asia remains the key market: the People's Republic of China confirmed its position as the biggest world market, albeit with a fall in volumes of 10%, with over 8 million vehicles. In second place was India with growth of 17% and more than 3.7 million vehicles sold. South East Asia, with approximately 4.5 million vehicles, experienced a slowdown compared to 2005 (-13% compared to the first half of 2005): among countries in this area Indonesia with 1.8 million vehicles accounted for approximately 40% of sales (down by 26% compared to the same period in 2005), followed by Thailand with 1.1 million and Vietnam with 0.7 million, which accounted for 24% and 18% respectively.

The Japanese market was stable compared to the same period of 2005 at just over 362 thousand units sold.

The positive trend continued in North America (of which more than 90% is concentrated in the USA) which maintained growth of 7%, with approximately 643 thousand units sold. As for Latin America, Brazil (90% of the area) confirmed its rising trend with volumes at nearly 630 thousand units (+21% compared to the first half of 2005).

Europe, the main area for the Piaggio Group's businesses, saw further growth (+6% compared to the first half of 2005, of which +8% came from the scooter business and +3% from motorbikes). This result depended once again on the solid performance of the over 50 cc segment (+8%) against a slight fall in the 50 cc segment (–1%); as for the over 50 cc segment, scooters saw a better growth trend (+14%) than motorbikes (+4%).

The scooter market

Italy

The Italian scooter market ended the first half of 2006 with volumes of 227 thousand vehicles compared to 219 thousand in the same period in 2005 (+4%), with a fall in 50 cc (-14%) and a rise in over 50 cc (+10%) scooters.

Europe

In the first half of 2006 the scooter market in Europe saw growth, rising from 598 thousand units in the first half of 2005 to 644 thousand in the same period of 2006 (+8%), due to the positive performance in the sub-segment of over 50 cc scooters – which rose to 350 thousand units compared to 307 thousand in the same period in 2005 (+14%) – and to the slight increase in the sub-segment of 50 cc scooters, which rose from 292 thousand units in the first part of 2005 to 294 thousand in 2006 (+1%).

Among the main countries, Italy remained the key market with 227 thousand units (+4%), followed by Spain with 93 thousand (+19%), France with 88 thousand (+16%) and Germany with 50 thousand (-7%).

The growth in the Spanish market was evenly spread over both segments, while that in the French market was largely due to the boom of over 50 cc scooters (+37% compared to the same period in the previous year).

The fall in the German market, on the other hand, was due to the negative trend in the 50 cc market (-12%) which was not covered by the growth in the over 50 cc segment (+5%); the British market - which totalled 18 thousand vehicles (-5% compared to the same period in 2005) – recorded a negative performance in both the 50 cc and over 50 cc segments.

NORTH AMERICA

The scooter market in North America in the first half of 2006 saw growth of 21%, rising from 30 thousand units in 2005 to 36 thousand units in 2006. The over 50 cc scooter segment saw a positive growth trend (+58%) which enabled it to overtake, in terms of relative weight, the 50 cc market which fell by 5%.

The motorbike market

Italy

In the first half of 2006 the motorbike market (including 50 cc motorbikes) in Italy saw an improvement, rising from 106 thousand units in the first half of 2005 to 114 thousand (+7%), thanks to growth in the sub-segments of 51-125 cc motorbikes – which rose from 5.5 thousand units in the first half of 2005 to 6 thousand in the first half of 2006 (+ 7%), and above all in the over 125 cc motorbikes – which stood at 104 thousand registrations at June 30, 2006 compared to 97 thousand in the same period in 2005 (+8%) – while the 50 cc motorbike sub-segment fell by 3% (3.7 thousand units compared to 3.8 thousand units in the first half of 2005). In particular 126-750 cc motorbikes grew by 9% (66 thousand vehicles in the first half of 2006 compared to 60 thousand in the same period of 2005), while over 750 cc motorbikes saw growth of 5% (39 thousand vehicles in the first half of 2006 compared to 37 thousand in the same period of 2005).

Europe

The motorbike market in Europe rose from 528 thousand units in the first half of 2005 to 546 thousand units in the same period of 2006 (+3%). While the 50 cc segment decreased from 42 thousand units to 38 thousand units (-9%), the 51-125 cc segment grew by 6%, rising from 66 thousand units in the first half of 2005 to 70 thousand units in the same period of 2006. The over 125 cc segment also grew, rising to 437 thousand units compared to 420 thousand in the previous year (+4%).

The main markets, after Italy, are France (90 thousand units), Germany (88 thousand units), Spain (76 thousand units) and Great Britain (50 thousand units).

In Europe the main sub-segment is that of medium size (126 to 750 cc) motorbikes, where the Group is represented by the Aprilia and Moto Guzzi brands and since June also by the Derbi brand thanks to the launch of the Mulhacen 659, followed by that of the maxi motorbikes with engines over 750 cc where the Group is present with the Aprilia and Moto Guzzi brands.

In the first half of 2006, the over 750 cc sub-segment was stable owing to the fall of the markets in Britain (-8%), Germany (-7%) and France (-1%), offset by the growth in the Spanish and Italian markets.

The sub-segment for intermediate motorbikes (126-750 cc), on the other hand, grew compared to the same period in the previous year (+7%) thanks to the good performance of almost all the European markets (Italy +9%, France +4%, Spain +39%, Great Britain +4%), only partially weakened by the negative performance of the German market (-12%).

Also the 51-125 cc sub-segment – which grew by 6% compared to the same period of 2006 – was boosted by the positive performance of the markets in Italy (+7%), Spain (+18%), France (+7%) and Britain (+25%).

NORTH AMERICA

In the first half of 2006 the motorbike market in North America followed a general growth trend (+7%), due mainly to the performance in the USA (+8%) which represents over 90% of the market; among the key sub-segments, there was growth in the over 125 cc (+10% overall), while the 51-125 cc sub-segment fell back (-15%).

5.2 LIGHT TRANSPORT VEHICLES MARKET

In the first few months of 2006 the European market for light transportation vehicles (vehicles with a gross weight of up to 3.5 tons) saw further recovery, compared to the same period in 2005, of +4.0% (source: Acea June 2006).

On the domestic Italian market (source: ANFIA deliveries declared by the manufacturers) growth, for the period January-June, was higher and stood at +11.5%, with 121,925 units sold compared to 109,379 in the first half in 2005.

The Indian market, where Piaggio Vehicle Private Limited, a subsidiary of Piaggio & C. S.p.A., successfully operates, continued to show a good growth trend, with growth of 25% compared to the first half of 2005. During the first 6 months of 2006 sales to end users in the 3-wheel segment in which PVPL operates, reached 197,338 units compared to approximately 158,000 units recorded in the same period in 2005.

Within this market, the sub-segment for passenger vehicles (3 and 6 seaters), was 116,864 units (+34.1%), while the cargo sub-segment saw significant growth of 13%, rising from 71,230 to 80,474 units sold.

6. THE REGULATORY FRAMEWORK

Italy

In the first half of 2006 the process continued to apply the regulations contained in the Legislative Decree on the New Highway Code. In particular, the date was set at 14 July 2006 for the coming into force of the new registration system (new licence plate and new vehicle registration certificate) for mopeds, which allows the transport of a passenger provided that the driver is an adult. The new system is obligatory for new vehicles and optional for existing ones. The obligatory application of the regulation to all mopeds has still not been defined in terms of timing or method and will be subject to a further ministerial circular.

As for the issue of licences for mopeds, at June 30, 2006 Ministry figures gave a total of 1,209,481 since the start of the obligation to hold such a licence (1 July 2004), of which 978,271 were issued to minors and 231,210 to adults, out of a total user group of around 1.75 million.

The initiatives of the Piaggio Group to support education campaigns and schools continued, in particular with the involvement of its own dealers for the realisation of part of the free courses held at schools. As for the state and local initiatives to help reduce pollution, the Region of Lombardy did not renew the incentive campaign which ended in December 2005, with contributions for environmentally friendly mopeds and motorcycles (up to 250 cc).

The incentive campaign of the Region of Lazio, however, continues and is limited to the local authorities of Rome and Frosinone, and of which around 62% of the 2.9 m. € in contributions made available in October 2005 is still unused. New local initiatives are also being seen to adopt provisions which will ban the use of Euro 0 vehicles as from January 2007 in the major urban centres. The Regions which have shown their intention of adopting this provision are Lombardy, Tuscany, Lazio and Emilia Romagna.

As for the insurance rates applied to 2-wheel vehicles in Italy - which according to statistical analyses produced by DOXA-ANCMA represent the main barrier to the purchase of a scooter –

there have been no significant changes. Depending on the area and the age of the rider, the average premiums for moped insurance have risen further or stayed at the very high levels of the last two years. Finally, the Italian Department of Motor Vehicles (*Motorizzazione Civile*) has officially recognised the right to circulate on motorways, by-passes and assimilated roads for heavy quadricycles for goods transport (category including the Quargo).

Europe

In compliance with the EU directives 2002/51/CE and 2003/77/CE, on 1 January 2006 the Euro 3 phase came into force for newly approved motorcycles over 50 cc. These obligations will be extended to all new registrations for motorcycles over 50 cc as from 1 January 2007.

In the first half of 2006, in European institutions, two other directive proposals were introduced, in addition to the above, in relation to pollution limits for 2 and 3-wheel motorised vehicles:

- The first document (still to be published in the Italian Official Gazette of EU Affairs (GUCE), but already made public) provides that the new testing cycle harmonised at a global level (the World Motorcycle Test Cycle - WMTC) to measure the pollution from motorcycles come into non-binding force at the request of the manufacturer of the vehicle to be approved as from July 2007. The new testing cycle includes limit values for emissions which are equivalent to those already familiar for the classic testing procedure with the ECE 40 cycle.
- The second document, which is currently being finalised, should establish the new Euro 3 limits for mopeds, three-wheel vehicles and quadricycles, and contain a package of additional measures for all 2 and 3-wheel motorised vehicles (measurement of fuel consumption, CO2 emissions, durability, evaporative emissions, etc.).

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

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

In addition, it should be noted that owing to the disappointing trend in road accident statistics in Europe, the approval of the text of the new EU directive on driving licences has been significantly brought forward and could be concluded by the end of the year.

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

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

7. THE PIAGGIO GROUP

7.1 THE TWO-WHEEL BUSINESS UNIT

	1st HALF OF 2006		1st HALF OF 2005		% change	
	Volumes Sell in (units/ '000)	Net sales (M. €)	Volumes Sell in (units/ '000)	Net sales (M. €)	Volumes	Net sales
Piaggio	137.7	247.8	116.1	226.1	18.6	9.6
Gilera	21.2	41.5	17.4	31.4	21.7	32.3
Vespa	51.3	107.9	46.7	89.5	9.7	20.6
Derbi	20.5	35.5	29.6	52.7	-30.9	-32.6
Aprilia	69.2	175.6	71.6	168.0	-3.3	4.5
M. Guzzi	5.9	42.1	3.6	22.0	64.1	91.3
Parts and accessories	n.s.	69.2	n.s.	71.7	n.s.	-3.5
TOTAL	**305.7**	**719.6**	**285.0**	**661.4**	**7.3**	**8.8**

In the first half of 2006 the Piaggio Group, taking into consideration all the brands managed, Piaggio, Gilera, Vespa, Derbi, Aprilia and Guzzi, sold, in the 2-wheel sector, a total of 305,700 units (+7.3% compared to the first half in 2005), with net sales of 719.6 M. € (+8.8%) including parts and accessories.

The Group's brands maintained their leadership of the European scooter market with a 33.4% share.

Looking at the individual brands, the first half of 2006 saw strong growth for Vespa which totalled sales of more than 51,000 units (+9.7% compared to the same period in the previous year) thanks to the new LX and GTS models launched in March and June 2006 respectively. Note should be taken of the excellent performance by Vespa in the USA where it recorded an increase in sales of over 50% compared to the first half of 2005. In expectation of further progress from the launch of the new models in the final part of the first half of 2006, Piaggio volumes rose by 18.6%, partly due to the positive contribution from the post office contract for around 24,500 vehicles. The launch of the new Beverly and Liberty S families, and of the Beverly and X8 fitted with the new 400 cc engine, the arrival of the new vehicles from the Chinese joint venture (Fly 50 and 100 cc) and the launch of the innovative MP3 promise to continue the trend in the second half of the year.

Gilera ended the first half of 2006 up with over 21,000 units sold (+21.7%), thanks to the launch of the new Nexus 500 and above all the new 250 cc engine.

As for Derbi, some negative factors led to a sharp fall in turnover and the number of units sold in the first half of 2006, including the ending of the collaboration for the distribution of Kawasaki motorbikes on the Spanish market, the ending of the main collaboration with the importer for the Austrian market, substituted only as from July, and the negative trend in the 50 cc motorbike market in Europe – Derbi's key sub-segment. Against this background Senda, nonetheless, confirmed its position in its sub-segment as the best-selling 50 cc motorbike in Europe with approximately 11,000 units.

As for Aprilia, the results for the first half of 2006 arose from a worsening in volumes and turnover in the scooter sub-segment, offset by a marked improvement in the motorbike sub-segment.
While the result for scooters reflects a range which is being renewed and technologically updated, the positive result for motorbikes, albeit with a negative trend in the European 50 cc motorbike market, was due to the good performance in Italy of the new RS 125, the entry into the 126 cc – 750 cc sub-segment with the new Pegaso 650 Strada and Trail and Tuono 2006 edition and the positive contribution from off-road motorbikes.

In the first six months of 2006 Moto Guzzi recorded volumes of 5,903 motorbikes sold compared to 3,611 in the same period in 2005 (+64.1%) and turnover of 42.1 M. € compared to 22.0 M. € in the same period in 2005 (+91.3%), thanks to the favourable larger engine size product mix.

7.2 THE TWO-WHEEL PRODUCT RANGE

The Piaggio, Vespa, and Gilera brands, formed by a broad range of products, and entrenched in the leading positions in sales tables, ensure excellent coverage of the various market segments.
The two best-selling models in the first half of 2006 were the Piaggio Beverly and Liberty. The third best-selling model in the Group was the Vespa LX range; there was also confirmation in the first half of 2006 of the great success of the Vespa GTS 250 which made a significant contribution to the Group's overall turnover, as did the Piaggio X8 range.
In the first half of 2006 Piaggio launched the new Piaggio Beverly and X8 with 400 cc engines, while Gilera introduced the new Nexus 500 and 250. The Zip (50/100 cc) and Fly (50 and 100 cc) models which are produced in China saw sales of over 20,000 units.
The range of Aprilia products is formed by a diverse series of scooters and motorbikes in a range of engine sizes. In the first half of 2006 note should be made of the introduction of the new scooter models, Scarabeo 500 i.e. and Sport City 250 i.e., and the new Euro 3 engines for the Sport City 125/200 and Atlantic 500. As for motorbikes, the 50 cc range has been completely renewed thanks to the new RS 50, RX 50 and SX 50 models. In February there was also the launch of the new sporting RS 125, which immediately positioned itself as a leader in the 125 cc supersport segment. Among the maxi bikes note should be taken of the introduction of the 2006 model of the RSV 1000 in the standard and factory versions.
During the first six months of 2006 Moto Guzzi continued to renew its range of vehicles, with the launch of the Breva 750 and Nevada 750 series in the touring versions and the adaptation of their engines to the Euro 3 regulation. Also for the California series the engines were updated and new versions were launched in various sub-segments including custom, touring and vintage. In addition, the company introduced the new 850 cc version of the Breva and Griso models and presented the Norge 1200, which marked Moto Guzzi's return to the touring segment.

7.3 THE LTV BUSINESS UNIT

	1st HALF OF 2006		1st HALF OF 2005		% Change	
	Volumes Sell in (units/ '000)	Net sales (M. €)	Volumes Sell in (units/ '000)	Net sales (M. €)	Volumes	Net sales
Ape	68.9	109.7	50.3	80.0	37.0	37.2
of which India	63.7	91.4	45.9	65.3	38.7	40.0
Minivan	3.6	32.7	3.4	30.8	6.7	6.3
Quargo	2.1	14.9	2.2	15.3	-5.4	-2.7
Microcars	0.4	2.6	0.5	3.7	-29.4	-29.7
Parts and Accessories (1)	n.s.	18.1	n.s.	15.7	n.s.	15.3
TOTAL	**75.0**	**178.0**	**56.4**	**145.5**	**32.9**	**22.3**

(1) Includes Parts India

The Light Transportation Vehicles (LTV) division ended the first half of 2006 with 75,000 units sold, up by 32.9% compared to volumes in the same period in 2005, while net sales rose from 145.5 M. € in the first half of 2005 to 178.0 M. € in the first half of 2006 (+22.3%). The net sales generated in Europe totalled 80.8 M. €, while India, following strong growth in volumes and including net sales for parts and accessories, reached 97.2 M. €.

Thus the recovery in European sales continued, with 11,300 units sold compared to around 10,500 in the first half of 2005, and Piaggio consolidated its role as the key player in the niche of "compact" commercial vehicles which are small, highly manoeuvrable and have a high load-bearing capacity in relation to their size.

The growth on the Indian market arose from the further enhancement of Piaggio Vehicles, which improved its market share (31.9%) and confirmed its position as the second operator on the local market. Sales rose from 45,900 units in 2005 to 63,700 units during 2006 (+38.7%). Analysing the market in detail, Piaggio Vehicles consolidated its role as market leader in the cargo segment and as the key follower in terms of dynamism and innovation in the passenger segment.

In the cargo segment (0.5 tons and 0.75 tons), thanks in particular to the "Piaggio Ape 501" and its numerous personalisation possibilities to meet the varying needs of customers, the market share of Piaggio Vehicles stood at 38%. The key follower, an Indian manufacturer, has market share of just 27% (SIAM / Piaggio Vehicles figures). In addition, the rapid growth of Piaggio Vehicles in the passenger segment (3 and 6 seaters) continued. Piaggio Vehicles in fact saw a significant increase in market share which reached 28%, thus increasingly asserting itself as a valid alternative to the historic local market leader.

As for the product range, the first few months of 2006 saw the introduction of the Euro 4 engines on the Porter range and the withdrawal of the Euro 3 Diesel engine.

7.5 RESEARCH AND DEVELOPMENT

Company	1st half of 2006			1st half of 2005		
amounts M. €	Capitalised	Cost	Total	Capitalised	Cost	Total
Piaggio & C.	16.7	9.4	26.1	12.2	11.0	23.2
of which 2WPiaggio/Gilera/Vespa	*7.0*	*6.6*	*13.6*	*8.2*	*6.5*	*14.7*
of which 2W Aprilia	*8.7*	*1.8*	*10.5*	*3.2*	*3.1*	*6.3*
of which LTV	*1.0*	*1.0*	*2.0*	*0.8*	*1.4*	*2.2*
Nacional Motor	0.8	1.2	2.0	1.0	1.0	2.0
M. Guzzi	1.7	0.0	1.7	1.6	0.2	1.8
Total	**19.1**	**10.7**	**29.8**	**14.8**	**12.2**	**27.0**

The Piaggio Group continued also in the first half of 2006 with its policy aimed at maintaining technological leadership in the sector, setting aside for R&D activities overall resources of 29.8 M. € (of which 26.1 M. € in Piaggio & C. S.p.A., 2.0 M. € in Nacional Motor, and 1.7 M. € in Moto Guzzi), with a ratio to sales of 3.3%, and of which 19.2 M. € was capitalised under intangible assets. The associated Indian company Piaggio Vehicles Pvt Ltd took advantage of the development of the research projects run by Piaggio & C. S.p.A. at Pontedera, in the LTV business area.

In particular, research activities relating to product innovation and manufacturing technology projects used resources of 6.0 M. €; the development activities for the remaining 23.8 M. € concerned in particular new vehicles and new engines (above all with an environmentally friendly design).

Following the development activities for new two-wheel products, for an overall cost of 24.1 M. €, of which 13.6 M. € for the Piaggio, Gilera, and Vespa brands and 10.5 M. € for Aprilia (21.0 M. € in the same period in 2005), also during 2006 the offer was able to benefit from the production start-up of the innovative three-wheel vehicle, the Piaggio MP3, the new models of the Gilera Nexus 250, Aprilia Offroad 450/550, Aprilia Naked, Scarabeo 500, and Derbi Mulhacèn as well as the new 750 cc engine for Aprilia motorbikes.

As for the LTV business, the total cost in the first half of 2006 was 2.0 M. €, compared to 2.2 M. € spent in the same period of 2005, and related to the Quargo India and the new Euro 4 engine which fits out the Porter commercial vehicle.

As for Guzzi, research and development costs totalled 1.7 M. € overall which were completely capitalised, and concerned the production launch of new vehicles such as the Breva 750, Nevada 750 and Norge 1200.

7.6 PRODUCTION

As part of the continuing improvement in the Group's production processes, also in the first half of 2006 some important investment projects were underway involving various production sites.

As for the plant at Pontedera the new production line is being built which will serve for integral drive shafts, while the project has been completed introducing a new internal transport flow system to improve and make logistics more efficient. In addition, the process of environmental

certification to the ISO 14001 standard has started and should be finished by the first quarter of 2007.
As for the plant at Scorzè, the project to rationalise production processes through the re-layout of the motorbike and scooter assembly lines will be finished by the end of the year.
Also the plant at Mandello del Lario is undergoing major restructuring and reorganisation, which started in the last quarter of 2005.
Finally, in the Indian plant of Baramati, the new assembly and frame-welding lines as well as the final construction line for the new Quargo India have been built. The expected capacity of 24,000 vehicles/p.a. enables an overall installed capacity to be achieved of 150,000 vehicles/p.a. over two shifts.

8. QUALITY AND CUSTOMER SERVICE

The first half of 2006 marked the beginning for all the brands in the Group of the pay back for the initiatives launched to improve product and process reliability. The level of customer satisfaction and loyalty has in fact been the standard unit of measurement for the level of quality in the company's system; it is subject to periodic analyses by the Group and has been the decisive factor in identifying priorities in development plans.
During 2006 we have seen trends indicating substantial improvement in product reliability as perceived by Piaggio's customers (+9%, after a period in 2004-05 of + 50%), as well as those of Aprilia (+29%), and Moto Guzzi (+24%), which has enabled an improvement in the level of customer satisfaction and a solid competitive position. These results are confirmed by a marked decrease in product assistance costs. In particular, the number of repairs carried out under guarantee fell by 20% compared to the first half of 2005.
As for Customer Management, in the first half of 2006, the post-sales commercial assistance service was reorganised; April saw the birth of the European brand contact centres which carry out commercial assistance alongside the distribution network for all of Europe.
For the supersports motorbikes in the Aprilia range the "enjoy me" program was launched which, as well as the commercial extension of the guarantee, offers on the portal an information area and services dedicated to those bikes.
This initiative dedicated to the Consumer segment goes together with those already in place for Piaggio customers such as prepaid routine maintenance packages with or without an extended guarantee and those for fleets (corporate business customers) which are offered technical management services for the product – covering routine and extraordinary maintenance – which in some cases is extended to the whole life cycle of the product itself.
As for the parts business, there were some problems in customer service seen in particular in the period from March to June, connected to the centralisation of the former Aprilia businesses and the related work to adapt information systems; after the summer, these problems were in the process of being definitively resolved.

9 HUMAN RESOURCES

9.1 EMPLOYEES

Employees at the Piaggio Group on June 30, 2006 totalled 7,161 units including seasonal workers (1,581 units of which 811 in Piaggio Vehicles), an increase of 446 units compared to the same period in the previous year which takes into account an increase of 464 fixed-term contracts.

As for the parent company at June 30, 2006 employees totalled 4,735, of which 665 were on fixed-term contracts (+ 191 units compared to the same period in the previous year) .

9.2 INDUSTRIAL RELATIONS

Piaggio Brand

During the first half of 2006, there was reconfirmation of the application of the flexibility tools set out in the union agreement of 1 July 2004: the flexibility of working hours (the so-called "Hours bank") rose from 56 to 64 hours to which may be added the various types of contract such as fixed-term contracts, part-time "vertical cycle" contracts (contracts with flexible work patterns) and fixed-term labour supply contracts. The application of the results bonus is continuing on a regular basis, representing a variable part of pay as defined in the agreement signed in 2004.

The industrial relations climate did not present any particular sources of tension, and the number of strikes called fell from 17 to 9, with a fall in the hours lost of 62.3%. Also total absenteeism at 8.8 % fell by 1.1% compared to the previous year.

Aprilia Brand

In the first half of 2006, after the last 7,449 hours of the redundancy fund ended half way through January 2006, the situation returned to normal without presenting any particular union problems. The union agreement of June 2005 enabled the seasonal work demand to be managed with the inclusion of fixed-term contracts and the use of flexible working hours. In addition, the new system of variable pay (measured on the basis of three indicators) was commonly applied in accordance with the model already in use at Pontedera.

No strike was called in this half year.

Moto Guzzi

In a positive climate caused also by a rising trend in volumes, in May 2006 it was possible to establish with the unions an agreement for the implementation of the plan to reorganise production activities and to restructure some sectors of the factory, thus achieving the objective of concentrating the Mandello plant's activities only on the assembly of engines and vehicles. In addition, the supplementary company contract was renewed thus setting variable pay by objectives and the flexible tools needed to confront the variability in demand.

9.3 ORGANISATION AND RESOURCE MANAGEMENT

During the first half of 2006 an important project was finalised to reorganise the Group's foreign presence, with the aim of simplifying sales administration and rationalising sales support activities, also by aiming to profit from the synergies connected to the presence of various Group brands in various markets; in particular, it is planned to streamline the duties and structures of the European commercial associates. The project will move on the executive stage in the second half of the year.

During 2006 particular emphasis was given to the initiatives to integrate Aprilia and Moto Guzzi from the viewpoint of their management policies. Specifically the following projects were extended to those companies: "People Satisfaction", "Talent Recruitment" and "Key People", which had been launched in Piaggio as far back as 2004, as well as the application of incentive systems, policies of promotion on merit, and tools and methodologies which are common to all the Group companies.

9.5 INFORMATION SYSTEMS

During the first half of 2006, there continued the implementation of projects for the complete integration of the information systems in the company units and/or businesses which were still using different platforms. This will be completed at the start of 2007. In particular, the work continued which led to the unification of the SAP ERP platform in Aprilia, Derbi and Piaggio Americas, while in Moto Guzzi the analytical studies were started which will lead to the completion of SAP's introduction in the Group.

10. OTHER INFORMATION

10.1 SHAREHOLDINGS

With effect from 1 January 2006 the merger by incorporation of Aprilia World Service USA, Inc. into Piaggio USA, Inc. was completed. Subsequently following the merger it changed its name to Piaggio Group Americas, Inc.

On 9 March 2006 the procedure for the voluntary liquidation of Aprilia Leasing S.p.A. was completed.

On 10 March 2006 Aprilia World Service B.V. sold the equity investment (49%) held in Marker S.r.l.

On June 30, 2006 the Shareholders' meeting of Motocross Company S.r.l. approved the final liquidation balance sheet.

10.2 DISPUTES

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

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

As for the tax dispute it is noted that there are no longer any disputes which involve the parent company, Piaggio & C. S.p.a. The main tax disputes of the other Group companies concern P&D S.p.A. in liquidation, and Piaggio Espana SA and Nacional Motor S.A. In more detail, in reference to P&D S.p.A. in liquidation, there are disputes before the Cassation Court regarding the tax years 1993 and 1994, before the Regional Tax Commission of Tuscany regarding the tax periods 1995, 1996 and 1997, and finally before the Provincial Tax Commission of Pisa for the years 2000, 2001 and 2002.

In relation to these disputes the company has not considered it necessary to make provisions on the balance sheet in light of the positive outcome of all the first and second degree judgments issued so far and in consideration of the positive indications expressed by the professional experts engaged by the defence on the reasonable likelihood of a positive outcome to the proceedings currently pending before the competent judicial authorities.

In reference to the Almec S.p.A. dispute, the Provincial Tax Commission of Avellino has acknowledged the arguments of the taxpayer and rejected all of the requests of the financial administration. Since the related sentence was not appealed in the due time limit by the financial authorities, the dispute is definitively ended.

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

10.3 CORPORATE GOVERNANCE

The company has adopted the so-called traditional system of administration and control as set out in art. 2380-*bis* ff. of the Italian Civil Code.

The company's extraordinary shareholders' meeting of 8 March 2006 approved new Company by-laws to adjust, inter alia, the provisions to the regulations in force for companies with listed shares, with the entry into force envisaged for the first day of trading of the shares on the MTA.

Also on 8 March 2006 the company's Board of Directors resolved to adapt the corporate governance system to the recommendations contained in the Code of Self- Discipline and, to this end, to set up from within its own members (i) an Appointments Committee consisting mainly of independent directors; (ii) a Remuneration Committee consisting of non-executive directors, the majority of whom are independent and (iii) an Internal Control Committee. At the same meeting, the Board also resolved to create the function of Investor relations to handle dealings with the majority of shareholders and with institutional investors and to implement an internal procedure aimed at regulating the aspects of information and procedures relating to dealings with related parties.

During the process of admission to listing, the company made a commitment to nominate to its own Board of Directors at least 4 independent directors, to appoint a Lead Independent Director who will also fill the role of Chairman of the Internal Control Committee and to redistribute the managerial skills of the Board of Directors and the delegated bodies in such a way that the Chairman and Chief Executive Officer are given, with separate signatures, all the powers of ordinary and extraordinary administration, with the exclusion of those powers which are reserved by the law and by the Company by-laws to the collegial competence of the administrative body and the powers related to a series of other activities, such as the purchase or sale of equity investments in companies, businesses or business branches, the completion or modification of loan contracts worth over 25 million euro, the transfer of licences, patents and other intellectual property rights, the completion or modification of long-term agreements, other extraordinary operations whose value is above 50 million euro, the appointment of the general manager and the manager for the company's administration, finance and control, as well as the appointment of the members of the administrative bodies and of the general managers of directly or indirectly controlled subsidiaries.

Finally, again in order to adapt the corporate governance system to the provisions contained in the Code of Self-discipline for listed companies, the company's Board of Directors at their meeting on 3 May 2006 resolved to confer, in accordance with and in application of art. 152-bis of the Regulation for Issuers, a delegated power to IMMSI s.p.a. for the maintenance, management and updating of the register of people who have access to confidential information, as well as to adopt its own procedure for the management of information requirements concerning internal dealing.

On 28 August 2006, the company's Board of Directors arranged to fulfil the commitments entered into on listing and: (i) passed a resolution regarding the attribution of powers in relation to the commitments entered into with Borsa Italiana S.p.A. as set out previously, (ii) appointed the independent director Danielle Discepolo as Lead Independent Director as well as the members of the Appointments Committee, in the persons of the directors Franco Debenedetti (Chairman), Luca Paravicini Crespi, Luciano Pietro La Noce, of the Remuneration Committee in the persons of the directors Riccardo Varaldo (Chairman), Luciano Pietro La Noce, Franco Debenedetti, and of the Internal Control Committee in the persons of the directors Daniele Discepolo (Chairman), Luca Paravicini Crespi, Riccardo Varaldo, (iii) approved the "Procedure for the disclosure of confidential information", the "Procedure for Relevant operations and dealings with Related parties", as well as the "Report comparing the corporate governance system of the issuer with the recommendations proposed by the Code of Self-Discipline".

10.4 STOCK OPTION PLAN

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

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

On 15 May 2006, the Plan Management Committee, taking account of the resolution adopted by the Board of Directors on 8 March 2006 and in order to bring forward the closure of the plan in connection with the listing of the Piaggio shares on the MTA, modified the regulation and, consequently, resolved to free for use the options assigned in implementation of the 2004-2007 plan for a total of 21,372,771 options, with the opportunity for the beneficiaries to exercise the options as from that date.

Thus on 11 and 12 July 13,148,889 shares were issued of which:

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

At the date of the approval of this Half year report there remained, therefore, 8,223,882 options for the underwriting of a similar number of newly issued Piaggio shares to be exercised no later than 360 days from the date of the start of trading of the shares on the MTA.

On 8 March 2006, in addition, the company's extraordinary shareholders' meeting, in conformity with the resolution of the Board of Directors on the same date, resolved, subordinate to the start of trading in the shares on the MTA, (a) the establishment of new stock option plan ("**2007-2009 plan**") with the aim of providing incentives for the creation of value in the Group's assets through the achievement of the economic and financial results envisaged by the company's plans; (b) to attribute to the Board of Directors, with the option of further delegating, every power needed to determine and approve the regulation implementing the 2007-2009 plan, and for the management and execution of the plan.

* * *

Milan, 11 September 2006

For the Board of Directors
The Chairman
Roberto Colaninno

Piaggio Group

Consolidated financial statements
and Explanatory notes at June 30, 2006

INCOME STATEMENT

In thousands of euro	Note	1st half of 2006	1st half of 2005	Change
Net sales	4	**903,310**	**814,292**	**89,018**
Costs for materials	5	519,356	463,885	55,471
Costs for services and use of third party assets	6	172,500	158,970	13,530
Employee costs	7	124,843	121,860	2,983
Depreciation of tangible assets	8	20,123	22,950	(2,827)
Amortisation of intangible assets	8	22,135	22,603	(468)
Other operating income	9	64,760	81,500	(16,740)
Other operating costs	10	16,364	27,138	(10,774)
Operating income		**92,749**	**78,386**	**14,363**
Income from equity investments		(2)		(2)
Financial income	11	5,460	9,602	(4,142)
Financial charges	11	(19,745)	(24,176)	4,431
Income before tax		**78,462**	**63,812**	**14,650**
Tax for the period	12	13,712	12,533	1,179
Income from functioning assets		**64,750**	**51,279**	**13,471**
Assets destined for disposal:				
Profit or loss from assets destined for disposal	13			**0**
Consolidated net income		**64,750**	**51,279**	**13,471**
Attributable to:				
Group interest		**64,429**	**51,039**	**13,390**
Minority interest		**321**	**240**	**81**
Profit per share (figures in €)	14	**0.17**	**0.14**	**0.03**
Diluted profit per share (figures in €)	14	**0.16**		

BALANCE SHEET

In thousands of euro	Note	At June 30, 2006	At December, 31 2005	Change
ASSETS				
Non-current assets				
Intangible assets	15	623,949	624,746	(797)
Property, plant and machinery	16	249,223	259,591	(10,368)
Investment property	17	0	506	(506)
Equity investments	18	607	650	(43)
Other financial assets	19	6,086	10,354	(4,268)
Receivables due from tax authorities (long-term)	20	7,193	7,156	37
Deferred tax assets	21	38,676	35,135	3,541
Trade receivables and other receivables	22	2,652	7,140	(4,488)
Total non-current assets		**928,386**	**945,278**	**(16,892)**
Assets held for sale	**27**	**701**	**55**	**646**
Current assets				
Trade receivables and other receivables	23	351,538	176,772	174,766
Receivables due from tax authorities (short-term)	20	13,896	12,440	1,456
Inventories	24	245,952	192,029	53,923
Other financial assets	25	44,992	137	44,855
Cash and cash equivalents	26	39,647	42,770	(3,123)
Total current assets		**696,025**	**424,148**	**271,877**
TOTAL ASSETS		**1,625,112**	**1,369,481**	**255,631**

In thousands of euro	Note	At June 30, 2006	At December 31, 2005	Change
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Shareholders' equity of the Group	28	412,684	348,213	64,471
Minority interest	28	605	254	351
Total shareholders' equity		**413,289**	**348,467**	**64,822**
Non-current liabilities				
Financial liabilities due after 12 months	29	371,436	375,596	(4,160)
Trade payables and other payables (long-term)	30	13,035	13,403	(368)
Provisions for severance indemnity and employee benefits	33	78,921	77,068	1,853
Other long-term provisions	31	37,328	44,552	(7,224)
Deferred tax liabilities	32	34,525	35,002	(477)
Total non-current liabilities		**535,245**	**545,621**	**(10,376)**
Current liabilities				
Financial liabilities due within 12 months	29	38,310	88,488	(50,178)
Trade payables	30	518,820	296,616	222,204
Tax payables	34	33,244	14,348	18,896
Other short-term payables	35	67,443	56,237	11,206
Current portion of other long-term provisions	31	18,761	19,704	(943)
Total current liabilities		**676,578**	**475,393**	**201,185**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**1,625,112**	**1,369,481**	**255,631**

CASH FLOW STATEMENT

In thousands of euro	1st half of 2006	1st half of 2005	Change
Operative assets			
Consolidated net income	64,429	51,039	13,390
Minority interest	321	240	81
Tax for the period	13,712	12,533	1,179
Depreciation of property, plant and machinery	20,123	22,948	(2,825)
Amortisation of intangible assets	22,135	22,603	(468)
Non-monetary costs for stock options	2,561	0	2,561
Allocation to provisions for risks and provisions for pensions and employee benefits	15,962	10,608	5,354
Writedowns / (Revaluations)	981	6,349	(5,368)
Capital loss / (gain) on disposal of property, plant and machinery	(157)	(223)	66
Capital loss / (gain) for assessments at fair value of financial assets	(44)	0	(44)
Financial income	(5,460)	(3,146)	(2,314)
Financial charges	19,745	18,691	1,054
Income from Government grants	0	(18,868)	(18,868)
Change in net current assets:			
(Increase)/Decrease in trade receivables	(163,522)	(150,137)	(13,385)
(Increase)/Decrease in other receivables	(7,759)	10,855	(18,614)
(Increase)/Decrease in inventories	(53,923)	(35,296)	(18,627)
Increase/(Decrease) in trade payables	218,920	177,550	41,370
Increase/(Decrease) in other payables	14,122	32,143	(18,021)
Increase/(Decrease) in current portion of provisions for risks	(943)	(2,651)	1,708
Increase/(Decrease) in non-current portion of provisions for risks	(17,450)	(9,234)	(8,216)
Increase/(Decrease) in provisions for risks and provisions for severance indemnity and employee benefits	(3,883)	837	(4,720)
Other changes	5,767	(12,970)	18,737
Cash generated by operations	**145,637**	**133,871**	**11,766**
Interest paid	(19,163)	(25,867)	6,704
Tax paid	(10,751)	(8,662)	(2,089)
Net cash from operations	**115,723**	**99,342**	**16,381**
Investments			
Investment in property, plant and machinery	(13,079)	(35,268)	22,189
Sale price, or redemption value, of property, plant and machinery	485	2,084	(1,599)
Investment in intangible assets	(21,346)	(20,449)	(897)
Sale price, or redemption value, of intangible assets	142	4,073	(3,931)
Sale price of equity investments	87	0	87
Loans supplied	12	2,698	(2,686)
Purchase of financial assets	(34,102)	52	(34,154)
Interest received	3,431	9,644	(6,213)

Sale price of assets destined for disposal or sale	0	117	(117)
Income from Government grants	0	18,868	(18,868)
Cash flow from investments	**(64,370)**	**(18,181)**	**(46,189)**
Financing			
Loans received	0	162,992	(162,992)
Outlay for repayment of loans	(45,049)	(203,206)	158,157
Loans received with leasing	0	11,918	(11,918)
Repayment of financial leasing	(464)	0	(464)
Outlay for dividends paid to minority shareholders	0	(313)	313
Cash flow from financing	**(45,513)**	**(28,609)**	**(16,904)**
Increase / (Decrease) in cash and cash equivalents	5,840	52,552	(46,712)
Opening balance	**30,655**	**(24,449)**	**55,104**
Translation difference	367	(1,458)	1,825
Closing balance	***36,862***	***26,645***	***10,217***

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

It should be noted that, for the purposes of comparison, the opening balance of cash and cash equivalents at January 1st, 2005 has been reclassified since it included the so-called hot money financing of the parent company, which in the financial statements for 2004 had been considered as an integral part of cash operations, while subsequently it has been treated, as required by the accounting standard in question, as a financial asset.

The following table sets out the breakdown of the balance of cash and cash equivalents at June 30, 2006 and June 30, 2005.

In thousands of euro	At June 30, 2006	At June 30, 2005	Change
Cash and cash equivalents	39,647	48,201	(8,554)
Current account overdrafts	(2,785)	(21,556)	18,771
Closing balance	***36,862***	***26,645***	***10,217***

NET FINANCIAL POSITION

In thousands of euro	Note	At June 30, 2006	At December 31, 2005	Change
Medium/long-term financial payables				
Medium/long-term bank loans	29	185,201	187,804	(2,603)
Payables for leasing	29	10,895	11,385	(490)
Payables due to other lenders	29	21,795	23,211	(1,416)
EMH derivatives	29	9,274	9,190	84
Payables due to parent companies	29	55	55	0
Total		*227,220*	*231,645*	*(4,425)*
Bond	29	144,216	143,951	265
Short-term financial payables:				
Current account overdrafts	29	2,785	12,115	(9,330)
Current account payables	29	2,399	31,532	(29,133)
Payables due to factoring companies	29	21,491	32,502	(11,011)
Bank loans	29	5,265	6,172	(907)
Payables for leasing	29	929	903	26
Payables due to other lenders	29	5,441	5,264	177
Payables due to parent companies	29	0	0	0
Total		*38,310*	*88,488*	*(50,178)*
Other current financial assets				
Financial receivables due from third parties	19/25	(9,792)	(9,804)	12
Financial receivables due from associated companies	25	(30)	(123)	93
Securities	25	(34,102)		(34,102)
Total		*(43,924)*	*(9,927)*	*(33,997)*
Cash and cash equivalents	26	(39.647)	(42,770)	3,123
Total net financial position		**326,175**	**411,387**	**(85,212)**

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

In thousands of euro	
Increase/decrease in cash and cash equivalents from the cash flow statement	**5,840**
Outlay for repayment of loans	45,049
Repayment of financial leasing	464
Acquisition of financial assets	34,102
Non-monetary change in financial receivables and payables (Value included in other changes to operative assets in cash flow statement)	(243)
Change in net financial position	**85,212**

CHANGES IN SHAREHOLDERS' EQUITY December 31, 2005 / June 30, 2006

In thousands of euro	Share capital	Share premium reserve	Reserve for shares to be issued	Receivables due from shareholders for outstanding payments	Legal reserve	Reserve for assessment of derivatives	Reserve for IAS transition	Reserve for Group consolidation	Reserve for Group conversion	Reserve for stock options	Profit (loss) in previous years	Net income for the period	***Consolidated Group shareholders' equity***	***Minority interest - capital and reserves***	**TOTAL SHAREHOLDERS' EQUITY**
At January 1st, 2006	194,827	24,500			723	56,898	(4,113)	993	1,532	2,266	32,704	37,883	348,213	254	348,467
Translation of financial statements into currency									(3,029)				(3,029)	30	(2,999)
Change to IAS reserves						510				2,561			3,071		3,071
Allocation of profit											37,883	(37,883)	0		0
Exercise of stock options on May 15, 2006			11,643	(11,643)									0		0
Other movements													0		0
Net income												64,429	64,429	321	64,750
At June 30, 2006	194,827	24,500	11,643	(11,643)	723	57,408	(4,113)	993	(1,497)	4,827	70,587	64,429	412,684	605	413,289

CHANGES IN SHAREHOLDERS' EQUITY 31 December 2004 / June 30, 2005

In thousands of euro	Share capital	Share premium reserve	Legal reserve	Reserve for assessment of derivatives	Reserve for IAS transition	Reserve for Group consolidation	Reserve for Group conversion	Reserve for stock options	Profit (loss) in previous years	Profit (loss) for the period	Consolidated Group shareholders' equity	Minority interest - capital and reserves	TOTAL SHAREHOLDERS' EQUITY
At December 31, 2004	*194,827*	*24,500*	*671*		*(4,113)*	*993*	*308*	*966*	*6,724*	*26,032*	*250,908*	*326*	*251,234*
Translation of financial statements into currency							1,376				1,376	112	1,488
Change to IAS reserves								483			483		483
Allocation of profit									26,032	(26,032)			
Other movements			51								51		51
Consolidated net income										51,039	51,039	240	51,279
At June 30, 2005	*194,827*	*24,500*	*722*		*(4,113)*	*993*	*1,684*	*1,449*	*32,756*	*51,039*	*303,857*	*678*	*304,535*

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2006

A) GENERAL ASPECTS

Piaggio S.p.A. (the Company) is a limited company set up in Italy at the Company Registry Office of Pisa. The addresses of its registered office and the locations where the Group's main activities are conducted are shown in the introduction to the half year report documents. The main activities of the company and its subsidiaries (the Group) are described in the Directors' Report.
The financial statements are expressed in euro (€) since that is the currency in which most of the Group's transactions take place. The foreign businesses are included in the consolidated financial statements in accordance with the principles indicated in the following notes.

CONSOLIDATION AREA

At June 30, 2006, the structure of the Piaggio Group was that annexed to the Directors' report and is taken as referred to also here.
The changes in the consolidation area which occurred in the first half of 2006 compared to the consolidated financial statements at December 31, 2005 arose from the conclusion of the liquidation procedures for Aprilia Finance Ltd, Aprilia Leasing S.p.A and Motocross Company S.r.l., started in previous years, and overall were not significant in terms of the comparability of the figures for the two periods in question.
Compared to June 30, 2005 the consolidation area changed owing to the disposal of Moto Sport S.A. which occurred in the first half of 2005. This limited change does not alter the comparability of the economic results between the two periods.

CONFORMITY TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The consolidated half year report for the Piaggio Group at June 30, 2006 has been prepared in conformity with the International Financial Reporting Standards (IAS/IFRS), in force at that 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").
This half year report is, therefore, prepared on the basis of IAS 34 – interim financial reporting.
Also the consolidated half year report of the Piaggio Group at June 30, 2005 was prepared in conformity with the International Financial Reporting Standards (IAS/IFRS).
The preparation of the interim financial statements requires on the part of the management the making of estimates and assumptions which have an impact on the values of net sales, costs, balance sheet assets and liabilities and on the information regarding potential assets and liabilities at the date of the interim financial statements. If in the future these estimates and assumptions, which are based on the best assessment by management, should differ from the actual situation, they will be changed as appropriate in the period in which the circumstances change.
It should also be noted that some assessment processes, in particular the more complex ones such as establishing the possible impairment of capitalised assets, are generally undertaken in full only

during the preparation of the annual financial statements, when all the potentially necessary information is available, except in cases where there are indications of impairment which require an immediate assessment of any loss in value.
In addition, the International Financial Reporting Standards have been uniformly applied for all the Group companies.
The accounting schedules of the subsidiaries, used for the consolidation, have been duly modified and reclassified, where necessary, in order to make them conform to the International Financial Reporting Standards and to the standard classification criteria used in the Group.

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

1. Content and form of the financial statements

Form of the consolidated financial statements

The consolidated financial statements consist of the Balance Sheet, the Income statement, the Schedule of changes to Shareholders' equity, the Statement of Cash Flows 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.

In their turn, 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 income 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 income and income before tax. In addition, the income and cost items arising from assets that are destined for disposal or disuse, including any capital gains or losses net of the tax element, are recorded in a specific heading on the balance sheet which precedes Group net income and minority interest.

Consolidated cash flow statement

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

Change in consolidated shareholders' equity

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

Content of the consolidated financial statements

The consolidated financial statements of the Piaggio & 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 I.

2. Consolidation principles and evaluation criteria

The consolidated financial statements at June 30, 2006 include, using the line-by-line method, the financial statements of the parent company and the companies in which the Piaggio & C. Group holds the majority of voting rights, and in any case of all the companies in which it exercises a dominant influence, the list of which is supplied in section G.

At June 30, 2006 the subsidiary and associated companies of Piaggio & C. S.p.A. were as follows:

	Subsidiaries			*Associated companies*			*Total*
	Italy	*Abroad*	*Total*	*Italy*	*Abroad*	*Total*	
Companies:							
- consolidated on a line-by-line basis	4	23	27			0	27
- consolidated on an equity basis		3	3		1	1	4
- valued at cost				4	2	6	6
Total companies	**4**	**26**	**30**	**4**	**3**	**7**	**37**

2.1 Consolidation principles

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

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

The 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 heading called "Minority interest".

Subsidiaries

These are companies where the Group exercises a dominant influence. Such influence exists when

the Group has the power, directly or indirectly, to determine the financial and operational policies of a company in order to derive benefits from its activities. The acquisition of subsidiaries is recorded on the basis of the method of acquisition. The acquisition cost is determined from the sum of the current values, at the date when control is achieved of the assets given, of the liabilities incurred or taken on, and of the financial instruments issued by the Group in exchange for control of the company acquired, plus the costs directly attributed to the merger.
The assets, liabilities and identifiable potential liabilities of the company acquired which meet the conditions for their recording in accordance with IFRS 3 are recorded at their current values at the date of acquisition, with the exception of non-current assets (or Groups being disposed of) which are classified as held for sale in accordance with IFRS 5 and which are recorded and assessed at current values less sale costs.
The goodwill arising from the acquisition is recorded as an asset and initially assessed at cost, represented by the surplus of the acquisition cost compared to the Group share in current values of the assets, liabilities and identifiable potential liabilities recorded.
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.

Associated companies

These are companies in which the Group exercises notable influence, but not joint control, over their financial and operational policies. The consolidated financial statements include the 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 annulled and the share of further losses is not recorded, except and to the extent that the Group is obliged to answer for them.

Joint control companies

These are businesses over whose activities the Group has joint control, established by contractual agreements; such joint venture agreements which imply the establishment of a separate entity in which each participant has a share of the equity investment are called joint control equity investments. The Group records joint control equity investments by using the equity method.
With reference to transactions between a Group company and a joint control company, 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 heading Profit (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 infragroup 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 foreign currency are recorded at the exchange rate in force at the reference date of the financial statements and are converted at the exchange rate in force on that date. Exchange rate differences generated by the extinction of currency items or by their conversion at different rates from those at which they were converted when they were initially recorded in the period or in prior financial statements are recorded on the income statement.

Consolidation of foreign companies

The separate financial statements of each company that belongs to the Group are drawn up in the currency of the main economic environment in which it operates (the operating currency). For the purposes of the consolidated financial statements, the interim 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 half year report.

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

During first-time adoption of the IFRS, the cumulative exchange rate differences generated by the consolidation of foreign companies outside the euro zone have not been 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.

Currency	Exchange rate at June 30, 2006	Average exchange rate June 30, 2006	Exchange rate December 31,	Average exchange rate June 30, 2005
US dollar	1.27130	1.22920	1.17970	1.285516
Pound sterling	0.69210	0.68715	0.68530	0.686076
Indian rupee	58.55140	55.23316	53.16790	56.10887
Singaporean dollar	2.01370	1.97667	1.96280	2.117138
Chinese renminbi	10.16480	9.87210	9.52040	10.641852
Croatian kune	7.24450	7.31134	7.37150	7.422750
Japanese yen	145.75000	142.15706	138.90000	136.240190

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 1 January 2004; consequently, the goodwill generated on acquisitions prior to the IFRS transition date has been maintained at the previous value determined in accordance with Italian accounting standards, subject to the verification and recording of any impairment.

After 1 January 2004, following the acquisitions that occurred in 2004, further goodwill was generated, the amount of which was 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 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 current 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 investment property 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 investment propertys (IAS 40). As allowed by IAS 40, property and buildings that are not for operations and are held in order to earn rent and/or to increase the value of assets are assessed at cost net of accumulated amortisation and losses for

impairment.
Investment property are eliminated from the financial statements when they are sold or when the investment property is unusable in the long term and no future economic benefits are expected from its possible disposal.

Non-current assets held for sale

Non-current assets (and groups of assets being disposed of) classified as held for sale are valued at the lower of their previous book value and the market value net of sale costs.
Non-current assets (and groups of assets being disposed of) are classified as held for sale when it is expected that their book value will be recovered through a disposal rather than through using them as an operative asset for the company. This condition is 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.
At the subsequent financial statement dates, the financial assets which the Group intends and has the ability to maintain until their expiry (bonds held until their expiry) are recorded at amortised cost in accordance with the real interest rate method, net of writedowns made to reflect impairment.
Financial assets other than those held until expiry are classified as held for trading or available for sale, and are valued at the end of each period at their fair value. When the financial assets are held for trading, the profit and loss arising from changes in the fair value is charged to the income statement for the period; for financial assets available for sale, the profit and loss arising from changes in the fair value is charged directly to shareholders' equity until they are sold or have suffered a loss in value; at that moment the overall profit or loss previously recorded under shareholders' equity is charged to the income for the period.

Inventories

Inventories are recorded at the lower of the acquisition or production cost, determined by allocating to products the directly incurred costs 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 weighted average 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 or liquidity 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. In this case the advance payments received from the factor are recorded under payables due to other lenders.

Cash and cash equivalents

The heading relating to cash and cash equivalents includes cash 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 derivatives 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.

Derivatives 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 derivatives (mainly forward currency contracts) to cover the risks deriving from changes of foreign currencies in certain irrevocable commitments and in envisaged future transactions. The use of these derivatives is regulated by written procedures on the use of derivatives in line with the Group's risk management policies.

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

Derivatives are used solely with the intent of providing cover 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, derivatives can be recorded in accordance with the methods established for hedge accounting only when, at the start of the cover, there is the formal designation and documentation of the cover itself, when it is presumed that the cover is highly effective, when the effectiveness can be reliably measured and when the cover itself is highly effective during the various accounting periods for which it is designed.

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

- *Fair value hedge*: (cover of the market value) If one derivative is designated as cover for the exposure to variations in the current value of an asset or a liability, attributable to a particular risk which can have an impact on the income statement, the profit or loss arising from subsequent assessments of the current value of the hedging instrument are recorded on the income statement. The profit or loss on the item covered, attributable to the risk covered, change the book value of that item and are recorded on the income statement.
- *Cash flow hedge* (cover of financial flows) If a derivative is designated as cover 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, the effective share of profits or losses for the derivative 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 cover is recorded. The profit or loss associated with cover or that part of the cover that is ineffective, are immediately recorded on the income statement. If a covering instrument or a covering report are closed, but the transaction subject to the cover 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 cover is 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 are immediately recorded on the income statement.

Long-term provisions

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

Provisions for pensions and employee benefits

With the adoption of the IFRS, employee leaving indemnity is considered a defined benefit obligation to be recorded in accordance with IAS 19- Employee Benefits, consequently, it must be recalculated using the "Projected Unit Credit Method", by undertaking actuarial evaluations at the end of each period.

Payments for defined benefit plans are charged to the income statement in the period in which they fall due. The liabilities for benefits following the employment relationship recorded in the financial statements represent the 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 employee 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 "period of maturation" 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 employee costs on the basis of a criterion of constant shares over the period between the date of allotment and that of maturity, with a counter entry recognised directly under shareholders' equity.

The determination of fair value is made using the Black Scholes method.

Changes in the 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 likely. The book value of deferred tax assets is subject to review at every period end and is reduced to the extent to which the existence of sufficient taxable income to allow the whole or partial recovery of such assets is no longer probable.

Deferred 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.

Contributions

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

Contributions to the operating account are recorded in financial statements provided that the right to receive them is certain and they are charged to the income statement in relation to the costs against which they are supplied.

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 derivatives, when it is not offset as part of hedging transactions. Interest income is charged to the income statement as it accrues, considering the effective yield.

Financial charges

Financial charges are recorded on an accruals basis. They include interest payable on financial payables calculated by using the real interest rate method, negative exchange rate differences, and losses on derivatives. 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, 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 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. The taxes due in the case of the distribution of reserves with tax withheld as shown in the financial statements of the individual Group companies are not set aside since their distribution is not expected.

Profit per share

Profit 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 profit 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. The potential shares considered are those connected to the stock option plan and those connected to Aprilia warrants. The adjustment to be made to the number of stock options in order to calculate the number of shares is determined by multiplying the number of stock options by the underwriting cost and dividing it by the market price of the share.

Use of estimates

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

Dealings with related parties

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

New accounting standards

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

B) INFORMATION BY SECTOR

3. Information by business sector

Primary sector: light wheeled transport market

The Piaggio Group is one of the world leaders in the sector of "light wheeled transport", a sector which the Group 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, and the establishment of reporting models to be used in order to carry out effective and timely monitoring of the related data.

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

Cash management is handled centrally by the Parent company 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 an approach which takes into account the various needs of the key markets.

At an organisational level a system has been established which, through the integration of various brands, enables the realisation of global strategies aimed at looking for 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 sector of "light wheeled transport".

The following table presents the economic and financial data for the Group at June 30, 2006:

In millions of euro	*Consolidated*
NET SALES	
Sales to third parties	903.3
Intersector sales	
TOTAL NET SALES	**903.3**
Gross industrial margin	282.0
Net financial charges	(14.3)
Income from equity investments	
Income before tax	78.5
Tax	13.7
Minority interest	(0.3)
NET INCOME	**64.4**
OTHER INFORMATION	
Increases to tangible and intangible assets	34.4

Secondary sector: market segments

In millions of euro	*2W*	*LTV*	*Other*	*Consolidated*
NET SALES				
Sales to third parties	719.6	178.0	5.7	903.3
Intersector sales				
TOTAL NET SALES	**719.6**	**178.0**	**5.7**	**903.3**
Gross industrial margin				282.0
Net financial charges				(14.3)
Income from equity investments				
Income before tax				78.5
Tax				13.7
Minority interest				(0.3)
NET INCOME				*64.4*
OTHER INFORMATION				
Increases to tangible and intangible assets				34.4

Third sector: geographical area

The following table gives the economic and financial figures for the Group in relation to the "original" geographical areas at June 30, 2006, based on the country of the company which has made the net sales or which holds the assets.

The breakdown of net sales by geographical 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*	*North America*	*Rest of the world*	*Consolidated*
NET SALES						
Sales to third parties	387.8	351.9	97.2	40.2	26.3	903.3
Intersector sales						
TOTAL NET SALES	387.8	351.9	97.2	40.2	26.3	903.3
BALANCE SHEET						
TOTAL ASSETS	955.2	554.4	67.3	33.6	14.6	1,625.1
TOTAL LIABILITIES	976.5	521.6	70.9	33.6	22.5	1,625.1

C) INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

4. Net sales €/.000 903,310

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

This heading does not include transport costs which are recharged to customers (€/000 22,664) and advertising cost recoveries invoiced (€/000 3,411), 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.

Net sales by business sector

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

In thousands of euro	*1st half of 2006*		*1st half of 2005*		*Changes*	
	amount	*%*	*Amount*	*%*	*amount*	*%*
2 wheel	719,631	79.67	661,400	81.22	58,231	8.80
LTV	177,991	19.70	145,500	17.87	32,491	22.33
Other	5,688	0.63	7,392	0.91	(1,704)	(23.05)
TOTAL	903,310	*100*	814,292	*100*	89,018	*10.93*

Net sales by geographical area

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

In thousands of euro	*1st half of 2006*		*1st half of 2005*		*Changes*	
	amount	*%*	*Amount*	*%*	*amount*	*%*
Italy	387,811	42.93	352,572	43.30	35,239	9.99
Europe	351,873	38.95	344,150	42.26	7,723	2.24
India	97,200	10.76	69,968	8.59	27,232	38.92
North America	40,155	4.45	21,598	2.65	18,557	85.92
Rest of the world	26,271	2.91	26,004	3.20	267	1.03
TOTAL	903,310	*100*	814,292	*100*	89,018	*10.93*

In the first half of 2006 net sales rose by €/000 89,018.

The increase was mainly due to the rise in sales achieved on the North American and Indian markets, as well as approximately €/000 36,500 for the order for motorised vehicles from Poste Italiane.

5. Costs for materials €/.000 519,356

These totalled €/000 519,356 overall, compared to €/000 463,885 at June 30, 2005. The growth of 12.0% was basically connected to the increase in production and sales volumes. In fact the ratio to net sales remained almost unchanged at 57.5%, while it was 57.0% in the first half of 2005.

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

In thousands of euro	*1st half of 2006*	*1st half of 2005*	*Change*
Raw materials, consumables and goods for resale	575,497	501,293	74,204
Change in inventories of raw materials, consumables and goods for resale	(46,694)	(19,518)	(27,176)
Change in work in progress of semi-finished and finished products	(9,447)	(17,890)	8,443
Total cost of purchases	*519,356*	*463,885*	*55,471*

6. Costs for services and use of third party assets **€/.000 172,500**

These totalled €/000 172,500 overall compared to €/000 158,970 at June 30, 2005.

The heading in question was as follows:

In thousands of euro	*1st half of 2006*	*1st half of 2005*	*Change*
Employee costs	8,607	6,786	1,821
Accessory purchase costs	718	333	385
Cleaning and maintenance	3,277	3,112	165
Energy, telephone and telex	9,224	7,638	1,586
Commissions paid	2,804	1,868	936
Advertising and promotion	29,941	23,040	6,901
Technical, legal and tax consultancy and services	41,404	41,461	(57)
Company boards operating costs	1,223	1,225	(2)
Insurance	1,573	1,342	231
Third party work	21,023	19,127	1,896
Transport costs and parts	23,783	24,362	(579)
Travel documents	446	350	96
Other commercial expenses	6,712	5,662	1,050
Product liability costs	4,991	8,854	(3,863)
Factoring costs and commissions	2,410	1,518	892
Banking costs	616	398	218
Other	7,738	5,763	1,975
Costs for use of third party assets	6,010	6,131	(121)
Total costs for services	*172,500*	*158,970*	*13,530*

Costs for services in the first half of 2006 included non-recurring charges related to the stock market listing of €/000 4,008, of which €/000 2,415 was for consultancies, €/000 1,507 for advertising costs and €/000 86 for other marketing expenses.

Consultancy costs in the first half of 2006 included management services provided by the parent company IMMSI SpA of €/000 3,316.

The costs for use of assets include leasing rentals for business properties of €/000 1,806, as well as lease payments for car hire, computers and photocopiers.

Third party work of €/000 21,023 refers to production parts.

Transport costs and parts of €/000 23,783, showed a slight saving both in absolute terms and as a percentage of net sales.

"Product liability" costs, taking into account the applications of the related provision, fell significantly in absolute terms which was due to the improvement of the quality standards of our products.

The heading "other" includes costs for temporary work of €/000 2,031.

7. Employee costs €/.000 124,843

The breakdown of costs incurred for employee was as follows:

In thousands of euro	*1st half of 2006*	*1st half of 2005*	*Change*
Salaries and wages	93,503	88,453	5,050
Social security charges	25,228	24,278	950
Employee leaving indemnity	5,725	5,254	471
Other costs	387	3,875	(3,488)
Total	*124,843*	*121,860*	*2,983*

Employee costs rose in absolute terms by €/000 2,983 compared to the values recorded in the last half (+2.4%). The increase was largely due to the increase of 186 units recorded in the average number of the workforce. In fact in the first half of 2006 the average unit cost fell by 0.3% compared to the values for the prior-year period.

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

Inflation rate		1.60%		
	years 1 > 5	*Years 6 > 10*	*years 11 > 15*	*years > 15*
Discount rate	3.05%	3.42%	3.70%	3.92%
Revaluation rate for accrued emp. indemnity		1.87%		
Rate of emp. indemnity		7.40%		
Annual salary increase rate		3.1%		

The overall impact at June 30, 2006 of such discounting was an increase in liabilities of €/000 3,453 with an impact on the income statement owing to lower interest of €/000 325, 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 size at		
Role	*June 30, 2006*	*June 30, 2005*	*Change*
Directors	115	112	3
Senior managers/employees	2,125	2,108	17
Technical staff and workers	4,744	4,578	166
Total	*6,984*	*6,798*	*186*

	Size at		
Role	*June 30, 2006*	*December 31, 2005*	*Change*
Directors	114	115	(1)
Senior managers/employees	2,148	2,111	37
Technical staff and workers	4,899	4,127	772
Total	*7,161*	*6,353*	*808*

The size of the workforce at 30 June was influenced by the presence of seasonal workers (fixed-term contracts and labour supply contracts).

The Group in fact, in order to handle the typical peaks in demand in the summer months, makes use of recruitment on fixed-term contracts

This factor, as shown in the following table, which shows the movement in the workforce in the half, is the main cause of the increase in the workforce size compared to December 31, 2005.

Size at December 31, 2005	**6,353**
Recruitment:	
- on permanent contract	170
- on fixed term contract	1,030
Terminations	392
Size at June 30, 2006	**7,161**

8. Amortisation and impairment costs **€/.000 42,258**

Here below is a summary of the amortisation in the first half of 2006, divided into different categories:

In thousands of euro	*1st half of 2006*	*1st half of 2005*	*Change*
Property, plant and machinery:			
Buildings	1,810	1,442	368
Plant and machinery	6,614	6,572	42
Industrial and commercial equipment	10,270	12,812	(2,542)
Other assets	1,429	2,124	(695)
Total depreciation	*20,123*	*22,950*	*(2,827)*

In thousands of euro	*1st half of 2006*	*1st half of 2005*	*Change*
Intangible assets:			
Development costs	15,654	15,074	580
Industrial patent rights and intellectual property rights	2,146	1,448	698
Concessions, licences, trademarks and similar rights	4,293	5,405	(1,112)
Other	42	676	(634)
Total amortisation of intangible assets	*22,135*	*22,603*	*(468)*

As set out in more detail in the paragraph on intangible assets as from 1 January 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.

Amortisation under the item "Concessions, licences, trademarks and similar rights" includes the amortisation of the Aprilia brand for €/000 2,993 and of the Guzzi brand for €/000 1,092.

9. Other operating income **€/.000 64,760**

This heading was as follows:

In thousands of euro	*1st half of 2006*	*1st half of 2005*	*Change*
Contributions to the operating account	427	244	183
Anti-pollution incentives	0	18,624	(18,624)
Increases in fixed assets from internal work	13,700	12,003	1,697
Net sales and other income:			
- Rent receipts	1,222	937	285
- Capital gains on assets	164	452	(288)
- Sale of miscellaneous materials	587	1,404	(817)
- Recovery of transport costs	22,664	19,469	3,195
- Recovery of advertising costs	3,411	2,225	1,186
- Recovery of other costs	8,970	11,135	(2,165)
- Compensation	288	253	35
- Licence rights and know-how	163	275	(112)
- Windfall gains	6,589	2,643	3,946
- Other income	6,575	11,836	(5,261)
Total other operating income	*64,760*	*81,500*	*(16,740)*

The overall decrease recorded of €/000 16,740 was mainly due to the presence in the first half of 2005 of non-recurring sales from anti-pollution incentives for €/000 18,624. These contributions were supplied by the Ministry of the Environment in June 2005 in conformity with the program agreement signed on 12.2.2002 and the supplementary document signed on 18 April 2005, relating to sales of environmentally friendly vehicles completed from June 2003 to July 2004.

The rent receipts refer mainly to income for the rent of racing bikes to the teams which compete in the World Motorcycling Championships.

Windfall gains at June 30, 2006 of €/000 6,589 relate mainly to the release of excess provisions, since the reasons for which they were originally set aside ceased to exist.

The heading recovery of transport costs refers to the costs recharged to customers, the charges for which are classified under "services".

10. Other operating costs **€/.000 16,364**

This heading is as follows:

In thousands of euro	*1st half of 2006*	*1st half of 2005*	*Change*
Non-income tax and duties	3,227	3,102	125
Capital losses from disposal of assets	4	229	(225)
Various subscriptions	515	324	191
Writedowns of intangible assets		3,421	(3,421)
Writedowns of receivables in working capital	1,003	2,637	(1,634)
Allocation of provisions	10,226	11,917	(1,691)
Allocation of writedown for equity investments		112	(112)
Other operating costs	1,389	5,396	(4,007)
Total	*16,364*	*27,138*	*(10,774)*

Overall other operating costs fell by €/000 10,774. This change was mainly due to the presence in the statements for the first half of 2005 of non-recurring charges connected to the writedown of some asset entries.

11. Net financial income (charges) **€/.000 (14,285)**

Here below is the breakdown of financial charges and income:

In thousands of euro	*1st half of 2006*	*1st half of 2005*	*Change*
Income:			
Other income from third parties:			
- Interest due from customers	85	115	(30)
- Interest on bank and postal accounts	674	293	381
- Interest on financial receivables	163	144	19
- Income on interest rate hedging		2,711	(2,711)
- Other	1,069	1,610	(541)
Total other income from third parties	1,991	4,873	(2,882)
TOTAL			
Profits on exchange rates:			
- Translation gains	3,005	4,216	(1,211)
- exchange option premiums	13	0	13
- translation gains for different currencies	451	513	(62)
Profits on exchange rates	3,469	4,729	(1,260)
Total financial income	*5,460*	*9,602*	*(4,142)*

In thousands of euro	*1st half of 2006*	*1st half of 2005*	*Change*
Charges:			
Financial charges due to parent companies	70	144	(74)
Financial charges due to associated companies			
Financial charges due to others:	491	1,219	(728)
- Interest on bank accounts	7,770	6,725	1,045
- Interest on bond	4,277	6,487	(2,210)
- Interest on bank loans	1,957	447	1,510
- Cash discounts for customers	995	958	37
- Banking fees on loans	148	94	54
- Charges on interest rate hedging	9	3,352	(3,343)
- Interest on leasing contracts	270	13	257
- Other	169	446	(277)
Total financial charges due to others	16,086	19,741	(3,655)
Total	16,156	19,885	(3,729)
Losses on exchange rates:			
- Charges on contract swaps	87	0	87
- Translation losses	3,032	4,291	(1,259)
- Translation losses for other currencies	470	0	470
Losses on exchange rates	3,589	4,291	(702)
Total financial charges	19,745	24,176	(4,431)
TOTAL FINANCIAL INCOME (CHARGES)	*(14,285)*	*(14,574)*	*289*

The balance of financial income (charges) in the first half of 2006 was a loss of €/000 14,285, down compared to €/000 14,574 of the same period in 2005. The improvement of €/000 289 compared to the aforementioned period mainly arose from the decrease in net financial position which was largely offset by the higher charges arising from higher interest rates and the greater nominal amount of the bond called "Eur 150 million 10% Senior Notes due 2012" issued by the subsidiary Piaggio Finance S.A. on 27 April 2005 compared to that of 100 million euro issued by Aprilia in 2002 and repaid on 2 May 2005, as well as by the increase in short-term interest rates in euros on which the variable rate loans are indexed.

12. Tax **€/.000 13,712**

Tax was as follows:

In thousands of euro	*1st half of 2006*	*1st half of 2005*	*Change*
Current taxes	15,626	10,977	4,649
Deferred taxes	(1,914)	1,556	(3,470)
Total	13,712	12,533	1,179

Tax for the first half of 2006 was estimated at €/000 13,712, with a ratio to income before tax of

17.5%. In the same period in 2005 tax was €/000 12,533 with a ratio to income before tax of 19.6%. The difference compared to the theoretical tax rate is related to the use of previous losses made by some Group companies.

Current taxes consist of IRAP (regional tax on productive activities) for €/000 7,194 (chargeable for €/000 7,183 to Piaggio & C. and for €/000 11 to Derbi Italia Srl) and the sum of income taxes for the individual companies of €/000 8,432 (mainly consisting of income tax on Piaggio Vehicles Pvt Ltd).

13. Profit / (Loss) from assets destined for disposal or disuse — € / .000 0

At the end of this half year there were no profits or losses from assets destined for disposal or disuse.

14. Profit per share

The calculation of profit per share is based on the following figures:

In thousands of euro		*1st half of 2006*	*1st half of 2005*
Net income	€/000	64,750	51,279
Income attributable to ordinary shares	€/000	64,750	51,279
Avg no. ordinary shares in circulation		374,668,137	374,668,137
Profit per ordinary share	€	0.17	0.14
Adjusted avg no. of ordinary shares		413,927,153	n.a.
Diluted profit per ordinary share	€	0.16	n.a.

In calculating the diluted profit per share account is taken of the potential effects arising from the stock option plans and from the assessment of financial instruments associated with the acquisition of Aprilia. In order to calculate the adjusted average number of ordinary shares, since the company was not yet listed at June 30, 2006, the placement price (€ 2.30) was used as the market price.

INFORMATION ON THE CONSOLIDATED BALANCE SHEET - ASSETS

15. Intangible assets €/.000 623,949

The following table sets out the breakdown of intangible assets at June 30, 2006 and at December 31, 2005, as well as the movements during the half.

in thousands of euro	*Value at 31 December 2005*	*Increases*	*Accumulated Amortisation*	*Disposals*	*Reclassifications*	*Translation differences*	*Value at June 30, 2006*
Development costs	71,732	19,118	(15,654)	(136)	(559)	(119)	74,382
Patent rights	8,579	1,980	(2,146)	(5)	52		8,460
Concessions, licences and trademarks	114,788	223	(4,293)		(42)		110,676
Goodwill	429,390	947					430,337
Other	257	25	(42)	(1)	(135)	(10)	94
Total	*624,746*	*22,293*	*(22,135)*	*(142)*	*(684)*	*(129)*	*623,949*

The increases in the half were mainly due to the capitalization of development costs for new products and engines, as well as the acquisition of software. Reclassifications refers largely to the accounting transfer made by some minor Group companies of improvements to third party assets to the specific categories under tangible assets (€/000 684).

Development costs €/000 74,382

Development costs include costs for products and engines in projects for which there is an expectation for the period of the useful life of the asset to see net sales of such a level as to allow the recovery of the costs incurred. It also includes assets in process of formation for €/000 37,499 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 half year report.

In relation to development costs in the first half of 2006 the main projects capitalised refer to the new three wheel vehicle Piaggio MP3, the new models of the Gilera Nexus 250, Aprilia Offroad 450/550, Aprilia Naked, Scarabeo 500, Moto Guzzi Norge, Derbi Mulhacèn and Ape Quargo (destined for the Indian market), as well as the new 750 cc engine for Aprilia motorbikes and the new Euro 4 engine which is fitted to the Porter vehicle.

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

During the first half of 2006 development costs of approximately 11 million euro were charged directly to the income statement.

Industrial patent rights and intellectual property rights €/000 8,460

The item in question largely consists of software. It includes assets in the process of formation for €/000 2,370.

The increases in the period refer mainly to software for extension of SAP applications to the facility at Noale, as well as the implementation of "project controlling" and of the "token ring" network at the plant.

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

Concessions, licences and trademarks €/000 110,676

Concessions, Licences, Trademarks and similar rights of €/000 110,676 were as follows:

In thousands of euro	*Net value at June 30, 2006*	*Net value at December 31, 2005*
Guzzi	29,161	30,253
Aprilia	80,823	83,816
Laverda	542	620
Minor brands	150	99
Total brands	*110,676*	*114,788*

The gross value of Aprilia is €/000 89,803, while that of Guzzi is €/000 31,700.

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 period of 15 years.

In relation to the acquisition of the Aprilia Group some derivatives were issued whose forward commitments are summarised below:

- Piaggio 2004/2009 Warrants for an overall issue price of €/000 5,350.5 which envisages a 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 derivatives for a global nominal value of €/000 10,000, which will give the right to a forward payment of a minimum guaranteed sum of €/000 3,500, as well as a maximum sale value that can never exceed €/000 6,500;
- Aprilia shareholder 2004/2009 derivatives which envisage a sale value that can never exceed €/000 10,000.

In conformity with the main content of the aforementioned contractual agreements, by virtue of which, among other things, the final purchase cost is dependent on the achievement of specific income and balance sheet parameters, in the light of the forecasts from the Business Plan 2006-2008, the adjustment of initial purchase cost has been considered likely in relation to the first two derivatives and has been estimated at €/000 63,102. At the moment it is not believed that the Aprilia shareholders' derivatives 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 IMMSI acquisition.
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	57,328	1.83	6.38%
EMH derivative	6,500	5,774	1.92	6.38%
Aprilia shareholders derivative	10,000			
Total	80,706	63,102		

The counter entry for the adjustment to the purchase cost, taking account of the peculiar nature of the underlying derivatives, has been recorded for €/000 57,328, in the Derivatives fair value reserve and for €/ /000 5,774 to medium and long-term financial payables.

Goodwill €/000 430,337

The composition of goodwill is shown in the following table:

In thousands of euro	*At June 30, 2006*	*At December 31, 2005*
Piaggio & C.	330,590	330,590
Nacional Motor	31,237	31,237
Piaggio Vehicles	5,408	5,408
Aprilia	63,102	62,155
Total	430,337	429,390

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 31 December 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 1 January 2004; consequently, the goodwill generated on acquisitions prior to the IFRS transition date was maintained at the previous value calculated in accordance with Italian accounting standards, subject to verification and 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 1 January 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 31 December 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;

- 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 1 January 2004.

As highlighted in setting out the accounting principles, from 1 January 2004 goodwill is no longer amortised, but is annually, or more frequently if specific events or changed circumstances indicate the possibility of it having 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. During the first half of 2006 there were no events such as to indicate that an asset might have suffered impairment.
The increase recorded in the half year of €/000 947 was due to the evaluation of the derivatives linked to the purchase of the Aprilia Group, as described in the previous paragraph.

Other intangible assets €/000 94

These totalled €/000 94 overall.

16. Property, plant and machinery €/.000 249,223

The following table shows the breakdown of tangible assets at June 30, 2006 and at December 31, 2005, as well as changes in the half.

in thousands of euro	*Value at December 31, 2005*	*Increases*	*Accumulated depreciation*	*Disposals*	*Reclassifications*	*Translation differences*	*Value at June 30, 2006*
Land and buildings	124,356	822	(1,810)		119	(1,092)	122,395
Plant and machinery	72,444	2,259	(6,614)	(70)	(47)	(2,028)	65,944
Equipment	53,761	8,897	(10,270)	(26)	10	(3)	52,369
Other	9,030	1,101	(1,429)	(232)	159	(114)	8,515
Total	*259,591*	*13,079*	*(20,123)*	*(328)*	*241*	*(3,237)*	*249,223*

The main increases related to moulds for the new vehicles launched in the half, the restructuring of assembly lines at the plant in Noale, as well as the new factory at Baramati (India).
The column reclassifications brings together the following impacts:

- reattribution to land and buildings of a property which returned to the Group's full use and which, since it was rented at December 31, 2005, at the end of the year had been classified under investment property (€/000 +506);
- transfer under assets held for sale of a piece of land in the process of being sold (€/000 -646);
- reclassification from plant and machinery to other receivables by the Indian subsidiary (€/000 –303);
- reclassifications from intangible assets as commented on previously (€/000 +684).

Land and buildings €/000 122,395

The heading *Land and Buildings*, net of the accumulated depreciation, was as follows:

In thousands of euro	*At June 30, 2006*	*At December 31, 2005*	*Change*
Land	39,812	40,852	(1,040)
Industrial buildings	79,433	78,247	1,186
Civil engineering buildings	791	438	353
Light construction	484	576	(92)
Other	1,456	1,303	153
Assets in process of formation	419	2,940	(2,521)
Total	*122,395*	*124,356*	*(1,961)*

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

It is noted that in the first few months of the year the new assembly and construction lines at the plant in Baramati, India became operational. They are destined to increase production of the Quargo.

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

At June 30, 2006 the net values of assets held under leasing contracts were as follows:

In thousands of euro	*At June 30, 2006*
Mandello del Lario factory (land and buildings)	14,352
Vehicles (other assets)	22
SAP (patent rights)	530
Total	14,904

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.

Plant and machinery €/000 65,944

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

In thousands of euro	*At June 30, 2006*	*At December 31, 2005*	*Change*
Non-specific plant	33,858	36,164	(2,306)
Automatic machines	7,503	5,835	1,668
Moulds and sundry equipment	259	296	(37)
Other	15,997	16,535	(538)
Assets in process of formation	8,327	13,614	(5,287)
Total	*65,944*	*72,444*	*(6,500)*

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

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

Plant and machinery are depreciated 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%.

Industrial and commercial equipment €/000 52,369

The value of Industrial and commercial equipment, at €/000 52,369, 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 10,414.
The main investment in equipment concerned moulds for the new vehicles launched during the half year or for which launch is planned by the end of 2006, moulds for new engines and specific equipment for the assembly lines.
Industrial and commercial equipment is depreciated on the basis of the rates considered adequate by the Group companies to represent its useful life and in particular:

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

Other tangible assets €/000 8,515

Other assets, net of the related depreciation, were as follows:

In thousands of euro	*At June 30, 2006*	*At December 31, 2005*	*Change*
EDP systems	2,849	2,766	83
Office furniture and equipment	2,306	2,510	(204)
Vehicles	868	742	126
Cars	1,686	1,363	323
Other	635	1,415	(780)
Assets in process of formation	171	234	(63)
Total	*8,515*	*9,030*	*(515)*

Guarantees

At June 30, 2006 the Group had land and buildings encumbered by mortgage liens or privileges to lending institutions to guarantee loans received in previous years.

17. Investment property €/.000 0

At December 31, 2005 these totalled €/000 506 and consisted of the premises in Milan, Via Trebazio 1, rented to IMMSI S.p.A.
At June 30, 2006 the amount was reclassified under property, plant and machinery, since the premises were vacated and the asset had returned to the full use of the Parent company.

18. Equity investments **€/.000 607**

Equity investments were as follows:

In thousands of euro	*At June 30, 2006*	*At December 31, 2005*	*Change*
Equity investments in subsidiaries	0	41	(41)
Equity investments in joint ventures	0	0	0
Equity investments in associated companies	607	609	(2)
Total	*607*	*650*	*(43)*

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

In thousands of euro	Book value at December 31, 2005	Increases	Disposals	Book value at June 30, 2006
Subsidiaries				
Valued in accordance with the cost method:				
Piaggio Argentina	41		(41)	0
Valued at equity:				
Piaggio China Co. Ltd	*0*			*0*
Aprilia Brasil SA	*0*			*0*
Aprilia World Service do Brasil Ltd	*0*			*0*
Total subsidiaries	*41*		*(41)*	*0*
Associated companies				
Valued in accordance with the cost method:				
SA.T.S.A. – Tunisia	45			45
Acciones Depuradora Soc. Coop.		3		3
Motoride.com – Milan (in liquidation)	518			518
Pontech Soc. Cons. a.r.l. – Pontedera	21			21
D.E.V. Diffusione Europea Vehicles Srl	20			20
Mitsuba F.N. Europe S.p.A.	0			0
Marker Srl	5		(5)	0
Total associated companies	*609*	*3*	*(5)*	*607*
Joint ventures				
Valued in accordance with the equity method:				
Piaggio Foshan Motorcycles Co. Ltd – China	0			0
Total joint ventures				

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.

Equity investments in subsidiaries €/000 0

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

It is also noted that:

- Aprilia World Service do Brasil Ltd, at June 30, 2006 had negative shareholders' equity of €/000 301, against which a provision for risks of a similar amount has been recorded;
- Aprilia World Service USA Inc. has been merged by incorporation into Piaggio USA Inc with a subsequent change in the name of the latter to Piaggio Group Americas Inc.;
- During the half Aprilia Finance Ltd, Aprilia Leasing S.p.A. and Motocross Company S.r.l. were closed down.

Equity investments in joint ventures €/000 0

The equity investment in Piaggio Foshan Motorcycles Co. Ltd 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 accounting value of the equity investment remained constant and equal to zero compared to December 31, 2005.

In relation to the loans provided by banking institutes to the subsidiary Piaggio Foshan Motorcycle Co. Ltd, the parent company has issued bank guarantees of €/000 14,080.

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

Piaggio Foshan Motorcycle Co.	Financial statements at June 30, 2006	
		45% (*)
In thousands of euro		
NET TRADE RECEIVABLES	388	175
TRADE RECEIVABLES DUE FROM P&C	6,233	2,805
STOCKS	2,679	1,206
TRADE PAYABLES	(8,215)	(3,697)
PAYABLES DUE TO P&C	(4,250)	(1,912)
OTHER RECEIVABLES	971	437
OTHER PAYABLES	(1,044)	(471)
WORKING CAPITAL	(3,238)	(1,457)
TANGIBLE ASSETS	15,942	7,174
INTANGIBLE ASSETS	3	2
NET TANGIBLE ASSETS	15,946	7,176
TOTAL ASSETS	15,946	7,176
NET INVESTED CAPITAL	12,708	5,719
Other Provisions	0	0
PROVISIONS	0	0
FINANCIAL PAYABLES	17,031	7,664
FINANCIAL PAYABLES (Not guaranteed by Piaggio)	0	0
SHORT-TERM FINANCIAL RECEIVABLES AND CASH	(2,178)	(980)
FINANCIAL POSITION	14,853	6,684
SHARE CAPITAL	25,179	11,331
OTHER PROVISIONS	33,653	15,144
PROFIT/LOSS FROM PREVIOUS YEARS	(63,226)	(28,452)
RESULT FOR THE PERIOD	2,249	1,012
SHAREHOLDERS’ EQUITY	(2,145)	(965)
TOTAL SOURCE OF FUNDS	12,708	5,719

(*) percentage owned by Piaggio & C. S.p.a.

Equity investments in associated companies €/000 607

The changes recorded in the half were due to:

- Sale of the equity investment in Marker S.r.l., previously recorded under equity investments in associated companies for €/000 5;
- Reclassification under equity investments in associated companies of the equity investment in Acciones Depuradora Soc. Coop. previously recorded under other equity investments.

19. Other non-current financial assets €/.000 6,086

In thousands of euro	*At June 30, 2006*	*At December 31, 2005*	*Change*
Financial receivables due from third parties	0	9,790	9,790
Financial receivables due from associated companies	93	0	93
Receivables due from Group companies valued at equity	3,994	381	3,613
Equity investments in other companies	182	183	(1)
Other	1,817		1,817
Total	*6,086*	*10,354*	*(4,268)*

During the half the financial receivable held by Piaggio & C. S.p.A. due from Scooter Holding 1 S.p.A., formerly Piaggio Holding S.p.A., of €/000 9,790 was reclassified under current other financial assets since it was received in August 2006.

The heading receivables due from Group companies valued at equity includes the receivable due from AWS do Brasil of €/000 412 as well as the receivable due from Piaggio Foshan Motorcycles of €/000 3,582. The receivable due from Piaggio Foshan is related 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, given certain conditions, Piaggio Foshan will arrange payment of 4.5 million US$ as soon as possible, including in instalments, by 15 April 2007 and in any case no later than 15 April 2009. At December 31, 2005 this receivable had been allocated under "Non-current trade receivables and other receivables".

Against the risks which may arise from the aforementioned agreements a specific allocation has been recorded under liabilities which is considered sufficient on the basis of the elements available.

The heading other mainly includes encumbered deposits.

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

In thousands of euro	Book value at December 31, 2005	Increases	Disposals	Book value at June 30, 2006
Other companies:				
Valued at cost:				
Sviluppo Italia Liguria S.c.p.a.(formerly Bic Liguria S.p.A.)	5			5
Consorzio Pisa Ricerche	76			76
Centro per l'innovazione – Pisa	3		(3)	0
A.N.C.M.A. – Rome	1			1
E.CO.FOR. S.p.A. – Pontedera	61			61
Consorzio Fiat Media Center – Turin	3			3
S.C.P.S.T.V.	21			21
Other (Aprilia Group)	5			5
Acciones Banco Santander Central Hispano	5			5
IVM		5		5
Acciones Depuradora	3		(3)	0
Total other companies	183	5	(6)	182

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

20. Current and non-current receivables due from tax authorities €/.000 21,089

Receivables due from tax authorities of €/000 21,089 were as follows:

In thousands of euro	*At June 30, 2006*	*At December 31, 2005*	*Change*
Receivables due from Tax authorities for sales tax	11,289	10,753	536
Receivables due from Tax authorities for income tax	9,422	8,617	805
Other receivables due from the public administration	378	226	152
Total tax receivables	21,089	19,596	1,493

Receivables due from Tax authorities included under non-current assets totalled €/000 7,193, compared to €/000 7,156 at December 31, 2005, while receivables due from Tax authorities included under current assets totalled €/000 13,896 compared to €/000 12,440 at December 31, 2005.

21. Deferred tax assets €/.000 38,676

These totalled €/000 38,676 overall compared to €/000 35,135 at December 31, 2005. The change of €/000 3,541 was caused for €/000 1,900 by a reclassification from deferred tax liabilities, for €/000 882 by the tax impact for the period on the discounting of the employee leaving indemnity of the Parent company and for €/000 759 by consolidated adjustments related mainly to the elimination of infragroup profits on stocks.

Deferred tax assets mainly includes: prepaid tax, largely referring to the cancellation of unrealised intercompany capital gains with third parties, deferred tax assets on the tax losses of Nacional Motor S.A. for €/000 11,082 overall and deferred tax assets on tax losses and temporary differences of the Parent company for €/000 17,811 overall.

22. Non-current trade receivables and other receivables — €/.000 2,652

Trade receivables and other receivables included under non-current assets totalled €/000 2,652 compared to €/000 7,140 at December 31, 2005, as follows:

In thousands of euro	At June 30, 2006	At December 31, 2005	Change
Receivables due from customers	976	1,642	(666)
Receivables due from associated companies	396	0	396
Receivables due from companies valued at equity	0	3,776	(3,776)
Other	1,280	1,722	(442)
Total	*2,652*	*7,140*	*(4,488)*

As already noted the receivable due from Piaggio Foshan Motorcycles was reclassified during the half under non-current other financial assets.

23. Current trade receivables and other receivables — €/.000 351,538

Trade receivables and other receivables included under current assets totalled €/000 351,538 compared to €/000 176,772 at December 31, 2005. The increase of €/000 174,766 was linked to the phenomenon of the seasonal nature of sales which are concentrated in the spring and summer months.

Trade receivables and other receivables included under current assets are represented by:

In thousands of euro	At June 30, 2006	At December 31, 2005	Change
Receivables due from customers	314,036	150,851	163,185
Receivables due from associated companies	838	962	(124)
Receivables due from parent companies	23	0	23
Receivables due from others	36,641	23,968	12,673
Other non-financial current assets	0	991	(991)
Total	*351,538*	*176,772*	*174,766*

Trade receivables is made up of the receivables, referring to normal sale transactions, shown net of a provision for risks on receivables of €/000 17,779.
The parent company normally cedes its receivables with and without recourse. At June 30, 2006 receivables ceded with recourse totalled €/000 21,146 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 June 30, 2006 trade receivables disposed of with recourse totalled €/000 140.047 overall, of which €/000 59,265 before the contractual expiry.

The change in the provision was as follows:

In thousands of euro	
December 31, 2005	23,601
Increases for provisions	1,340
Decreases for applications	(7,162)
June 30, 2006	17,779

Receivables due from others includes for €/000 399 the payment made by Piaggio & C. SpA to Simest for the repurchase of 2.5% of the share capital of Piaggio Vehicles Private Limited. At June 30, 2006 the Italian and Indian formalities had still not been completed for the transfer of the shares of Piaggio Vehicles Private Limited. The operation ended on 18 August 2006. At that date the Piaggio Group held 100% of the share capital of Piaggio Vehicles Private Limited.

24. Inventories €/.000 245,952

At June 30, 2006 these totalled €/000 245,952 compared to €/000 192,029 at the end of the period in 2005, as follows:

In thousands of euro	*At June 30, 2006*	*At December 31, 2005*	*Change*
Raw materials and consumables	116,141	82,607	33,534
Writedown provision	(12,372)	(11,519)	(853)
	103,769	*71,088*	*32,681*
Products in process of formation	15,385	16,466	(1,081)
Writedown provision	(852)	(1,048)	196
	14,533	*15,418*	*(885)*
Finished products and goods for resale	141,238	122,661	18,577
Writedown provision	(13,690)	(17,170)	3,480
	127,548	*105,491*	*22,057*
Payments on account	*102*	*32*	*70*
Total	245,952	192,029	53,923

Overall growth of €/000 53,923 was related to the seasonal nature of the production cycle.

25. Other current financial assets **€/.000 44,992**

These were as follows:

In thousands of euro	*At June 30, 2006*	*At December 31, 2005*	*Change*
Financial receivables due from third parties	9,792	14	9,778
Financial receivables due from associated companies	30	123	(93)
Securities	34,102		34,102
Other	1,068		1,068
Total	*44,992*	*137*	*44,855*

Financial receivables due from third parties mainly includes the reclassification of the financial receivable held by Piaggio & C. S.p.A. and due from Scooter Holding 1 S.p.A. (€/000 9,790), which has already been commented on under non-current other financial assets.
Securities mainly refers to the underwriting of Italian state bonds (BTP 1-nov-2006 7.75%) and deposit certificates issued by an Indian public social security body which were carried out respectively by the Parent company (€/000 30,484) and by the Indian subsidiary (€/000 3,587) in order to make efficient use of temporary liquidity.
The heading other mainly includes the current portion of guarantee deposits.

26. Cash and cash equivalents **€/.000 39,647**

The heading mainly includes short-term and on demand bank deposits.
Cash and cash equivalents totalled €/000 39,647 compared to €/000 42,770 at December 31, 2005, as shown in the following table:

In thousands of euro	*At June 30, 2006*	*At December 31, 2005*	*Change*
Bank and post office deposits	39,581	42,498	(2,917)
Cheques		212	(212)
Cash on hand	66	60	6
Total	*39,647*	*42,770*	*(3,123)*

27. Assets held for sale **€/.000 701**

The increase of €/000 646 recorded in the half concerned the value of some land located in the town of Noale, the preliminary sale contract for which was signed on 25 July 2006.

INFORMATION ON THE CONSOLIDATED BALANCE SHEET - LIABILITIES

28. Share capital and reserves €/.000 413,289

Share capital €/000 194,827

Share capital at June 30, 2006, 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.

Share premium reserve €/000 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.

Reserve for shares to be issued €/000 11,643

Following the exercise of 9,581,789 options at a price of 0.98 euro each and of 1,310,000 options at a price of 1.72 euro each for the underwriting of a corresponding number of shares, this reserve totalled € 11,643,353.22 and will be used for € 5,663,730.28 to increase share capital and for € 5,979,622.94 to increase the share premium reserve.
The underwriting took place in full on 11 July 2006.

Receivable due from shareholders for payments to be made €/000 (11,643)

The amount of € 11,643,353.22 represents the receivable claimed by the Parent company from the aforementioned share underwriters.

Legal reserve €/000 723

The legal reserve at June 30, 2006 stood at €/000 723.

Other reserves and profit/loss carried forward €/000 128,205

The breakdown of this item was as follows:

In thousands of euro	*At June 30, 2006*	*At December 31, 2005*	*Change*
Conversion reserve	(1,497)	1,532	(3,029)
Stock option reserve	4,827	2,266	2,561
Derivatives' fair value reserve	57,408	56,898	510
IFRS transition reserve	(4,113)	(4,113)	0
Total other reserves	*56,625*	*56,583*	*42*
Consolidation reserve	993	993	0
Profit / (loss) brought forward	70,587	32,704	37,883
Total	128,205	90,280	37,925

The derivatives fair value reserve includes €/000 57,328 arising from the assessment of the Aprilia warrants and €/000 80 relating to the effect of the recording of the cash flow hedge.
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.

Group net income for the period €/000 64,429

Minority interest – capital and reserves €/000 605

The period end values 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 period

In thousands of euro	*Net income at June 30, 2006*	*Shareholders' equity at June 30, 2006*
Piaggio & C. S.p.A.	49,390	309,774
Difference between the application of the IAS standards to the financial statements of the Parent company and the consolidated financial statements	(260)	34,644
Difference between the book value of the equity investments valued at cost by the Parent company and the assessment of the same investments on an equity basis	15,438	78,053
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.	182	(9,182)
Piaggio & C. Group	64,750	413,289

29. Financial liabilities (current and non-current) **€/.000 409,746**

Financial liabilities included under non-current liabilities totalled €/000 371,436 compared to €/000 375,596 at December 31, 2005, while financial liabilities included under current liabilities totalled €/000 38,310 compared to €/000 88,488 at December 31, 2005.

As is shown in the table on the net financial position included in the financial statement schedules, the Group's overall net financial position fell from €/000 411,387 at December 31, 2005 to €/000 326,175 at June 30, 2006, thus down by €/000 85,212.

The attached tables summarise the breakdown of financial debt at June 30, 2006 and at December 31, 2005, as well as the changes in the half.

In thousands of euro	*At December 31, 2005*	*Reclassi-fications*	*Other changes*	*At June 30, 2006*
Non-current items				
Medium/long-term loans	187,804	(2,697)	94	185,201
Bonds falling due after 12 months	143,951		265	144,216
Other medium/long-term loans				
of which leasing	*11,385*	*(490)*		*10,895*
of which payables due to other lenders	*23,211*	*(1,478)*	*62*	*21,795*
of which EMH derivative	*9,190*		*84*	*9,274*
of which payables due to parent companies	*55*			*55*
Total Loans after 12 months	43,841	(1,968)	146	42,019
Total	*375,596*	*(4,665)*	*505*	*371,436*

In thousands of euro	*At December 31, 2005*	*Reclassi-fications*	*Repay-ments*	*At June 30, 2006*
Current items				
Current account overdrafts	12,115		(9,330)	2,785
Current account payables	31,532		(29,133)	2,399
Payables due to factoring companies	32,502		(11,011)	21,491
Current portion of medium/long-term				
of which leasing	903	490	(464)	929
of which due to banks	6,172	1,789	(2,696)	5,265
of which payables due to other lenders	5,264	2,386	(2,209)	5,441
Total Loans within 12 months	12,339	4,665	(5,369)	11,635
Total	*88,488*	*4,665*	*(54,843)*	*38,310*

The significant decrease in debt was due to the cash flow generated in the first half of 2006 thanks to the positive income performance and a further improvement in the management of working capital. Against this background, it was arranged to reduce the forms of short-term debt, typically in the forms of current account overdrafts, the taking out of revolving credit lines and advances from factoring, while no new medium-term credit lines have been opened.

The following table shows the breakdown of debt and the repayment plan at June 30, 2006.

	Accounting balance	*Notional value*	*Accounting balance*	*Shares with expiry dates*						
(in thousands of euro)	*At Dec31 2005*	*At June 30 2006*	*At June 30 2006*	*Within 12 months*	*Over 12 months*	*2nd Half 2007*	*Dec31 2008*	*De 31 2009*	*Dec31 2010*	*After Dec31 2010*
Bank loans	237,623	197,746	195,650	10,449	185,201	15,089	29,191	28,204	56,175	56,542
Debentures	143,951	150,000	144,216	-	144,216					144,216
Other medium/long-term loans:										
Of which leasing	12,288	-	11,824	929	10,895	466	690	723	756	8,260
Of which payables due to other lenders	60,977	27,164	48,727	26,932	21,795	1,225	4,352	4,231	3,758	8,229
Of which EMH derivatives	9,190	3,500	9,274		9,274			9,274		
Of which payables due to parent companies	55	55	55	-	55					55
Total other loans	82,510	30,719	69,880	27,861	42,019	1,691	5,042	14,228	4,514	16,544
Total	464,084	378,465	409,746	38,310	371,436	16,780	34,233	42,432	60,689	217,302

The following table analyses financial debt by currency and interest rate.

In thousands of euro	*Accounting balance at December 31, 2005*	*Accounting balance at June 30, 2006*	*Notional value at June 30, 2006*	*Rate in force at June 30, 2006 (%)*
Euro	459,018	406,661	375,380	6.376%
Pound sterling	1,459	578	578	5.95%
Singaporean dollar	1,528	1,018	1,018	5.29%
Indian rupee	938	1,489	1,489	
US dollar	594			
Croatian kune	547			
Total non-euro currencies	5,066	3,085	3,085	5.62%
Total	*464,084*	*409,746*	*378,465*	*6.347%*

Medium-term loans (€/000 185,201) mainly includes the following loans:

- loan provided to the Parent company by Mediobanca – Banca di Credito Finanziario SpA and Banca Intesa and in April 2006 syndicated to a restricted pool of banks for a nominal overall amount of €/000 250,000. This loan is broken down into a tranche of nominal payments of €/000 150,000 for the loan which have been fully used and a tranche of €/000 100,000 usable as a credit line which at June 30, 2006 was completely unused. 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 23 December 2012 for the loan tranche, a variable interest rate set to the Euribor 6-month rate to which a variable margin is added between a maximum of 2.10% and a minimum of 0.65% depending on the Financial Debt/ EBITDA ratio. In relation to the improvement in this index recorded with the annual financial statement figures for 2005, this margin has fallen from the initial

1.30% to 1.15% as from the second half of 2006. 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. It should be noted that, in reference to the results for 2005 these parameters were amply satisfied;

- a loan of €/000 29,000 conceded to the parent company by a pool of 14 banks for the purchase in closing of Aprilia to Piaggio & C. S.p.A. for a sum of 34 million euro in non self-liquidating financial receivables claimed by the same lenders from Aprilia S.p.A. The economic terms envisaged 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 31 December 2009, aligned with the exercise date for the Piaggio 2004-2009 warrants underwritten by the same lenders during the Aprilia closing;
- a loan of €/000 1,045 provided by Interbanca in accordance with Law 346/88 on tax breaks for applied research and guaranteed by a lien on property (non-current portion €/000 1,045);
- interest free loan of €/000 2,691 provided by Banca Antonveneta originally to a subsidiary of the Aprilia Group and following the acquisition taken on by the Parent company with a single repayment date in 2011. The economic terms envisage a market interest rate over the last two years on the basis of the performance of the Piaggio 2004-2009 warrants;
- loan of €/000 968 provided to the parent company by Unicredito Italiano with EIB reserves at a variable rate and falling due on 1 July 2007;
- loan of €/000 1,291 provided to the parent company by the European Investment Bank with a guarantee from the Banca Toscana at a variable rate and expiring on 30 June 2007;
- loan of €/000 904 provided to the parent company by Mediocredito Centrale at a discounted rate in accordance with Law 49 art. 7 on international cooperation, falling due on 16 June 2008 (non-current part €/000 452);
- loan of €/000 3,604 provided to the parent company by Efibanca at a variable rate and falling due on 28 December 2009 (non-current part €/000 1,030);
- syndicated loan of €/000 2,879 (share supplied by commercial banks net of commissions) provided to Nacional Motor at a variable rate and falling due on 30 June 2008. The contractual terms of this loan envisage also the achievement of some financial covenants with an annual test. It is noted that on the basis of the results for 2005 the Spanish subsidiary satisfied all the parameters.

Financial liabilities after 12 months includes for €/000 144,216 (accounting net value) the high yield bond issued on 27 April 2005 by the subsidiary Piaggio Finance S.A. (Luxembourg), for a nominal amount of €/000 150,000, falling due on 30 April 2012 and with a half-yearly coupon with a fixed annual nominal rate of 10%. The bond issue was guaranteed by the Parent company and in April 2006 benefited from an upgrade by Moody’s and Standard & Poor’s. On the basis of the results in 2005, Moody’s assigned a Ba3 rating (previously B2) aligning it to the issuer’s rating

(previously B1) known as a stable outlook; likewise Standard & Poor's assigned the issue a rating of B+ (previously B) aligning it to the issuer's rating known as positive outlook.
Medium/long-term loans for €/000 48,389 consisted of €/000 42,019 for the non-current portion, €/000 929 for the current portion of loans for leasing and €/000 5,441 for the current portion of payables due to other lenders. Their breakdown was as follows:

- finance leasing for €/000 11,824 of which €/000 11,409 conceded by Locat S.p.A. to Moto Guzzi S.p.A., €/000 388 conceded by Italease Factoring S.p.A. to Piaggio & C. S.p.A and €/000 27 conceded by Centro Leasing to Piaggio & C. S.p.A.;
- payables due to Interbanca of €/000 9,274 as provider of the EMH derivatives;
- beneficial loans for €/000 12,476 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 11,395);
- loans for €/000 14,699 agreed by the Catalan Institute of Finance in favour of Nacional Motor S.A. of which €/000 11,780 was part of a variable rate syndicated loan falling due on 30 June 2013. The remaining €/000 2,919 was encumbered by a lien and falls due on 28 June 2007.

<u>Derivatives</u>

Exchange rate risk

In the first half of 2006 exchange rate risk management followed the policy adopted in 2005 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 June 30, 2006 for Piaggio & C. S.p.A. there are forward purchases of JPY/000 290,000 equivalent to €/000 2,007 (valued at the forward exchange rate) and of USD/000 1,900 corresponding to €/000 1,508.
At June 30, 2006 the following forward sale contracts were outstanding:

- for a value of USD/000 24,360 corresponding to €/000 19,222 (valued at the forward exchange rate);
- for a value of GBP/000 5,300 corresponding to €/000 7,675 (valued at the forward exchange rate);
- for a value of JPY/000,000 312 corresponding to €/000 2,155 (valued at the forward exchange rate)
- for a value of CHF/000 6,325 corresponding to €/000 4,057 (valued at the forward exchange rate)
- and finally Norwegian and Danish corona for an overall forward value of €/000 2,415.

In reference to the contracts in place for the cover of exchange rate risk on forecast transactions (business risk), at June 30, 2006 in the parent company there were forward purchase transactions of JPY/000 1,020,000 corresponding to €/000 7,486 and forward sales transactions for a value of CHF/000 4,825 corresponding overall to €/000 3,158 (valued at the forward exchange rate) and GBP/000 4,790 corresponding to €/000 6,965 (valued at the forward exchange rate).
As for Piaggio Limited and Piaggio Group America, at June 30, 2006 there were forward sale transactions respectively for a value of GBP/000 6,775 and USD/000 8,550 corresponding overall to €/000 16,978 (valued at the forward exchange rate).

30. Trade payables and other payables (current and non-current) €/.000 531,855

Trade payables and other payables included under non-current liabilities totalled €/000 13,035 compared to €/000 13,403 at December 31, 2005, while trade payables included under current liabilities totalled €/000 518,820 compared to €/000 296,616 at December 31, 2005.

In thousands of euro	*At June 30, 2006*	*At December 31, 2005*	*Change*
Non-current liabilities			
Payables due to suppliers		223	(223)
Tax payables for indirect and other taxes	435	797	(362)
Payables due to social security institutions	1,066	1,116	(50)
Other payables	11,534	11,267	267
Total non-current part	*13,035*	*13,403*	*(368)*

In thousands of euro	*At June 30, 2006*	*At December 31, 2005*	*Change*
Current liabilities			
Payables due to suppliers	511,730	292,587	219,143
Trade payables due to associated companies	7,090	2,614	4,476
Trade payables due to parent companies		1,415	(1,415)
Total current part	*518,820*	*296,616*	*222,204*

The overall growth in trade payables and other payables of €/000 221,836 is connected to the aforementioned seasonal phenomenon in the production cycle.

31. Provisions (current and non-current) **€/.000 56,089**

The breakdown and movements in the provisions for risks during the half was as follows:

In thousands of euro	Balance at December 31, 2005	allocations	applications	Reclassification	translation difference	Balance at June 30, 2006
Provision for product liability	19,893	9,103	(6,414)		(39)	22,543
Provision for promotional costs	4,064		(4,064)			0
Provision for risks on equity investments	5,906		(55)			5,851
Provisions for restructuring	6,172		(1,685)			4,487
Provision for contractual risks	13,344	590	(2,237)	2,777		14,474
Other provisions for risks and charges	14,877	533	(3,850)	(2,777)	(49)	8,734
Total	*64,256*	*10,226*	*(18,305)*	*0*	*(88)*	*56,089*

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

In thousands of euro	*At June 30, 2006*	*At December 31, 2005*	*Change*
Non-current portion			
Provision for product liability	6,763	10,425	(3,662)
Provision for risks on equity investments	5,851	5,906	(55)
Provisions for restructuring	1,589	0	1,589
Provision for contractual risks	14,474	13,344	1,130
Other provisions for risks and charges	8,651	14,877	(6,226)
Total non-current portion	*37,328*	*44,552*	*(7,224)*

In thousands of euro	*At June 30, 2006*	*At December 31, 2005*	*Change*
Current portion			
Provision for product liability	15,780	9,468	6,312
Provision for promotional expenses	0	4,064	(4,064)
Provisions for restructuring	2,898	6,172	(3,274)
Other provisions for risks and charges	83	0	83
Total current portion	*18,761*	*19,704*	*(943)*

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 9,103 and was used for €/000 6,414 in relation to charges incurred during the half year.
The provision for risks on equity investments includes the share of negative shareholders' equity in the subsidiaries Piaggio China Co. ltd and AWS do Brasil and the Piaggio Foshan joint venture, as well as the charges which it is envisaged may derive from the latter.
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 refers mainly to charges which may arise from the ongoing negotiation of a supply contract.
"Other provisions" include the provision for legal risks for an amount of €/000 4,310.

32. Deferred tax liabilities €/.000 34,525

The provision for deferred tax liabilities refers for €/000 25,432 to the effect of tax on the recording of Aprilia. The remainder is related to temporary differences calculated by other Group companies.

33. Provisions for pensions, employee severance indemnity and staff benefits €/.000 78,921

In thousands of euro	*At June 30, 2006*	*At December 31, 2005*	*Change*
Pension funds	644	434	210
Employee severance indemnity	78,277	76,634	1,643
Total	*78,921*	*77,068*	*1,853*

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.

The changes in the provision for employee severance indemnity were as follows:

	In thousands of euro
Balance at December 31, 2005	76,634
Allocations	5,725
Applications	(3,561)
Discounting effect	(325)
Other movements	(196)
Balance at June 30, 2006	*78,277*

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 under employee costs on a straight line basis over the period between the date of allocation and that of maturity, with a counter entry recognised directly against shareholders' equity.

In accordance with CONSOB communication 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 June 30, 2006		
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	-	-	-	2,745,122	0.98	-	-	2,745,122	0.98	11/07/07

34. Tax payables €/.000 33,244

"Tax payables" totalled €/000 33,244, compared to €/000 14,348 at December 31, 2005.

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

In thousands of euro	*At June 30, 2006*	*At December 31, 2005*	*Change*
Payable for income tax	6,216	4,076	2,140
Payable for non-income tax		814	(814)
Payables due to Tax authorities for:			
- sales tax	18,088	2,149	15,939
- tax withholdings made	4,048	7,294	(3,246)
- other	4,892	15	4,877
Total	27,028	9,458	17,570
TOTAL	*33,244*	*14,348*	*18,896*

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.

35. Other current payables €/.000 67,443

In thousands of euro	*At June 30, 2006*	*At December 31, 2005*	*Change*
Guarantee deposits	1,941	2,028	(87)
Payables due to employees	38,057	29,547	8,510
Various payables due to third parties	27,445	24,662	2,783
Total	*67,443*	*56,237*	*11,206*

Guarantee deposits include the deposit paid in 1997 by T.N.T. Automotive Logistics S.p.A. to Piaggio & C. S.p.A. to guarantee the payment of the employee leaving indemnities accrued 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 1,367.

Payables due to employees includes the amount for holidays accrued but not taken of €/000 16,597 and other payments to be made for €/000 4,612.

E) NON-RECURRING OPERATIONS

For greater clarity in the accounts and in adherence to the regulations of CONSOB the impact on the income statement and balance sheet of non-recurring operations is shown.

INCOME STATEMENT

In thousands of euro	1st half of 2006 published	Listing costs	1st half of 2006 adjusted	1st half of 2005 published	Anti-pollution incentives	1st half of 2005 adjusted
Net sales	**903,310**		**903,310**	**814,292**		**814,292**
Costs for materials	519,356		519,356	463,885		463,885
Costs for services and use of third party assets	172,500	(4,008)	168,492	158,970		158,970
Employee costs	124,843		124,843	121,860		121,860
Depreciation of tangible assets	20,123		20,123	22,950		22,950
Amortisation of intangible assets	22,135		22,135	22,603		22,603
Other operating income	64,760		64,760	81,500	(18,624)	62,876
Other operating costs	16,364		16,364	27,138		27,138
Operating income	**92,749**	**4,008**	**96,757**	**78,386**	**(18,624)**	**59,762**
Income from equity investments	(2)		(2)			0
Financial income	5,460		5,460	9,602		9,602
Financial charges	(19,745)		(19,745)	(24,176)		(24,176)
Income before tax	**78,462**	**4,008**	**82,470**	**63,812**	**(18,624)**	**45,188**
Tax for the period	13,712	130	13,842	12,533	(605)	11,928
Income from functioning assets	**64,750**	**3,878**	**68,628**	**51,279**	**(18,019)**	**33,260**
Assets destined for disposal:						
Profit or loss from assets destined for disposal						
Consolidated net income	**64,750**	**3,878**	**68,628**	**51,279**	**(18,019)**	**33,260**

BALANCE SHEET

In thousands of euro	At June 30, 2006 published	Listing costs	At June 30, 2006 adjusted	At December 31, 2005 published	Anti-pollution incentives	At December 31, 2005 adjusted
ASSETS						
Non-current assets						
Intangible assets	623,949		623,949	624,746		624,746
Property, plant and machinery	249,223		249,223	259,591		259,591
Investment property	0		0	506		506
Equity investments	607		607	650		650
Other financial assets	6,086		6,086	10,354		10,354
Receivables due from tax authorities (long-term)	7,193		7,193	7,156		7,156
Deferred tax assets	38,676		38,676	35,135		35,135
Trade receivables and other receivables	2,652		2,652	7,140		7,140
Total Non-current assets	**928,386**		**928,386**	**945,278**		**945,278**
Assets held for sale	**701**		**701**	**55**		**55**
Current assets						
Trade receivables and other receivables	351,538		351,538	176,772		176,772
Receivables due from tax authorities (short-term)	13,896		13,896	12,440		12,440
Inventories	245,952		245,952	192,029		192,029
Financial assets held for trading	44,992		44,992	137		137
Cash and cash equivalents	39,647		39,647	42,770		42,770
Total Current assets	**696,025**		**696,025**	**424,148**		**424,148**
TOTAL ASSETS	**1,625,112**		**1,625,112**	**1,369,481**		**1,369,481**

In thousands of euro	At June 30, 2006 published	Listing costs	At June 30, 2006 adjusted	At December 31, 2005 published	Anti-pollution incentives	At December 31, 2005 adjusted
SHAREHOLDERS' EQUITY AND LIABILITIES						
Shareholders' equity						
Shareholders' equity of the Group	412,684	3,878	416,562	348,213	(18,019)	330,194
Minority interest	605		605	254		254
Total shareholders' equity	**413,289**	**3,878**	**417,167**	**348,467**	**(18,019)**	**330,448**
Non-current liabilities						
Financial liabilities due after 12 months	371,436		371,436	375,596		375,596
Trade payables and other payables (long-term)	13,035		13,035	13,403		13,403
Provisions for pensions and employee benefits	78,921		78,921	77,068		77,068
Other long-term reserves	37,328		37,328	44,552		44,552
Deferred tax liabilities	34,525		34,525	35,002		35,002
Total Non-current liabilities	**535,245**	**0**	**535,245**	**545,621**	**0**	**545,621**
Current liabilities						
Financial liabilities due within 12 months	38,310		38,310	88,488	18,624	107,112
Trade payables	518,820	(4,008)	514,812	296,616		296,616
Tax payables	33,244	130	33,374	14,348	(605)	13,743
Other short-term payables	67,443		67,443	56,237		56,237
Current portion of other long-term provisions	18,761		18,761	19,704		19,704
Total current liabilities	**676,578**	**(3,878)**	**672,700**	**475,393**	**18,019**	**493,412**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**1,625,112**	**0**	**1,625,112**	**1,369,481**	**0**	**1,369,481**

F) DEALINGS WITH RELATED PARTIES

The main economic and financial dealings that Group companies had with related parties have already been described in the specific paragraph in the Directors' Report to which reference is made here. To supplement that information the following table provides an indication by company of the outstanding items at June 30, 2006, as well as their contribution to the respective headings.

		Values in €/000	As % of statement heading
Dealings with associated companies			
Fondazione Piaggio			
	Other non-current financial assets	93	1.53%
	Other current financial assets	30	0.07%
	Non-current trade and other receivables	396	14.93%
	Current trade and other receivables	122	0.03%
	Current trade and other payables	183	0.04%
Piaggio Foshan			
	Costs for materials	11,761	2.26%
	Costs for services and use of third party assets	9	0.01%
	Net sales	29	0.00%
	Other operating income	1,016	1.57%
	Other non-current financial assets	3,582	58.86%
	Current trade and other receivables	716	0.20%
	Current trade and other payables	6,907	1.33%
Dealings with parent companies			
IMMSI	Costs for materials	1	0.00%
	Costs for services and use of third party assets	3,395	1.97%
	Current trade and other receivables	23	0.01%
Scooter Holding 1			
	Financial charges	70	0.35%
Piaggio Holding Netherlands			
	Non-current financial liabilities	55	0.01%

G) COMMITMENTS AND RISKS

36. Commitments

Commitments for the issue of the "Operation Aprilia" Derivatives

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

37. Guarantees provided

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

TYPE	AMOUNT €/000
Bank guarantee from Cassa di Risparmio di Pisa issued on our behalf in favour of the Administration of the Province of Pisa	130
Bank guarantee from the Banca Commerciale Italiana issued on our behalf in favour of the Genoa Customs Authority	200
Bank guarantee from the Banca Toscana di Pontedera in favour of the local authority of Pontedera issued on 21 October 1996	323
Stand by letter of credit issued by BNL in favour of DAIHATSU MOTOR CO. for JPY 300,000,000 Counter value of €/000 2,058 – used for €/000 1,235	823
Stand by letter of credit issued by MPS in favour of DAIHATSU MOTOR CO. for JPY 180,000,000 Counter value of €/000 1,235 – used for €/000 741	494
Bank guarantee for the credit line of USD 8,100,000 agreed with the Banca di Roma for the associated company Piaggio Foshan	6,371
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	461
Bank guarantee to guarantee the credit line agreed with Banca Intesa BCI to the subsidiary Piaggio Vespa BV for USD 20,000,000	
- of which unused	6,427
- of which agreed to the subsidiary Piaggio Foshan	7,709
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
Bank guarantee from Banca Intesa in favour of ACE TRADE / AUSTRIA Issued on 20-01-2006	1,910
Bank guarantee from Banca Intesa in favour of ACRAPOVIC Issued on 13-02-2006	500
Bank guarantee from BNL issued in favour of the Venice Customs Authority	206
Bank guarantees from Banca Intesa issued in favour of the Venice Customs Authority	165
Bank guarantee from Banco di Brescia issued in favour of the local authority of Scorzé To guarantee the payment of town planning charges	166
Bank guarantee from Veneto Banca issued in favour of SIMEST S.p.A. - Rome	443
Bank guarantee from CA.RI.VE. S.p.A. issued in favour of BMW - Munich	204

H) SUBSEQUENT EVENTS

It is noted that on 5 July 2006 the initial placement offer for Piaggio & C. S.p.A. shares was successfully completed with overall demand of around 2.4 times the offer. In particular regarding the institutional offer, the demand, approximately 3 times the quantity originally set aside, came from leading Italian and foreign investors.

The price of the public offer and of the institutional placement was set at € 2.30 per share, at the minimum limit of the price range set between € 2.30 and € 3.00 corresponding to a capitalisation of over € 887 million. On 13 July 2006, the Global Coordinators (Banca Caboto S.p.A., Citigroup, Deutsche Bank, Lehman Brothers and Mediobanca) exercised in full the greenshoe option for 17,887,544 shares at the price of € 2.30 per share. The IPO, therefore, involved 137,137,839 ordinary shares of Piaggio & C. S.p.A., or 35.6% of the post-offer share capital, for a value of 315.4 M. €.
In the period 11 July 2006 – 5 September 2006 the share proved to be greatly appreciated by the market, and was always well above the offer price and to date has proved to be one of the best shares on the Italian market. The average value at official closing was € 2.636, which represents an increase compared to the initial price of over 14.6%, ranging from a minimum of € 2.469 to a high of € 2.867.
The average volumes traded were 2.7 million.

As described in more detail in the Directors' report at the time of the publication of the aforementioned document the share capital of the Parent company stood at € 201,664,853.52. In fact, the share capital of the Parent company rose by € 6,837,422.28 through the issue of 13,148,889 new ordinary shares offered to beneficiaries of the stock option plan which they underwrote. At the moment there remain 8,223,882 options for the underwriting of a similar number of newly issued Piaggio shares which may be exercised no later than 360 days from the start of trading of the shares on the MTA.

At present no events have occurred subsequent to June 30, 2006 such as to require changes or additional notes to the current financial statements.

In any case refer to the Directors' report for significant events after June 30, 2006.

I) SUBSIDIARIES

38. Companies in the Piaggio Group

In accordance with the CONSOB communication no. 11971 of 14 May 1999 and subsequent changes (art. 126 of the Regulation), hereafter is provided the list of the Group's companies and major equity investments. The list indicates the companies divided by type of control and method of consolidation.

The following are also shown for each company: the company name, the registered office, the country of origin and the share capital in the original currency. Also indicated is the percentage held by Piaggio & C. S.p.A. or by other subsidiaries.

In a separate column there is an indication of the percentage of voting rights at the ordinary shareholders' meeting should it be different from the equity investment percentage in the share capital.

List of companies included in the consolidation area on a line-by-line basis at June 30, 2006

Company name	Registered office	Country	Share capital at June 30, 2006	Currency	% held by Group	Held by	%	% of voting rights
Parent company:								
Piaggio & C. S.p.A.	Pontedera (Pisa)	Italy	194,827,431.24	euro				
Subsidiaries:								
Aprilia Hellas S.A.	Chalandri	Greece	420,000.00	euro	100%	Aprilia World Service B.V.	99.85714%	
						Piaggio Vespa B.V.	0.142857%	
Aprilia Japan Corporation	Yokohama	Japan	3,000,000.00	yen	100%	Piaggio Vespa B.V	100%	
Aprilia Moto UK Limited ***	Stockport - Cheshire	Great Britain	2,555,325.00	gbp	100%	Aprilia World Service B.V.	100%	
Aprilia Motorrad GmbH	Düsseldorf	Germany	2,125,000.00	euro	100%	Aprilia World Service B.V.	100%	
Aprilia Research & Development S.A. ***	Galazzano	Republic of San Marino	260,000,00	euro	100%	Aprilia World Service B.V.	100%	
Aprilia World Service B.V.	Amsterdam	Holland	30,000.00 authorised cap, (6,657,500 subscribed and paid up)	euro	100%	Piaggio & C. S.p.A.	100%	
Derbi Italia S.r.l.	Pontedera (Pisa)	Italy	21,000.00	euro	100%	Nacional Motor S.A.	100%	
Derbi Racing S.L.	Barcelona	Spain	1,263,000.00	euro	100%	Nacional Motor S.A.	100%	
Derbi Retail Madrid S.L.	Barcelona	Spain	603,000.00	euro	100%	Nacional Motor S.A.	100%	
Moto Guzzi S.p.A.	Mandello del Lario (Lecco)	Italy	2,500,000.00	euro	100%	Piaggio & C. S.p.A.	100%	
Moto Laverda S.r.l. ***	Noale (Venice)	Italy	80,000.00	euro	100%	Piaggio & C. S.p.A.	100%	
Nacional Motor S.A.	Barcelona	Spain	9,182,190.00	euro	100%	Piaggio & C. S.p.A.	100%	
P & D S.p.A. ***	Pontedera (Pisa)	Italy	416,000.00	euro	100%	Piaggio & C. S.p.A.	100%	
Piaggio Asia Pacific PTE Ltd.		Singapore	100,000.00	sin$	100%	Piaggio Vespa B.V.	100%	
Piaggio Benelux B.V.	Oosterhout	Holland	45,378.00	euro	100%	Piaggio Vespa B.V.	100%	
Piaggio Deutschland Gmbh	Kerpen	Germany	5,113,500.00	euro	100%	Piaggio Vespa B.V.	70%	
						Piaggio Espana S.A.	30%	

Company name	Registered office	Country	Share capital at June 30, 2006	Currency	% held by Group	Held by	%	% of voting rights
Piaggio Espana S.A.	Madrid	Spain	2,898,000.00	euro	100%	Piaggio Vespa B.V.	100%	
Piaggio Finance S.A.	Luxembourg	Luxembourg	31,000.00	euro	99.99%	Piaggio & C. S.p.A.	99,99%	
Piaggio France S.A.S.	Paris	France	1,209,900.00	euro	100%	Piaggio Vespa B.V.	100%	
Piaggio Group Americas Inc	New York	USA	561,000.00	USD	100%	Piaggio Vespa B.V.	100%	
Piaggio Hellas EPE	Athens	Greece	7,080,000.00	euro	99.9996%	Piaggio Vespa B.V.	99.9996%	
Piaggio Hrvatska D.o.o.	Spalato	Croatia	400,000.00	kuna	75%	Piaggio Vespa B.V.	75%	
Piaggio Indochina PTE Ltd.		Singapore	100,000.00	sin$	100%	Piaggio Asia Pacific PTE Ltd	100%	
Piaggio Limited	London	Great Britain	250,000.00	gbp	100%	Piaggio Vespa B.V.	99.9996%	
						Piaggio & C. S.p.A.	0.0004%	
Piaggio Portugal Limitada	Lisbon	Portugal	5,000.00	euro	100%	Piaggio Vespa B.V.	100%	
Piaggio Vehicles Private Limited	Maharashtra	India	340,000,000.00	rupee	97.5%	Piaggio & C. S.p.A.	97.499997%	
						Piaggio Vespa B.V.	0.000003%	
Piaggio Vespa B.V.	Amsterdam	Holland	91,000.00	euro	100%	Piaggio & C. S.p.A.	100%	

*** Company in liquidation

List of companies included in the consolidation area on an equity basis at June 30, 2006

Company name	Registered office	Country	Share capital at June 30, 2006	Currency	% held by Group	Held by	%	% of voting rights
Aprilia Brasil S.A. ***	Manaus	Brazil	2,020,000.00	Reais	51%	Aprilia World Service Holding do Brasil Ltda	51%	
Aprilia World Service Holding do Brasil Ltda.	San Paolo	Brazil	2,028,780.00	reais	99.99995%	Aprilia World Service B.V.	99.99995%	
Piaggio China Co. LTD	Hong Kong	China	12,500,000 cap, authorised (12,500,000 subscribed and paid up)	renminbi	99.99999%	Piaggio & C. S.p.A.	99.99999%	
Zongshen Piaggio Foshan Motorcycle Co. LTD.	Foshan City	China	29,800,000.00	renminbi	45%	Piaggio & C. S.p.A.	32.5%	
						Piaggio China Co. LTD	12.5%	

*** Company in liquidation

List of other significant equity investments at June 30, 2006

Company name	Registered office	Country	Share capital at June 30, 2006	Currency	% held by Group	Held by	%	% of voting rights
Acciones Depuradora Soc. Coop. Catalana Limitada	Barcelona	Spain	60,101.00	euro	22%	Nacional Motor S.A.	22%	
D.E.V. - Diffusione Europea Vehicles S.r.l. ***	Noale (Venice)	Italy	100,000.00	euro	20%	Piaggio & C. S.p.A.	20%	
Mitsuba F.N. Europe S.p.A.	Pisa	Italy	1,000,000.00	euro	10%	Piaggio & C. S.p.A.	10%	
Motoride S.p.A. ***	Milan	Italy	1,989,973.00	euro	28.2885%	Piaggio & C. S.p.A.	28.2885%	
Pont - Tech , Pontedera & Tecnologia S.c.r.l.	Pontedera (Pisa)	Italy	104,000.00	euro	20%	Piaggio & C. S.p.A.	20%	
S.A.T. Societé d'Automobiles et Triporteurs S.A.	Tunis	Tunisia	210,000.00	TND	20%	Piaggio Vespa B.V.	20%	

*** Company in liquidation

Piaggio & C. S.p.A.

Financial and business performance and financial statements at June 30, 2006

FINANCIAL AND BUSINESS PERFORMANCE AND FINANCIAL STATEMENTS AT JUNE 30, 2006

The financial statements at June 30, 2006 of the parent company Piaggio & C. S.p.A. reported in the following pages have been prepared in accordance with the provisions of CONSOB communication no. 11971 of 14 May 1999 and subsequent changes.
In particular, the accounting principles and criteria adopted for the preparation of these statements are the same as those that will be adopted in preparing the financial statements at 31 December 2006, to the extent that they are compatible. In this regard, following the coming into force of the European Regulation no. 1606/2002 and the Italian law implementing that regulation, as from 1 January 2006 Piaggio & C. S.p.A. has adopted the International Financial Reporting Standards (IFRS) for the preparation of the statements for the year. Consequently, the figures for the first half of 2006, and the comparative figures for the prior period, are presented in accordance with the IFRS. For further details regarding these standards, as well as the impact of their adoption on the then published values for 2005 in accordance with Italian accounting standards, please refer to the specific Appendix found hereafter.

Here below are the financial statements at June 30, 2006 of the parent company in summarised form and comment.

PIAGGIO & C. - FINANCIAL HIGHLIGHTS

Amounts in M. €		1st half 2006	1st half 2005	2005
Income statement (reclassified)				
Net sales		711.1	488.1	1,129.9
Gross operating margin (EBITDA)		102.7	83.1	150.9
Operating income		69.7	54.1	71.5
Income before tax		55.9	49.7	25.9
Net income		49.4	43.6	15.9
GOP as % of Net sales	%	14.4	17.0	13.4
Operating income as % of Net sales	%	7.9	11.1	6.3
Net income as % of Net sales	%	6.94	8.9	1.4
Balance sheet				
Net working capital		(7.4)		12.0
Tangible assets		183.3		191.1
Intangible assets		471.1		468.1
Financial assets		129.7		139.3
Provisions		-149.6		-154.1
Net invested capital		**627.0**		**656.5**
Net financial position		317.2		399.2
Shareholders' equity		309.8		257.2
Sources of financing		**627.0**		**656.5**
Change in Net financial position			n.a.	n.a.
Opening Net financial position		**-399.2**		
Cash Flow from operations (net income+Amortisation and depreciation)		82.4		
(Increase)/Decrease in Working capital		19.4		
(Increase)/Decrease in Investment		-18.4		
Net change in provisions for pensions and other provisions		-4.5		
Change in Shareholders' equity		3.1		
Total Change		***82.0***		
Closing Net financial position		**-317.2**		

BUSINESS PERFORMANCE

The income statement at June 30, 2006 shows net income of 49.4 M. €, up by 5.8 M. € compared to the same period in the previous year.

It is also noted that, as from December 31, 2005, Piaggio & C. S.p.A. incorporated Aprilia S.p.A. and that therefore the figures at June 30, 2005 used for comparative purposes refer to the figures for Piaggio & C. S.p.A. prior to the merger.

Net sales

Net sales at Piaggio & C. S.p.A. in the first half of 2006 stood at 711.1 M. €, recording growth (+45.7%) compared to the figure in the same period in 2005, due for 196.9 M. € to the contribution from Aprilia following the merger of Aprilia S.p.A on December 31, 2005. The increase is due to the improved performance of both the two-wheel and light transport vehicle businesses. In particular, compared to the same period in the previous year, growth was due to increases in net sales recorded by Gilera, Vespa, Aprilia and Moto Guzzi and the increase in net sales of light transportation vehicles. Net sales in 2006 include sales of 36.5 M. €, realised in the first quarter of 2006 with Poste Italiane S.p.A., in relation to the supply contract which the parent company Piaggio & C. won at the end of 2005.

The **EBITDA of Piaggio & C. S.p.A. –** defined in keeping with the consolidated accounts as "operating income" gross of amortisation of intangible assets and depreciation of property, plant and machinery as resulting from the income statement - was 102.7 M. €, up by 23.6% compared to 83.1 M. € in the same period in the previous year. In percentage terms compared to net sales, EBITDA in the first half of 2006 stood at 14.4%, down by 2.6% compared to the figure in the same period in 2005. The parent company's separate financial statements, as already noted in the income statement figures for the first half of 2006, were also affected by 4.1 M. € for the share of charges which the parent company had to bear for the IPO, while in the first half of 2005 the half year situation included operating income of 11.2 M. € for Ministry of the Environment anti-pollution incentives which were recognised to Piaggio & C. S.p.A. in relation to the sale of environmentally friendly vehicles between June 2003 and July 2004 and which the company had already passed on to end users in previous years. Net of the effects of these non-recurring operations the parent company's EBITDA at June 30, 2006 and June 30, 2005 would have been respectively 106.7 M. € and 71.9 M. € (+48.5%) with a ratio to net sales of 15.0% and 14.7%.

Operating income in the first half of 2006 was 69.7 M. €, up by 15.7 M. € compared to 54.1 M. € in the same period in 2005, while profitability (measured as operating income in relation to net sales), fell to 9.8% from 11.1% in the same period in 2005.

As previously described relating to the impact of non-recurring events or transactions, operating income net of the effect of the IPO costs and the anti-pollution incentives received in 2005 would have been respectively 73.7 M. € compared to 42.8 M. € in the same period in 2005 (+72.3%), with a ratio to net sales of 10.4% compared to 8.8% in the same period of 2005.

Financial charges totalled 13.8 M. €, compared to 9.0 M. € in the first half of 2005.

The first half of 2006 ended, after tax of 6.5 M. €, with **net income** of 49.4 M. €, compared to net income of 43.6 M. € recorded in the same period of 2005.

CONSOLIDATED CASH FLOW STATEMENT

The consolidated cash flow statement prepared in accordance with the models provided by the International Financial Reporting Standards (IFRS) is shown in the "Consolidated financial statements and Explanatory notes at 30 June 2006"; the following is a comment referring to the summarised form shown in the Highlights as set out in previous pages.

Cash generated in the period totalled 82.0 M. €.

Cash flow from operations, i.e. net income plus amortisation and depreciation, was 78.7 M. €. The positive trend in working capital – which benefited from the progress in the plan to implement factoring without recourse on the Italian market – enabled an improvement in the parent company's net financial position.

Investment activities absorbed liquidity of 18.4 M. €.

BALANCE SHEET OF PIAGGIO & C. S.p.A. AT JUNE 30, 2006

Working capital was negative at 7.4 M. €, down by 19.4 M. € compared to the values at December 31, 2005, thanks also to the management actions to limit stocks and manage credit which have been undertaken over the last 12 months, as well as progress in the plan to implement factoring without recourse on the Italian market, which was completed in July.

Net financial position at June 30, 2006 was 317.2 M. €, compared to 399.2 M. € at December 31, 2005. The decrease of 82.0 M. € compared to December 31, 2005 was mainly due to the positive trend in cash flow from operations.

The breakdown of net financial position is summarised as follows:

Amounts in M. €	*June 30, 2006*	*December 31, 2005*
Medium/long-tern financial payables	353.7	356.1
Short-term financial payables	50.7	89.4
(Financial assets)	(73.6)	(32.1)
(Cash and cash equivalents)	(13.7)	(14.2)
Total	317.2	399.2

Shareholders' equity at June 30, 2006 totalled 309.8 M. €, compared to 257.2 M. € at December 31, 2005.

EMPLOYEES

Employees of Piaggio & C. S.p.A. at June 30, 2006 totalled 4,750 units compared to 4,045 units at December 31, 2005.

The development in the workforce is in line with the seasonal cycle of production for which use is made of staff on fixed term contracts.

	Average number		*Exact number at*	
Level	*1.1- 30.6-2006*	*1.1-30.6-2005*	*30 June 06*	*31 Dec. 05*
Directors	89	61	88	83
Senior managers/employees	1,235	818	1,238	1,230
Technical staff and workers	3,294	2,705	3,424	2,732
Total	**4,618**	**3,584**	**4,750**	**4,045**

INCOME STATEMENT

In thousands of euro	1st half 2006	1st half of 2005	Change
Net sales	**711,075**	**488,113**	**222,963**
Costs for materials	401,766	266,399	135,367
Costs for services and use of third party assets	132,410	84,396	48,014
Employee costs	100,019	72,893	27,126
Depreciation of tangible assets	16,378	14,397	1,981
Amortisation of intangible assets	16,587	14,666	1,921
Other operating income	37,910	29,051	8,859
Other operating costs	12,083	10,361	1,722
Operating income	**69,742**	**54,051**	**15,692**
Income from equity investments	-29	4,601	4,631
Financial income	5,086	7,921	-2,835
Financial charges	-18,913	-16,896	2,017
Income before tax	**55,886**	**49,677**	**6,209**
Tax for the period	6,496	6,105	391
Income from functioning assets	**49,390**	**43,572**	**5,818**
Assets destined for disposal:			
Profit or loss from assets destined for disposal			**0**
Net income	**49,390**	**43,572**	**5,818**

BALANCE SHEET

In thousands of euro	At 30 June 2006	At 31 December 2005	Change
ASSETS			
Non-current assets			
Intangible assets	471,062	468,113	2,949
Property, plant and machinery	182,639	190,590	-7,950
Investment property	0	506	-506
Equity investments	98,151	98,069	82
Other financial assets	31,509	41,271	-9,762
Receivables due from tax authorities (long-term)	7,063	7,035	28
Deferred tax assets	17,810	17,810	0
Trade receivables and other receivables	1,676	1,140	535
Total non-current assets	**809,910**	**824,534**	**-14,625**
Assets held for sale	**646**	**0**	**646**
Current assets			
Trade receivables and other receivables	354,573	175,248	179,325
Receivables due from tax authorities (short-term)	3,088	2,689	399
Inventories	171,884	132,674	39,210
Other financial assets	62,669	24,300	38,368
Cash and cash equivalents	13,661	14,163	-502
Total current assets	**605,875**	**349,076**	**256,799**
TOTAL ASSETS	**1,416,430**	**1,173,610**	**242,820**

In thousands of euro	At 30 June 2006	At 31 December 2005	Change
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	194,827	194,827	0
Share premium reserve	24,500	24,500	0
Revaluation reserves	0	0	0
Legal reserve	723	723	0
Reserve for treasury stock held	0	0	0
Other reserves	75,040	51,515	23,526
Reserve for shares to be issued	11,463		11,463
Receivables due from shareholders for payments still to be made	-11,463	0	-11,463
Retained earnings (loss)	-34,707	-30,211	-4,496
Net income for the period	49,390	15,882	33,509
Total shareholders' equity	**309,774**	**257,236**	**52,538**
Non-current liabilities			
Financial liabilities due after 12 months	348,858	350,971	-2,113
Trade payables and other payables (long-term)	12,513	7,169	5,343
Provisions for severance indemnity and employee benefits	74,993	72,889	2,104
Other long-term provisions	35,040	22,222	12,818
Deferred tax liabilities	27,459	28,192	-733
Total Non-current liabilities	**498,863**	**481,443**	**17,419**
Current liabilities			
Financial liabilities due within 12 months	55,585	94,468	-38,884
Trade payables	467,232	240,025	227,207
Tax payables	15,318	7,509	7,809
Other short-term payables	57,556	62,163	-4,608
Current portion of other long-term provisions	12,103	30,765	-18,662
Total current liabilities	**607,794**	**434,930**	**172,863**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**1,416,430**	**1,173,610**	**242,820**

CASH FLOW STATEMENT

In thousands of euro	1st half of 2006	1st half of 2005
Operative assets		
Net income	49,390	43,572
Tax for the period	6,496	6,105
Depreciation of property, plant and machinery	16,379	14,397
Amortisation of intangible assets	16,587	14,666
Non-monetary costs for stock options	2,561	0
Allocation to provisions for risks and provisions for pensions and employee benefits	12,891	10,331
Writedowns / (Revaluations)	248	19,078
Capital loss / (gain) on disposal of property, plant and machinery	-2	-1,056
Capital loss / (gain) on assets destined for disposal or disuse		-93
Financial income	-5,086	-7,921
Income from dividends		-15,022
Financial charges	18,913	16,896
Amortisation of Government grants		-11,247
Change in net current assets:		
(Increase)/Decrease in trade receivables	-97,333	-84,127
(Increase)/Decrease in other receivables	-82,745	-3,840
(Increase)/Decrease in inventories	-39,210	-1,552
Increase/(Decrease) in trade payables	188,433	111,036
Increase/(Decrease) in other payables	39,511	811
Increase/(Decrease) in current portion of provisions for risks	-18,662	-14,249
Increase/(Decrease) in non-current portion of provisions for risks	5,391	6,319
Increase/(Decrease) in provisions for risks and provisions for severance indemnity and employee benefits	-3,360	-3,048
Other changes	13,940	-7,209
Cash generated by operations	**124,342**	**93,847**
Interest paid	-26,477	-11,393
Tax paid	-5,827	-1,912
Net cash from operations	**92,038**	**80,542**
Investments		
Investment in property, plant and machinery	-8,602	-10,548
Sale price, or redemption value, of property, plant and machinery	35	651
Investment in intangible assets	-18,764	-10,145
Sale price, or redemption value, of intangible assets	5	0
Purchase of equity investments		-83
Sale price of equity investments	-82	989
Loans supplied	-31	-113,782
Repayment of loans supplied	1,908	0
Purchase of financial assets	-30,484	
Interest received	4,371	6,179
Sale price of assets destined for disposal or disuse	0	0
Income from Government grants	0	11,247
Dividends from equity investments		15,022
Cash flow from investments	**-51,644**	**-100,470**
Financing		
Loans received	10,992	138,811
Outlay for repayment of loans	-43,896	-90,021
Loans received with leasing	0	0
Repayment of financial leasing	-133	0
Cash flow from financing	**-33,037**	**48,790**
Increase / (Decrease) in cash and cash equivalents	7,357	28,862
Opening balance	**5,323**	**-21,426**
Translation difference	0	0
Closing balance	***12,680***	***7,436***

SCHEDULE OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of euro)	Share capital	Share premium reserve	Legal reserve	Reserve for shares to be issued	Receivables due from shareholders for outstanding payments	Reserve for assessment of derivatives	Reserve for IAS transition	Reserve for stock options	Profit (loss) in previous years	Profit (loss) for the period Italian GAP	Greater profit (loss) for the period under IAS	**TOTAL SHAREHOLDERS' EQUITY**
At January 1st, 2006	194,827	24,500	723			56,446	-7,196	2,266	-30,211	-4,496	20,378	257,237
Translation of financial statements into currency												0
Change to IAS reserves						586	20,378	2,561			-20,378	3,147
Use of income for 2005									-4,496	4,496		0
Exercise of stock options on 15 May 2006				11,643	(11,643)							
Other movements												0
Net income										49,390		49,390
At June 30, 2006	194,827	24,500	723	11,643	-11,643	57,032	13,182	4,827	-34,707	49,390	0	309,774

Piaggio & C. S.p.A.

Appendix

Transition to the International Financial Reporting Standards (IFRS)

TRANSITION TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The European regulation no. 1606/2002, which passed into Italian law with Law no. 306/2003, and Legislative Decree 38/05, requires companies listed on regulated European stock exchanges to adopt International Financial Reporting Standards (IFRS) in drawing up their completed or ongoing financial statements at December 31, 2006. Therefore, the parent company Piaggio & C. S.p.A. – listed on the M.T.A. as from July 11, 2006 – will draw up the financial statements for the year ending on December 31, 2006 in accordance with the new International Financial Reporting Standards.

In accordance with CONSOB communication DEM/5025723 of 15 April 2005, on 28 August 2006 the independent auditors Deloitte & Touche S.p.A. were given the duty of auditing the "separate" opening balance sheet at the transition date (1 January 2005) and the "separate" financial statements of the parent company drawn up for comparative purposes at December 31, 2005.

On this basis the following are set out:

- √ the accounting standards adopted by the Piaggio & C. S.p.A. as from 1 January 2006, and the regulations for first-time application of the IAS/IFRS (IFRS 1);
- √ the reconciliation statements of consolidated shareholders' equity in accordance with previous accounting standards and that recorded in conformity with the IFRS at the following dates:
  - ❖ date of transition to the IAS/IFRS (1 January 2005);
  - ❖ date of closing of last period in which the financial statements were drawn up in conformity with previous accounting standards (December 31, 2005);
- √ the reconciliation statement of the income statement result recorded in the last financial statements drawn up in accordance with previous accounting standards (December 31, 2005) with that deriving from the application of the IAS/IFRS for the same period.

Also attached are the IAS/IFRS balance sheets at 1 January 2005 and December 31, 2005 and the consolidated income statement for the period ended December 31, 2005.

REGULATIONS AND OPTIONS EXERCISED DURING FIRST-TIME APPLICATION OF THE IAS/IFRS AND THE MAIN IAS/IFRS ACCOUNTING STANDARDS ADOPTED BY PIAGGIO & C. S.p.A.

This information is provided as part of the transition process to the IFRS and for the preparation of the financial statements of Piaggio & C. S.p.A. at 31 December 2006 in accordance with the IFRS as approved by the European Union; it does not include all the schedules, comparative information and explanatory notes which would be required to provide a complete representation, in conformity with the IFRS, of the financial situation and economic performance of Piaggio & C. S.p.A. at December 31, 2005.

In addition, Piaggio & C. S.p.A., having adopted the IFRS standards for its financial statements subsequently compared to its own consolidated financial statements (which included the opening balance sheet at 1 January 2004), has treated assets and liabilities in accordance with the IFRS with the same criteria in both statements (parent company and consolidated) except for some headings which were subject to consolidation adjustments.

In accordance with CONSOB communication DEM/5025723 of 15 April 2005, on 28 August 2006 the independent auditors Deloitte & Touche S.p.A. were given the duty of auditing the "separate" opening balance sheet at the transition date (1 January 2005) and the "separate" financial statements of the parent company drawn up for comparative purposes at December 31, 2005.

The financial statements for 2005 presented here will represent the published figures for comparative purposes in the parent company financial statements at 31 December 2006.

The regulations and the most important options envisaged by the International Financial Reporting Standards and adopted by Piaggio & C. S.p.A. are summarised below:

- method of presenting the financial statements: for the balance sheet it was decided to adopt the "current/non-current" criterion, while for the income statement the classification of costs by nature was adopted. As for the cash flow statement, representation with the so-called "indirect" method was adopted ;

- sector information: Piaggio & C. S.p.A., on the basis of the provisions of IAS 14 "Sector information" has identified as its primary system that by market, secondarily that by activity, and thirdly that by geography on the basis of the location of its customers;

- optional exemptions envisaged by IFRS 1 on first-time application of the IAS/IFRS (1 January 2005):
    - valuation of property, plant and machinery, as well as of investments in property and intangible assets at fair value or, alternatively, at the reassessed cost in substitution of the cost: Piaggio & C. S.p.A. did not take advantage of this exemption since it adopted the criterion of the historic amortised cost for the purposes of the evaluation of the tangible and intangible assets;
    - business combinations: Piaggio & C. S.p.A. has decided to take advantage of the exemption allowed by IFRS 1 which allows the non-application retroactively of the International Financial Reporting Standards for business combinations which occurred before the transition to IFRS. Piaggio & C. S.p.A. decided not to apply IFRS 3 "Business combinations" retroactively to mergers that took place before 1 January 2005: as a consequence, the goodwill generated on acquisitions before the transition date to IFRS

has been kept at the previous value determined in accordance with Italian accounting standards, by means of the verification and recording of any impairment.

- accounting treatment chosen as part of the accounting options envisaged by the IAS/IFRS :

    a. assessment of tangible and intangible assets: following initial recording at cost, IAS 16 and IAS 38 envisage that such assets can be valued at cost (and amortised) or at fair value. Piaggio has chosen to adopt the cost method. In accordance with the accounting treatment envisaged by IAS 16, the value of the assets has been recalculated in relation to the need to establish the value of the land under the buildings and to consider any asset recovery value at the end of its useful life;

    b. 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;

    c. inventories: in accordance with IAS 2 the cost of inventories must be determined with the FIFO method or the weighted average cost method. Piaggio opted for the weighted average cost method, a method it had already used on the basis of Italian accounting standards;

    d. 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;

    e. employee leaving entitlements: on the basis of the provisions of IAS 19, the accounting value of the reserve for employee leaving entitlements and other deferred retribution has been adjusted through the application of actuarial methodology.

MAIN EFFECTS ARISING FROM THE APPLICATION OF THE IAS/IFRS ON THE OPENING BALANCE SHEET AT JANUARY 1 st , 2005, ON THE HALF YEAR BALANCE SHEET AT JUNE 30, 2005 AND ON THE FINANCIAL STATEMENTS AT DECEMBER 31, 2005

EFFECTS OF THE TRANSITION TO THE IFRS ON THE BALANCE SHEET AT JANUARY 1 st , 2005

Amounts in €/000					
	ITALIAN ACCOUNTING STANDARDS	**Reclass-ifications**	**Adjust-ments**	**IAS IFRS**	
ASSETS					**ASSETS**
NON-CURRENT ASSETS					NON-CURRENT ASSETS
Intangible assets	318,863		-4,544	314,319	*Intangible assets*
Tangible assets	143,689	-119	456	144,026	*Tangible assets*
Investment property	0			0	*Investment property*
Equity investments (1)	178,741	-900		177,841	*Equity investments*
Medium/long-term financial assets	39,343	1,517		40,860	*Other financial assets*
Receivables due from Tax authorities (1)	1,085			1,085	*Receivables due from Tax authorities*
Deferred tax assets (1)	6,793			6,793	*Deferred tax assets*
Trade receivables and other receivables (1)	566			566	*Trade receivables and other receivables*
TOTAL NON-CURRENT ASSETS	**689,080**	**498**	**-4,088**	**685,491**	**TOTAL NON-CURRENT ASSETS**
ASSETS DESTINED FOR DISPOSAL	**0**	**1,019**		**1,019**	**ASSETS DESTINED FOR DISPOSAL**
CURRENT ASSETS					**CURRENT ASSETS**
Trade receivables and other receivables (2)	99.256		59,754	159,010	***Trade receivables and other receivables***
Receivables due from Tax authorities (2)	5,776			5,776	*Receivables due from Tax authorities*
Inventories (2)	118,356		390	118,746	*Inventories*
Current financial assets	9,706	-1,517	2,680	10,869	*Current financial assets*
Cash and cash equivalents (3)	1,975			1,975	*Cash and cash equivalents*
TOTAL CURRENT ASSETS	**235,070**	**-1,517**	**62,825**	**296,378**	**TOTAL CURRENT ASSETS**
TOTAL ASSETS	**924,150**	**0**	**58,737**	**982,887**	**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"

Amounts in €/000					
	ITALIAN ACCOUNTING STANDARDS	**Reclass-ifications**	**Adjust-ments**	**IAS IFRS**	
LIABILITIES					**LIABILITIES**
SHAREHOLDERS' EQUITY					**SHAREHOLDERS' EQUITY**
TOTAL SHAREHOLDERS' EQUITY	**189,840**	**0**	**-4,686**	**185,154**	**TOTAL SHAREHOLDERS' EQUITY**
NON-CURRENT LIABILITIES					**NON-CURRENT LIABILITIES**
Financial payables	239,037	-12,442	9,141	235,736	*Financial liabilities*
Trade payables and other payables (4)		7,008		7,008	*Trade payables and other payables*
Provisions for pensions and similar obligations (4)	57,269		3,351	60,619	*Provisions for pensions and similar obligations*
Other long-term provisions (4)		14,615		14,615	*Other long-term provisions*
Deferred tax liabilities (4)	294		296	590	*Deferred tax liabilities*
TOTAL NON-CURRENT LIABILITIES	**296,600**	**-9,181**	**12,789**	**318,570**	**TOTAL NON-CURRENT LIABILITIES**
CURRENT LIABILITIES					**CURRENT LIABILITIES**
Financial payables	134,897	12,442	58,348	205,687	*Financial liabilities*
Trade payables (5)	200,005			200,005	*Trade payables*
Current taxes (5)	5,568			5,568	*Current taxes*
Other payables (5)	53,962	-7,009		46,953	*Other payables*
Current portion of long-term provisions	43,278	-14,615	-7,715	20,949	*Current portion of other long-term provisions*
TOTAL CURRENT LIABILITIES	**437,711**	**-9,182**	**50,633**	**479,163**	**TOTAL CURRENT LIABILITIES**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**924,150**	**0**	**58,737**	**982,887**	**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY**
(4) Previously included in the item "Other medium/long-term liabilities"					
(5) Previously included in the item "Operative liabilities"					

EFFECTS OF THE TRANSITION TO THE IFRS ON THE BALANCE SHEET AT 1 JANUARY 2005 – NOTES TO THE SCHEDULES

Intangible assets

Adjustments

(in thousands of euro)		
Cancellation of start-up and expansion costs	*B*	*-195*
Recording of assets in financial leasing	*D*	*757*
Adjustments to improvements to third party assets	*B*	*-356*
Cancellation of other long-term charges for loans	*B*	*-3,320*
Recording of contributions to suppliers in trade receivables and other receivables (current)		*-1,430*
Total		***-4,544***

Tangible assets

Reclassifications

(in thousands of euro)	
to "Assets destined for disposal" owing to change in layout of Balance sheet	*-119*

Adjustments

(in thousands of euro)		
Cancellation of depreciation on land and scrap value of buildings	*C*	*406*
Recording of assets in financial leasing	*D*	*50*
Total		***456***

Equity investments

Reclassifications

(in thousands of euro)	
to "Assets destined for disposal" owing to change in layout of Balance sheet	*-900*

Other financial assets

Reclassifications

(in thousands of euro)	
from "Trade receivables and other Receivables" owing to change in layout of Balance sheet	*1,517*

Assets held for sale

Reclassifications

(in thousands of euro)		
from "Property, Plant and machinery" owing to change in layout of Balance sheet		*119*
from "Equity investments" owing to change in layout of Balance sheet		*900*
Total		***1,019***

CURRENT ASSETS

Trade receivables and other receivables

Adjustments

(in thousands of euro)		
For sale of receivables with recourse to factoring companies	*F*	*58,348*
Recording of assets in financial leasing	*D*	*-23*
From "intangible assets" owing to change in layout of Balance sheet		*1,430*
Total		***59,754***

Inventories

Adjustments

(in thousands of euro)		
Owing to change in assessment criterion	*H*	*390*

Current financial assets

Reclassifications

(in thousands of euro)	
To "other non-current financial assets owing to change in layout of balance sheet"	*- 1,517*

Adjustments

(in thousands of euro)	
Receivables from assessment of derivatives at fair value	*2,680*

NON-CURRENT LIABILITIES

Financial liabilities

Reclassifications

(in thousands of euro)	
To "current portion of Financial liabilities" owing to change in layout of Balance sheet	*-12,442*

Adjustments

(in thousands of euro)	

Recording under current financial payables for assets held under financial leasing	*D*	*787*
For assessment of derivatives at fair value	*I*	*10,395*
Amortized Cost charges accessories	*H*	*-2,041*
Total		***9,141***

Trade payables and other payables

Reclassifications

(in thousands of euro)

from "current portion of other short-term payables" owing to change in layout of Balance sheet	*7,009*

Provisions for pensions and similar obligations

Adjustments

(in thousands of euro)

Employee benefits (actuarial assessment of leaving indemnity)	*E*	*3,351*

Other long-term provisions

Reclassifications

(in thousands of euro)

From "current portion of other long-term provisions" owing to change in layout of Balance sheet	*14,615*

Deferred tax liabilities

Adjustments

(in thousands of euro)

Deferred tax liabilities on IAS/IFRS impact	*296*

CURRENT LIABILITIES

Financial liabilities

Reclassifications

(in thousands of euro)

from "Financial liabilities" to Non-current liabilities owing to change in layout of Balance sheet	*12,442*

Adjustments

(in thousands of euro)		
For sale of receivables with recourse to factoring companies	*F*	*58,348*

Other payables

Reclassifications

(in thousands of euro)		
To "Trade payables and other payables" under Non-current liabilities owing to change in layout of Balance sheet		***-7,009***

Current portion of other long-term provisions

Reclassifications

(in thousands of euro)		
To "other long-term provisions" owing to change in layout of Balance sheet		*-14,615*

Adjustments

(in thousands of euro)		
For assessment of derivatives at fair value	*H*	*-7,715*

RECONCILIATION SCHEDULES AT DECEMBER 31, 2005 AND RELATED DETAILS

EFFECTS OF THE TRANSITION TO THE IFRS ON THE INCOME STATEMENT AT DECEMBER 31, 2005

Amounts in €/000	*Italian Accounting Standards*	*Reclassi-fications*	*Adjustments*	*IAS / IFRS*	
ASSETS					**ASSETS**
NON-CURRENT ASSETS					**NON-CURRENT ASSETS**
Intangible assets	391,099		77,014	468,113	***Intangible assets***
Tangible assets	190,919	-506	176	190,590	***Tangible assets***
	0	506	0	506	***Investment property***
Equity investments (1)	98,069		0	98,069	***Equity investments***
Medium/long-term financial assets	33,520	7,751		41,271	***Other financial assets***
Receivables due from Tax authorities (1)	7,035		0	7,035	***Receivables due from Tax authorities***
Deferred tax assets (1)	17,810			17,810	***Deferred tax assets***
Trade receivables and other receivables (1)	745	396		1,140	***Trade receivables and other receivables***
TOTAL NON-CURRENT ASSETS	**739,197**	**8,147**	**77,190**	**824,534**	**TOTAL NON-CURRENT ASSETS**
CURRENT ASSETS					**CURRENT ASSETS**
Trade receivables and other receivables (2)	147,115	-396	28,530	175,249	***Trade receivables and other receivables***
Receivables due from Tax authorities (2)	2,689			2,689	***Receivables due from Tax authorities***
Inventories (2)	132,674			132,674	***Inventories***
Current financial assets	32,051	-7,751		24,300	
Other financial assets (3)					***Other financial assets***
Cash and cash equivalents (3)	14,163	0		14,163	***Cash and cash equivalents***
TOTAL CURRENT ASSETS	**328,693**	**-8,147**	**28,530**	**349,076**	**TOTAL CURRENT ASSETS**
TOTAL ASSETS	**1,067,890**		**105,720**	**1,173,610**	**TOTAL ASSETS**

(1) Previously included in the item "Other assets"

(2) Previously included in the item "Operative assets"

(3) Previously included in the item "Short-term financial assets"

Amounts in €/000	*Italian Accounting Standards*	*Reclassi-fications*	*Adjustments*	*IAS / IFRS*	
LIABILITIES					**LIABILITIES**
SHAREHOLDERS' EQUITY					**SHAREHOLDERS' EQUITY**
TOTAL SHAREHOLDERS' EQUITY	**185,343**		**71,893**	**257,236**	**TOTAL SHAREHOLDERS' EQUITY**
NON-CURRENT LIABILITIES					**NON-CURRENT LIABILITIES**
Financial payables	207,934	142,431	606	350,971	*Financial liabilities*
Trade payables and other payables (4)	0	7,169		7,169	*Trade payables and other payables*
Provisions for pensions and similar obligations (4)	69,328		3,561	72,889	*Provisions for pensions and similar obligations*
Other long-term provisions (4)		22,222		22,222	*Other long-term provisions*
Deferred tax liabilities (4)	27,672		520	28,192	*Deferred tax liabilities*
TOTAL NON-CURRENT LIABILITIES	**304,934**	**171,822**	**4,687**	**481,443**	**TOTAL NON-CURRENT LIABILITIES**
CURRENT LIABILITIES					**CURRENT LIABILITIES**
Financial payables	204,397	-142,431	32,502	94,468	*Financial liabilities*
Trade payables (5)	240,025			240,025	*Trade payables*
Current taxes (5)	7,509			7,509	*Current taxes*
Other payables (5)	69,190	-7,169	143	62,163	*Other payables*
Accrued income and prepaid expenses (5)					
Current portion of other long-term provisions	56,492	-22,222	-3,505	30,765	*Current portion of other long-term provisions*
TOTAL CURRENT LIABILITIES	**577,613**	**-171,822**	**29,140**	**434,930**	**TOTAL CURRENT LIABILITIES**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,067,890**		**105,720**	**1,173,610**	**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY**

(4) Previously included in the item "Other medium/long-term liabilities"

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

Amounts in €/000	*Italian Accounting Standards*	*Reclassi-fications*	*Adjustments*	*IAS / IFRS*	
INCOME STATEMENT					**INCOME STATEMENT**
Net sales	1,129,941			1,129,941	***Net sales***
Costs for materials (1)	669,094		2,310	671,404	***Costs for materials***
Costs for services and use of third party assets (1)	219,644		-267	219,378	***Costs for services and use of third party assets***
Labour costs	175,202		1,300	176,502	***Employee costs***
Depreciation of tangible assets	33,907		-389	33,518	***Depreciation of tangible assets***
Amortisation of intangible assets	70,825		-24,856	45,969	***Depreciation of tangible assets***
Contributions	0		0	0	
Other income (2)	111,700		-244	111,456	***Other operating income***
Other costs (2)	23,150			23,150	***Other operating costs***
Operating income (EBIT)	**49,817**		**21,657**	**71,474**	***Operating income***
Net income from equity investments	-20,188			-20,188	***Income from equity investments***
Financial income (3)	15,322		991	16,314	***Financial income***
Financial charges (3)	39,780		1,902	41,682	***Financial charges***
Value adjustments to financial assets					
Income before tax	**5,171**		**20,747**	**25,918**	***Income before tax***
Tax	9,668		369	10,036	***Tax***
Net income for the period	**-4,496**		**20,378**	**15,882**	

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

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

EFFECTS OF THE TRANSITION TO THE IFRS ON THE INCOME STATEMENT AT DECEMBER 31, 2005 – NOTES TO THE SCHEDULES

NON-CURRENT ASSETS

Intangible assets

Adjustments

(in thousands of euro)		*12/31/2005*
Cancellation of amortisation of goodwill	*A*	*19,166*
Increase in goodwill from merger for assessment of Aprilia derivatives	*A*	*62,156*
Cancellation of capitalised financial charges owing to amortized cost	*H*	*-2,113*
Cancellation of improvements to third party assets	*B*	*-33*
Financial leasing for SAP licences	*D*	*605*
Recording of contributions to suppliers in Trade receivables and other receivables (current)		*-2,767*
Total		***77,014***

Tangible assets

Reclassifications

(in thousands of euro)		*12/31/2005*
To "investment property" owing to change in layout of Balance sheet	*C*	*-506*

Adjustments

(in thousands of euro)		*12/31/2005*
Cancellation of depreciation on land and scrap value of buildings	*C*	*444*
Cancellation of improvements to third party assets	*B*	*-296*
Recording of assets in financial leasing	*D*	*28*
Total		***176***

Investment property

Reclassifications

(in thousands of euro)		*12/31/2005*
from "Tangible assets" owing to change in layout of Balance sheet		*506*

Other financial assets

Reclassifications

(in thousands of euro)		*12/31/2005*
To "current financial assets" owing to change in layout of Balance sheet		*–2,137*
From "current financial assets" owing to change in layout of Balance sheet		*9,888*
Total		***7,751***

Trade receivables and other receivables

Reclassifications

(in thousands of euro)	*12/31/2005*
From "current trade receivables and other receivables" owing to change in layout of Balance sheet	*396*

CURRENT ASSETS

Trade receivables and other receivables

Reclassifications

(in thousands of euro)	*12/31/2005*
To "non-current trade receivables and other receivables" owing to change in layout of Balance sheet	*-396*

Adjustments

(in thousands of euro)		*12/31/2005*
For sale of receivables with recourse to factoring companies	*F*	*31,527*
Recording of contributions to suppliers in other receivables	*B*	*2,767*
Cancellation of capitalised charges owing to effect of amortised cost	*H*	*-5,812*
Assessment of derivatives at fair value	*H*	*48*
Total		***28,530***

Current financial assets

Reclassifications

(in thousands of euro)	
from "other non-current financial assets" owing to change in layout of balance sheet	*2.137*
to "other non-current financial assets" owing to change in layout of balance sheet	*-9.888*
Total	***-7.751***

NON-CURRENT LIABILITIES

Financial liabilities

Reclassifications

(in thousands of euro)		*12/31/2005*
from "short-term financial liabilities" owing to change in layout of Balance sheet		*142,431*

Adjustments

(in thousands of euro)		*12/31/2005*
Assessment of "New Trade" derivative	*H*	*2,530*
Assessment of EMH warrants	*H*	*5,690*
Recording of non.-current financial payables for assets held under financial leasing	*D*	*549*
Cancellation of capitalised financial charges owing to impact of amortised cost	*H*	*-8,163*
Total		***606***

Trade payables and other payables

Reclassifications

(in thousands of euro)		*12/31/2005*
from "short-term trade payables and other payables" owing to change in layout of Balance sheet		*7,169*

Provisions for pensions and similar obligations

Adjustments

(in thousands of euro)		*12/31/2005*
Employee benefits (actuarial assessment of leaving indemnity)	*E*	*3,561*

Other long-term provisions

Reclassifications

(in thousands of euro)		*12/31/2005*
From "current portion of other long-term provisions" owing to change in layout of Balance sheet		*22,222*

Deferred tax liabilities

Adjustments

(in thousands of euro)		*12/31/2005*
Accounting of Aprilia acquisition	*A*	*355*
Accounting of deferred tax liabilities on IAS/IFRS adjustments		*165*

Total		***520***

CURRENT LIABILITIES

Financial liabilities

Reclassifications		
(in thousands of euro)		*12/31/2005*
To "long-term financial liabilities" owing to change in layout of Balance sheet		*-142,431*

Adjustments		*12/31/2005*
For sale of receivables with recourse to factoring companies	*F*	*32,502*

Other payables

Reclassifications		*12/31/2005*
To "long-term trade payables and other payables" owing to change in layout of Balance sheet		*-7,169*

Adjustments		*12/31/2005*
Cancellation of capitalised financial charges owing to impact of amortised cost	*H*	*71*
Assessment of derivatives at fair value	*H*	*70*
Financial leasing	*D*	*2*
Total		***143***

Current portion of other long-term provisions

Reclassifications		*12/31/2005*
To "other long-term provisions" owing to change in layout of Balance sheet		*-22,222*

Adjustments		*12/31/2005*
Assessment of derivatives at fair value	*H*	*-2,530*
Impact of disposal of receivables with recourse	*F*	*975*
Total		***3,505***

INCOME STATEMENT

Costs for materials

Reclassifications		*12/31/2005*
from "amortisation of intangible assets" on contributions to suppliers		*2,310*

Costs for services and use of third party assets

Adjustments		12/31/2005
For recording of costs for improvements to third party assets	B	18
For cancellation of costs on assets held under leasing	D	-285
Total		**-267**

Employee costs

Adjustments		12/31/2005
For valorisation of Stock options	H	1,300

Depreciation of tangible assets

Adjustments		12/31/2005
Cancellation of depreciation on land and scrap value of buildings	C	-410
Depreciation of assets held under leasing	D	21
Total		**-389**

Amortisation of intangible assets

Adjustments		12/31/2005
Cancellation of amortisation on goodwill	A	-19,166
Recording of amortisation on assets held under financial leasing, SAP licences	D	151
Cancellation of amortisation for assessment of amortised cost on loans	H	-3,321
Cancellation of amortisation on improvements to third party assets	B	-15
Cancellation of amortisation on start-up and expansion costs	B	-195
Cancellation of amortisation on contributions to suppliers	B	-2,310
Total		**-24,856**

Other operating income

Adjustments		12/31/2005
Cancellation of positive impact of assessment of warehouse inventories	H	-244

Financial income

Adjustments		12/31/2005
Interest income on discounting of employee leaving indemnity	E	991

Financial charges

Adjustments	12/31/2005

Amortised cost	*H*	*1,874*
Assessment of derivatives at fair value	*H*	*3*
Interest expense on assets held under financial leasing	*D*	*25*
Total		***1,902***

Tax

Adjustments		*12/31/2005*
Tax effects from IAS entries		*14*
Deferred tax liabilities on cancellation of Amortisation on Goodwill	*A*	*355*
Total		***369***

* * * * *

DESCRIPTION OF THE MAIN ITEMS IN THE RECONCILIATION OF ITALIAN AND IFRS ACCOUNTING STANDARDS

The following paragraph provides a description of the main differences between Italian and IFRS accounting standards which have had an impact on Piaggio & C. S.p.A.'s financial statements.

A - Business combinations

As mentioned previously, Piaggio & C. S.p.A. decided not to apply IFRS 3 – Business combinations retroactively to the mergers that occurred before the date of transition to the IFRS.

The previous accounting standards envisaged the amortisation of goodwill. In accordance with the IAS/IFRS standards goodwill has been considered an intangible asset with an indefinite useful life and therefore is not amortised, but is subject to periodic verification of any impairment in its value. In the financial statements at 1 January 2005 the overall net value of goodwill was 265.1 million euro, and at December 31, 2005 was 246.4 million euro. In the income statement for 2005 in accordance with the previous accounting standards amortisation of goodwill was recorded of 19.2 million euro at 31 December, which was then cancelled in the income statement prepared in accordance with International Financial Reporting Standards.

In addition, in reference to the transactions that occurred during 2005 (and therefore after the date of transition to the IAS/IFRS), it was decided, on the basis of IFRS3, to allocate the value of the merger deficit generated through the incorporation of Aprilia S.p.A. to the heading 'brands and licences' for a total of 76.5 million euro.

A check was carried out of any impairment to goodwill, following the procedure required by IAS 36. The method of discounted operational cash flow was used, based on the forecasts made in the long-term future budgets/plans approved by the company management, and on the discount rates based on the average cost of capital. This capital cost is basically calculated on the parameters 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. Piaggio & C. S.p.A. has mainly written off research costs when they have been incurred and capitalised those development costs for which a future profit is expected. IAS 38 – Intangible assets - envisages that research costs are recorded in the income statement, while development costs which meet the requirements of IAS 38 for capitalisation must be capitalised and subsequently amortised as from the start of production and over the economic life of the related products. The approach followed by Piaggio is, therefore, in line with the provisions of the International Financial Reporting 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 - Cancellation of capitalised costs

On the basis of Italian accounting standards Piaggio & C. S.p.A. used to capitalise some costs (mainly start-up and expansion costs, improvements to third party assets and other costs) for which the IFRS require recognition on the income statement when they are incurred.

The overall impact of these cancellations was 3.9 million euro at 1 January 2005, and 2.1 million euro at December 31, 2005.

C - Property plant and machinery

The main difference between the old and the new accounting standards relates to land and buildings. The Italian standards which were previously adopted allowed the recording of such items without distinction between them with consequent amortisation of the land. In accordance with international standards land must always be separated from buildings and thus not amortised.
In terms of the balance sheet, there were increases at 1 January 2005 of 0.3 million euro, and at December 31, 2005 of 0.3 million euro, while on the income statement there was no significant effect.
The revision of the useful life of assets in accordance with IAS 16 has not had a significant effect given that the previous accounting standards already included amortisation rates that were largely in line with the useful life of the assets.

Assets destined for disposal and related liabilities

In accordance with the provisions of IFRS 5, Piaggio & C. S.p.A. has reclassified the assets which were originally recorded under tangible assets and for which the book value is considered recoverable mainly through their sale rather than through its continued use, under the heading 'non-current assets held for sale', or if necessary under the related liability heading.

The amortisation of the assets held for sale ends when the requirements for this change of treatment are seen to exist.

Impairment of assets

In accordance with Italian accounting standards, Piaggio & C. S.p.A. annually undertakes an assessment of the likely recovery of intangible assets with an indefinite useful life (mainly goodwill), by comparing the asset's book value with its recoverable value, understood as the value of the asset (or group of assets) when in use. In order to determine the value in use Piaggio & C. S.p.A. estimates the future cash flows, positive and negative, of the asset (or group of assets) which arise from the continued use of the asset and, finally from its sale, and discounts them. When the recoverable value is lower than the book value, an impairment is recorded equal to the difference between the two.

As for tangible assets, Piaggio & C. S.p.A. records specific writedowns when it is expected that the asset will no longer be used. In addition, should there be indications of impairment, Piaggio & C. S.p.A. makes an assessment of the recoverability of groups of similar assets, using the non-discounted financial flow method. If the recoverable value is lower than the book value, an impairment is recorded, equal to the difference between the two.

In accordance with the IFRS, every year an assessment of the value of intangible assets with an indefinite useful life must be made with a method which is broadly similar to that envisaged by Italian accounting standards. In addition, development costs, which are capitalised in accordance with the IFRS and charged in accordance with Italian accounting standards, are allocated to the related cash generation units and the assessment is made of their recoverability together with the related tangible assets by applying the method of discounted financial flows.

D - Financial leasing

Piaggio & C. S.p.A. has, in relation to the transition to the IAS/IFRS, reviewed and adjusted these contractual operations to this international accounting standard (no. 17).

E - Employee benefits

Piaggio & C. S.p.A. recognises various forms of benefits for employees, which may be classified as defined benefit pension plans, as other long term benefits.

With the adoption of the IFRS, employee leaving indemnity is considered a defined benefit obligation to be accounted for in accordance with IAS 19 and, consequently, must be recalculated by applying the "projected unit credit" method.

In addition, Piaggio & C. S.p.A. has decided to recognise all the accumulated actuarial profits and losses as at 1 January 2005 by charging them directly to the reserve for shareholders' equity. The amounts recorded to adjust the previous employee leaving indemnity balances amounted to 3.4 million euro at the transition date and 3.6 million euro at December 31, 2005.

F - *Disposal of receivables*

Piaggio & C. S.p.A. cedes a significant part of its trade receivables through factoring operations.

In accordance with Italian accounting standards all the receivables disposed of through factoring with or without recourse have been eliminated from the balance sheet.

In accordance with the IFRS, since the requirement of definitive disposal of the risks of insolvency does not exist in the case of operations with recourse, the receivables and payables which are disposed of in this way are written back to the balance sheet with a significant increase in balances for trade receivables and financial payables. In particular, owing to these recoveries trade receivables and financial payables increased by 58.3 million euro, and 31.5 million euro respectively in the periods of 1 January and December 31, 2005.

G - *Provisions for future risks and charges*

From the analysis in accordance with IAS 37 relating to provisions for risks and charges, no significant differences emerged regarding the amount already accounted for in accordance with the Italian standards which were previously adopted.

H - *Other adjustments*

Discounting of receivables/payables

In accordance with the provisions of the International Financial Reporting Standards, it was arranged to discount assets and liabilities which are recorded under non-current items, for which there was included a financial element linked to the agreed reductions, thus reducing the income/cost element from operations against the financial interest / charges element.

Warehouse inventories

In accordance with the International Financial Reporting Standards, it was arranged to assess the warehouse stocks with the weighted average cost method.

Amortized cost

In accordance with the provisions of IAS 39, it was arranged to account for the impact of the amortized cost methods on loans obtained from the banking system.

Derivative contracts

Some exchange rate hedging contracts have been recorded in accordance with the Hedge Accounting technique as described in IAS 39.

Stock Option Plan

The Stock Option plans existing at the transition dates have been recorded as envisaged by IFRS2.

I - Accounting of deferred tax assets and liabilities

This item includes the net effect of the deferred tax assets and liabilities calculated on the aforementioned IFRS adjustments and on other minor differences between the Italian and IFRS accounting standards relating to the recognition in the financial statements of deferred tax assets and liabilities.

SUMMARISED RECONCILIATION OF SHAREHOLDERS' EQUITY (IFRS1)

RECONCILIATION SCHEDULES FOR SHAREHOLDERS' EQUITY AT 01.01.2005

Amounts in €/000

	01/01/2005	
SHAREHOLDERS' EQUITY	**PIAGGIO**	**REF**
Values in accordance with Italian accounting standards	**189,840**	
Business combinations	0	A
Cancellation of start-up and expansion costs	(195)	B
Improvements to third party assets	(356)	B
Cancellation of amortisation provision for land and buildings destined for sale	255	C
Recording of assets held under financial leasing	(3)	D
Change in criterion for recording of inventories	244	H
Disposal of receivables	0	F
Employee benefits	(3,351)	E
Provisions for risks and charges	0	G
Financial charges	(1,279)	H
Assessment of stock options	(966)	H
Costs charged to stock options	966	H
Values according to IAS / IFRS	**185,154**	

SUMMARISED RECONCILIATION OF SHAREHOLDERS' EQUITY (IFRS1) AND NET INCOME AT DECEMBER 31, 2005

(in €/000)	Shareholders' equity 12/31/2005	Net income 12/31/2005	REF
Values according to Italian accounting standards	**185,343**	**(4,496)**	
Cancellation of amortisation on goodwill	18,811	18,811	A
Assessment of P&C 2004-2009 warrants	56,466	0	A
Cancellation of capitalised costs	(330)	224	B
Property, plant and machinery	279	365	C
Financial leasing	84	87	D
Inventories	0	(244)	H
Recording and assessment of derivatives	(23)	(3)	H
Disposal of receivables	0	0	F
Employee benefits	(3,561)	991	E
Amortised cost	167	1,447	H
Stock Option Plan	0	(1,300)	H
Values according to IAS / IFRS	**257,236**	**15,882**	