PIAGGIO GROUP

Financial Statements

And

Consolidated Financial Statements

at 31-12-2003

CONTENTS

PIAGGIO & C. S.p.A. STATUTORY FINANCIAL STATEMENTS

FINANCIAL HIGHLIGHTS
(in millions of euro)

Income Statement (reclassified)

		2003	2003	2002
		Statutory (1)	(Proforma) (2)	(3)
Net Sales		**921.7**	**987.2**	**945.8**
Gross Industrial Margin		**241.6**	**225.4**	**241.1**
Operating Costs		**(219.2)**	**(231.2)**	**(234.8)**
Operating Result		**22.4**	**24.2**	**6.3**
Income before tax		**(124.8)**	**(126.0)**	**(118.7)**
Net Result		**(138.0)**	**(139.5)**	**(129.2)**
.Third parties				***1.0***
.Group		***(138.0)***	***(139.5)***	***(130.2)***
Gross Margin on Net Sales	%	26.2	25.8	25.5
Operating Result on Net Sales	%	2.4	2.4	0.6
Net Result on Net Sales	%	(15.0)	(14.1)	(13.6)
EBITDA		**87.2**	**93.6**	**77.6**
EBITDA on Net Sales	%	9.5	9.5	8.2

Balance Sheet

Net Working Capital	(42.6)	(42.6)	55.8
Net Tangible Fixed Assets	182.2	182.2	196.3
Net Intangible Fixed Assets	421.4	421.4	503.7
Financial Fixed Assets	19.5	19.5	20.6
Funds	(118.4)	(118.4)	(93.1)
Net Invested Capital	**462.1**	**462.1**	**683.3**
Net Financial Position	281.9	281.9	577.1
Stockholders' Equity	180.2	180.2	106.2
Sources of Finance	**462.1**	**462.1**	**683.3**
Minority Equity	1.0	1.0	15.9

Change in Net Financial Position

Financial Position at Start of Year	**(577.1)**	**(577.1)**	**(568.7)**
Operating Cashflow (Result + Depreciation)	(37.7)	(39.2)	(23.1)
(Increase)/Reduction Working Capital	98.4	98.4	39.1
(Increase)/Reduction Fixed Assets	(32.3)	(32.3)	(0.6)
Change in Funds	25.3	25.3	(11.3)
Change in Stockholders' Equity	241.5	243.0	(12.5)
Of which increase in Capital Stock	235.0	235.0	
Total Change	***295.2***	***295.2***	***(8.4)***
Financial Position at Year End	**(281.9)**	**(281.9)**	**(577.1)**

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1. Statutory: 2003 consolidated financial data of the Piaggio Group reclassified from an operational standpoint. We remind you that, as envisaged by Accounting Principle no. 17 of the National Council "dei Dottori Commercialisti e dei Ragionieri" (Book-Accountants and Keepers), the 2003 consolidated financial statements include the Income Statement of the Nacional Motor Group only for the final two months of the year, because ownership of this Group was transferred at the end of October 2003. The Income Statement for the first ten months of the year has been booked as an adjustment of initial Stockholders Equity.
2. Pro forma: illustrate the Group's performance with its current structure, for 12 months of 2003, reclassified for operational purposes.
3. 2002 Piaggio Holding consolidated financial statements with the company structure as it was at that date.

Reclassification of the income statements for the two years from an operational standpoint envisages:

1. the adjustment of the revenues of some recovered costs (Euro/1000 3,000 for 2003 and Euro/1000 7,000 for 2002)
2. the inclusion under extraordinary charges of all adjustments in value and/or provisions to obsolescence risk fund and the provision of non-operating items (such as goodwill).

COMPANY BOARDS - MEMBERS[1]

Board of Directors

Chairman

Roberto Colaninno

Managing Director

Rocco Sabelli

Directors

Luciano La Noce

Giorgio Magnoni

Matteo Colaninno

Piero Faraoni

Gaetano Micciché

Graham Clempson

Vincenzo De Bustis Figarola

Board of Auditors

Chairman

Antonino Parisi

Auditors

Attilio Francesco Arietti

Alessandro Lai

Alternate Auditors

Maurizio Maffeis

Mauro Girelli

[1] Appointed by the Stockholders' Meeting on October 16, 2003 for the three year period 2003 - 2004 - 2005 and thus until approval of the financial statements at December 31, 2005.

Secretary of the Board of Directors

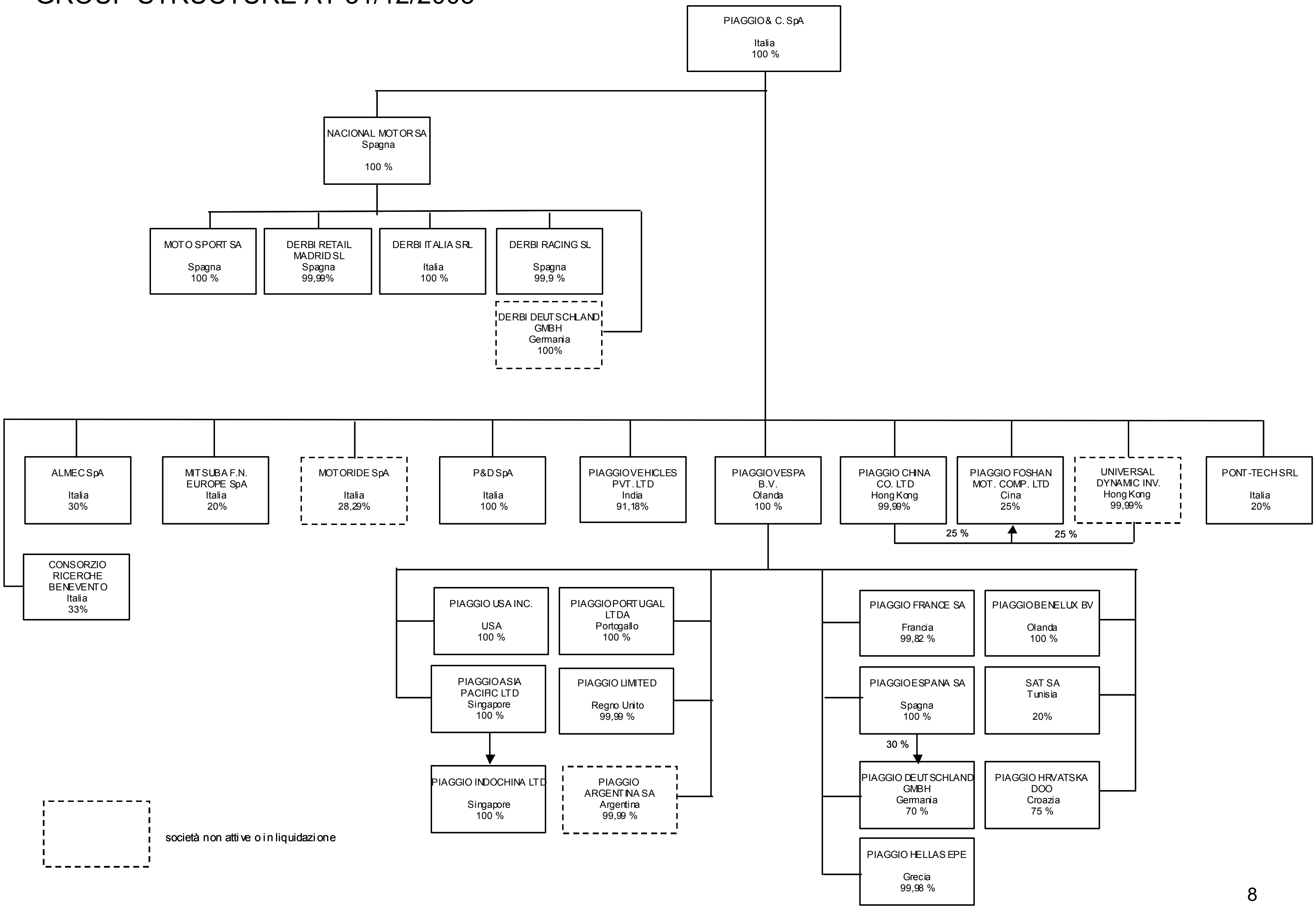
Alberto Casacchia

External Auditors

Deloitte & Touche S.p.A.[2]

2 Appointed by the Stockholders' Meeting on January 26, 2004, for the three year period 2003, 2004 and 2005.

GROUP STRUCTURE AT 31/12/2003



FOREWORD

On October 23, 2003, after the necessary formalities and corporate procedures had been completed, the closing pursuant to the contract signed on September 24, 2003 by Immsi S.p.A., the "Dep IV" Fund (managed by Morgan Grenfell Private Equity Ltd), Morgan Grenfell Development Capital Syndications Ltd (a member of the Deutsche Bank group of companies), Piaggio Holding S.p.A. and PB s.r.l., a company created by the banks financing the Piaggio Group, was carried out. As a result, control of Piaggio Group activities in Italy and abroad was transferred to Immsi.

Under the Group's new structure, Piaggio & C. S.p.A. is now controlled 100% by the newly incorporated Dutch company Piaggio Holding Netherlands B.V., which has fully subscribed a share capital increase in Piaggio & C. S.p.A. for a total of Euro 235 million following the restructuring of the debt with its banks. Piaggio Holding Netherlands B.V. has Stockholders' Equity of Euro 320 million, consisting of ¤ 235 million of financial receivables (Euro 120 million of which contributed by PB s.r.l., Euro15 million by the company representing the previous controlling stockholders, and Euro 100 million by IMMSI S.p.A.) and Euro 85 million from the contribution of the equity participation in Piaggio & C. S.p.A., through the previous parent company Piaggio Holding S.p.A. by the previous stockholders. Piaggio Holding BV is owned 31.25% by Immsi S.p.A., 37.5% by PB s.r.l. and 31.25% by Scooter Holding 3 B.V., a company established by the former Piaggio Holding S.p.A. and the previous stockholders.

Immsi holds the majority of voting rights at the Piaggio Holding Netherlands B.V. Stockholders' meeting, as well as the majority among the members of the Supervisory Boards of both the latter company and Piaggio & C. S.p.A.

Among the other formalities envisaged under the contract for the acquisition of the Piaggio Group, Piaggio & C. S.p.A. has acquired the Nacional Motor S.A. company, owner of the DERBI trademark, from the former Piaggio Holding S.p.A. as well as the company division of Piaggio Holding S.p.A. responsible for all the Group's administration, finance and control activities.

REPORT ON OPERATIONS

1. THE MARKET SCENARIO

1.1 TWO-WHEEL VEHICLE BUSINESS

In 2003, the world market for motorised two-wheel vehicles expanded by about 11%, to almost 32 million vehicles.

Asia remained the most important area: the Chinese People's Republic grew in volume by about 14%, exceeding 14 million vehicles and confirming its position as the largest world market. India took second place, having grown by 7%, with sales of more than 5 million vehicles. Southeast Asia continued to grow strongly, accounting for 7 million vehicles; all the markets in the area expanded, except Vietnam. Indonesia (close to 3 million vehicles, +23%) and Thailand (over 1 million, +32%) both maintained strong growth rates, and even the minor markets recorded significant increases: they are led by Taiwan with over 700,000 units sold (+17%). As we mentioned earlier, for the second year running Vietnam was conditioned (-18%) by the strong increase in import taxes and legislative restrictions on the registration of new vehicles.

For the fourth consecutive year, Japan recorded volumes of close to 800,000 vehicles, contracting by 1% on 2002. The North American market continued to perform well in 2003 (93% concentrated in the USA, where over 900,000 vehicles were sold), with growth of 5%. Where South America is concerned, we should underline the steady growth of Brazil (90% of the area) with sales volumes of about 850,000 units.

After several markedly negative years, the two-wheel market in Europe, which is the reference market for the Piaggio Group’s activities, closed 2003 with only a marginal contraction (-1%) on the previous year. This result involved both the scooter segment, the Group’s reference segment, and motorcycles both down 1%. The situation was similar in both segments, and >50 cc scooters have compensated for a new fall in 50 cc vehicles, while in the motorcycle market, a contraction in the 125 cc segment was offset by growth in the larger vehicle brackets.

In 2003, Piaggio’s reference market – scooters and mopeds in Europe – recorded sales of about 1.2 million units. This figure includes the shift of customers towards >50 cc licensed scooters and in particular the so-called “maxi scooters”, volumes of which more than trebled between 2000 and 2003.

The European 50 cc market continued to shrink, albeit at a slower rate, closing the year down 5%; automatic mopeds lost significant ground (-14%), and share has halved in the last 6 years (from 10% in 1998 to 5% in 2003). 50 cc motorcycles, on the other hand, the reference market of the Spanish subsidiary Nacional Motor (Derbi brand), bucked the trend, attracting a younger clientele: it achieved a significant leap forward compared to the previous year (+18%), thanks above all to the strong Spanish market, which is the main market for these vehicles.

Where individual countries are concerned, after several extremely difficult years, the free fall of the Spanish, Italian and French markets was halted by the over-50 cc scooters. Italy strengthened its position in Europe as the main market for two-wheel vehicles, and in Spain the slump of recent years, caused in part by an increase in VAT on 50 cc vehicles, seems to have ended.

The UK, Greece and Austria also appear to be improving, but we must remember that part of the positive trend is due to legislative deadlines (the introduction of Euro 2 emissions standards), which have led to the "forced" registration of a considerable number of vehicles that do not meet the latest European standards.

Among the emerging countries, we should certainly mention the strong growth of Croatia, where sales have doubled in the last two years, reaching 13,200 vehicles in 2003 (up 31% on 2002).

France, which remained stable at 2002 levels, consolidated its position as the second European market: 171,500 units sold, with good volumes for both mopeds (although these continue to fall) and scooters.

Germany continued to contract (-7%), to 128,000 units, while the market in Spain achieved modest growth (1%), as mentioned earlier, after three difficult years in which sales halved from 244,000 units in 1999 to 121,000 in 2002; 2003 closed marginally above 122,000 vehicles.

After the sudden collapse of 2002 (-17%), the British market also achieved moderate growth, although the 1% growth with which Piaggio's market closed 2003 should be seen in the light of the large number of sales that were brought forward because of legislative deadlines. The introduction of a Congestion Charge on cars entering London, with the aim of reducing pollution in the area, has had little impact on the market.

1.1.1 THE ITALIAN MARKET

In 2003, the Italian scooter market continued to account for about 40% of total European sales; the positive trend was due entirely to the good results of >50 cc Scooters (+4%), and in particular the over 250 cc segment, confirming the trend towards "Maxi" machines: in 2003, more than 54,000 vehicles were sold in this segment which grew by 60%, and most of the new products launched during the year were concentrated here. The class of users choosing technologically advanced vehicles, meeting the need for medium and long distance mobility, thus becomes of strategic importance. This is an "expert" customer bracket, concentrated primarily among the larger machines in Italy, while abroad, because of legislation regulating driving licences, it also includes more conventional segments such as the 125 cc. Piaggio has worked in this direction, to respond to what seem to be the future requests of the market, preparing a product range that will attract both the more demanding clientele and customers who have fewer expectations in terms of performance.

1.2 LIGHT TRANSPORT VEHICLE BUSINESS

In 2003, the European light commercial vehicle market (vehicles with Gross Vehicle Weight of ≤3.5 tonnes) contracted marginally (-1.4%), but the decrease was much more significant in Italy. The total Italian market fell by 18% on 2002, to 213,540 units (source: ANFIA), returning to 2001 levels. We must however bear in mind that 2002, with over 260,000 units sold, was an "anomalous" year due to the fiscal benefits of the "Tremonti bis" law, which gave a strong impulse to the market, modifying its natural trend, and which were not repeated in 2003.

The economic stagnation of 2003 accentuated the downward trend of the Italian market, and the light commercial vehicle market contracted further.

On the other hand, in 2003 the Indian three-wheel vehicle market, where the subsidiary PVPL operates, grew by 12% on 2002, recording total sales of 250,000 units. The Passenger vehicle segment of this market accounted for 155,000 vehicles in 2003, down 2% on the previous year. On the other hand, with 95,000 units sold, the 3-wheel "Cargo" segment expanded by 50%. At the end of 2003, PVPL could boast a 36% share of the Indian market in the three-wheel vehicle Cargo segment, and 10% of the Passenger vehicle market.

2. THE LEGISLATIVE FRAMEWORK

In Italy, for the whole of 2003, all the manufacturers granted customers of mopeds and 50 cc scooters price reductions corresponding to the Eco-incentives fixed by the Ministry for the Environment in favour of Euro 2 and low consumption (<2.3 litres per 100 km) vehicles. Piaggio should receive the largest share of these economic subsidies, because, unlike nearly all the competition, it offers a 4-stroke 50 cc engine, capable of the very low consumption envisaged by the Ministry for the Environment. However, we must point out that to date the law that envisages the allocation of subsidies in favour of manufacturers has not yet been approved by Parliament, as explained elsewhere in this Report.

What is more, towards the end of the year, a European Directive regarding air quality was enforced, making it customary and practically obligatory, to plan a number of measures to limit traffic in built-up areas. Vehicles were penalised on the basis of their environmental performance: only those with Euro 1 and Euro 2 homologation are permitted in these areas while all the others are excluded. At the same time, a number of local Councils (Florence, Rome, etc.) have allocated funds to encourage the renewal of the vehicle fleet and the purchase of Euro 2 vehicles. This, together with the above-mentioned traffic restrictions, has helped to step up vehicle replacement by customers in metropolitan areas.

Still in Italy, in 2003 the periodical testing of mopeds and motorcycles continued (four years after the initial purchase, and subsequently every two years), and this may have contributed to some extent to taking less efficient machines off the roads. What is more, following the approval of the new Motor Vehicle Code (DPR no. 360 of 5/6/2001), in 2003 the authority to perform periodical tests on two-wheel vehicles was also extended to the network of motorcycle and moped repair workshops, while in the past, even though incoherent, only the network of automotive workshops were allowed to perform them. From 2004, checks on the top speed of mopeds and on emissions will also be included in the tests.

The first half of the year also saw the definitive approval of the new Italian Motor Vehicle Code after a long parliamentary process. It has received a great deal of attention from public opinion, the media and the market, particularly because of the many novelties announced regarding two-wheel vehicles. First of all, the introduction of a moped licence (the definition given by the Motor Vehicle Code to all two-wheel vehicles with motors up to 50 cc), which can now be taken at school, free of charge, or at a driving school for a fee. The licence becomes obligatory for minors from 01.07.2004, and is focusing a growing amount of attention, much of it positive, on the moped. What is more, contrary to the original principles of the Law-Decree and of the proposal first put forward by the Government, by a large majority Parliament has approved the extension of the moped licence to users over 18 without any other driving licence. However, in this case, the decree will not be enforced until 01.07.2005, and will mainly regard customers of the Ape 50 cc and light quadcycle, without any other licence; they tend to be inhabitants of rural areas, small artisans and weaker customers (elderly, disabled, etc.). To limit the negative impact of these new measures, Piaggio is working both autonomously and with ANCMA on an important programme for schools, to train and prepare teaching staff, and to generate free school courses for minors all over the country. Through its own marketing network, it is also spreading practical information about how to obtain the licence for all categories of moped users.

The other changes made to the Motor Vehicle Code regarding the 50 cc segment include: a) the possibility of carrying a passenger on a moped; b) the new registration papers – which now become personal - and c) the new moped registration system. These measures will be enforced from 01.07.2004, following the publication of the relevant Decrees implementing them by that date. As a result there will be an administrative re-examination of the entire fleet of mopeds (about six million vehicles), which could provide a further stimulus to replace vehicles with new mopeds that already comply with the new standards.

Remaining in Italy, there were no significant novelties regarding insurance. Average premiums for Third party liability policies for mopeds have increased further or remained at the high levels of the previous two years, in spite of the fact that there has been a marginal decrease in the total number of accidents, and no increase in the cost of spare parts or manpower. In several cases, the annual cost of an insurance policy is as much as 40% of the list price of the vehicle, and is never less than 15%, and recent statistical surveys among the population performed by specialist organisations reveal that it represents the main barrier to a purchase.

We remind you that, since December 2003, Third party Liability insurance for a moped has been included in the so-called ISTAT “basket” used to calculate the inflation rate.

At a European level, the legislative activities performed in 2003 in the corridors of Brussels, have resulted in the new pollution limits of the so-called “Euro3” stage for mopeds and motorcycles; these parameters will be enforced in 2006 for all new type-approved vehicles, and in 2007 for all registered vehicles. The new Framework Directive for the type-approval of two and three-wheeled motorised vehicles has also come into force, updating, amending and replacing the previous standards. In 2003 a special amendment to the Directive regarding vehicle “weights and measurements” was agreed with the EU authorities, which will make it possible to offer a larger number of versions outfitted as quadcycles. It will also pave the way for type-approval of Piaggio’s new “Heavy Quadcycle”, which will be launched in the Summer of 2004, and which will thus become a true vehicle for the European market.

We must also mention important studies and research into the rigging of mopeds and motorcycles, undertaken on behalf of the European Commission by TuV - Technische UberwachungsVerein – the German type-approval centre that is recognised all over Europe, which is destined to have repercussions, probably in a restrictive sense, on construction and use standards for the entire sector.

And finally, two-wheel vehicle noise and braking standards are currently being assessed and analysed by European (Brussels) and international institutions (UN/Geneva), with the goal of possible further harmonisation in the medium term.

As a whole, Piaggio products comply with the most stringent environmental and safety standards currently in place in Europe and, with specific adaptations, in the USA, and with other existing non-European standards which continue to be less stringent than these.

Piaggio has already designed the best solutions to deal with expected forecast future legislation, particularly with regard to gassy emissions in Europe (Euro3) and the United States.

3. THE PIAGGIO GROUP

3.1 SEGMENT INFORMATION

As a result of the new company structure, the Group operates in Italy through Piaggio & C. S.p.A., the parent company, while it is represented on the European, American and southeast Asian markets by its marketing companies, which are coordinated by Piaggio Vespa B.V., and through Nacional Motor S.A.; the Group operates on the Indian market through its subsidiary, Piaggio Vehicles PVT. Ltd.

There were 4,681 people on the Group’s payroll at December 31, 2003.

The following comments refer to the 2003 and 2002 Income Statements of the Piaggio Group, and include the Derbi Group results for the whole of 2003.

The following table illustrates the main data for the Piaggio Group by geographical area:

	ITALY	EUROPE	USA	INDIA	ASIA	TOTAL
Net sales (¤ million)	466.6	403.1	14.8	75.4	27.3	987.2
Units sold ('000)	152.5	205.2	5.3	49.6	14.1	426.7
Employees	3,263	517	24	861	16	4,681

3.2 THE 2-WHEEL BUSINESS UNIT

	2003		2002		Delta %	
	Volumes ('000)	Sales (¤ million)	Volumes ('000)	Sales (¤ million)	Vol.	Sales
Piaggio	191.7	349.2	188.3	324.0	+ 1.8	+7.8
Gilera	56.0	89.6	61.9	98.3	-9.5	-8.9
Vespa	63.2	118.9	53.9	91.7	+17.3	+29.6
Parts/accessories	n.s.	90.1	n.s.	86.8	n.s.	+3.8
Derbi	44.1	80.6	44.3	75.2	-0.5	+7.2
TOTAL	355.0	728.4	348.4	676.0	+1.9	+7.8
Gross Industrial Margin		212.3		197.0	+15.3	+7.8

In 2003, the Piaggio Group marketed a total of 355,029 two-wheel vehicles (348,440 in 2002; +1.9%) from its four brands, Piaggio, Gilera, Vespa and Derbi, achieving net sales of ¤/'000 728,380, including parts and accessories (¤/'000 675,965 in 2002; +7.8%).

At a time when the market offers an ever wider choice in terms of styling and technology, and of price, the Piaggio Group has maintained absolute leadership of the European market, increasing its overall market share by one point (now 28.5%), primarily the result of having strengthened its position in the >50 cc Scooter segment, and of maintaining its lead in the 50 cc Motorcycle segment with the Derbi brand.

This result has also been made possible by excellent performance in segments that expanded in 2003: the successful Beverly 200 and X9 500, which are still the protagonists of their respective segments, 150-200 cc and over 250 cc, have been joined by two successful vehicles, the Vespa Granturismo and the Beverly 500 (the second biggest selling vehicle in Italy in its first year of life); in addition to these two products, the period between October and December 2003 saw the launch of the Nexus 500, a high tech

Gilera scooter, and the X8, heir to the Hexagon, the well-known compact Piaggio GT (Grand Tourism) model. In the 50 cc segment, the Piaggio Group consolidated its leading position in the 50 cc motorcycle segment, thanks to the now familiar Senda, the most successful Derbi product, which has topped its segment for several years now. If we turn our attention to individual brands, we note positive results by Piaggio and Vespa which, thanks in particular to the success of the Beverly 500 and Vespa Granturismo, took their respective sales volumes to 191,718 (+1.8%) and 63,209 units (+17.3%), and market share from 16% to 16.5% and from 3.6% to 4.5% respectively. Gilera was affected by the phasing-out of the two-stroke versions of the Runner 125 and 180 cc: total sales volumes fell to 55,995 units (-9.5%), and market share contracted from 5.0% to 4.5%. The Derbi brand closed the year with almost 3%, similar to 2002; unit sales decreased marginally on 2002, remaining above 44,100 units (-0.5%).

In 2003, the Piaggio Group also confirmed that it is one of the main suppliers of vehicles for institutional fleets: in addition to the long-term relationship with the Italian, Spanish, Austrian and Swiss Post Offices, in 2003 the French Post Office also added more than 2,000 Liberty 125 cc to its fleet.

Activities continued to launch the Piaggio Group in the USA: between 2001 and 2003, the Vespa Boutiques, which sell a whole range of products related to the legendary Piaggio brand, grew from 30 to 67 and the scooter range on offer was extended by the launch of the most successful Piaggio brand vehicles, the Liberty and the Beverly; the new Vespa Granturismo was launched in 2003, and will be marketed early in 2004.

However, neither the structure nor the territorial cover of the dealer network, nor the current product range are adequate yet to exploit the potential of this market in full. As a result, the Typhoon 50 and X9 500 will be introduced in 2004, in order to control the "price driven" (the most important in the USA) and Maxi segments, and to guarantee a stronger presence in a market which, although still small in size, is growing rapidly, and where interest in the scooter in particular is growing.

Where the marketing network is concerned, the role and characteristics of the VESPA BOUTIQUES will be modified, as part of a programme to create an image of greater reliability and competence than has been offered up till now.

In other non-European countries, the Piaggio Group's strategy remains focused on the best organised countries (Japan, Israel, Singapore, Australia, Malaysia), where the range of prestigious vehicles is welcomed by an exclusive clientele. However, the fact that the high customs dues introduced by the East Asian governments to protect local manufacturers continue to remain in place, has resulted in extremely negative results for Piaggio in 2003, with a fall in sales of over 10,000 units (from 25,600 in 2002 to 14,100 in 2003, -42%), although we must bear in mind that 7,000 vehicles sold in 2002 regarded a supply to a Japanese importer, which was not repeated in 2003.

3.3 THE TWO-WHEEL PRODUCT RANGE

Five models achieved sales above ¤ 50 million in 2002: the Piaggio X9, Piaggio Beverly, Gilera Runner, Vespa ET and Piaggio Liberty. In 2003 this result was easily surpassed by the X9 and Beverly (respectively with Euro 80 and Euro 121 million) followed by the ET (Euro 51.5 million), Liberty (Euro 57 million) and the new Vespa Granturismo (Euro 51.2 million), which has replaced the Gilera Runner that was still close to this milestone (Euro 49.5 million).

As a result, the Piaggio Group confirmed its lead of all segments of the market: from historically essential segments such as Sport (Runner - 29,700 units sold) and Classic (ET4 and Granturismo – 31,400 and 21,200 respectively), to emerging segments like the "Maxi GT" (X9 – 27,400 and Beverly 500 – 20,500), without overlooking the High Wheel (Beverly 125/200 – 21,600 and Liberty – 43,300) which remains a typically Italian segment, although it seems to be growing on the European market.

After the considerable effort made in 2002 to adapt the range to Euro 2 standards, culminating in the adoption of the Pure Jet electronic injection engine on the Runner 50 and NRG, and the 4T 50 cc engine on the Vespa and Liberty, 2003 was a year of real success in the >50 cc scooter market. Thanks to the launch of three new vehicles in three key segments of the market, Piaggio aims to consolidate its role of protagonist in the segments where the Japanese competition has always excelled. As a result, in November and December 2003, the Nexus 500 and X8 joined the Beverly 500, which was launched in Italy in November 2002 but was marketed in the rest of Europe from early 2003. With the Nexus 500 the Group intends to highlight Gilera's sporting image, introducing a vehicle with outstanding technological and performance levels, capable of combining the excitement of a motorcycle with the comfort of a scooter. And with the X8, Piaggio is responding to one of the most demanding customer targets on the market: loading capacity and good performance combined with a sober, elegant design make this vehicle harmonious and able to communicate comfort, practicality and agility.

However, the real novelty of 2003 was without doubt the Vespa Granturismo: the 138th model to leave the plant founded by Enrico Piaggio in 1946. Although it was completely redesigned in technical terms (4-stroke 4-valve engine, liquid cooling and 12 inch wheels are the main novelties), it certainly had not lost the unmistakable design that has made it a symbol of Italian Style around the world.

As we have mentioned, in 2003 collaboration with Derbi became much closer, the aim being to create synergies in the very segment where the Spanish brand is way ahead of all its rivals. And so a new range of Gilera 50 motorcycles has been launched, with two new models: the RCR and SMT, addressing the young and the very young who are looking for real motorcycle sensations, even from a small engine, and demand a vehicle that is designed and built without compromise. The new Gilera 50 RCR and SMT have the size, styling, components and outfitting details worthy of higher segments. However, in 2003, sales of these vehicles, launched early in the second half, did not produce an increase in market share in the 50 cc motorcycle segment (except in France) where Gilera has had to resist strong pressure from the competition, and market share fell from 7.6% in 2002 to 7.0% in 2003.

In the engine field, Piaggio continued to develop engines that are now adopted even on several models from the competition. One case in point is the well-known MASTER 460 cc, which powers the top-of-the-range Piaggio models (X9 500, Beverly 500 and Nexus 500), and the LEADER 125 and 200 (already adopted on the X9 and Beverly, it is now offered on the Granturismo and X8).

Piaggio presented its latest achievement in the engine field at the recent International Exhibition of Cycles, Motorcycles and Accessories (EICMA), held in Milan, the QUASAR 250, which will initially power the X9 and Beverly in 2004, and will later also be available on the Vespa Granturismo.

3.4 LTV BUSINESS UNIT

	2003		2002		Delta %	
	Volumes (units/'000)	Sales (ML/Euro)	Volumes (units/'000)	Sales (ML/Euro)	Volumes	Sales

Ape	63.0	116.8	55.4	120.3	+13.8	-2.9
of which India	49.6	75.4	30.1	64.0	+30.5	+17.8
Minivan	7.6	63.2	9.6	74.6	-20.1	-15.2
Microcars	1.1	7.1	3.0	20.4	-63.3	-65.0
Parts and Accessories	n.s.	28.1	n.s.	27.5	n.s.	+2.2
TOTAL	71.7	215.2	68.0	242.7	+5.4	-11.3
Gross industrial Margin		49.8		51.6	-1.8	-3.5

The Light Transport Vehicle Division (LTV) closed 2003 with 71,713 units sold, up 5.4% on 2002 volumes. This growth was primarily due to the success of the Indian subsidiary PVPL (Piaggio Vehicles Private Ltd.) which continued to expand the manufacturing capacity of its Baramati plant and its presence on its domestic Indian market. In spite of its unique nature, on the European market (and particularly in Italy), the Ape is starting to feel the weight of its years and maturity, recording a 47% contraction on 2002.

Overall sales of the Unit fell from Euro 242.7 million in 2002 to Euro 215.2 million in 2003 (-11.3%), due to the effect of both the above-mentioned contraction on the Italian market (Ape, Porter and Microcars), only partially offset by the growth of Indian-made vehicles, and of the negative exchange rate due to the devaluation of the Indian Rupee for an amount of Euro 12.3 million.

On the domestic market, with 5,290 Porters sold in 2003 (-9.2% on 2002 in a market that fell 18%), the group still increased its market share from 2.2% to 2.5%. In the *pick-up* and *chassis* versions, in which the Porter range has an important competitive edge, Piaggio increased its market share from 21.6% to 24% (ANFIA data). As a result, even in a contracting market, Piaggio consolidated its role as leading player in the “compact” goods vehicle niche, where the winning features are small size, outstanding manoeuvrability and generous payload for dimensions.

In fact, if we consider the entire reference market of the LTV Division, for both the Porter and the Ape ranges, the market share increased to 7.3%, up from 7.2% in 2002 (source ANFIA + company data).

On European markets – where the share of these vehicles is still limited – the acquisition during the year of 100% of the capital stock of the P&D joint venture between Piaggio and Daihatsu, should make it possible in the medium term to open up markets previously controlled by its Japanese partner to a direct Piaggio presence. However, the impact of this operation on 2003 was in fact a reduction in volumes in the markets managed by Daihatsu.

In the European market as a whole, the Porter performed well with 2,405 units sold in 2003 (+5.6% on 2002), while Ape volumes contracted (2,219 units sold in 2003, down 33% on 2002), due in particular to the Euro/US Dollar exchange rate penalising exports.

In India the market for 3-wheel goods vehicles continued to grow, increasing 10% on 2002. In this scenario, the Indian subsidiary PVPL continued to perform well. With growth of 31% and more than 49,500 units sold, PVPL consolidated its role as the *market leader* in the Cargo segment and as a significant *runner-up* in the Passenger segment.

In the Cargo segment, thanks to the Piaggio 501 and the many possible ways it can be customised to the individual customer’s requirements, PVPL achieved a *market share* of 36%, or 62% if we consider the market served by the current range (0.5 – 0.75 tonnes). In the Passenger segment, with a 10% share, PVPL confirmed that it is a valid alternative to the well-established local market leader (SIAM data + company data).

The reasons for this continued growth on the Indian market, which resulted in an overall, and constantly growing, market share of 23% for PVPL, are the high quality of the products and, above all, a *value proposition* sustained by excellent after-sales service that meets the needs of the end customer.

Where the microcar business is concerned, until March 2003 Piaggio had a distribution agreement with Ligier that covered 5 European countries. In 2003, in a total European market that absorbed about 31,000 units, the Italian market grew by 40% on 2002 to 9,250 vehicles. In order to maintain its presence in an extremely dynamic market, Piaggio terminated the agreement with Ligier and developed a new product, the Piaggio M500, launched on the Italian market in October 2003.

And finally, in 2003 the penetration of the Business to Business LTV channel was stepped up. With 1,185 units sold, thanks to an extremely flexible, well equipped product range, the identification of official outfitters and the development of a dedicated team to manage these fleets, net sales of Euro 13.5 million were recorded. Piaggio has consolidated its leadership of the Business to Business channel, in spite of the still limited size of the market for electric vehicles (still influenced by the high pricing), selling 366 vehicles.

3.5 LTV PRODUCT RANGE

In 2003 several changes were made to the Ape range (50 and Tm). The operation to adapt it to Euro2 standards was concluded, bringing the range into line with current safety and emissions standards.

The Diesel engine for the Porter range has been modified, to make the vehicle more reliable and environment-friendly, introducing a new electronic exhaust gas control system (EGR). And development of the Porter range has also been concluded, making it possible to start in-house production of the new 4x4 version early in 2004.

In 2003 the Piaggio LTV Division continued with its programme to develop the range of vehicles outfitted to meet the requirements of different market targets.

A number of special outfits were developed and type-approved, on the Porter "Maxxi" frame in particular, reinforcing its hold on the highly specialised market segments.

The process to identity Piaggio LTV "Official outfitters" also continued, to guarantee that outfitted vehicles meet company standards and to effectively guarantee management of the company-outfitter-trade-end customer "chain of value".

As mentioned earlier, in October 2003, the new Piaggio M500 microcar was presented, the first Light Quadcycle with the Piaggio brand name.

And work continues on the programme to develop new products that will lead to the market launch of two new heavy Quadcycle models in Europe in 2004, and in India in 2005.

3.6 RESEARCH AND DEVELOPMENT

Company	2003			2002		
amounts ML ¤	Capitalised	Expenses	Total	Capitalised	Expenses	Total
Piaggio & C.	22.9	11.9	34.7	25.0	10.1	35.1
Of which 2R	16.1	10.3	26.4	20.8	10.6	30.4
Of which LTV	6.7	1.7	8.4	4.2	0.5	4.7
Nacional Motor	2.5	0.6	3.1	1.0	0.7	1.7
Total	25.4	12.5	37.8	26.0	11.8	36.8

In 2003, the Piaggio Group pursued its own strategy designed to maintain technological leadership in its sector, earmarking Euro 37.8 million to R&D activities (Euro 34.7 million of which to Piaggio & C. S.p.A. and Euro 3.1 million to Nacional Motor), accounting for 3.8% of sales, Euro 25.4 million of which was capitalised under intangible fixed assets. The Indian subsidiary Piaggio Vehicles Pvt Ltd. also benefits from the research projects carried out by Piaggio & C. S.p.A. in Pontedera, in the LTV business area.

Research activities, regarding innovation projects for products and manufacturing technologies, absorbed a total of Euro 6.9 million (17% of the total): development activities have accounted for the remaining Euro 30.9 million and were directed prevalently at new vehicles and new engines (focusing in particular on environment friendliness), most of which were launched in the final months of 2003, and the launches will continue in 2004.

As a result of activities to develop new two-wheel products, for a total outlay of Euro 26.4 million (Euro 30.4 million in 2002), the 2003 range benefited from the start of manufacturing of completely new vehicles, face-lifts, and the introduction of new engines on existing products, for the following vehicles:

- Piaggio X8 200 and 125 cc.
- Gilera Nexus 500 cc.
- Derbi Senda 125 cc. 4-stroke (4S)
- Derbi Gp Racing

Evolutions in the engine field regarded:

- small engines (50/100 cc 2S/4S), with the start of manufacture of the new HI-PER-4-SS range (High PERformance 4S Single Speed) which addresses the minibike, miniquad and kart markets in particular. These engines are destined in particular to OEMs (Original Equipment Manufacturers), and one of the major customers is the subsidiary Nacional Motor. Where scooter engines are concerned, work began to adapt the 100 cc 4S to Euro2 standards. Manufacturing is expected to start in the Spring of 2004.

- medium sized engines (125 – 200 cc); the LEADER family evolved with the extension of Euro2 compliance to the 125 and 150 cc air-cooled engines. At the same time, development of a new 200 cc air-cooled version is now underway, and mass production is expected to start in Spring 2004. For the medium sized category, in 2003 the new QUASAR range (200 cc 4S 4V water) was developed and presented, and is expected on the market in various versions early in 2004. This new family of engines combines the characteristics of lightness and compactness typical of the LEADER range it derives from, with a number of technical solutions typical of the larger MASTER engines.
- large engines: activities focused on the introduction of the 4-stroke 4-valve MASTER 500 cc engine on new vehicles (Gilera Nexus), and the development of the new range of twin-cylinder 4-stroke, 8-valve engines for scooters.

R&D expenditure on LTV activities in 2003 amounted to Euro 8.3 million, compared to Euro 4.7 million in 2002. Euro 6.7 million of the Euro 8.3 million spent in 2003 were capitalised.

The projects developed in 2003 primarily regarded the following products, which will go into production in 2004:

- NUV (New Utility Vehicle): a vehicle developed in three different models with four and six wheels and three different engines, which creates a new family of products destined to new markets and new customer targets, and extends the Piaggio range in a sector that is not served today, that of vehicles for “off-road” use in a rural or out-of-town environment;
    - NQP Europe: this marks Piaggio’s return to the heavy quadcycle sector with a product designed for the European market. The product has an extremely solid structure, an excellent size-capacity ratio and one of the best value for money

ratios in the light goods vehicle market, thanks in part to the possibility of purchasing components in India by global sourcing.

- New Indian APE range: Piaggio consolidates its position on the Indian market, adopting new engines (diesel, petrol, LPG and methane, air and water cooled) on both the popular APE 501 Cargo and passenger (3-seats) family, and on the new APE 601 family. The APE 601 extends the Piaggio range in terms of payload and passenger capacity (6 seats), and takes the range into the important segment of three-wheel vehicles with payload above 0.75 tonnes;
- plus the NQP India, derived from the same platform as the NQP Europe, which will be adapted to the specific requirements of the Indian market in terms of engine and functional components. With this vehicle, Piaggio aims to consolidate its position on the Indian subcontinent starting from 2005, with a product that is highly innovative compared to the present market range.

3.6.1 RESEARCH PROJECTS

Numerous Innovation and Research projects were undertaken and in many cases concluded at the Pontedera plants in 2003, and the most important of these were:

hybrid engine (internal combustion-electric): part of a project financed by the Cassa di Risparmio di Pisa Foundation, in collaboration with the Engineering Department of Pisa University, regarding the possibility of developing a vehicle with a hybrid engine (internal combustion – electric), which has resulted in a joint patent;

Peck: the PECK project (eco-compatible and industrially sustainable engines for urban mobility under the Kyoto protocol) financed by MIUR (Ministry of Education, Universities and Research) has been concluded. It has produced a 50 cc 4S 4V engine and a 50 cc 2S direct liquid injection engine, which can be type-approved to Euro3 standards, in advance of the legislative deadline of 2006;

Link2 Project – Virtual Prototyping System: in 2003, collaboration continued with the PERCRO (PERCeptual RObotics) laboratory of the S. Anna School of Pisa, to develop a Virtual Prototyping system to be used with components suppliers to improve and modify products;

FRESCO Project - Fuel-Cell Reduced Emission SCOoter: the aim of this project, which is financed by the European Community as part of the Fifth Framework Programme, is to develop, build and test a prototype scooter with an electric engine powered by a stack of fuel cells, by June 2005:

GM2S Project (Global Market Maxi Scooter): the aim of the project is to develop a two-wheel vehicle, in the scooter segment, with high performance (in terms of speed/power, safety, comfort and handling) for the world market, Europe, USA, Japan, Singapore and Southeast Asia, in the next two years.

MAIDS Project (Motorcycle Accident in Depth Study): This is a project promoted by ACEM (the Association of European Motorcycle Manufacturers) and financed by the European Community as part of the Fifth Framework Programme, which involves the world's major motorcycle manufacturers, including Piaggio, and numerous specialist research institutes, coordinated by the Department of Applied Health and Psycho-behavioural Sciences of Pavia University, and focuses on safety. It will conclude in March 2004 with the publication of the results in a report for the European Commission, examined, commented on and approved by representatives of the motorcycle manufacturers taking part in the project.

3.7 MANUFACTURING

The aluminium components machining department in the Machine shops at Pontedera was completely restructured in 2003.

In addition to completely renovating the building with civil and systems engineering work, a new layout was defined for the machining areas, in order to optimise manufacturing processes and to improve health and safety conditions.

In the context of *LTV Operations* at Pontedera, the various activities begun include work on the welding, painting and assembly lines ready for manufacture of the new vehicles which will be phased in during 2004.

Where Piaggio Espana in concerned, the plant in Arganda, Spain, was closed in 2003, because production has been transferred to Italy.

Manufacturing capacity at the Indian plant of Baramati was increased to 4,500 units a month (+30%) as the result of a capital spending plan which regards the introduction of new assembly lines and a new modern cataphoresis painting plant.

4. QUALITY AND SAFETY

Greater sensitivity on the part of customers to the quality and reliability of vehicles purchased, and increased competitive pressure, particularly from Japanese manufacturers, have speeded up the process to improve Piaggio products, with the goal of achieving the same level as the best players on the market.

For this reason, in 2003 Piaggio addressed both its internal processes and those of its suppliers, focusing on measures that can prevent problems, rather than those designed to solve them afterward, involving some of the most crucial suppliers of the manufacturing process in its improvement plans. Checks on materials and finished products were intensified, and a panel of dealers verified the results of the improvement programme directly.

During the year, Piaggio & C. S.p.A. renewed its certification under the new ISO 9001/2000 standards, which entailed a review of the main company processes.

A great deal of work was done in 2003 in terms of health and safety standards, to restructure the machining shops and to upgrade other areas of the plant.

In 2003, Piaggio & C. S.p.A. updated its Programmatic Safety Document first drafted in 2000, with the measures and in the terms envisaged by Decree no. 318/1999 regulating Privacy. This document describes the technical and organisational criteria adopted to protect the sensitive personal data handled by Piaggio using IT instruments, based on risk assessment.

The content and terms envisaged by Legislative Decree 196/2003, Annex B (Technical discipline of minimal safety measures) will be applied in the update programmed for 2004.

5. PERSONNEL

5.1 WORKFORCE

At December 31, 2003, the Piaggio Group had 4681 employees on its payroll, a decrease of 102 compared to December 31, 2002 (-2.1%).

The main impact derived from the closure of the Arganda plant in Spain, which employed 103 people, following the transfer of manufacturing activities to Italy.

The workforce of the parent company Piaggio & C. S.p.A. increased by 25, with a turnover of 817 employees entering and 792 leaving the company, primarily the effect of short-term contracts (635 units), a measure adopted to meet manufacturing demand related to the seasonal cycle of two-wheel vehicle sales.

5.2 INDUSTRIAL RELATIONS

In 2003 it once again proved impossible to renew the supplementary company contract which expired on 31.12.2000 and has since been extended year by year.

This situation, combined with the complex situation of the trade unions throughout the country, reflected on life inside the company, causing a high level of union unrest, and the loss of 68,153 hours to strikes (about 69,000 hours in 2002).

Absenteeism remained high (a total of 8.07%), although it decreased by 8.1% on 2002, due in part to the "presence award" introduced during the period of maximum manufacturing intensity (April – July).

In 2003, a number of interruptions to manufacturing activities that were necessary in the LTV business (6 weeks of Government-subsidised suspension) were managed jointly, in spite of the union situation mentioned above. However, as a whole, the total hours covered by the Government-subsidised fund decreased from 412,946 in 2002 to 126,120 in 2003.

Under the terms of the agreements for the acquisition of control by IMMSI, Piaggio & C. S.p.A. took over the company division responsible for administrative activities for the Group from the former Piaggio Holding S.p.A., reaching the necessary agreements with the Unions.

5.3 DEVELOPMENT/TRAINING

An assessment of managerial resources was completed in 2003, on the basis of the individual professional families and with reference to the Piaggio "management model".

Backed up by special training, the Performance Management system was also extended to a larger universe of Middle and Junior Management.

Training activities involved a total of 1,919 resources, and 371 days and 23,629 hours were organised.

The main programmes regarded Marketing for the 2-wheel and LTV businesses, focusing in particular on Sales techniques and, for LTV, on a re-examination/redefinition of the operating model from the customer's viewpoint.

All the company functions were also involved in Quality training, and about 110 resources (executives, middle management and clerical staff) attended special training courses.

A total of 29,184 hours of training were organised for blue-collar workers, as well as a number of internal training courses regarding "Continuous Improvement and the Company system" (with about 700 participants).

5.4 ORGANISATION

In 2003, organisational programmes were conditioned by the need to support their structures being consolidated, after the restructuring that took place in 2002, and to identify and introduce further improvements.

A new product development process was defined; Concept Teams were created within the Business Units, and Product Development Platforms in the R&D area, with the following goals:

- greater focus on the customer
- clear division of roles and responsibilities between marketing and product areas
- measurable process performance
- greater integration between the various company areas.

In the context of the company programme to update the Quality Management System to comply with international ISO 9004/2000 and ISO 9001/2000 standards, the primary and supporting processes were identified and redefined, and responsibilities were assigned to the *process owners.*

6. OPERATIONS OF THE PIAGGIO GROUP

From an economic and financial viewpoint, 2003 was shaped both by the business trends described above, and above all by the transfer of control resulting from the acquisition by IMMSI S.p.A., which occurred in the final part of the year.

Compared to ordinary company operations, this caused extraordinary components to emerge, linked to the concurrent operation to restructure the debt, the termination of relations with the previous parent company and, finally, the strategies defined by the Board of Directors, consistent with the 2004-2007 Industrial Plan which supported the closing contract.

The nature and economic and financial impact of these components are described in detail in the Notes to the Financial Statements and are briefly represented by financial commissions and the writedown of costs related to the previous acquisition of the Piaggio Group.

To this have been added writedowns and provisions of tangible and intangible assets, receivables, inventory obsolescence in consideration of their real future usefulness, as well as provisions to cover future risks, both in Piaggio & C. and in a number of subsidiaries, and foreseeable restructuring expenses.

What is more, as mentioned above, the delay in the parliamentary process to approve the law on Eco-incentives, made it impossible to record under Revenues the envisaged contribution of ¤ 9.4 million corresponding to Piaggio’s share of the discounts granted to end customers on 2003 sales.

However, in consideration of the progress of this process, we can reasonably hope to receive said contribution in 2004.

In fact, as mentioned above, the Environmental Commission of the Senate has already approved the proposed law reorganising the responsibilities of the Ministry for the Environment, with a specific paragraph (no. 38) related to the above incentives, introducing a special clause that guarantees funding for the incentives for 2003.

After being approved by the Senate, the proposed law will return to the Chamber of Deputies for final approval.

OPERATING RESULTS

Net Sales

Net consolidated sales of the Piaggio Group for the year amounted to Euro 987.2 million, an increase of Euro 41.4 million, or 4.4%, compared to net sales of Euro 945.8 million achieved the previous year.

The increase in sales can be attributed to the 2-Wheel Business which grew by 7.8% on the previous year, thanks to the launch of new products in the upper part of the range, with good results in Italy, Croatia, France and Germany.

The LTV Business unit on the other hand, recorded sales of Euro 215.2 million in 2003, a decrease of approximately 11%, in spite of the buoyant performance of the

Indian market where Piaggio strengthened its position, with Piaggio Vehicles Ltd. increasing its sales volumes by 30.5% on the previous year, and revenues by 17.8%.

The exchange rate had a negative impact of 2%, particularly with regard to the US Dollar and the Indian Rupee.

Gross industrial margin

The gross margin amounted to Euro 255.4 million, an increase of Euro 14.3 million on the previous year (+5.9%).

Said margin accounted for 25.9% of sales, compared to 25.5% the previous year.

As illustrated above, compared to the 2002 results, the present financial statements reflect the commercial discounts amounting to ¤ 9.4 million, which were granted to end customers by Piaggio, although the Italian law regulating Eco-incentives had not yet been approved.

Operating expenses

Operating expenses, amounting to Euro 231.2 million (down 1.5% on 2002), comprised amortisation and depreciation for Euro 31 million and other expenses for Euro 198 million, broken down as follows:

- commercial expenses for Euro 152.1 million, an 8% reduction on 2002;
- industrial expenses for Euro 10 million, a 12% increase on 2002;
- general expenses for Euro 35.9 million, an 8% increase on 2002.

Total research and development expenditure charged to the 2003 Income Statement amounted to Euro 12.5 million, to which we must add the amortisation of the expenses capitalised in previous years, amounting to ¤ 20.6 million, for a total of Euro 33.1 million charged to the 2003 Income Statement.

EBITDA

The Group's consolidated EBITDA at 31.12.2003 – illustrated in the table on page 4 and, like 2002, including ordinary allocations (writedown of receivables, etc.) among the costs deducted from sales – amounted to Euro 93.6 million (9.5% of sales), compared to Euro 77.6 million in 2002 (8.2% of sales).

The EBITDA also reflected the loss of Euro 9.4 million due to the delayed approval of the Eco-incentives law, which Piaggio nonetheless awarded to its end customers.

Depreciation and amortisation

Depreciation of manufacturing assets included in the industrial cost amounted to Euro 38.4 million.

Depreciation and amortisation included under operating costs amounted to Euro 31 million, Euro 20.6 million of which relating to research and development expenditure, as illustrated earlier, including the process undertaken in 2003 to adapt the criteria for the amortisation of intangible fixed assets adopted by Nacional Motor to those of the Group, providing a surplus of Euro 1 million.

As a result, the total amortisation and depreciation included in the operating result amounted to Euro 69.4 million, down 2.7% on 2002.

The amortisation of the consolidation difference (Euro 24.5 million), and charges related to the acquisition by the previous stockholders and to commissions on loans received in the past (Euro 7.4 million) for a total of Euro 31.9 million, are included under extraordinary charges for the purposes of the operating results.

Operating income

The trend of sales items illustrated above and the significant reduction in expenses resulted in a positive operating income (excluding amortisation and depreciation related to the consolidation difference generated by the acquisition of Piaggio in December 1999, the acquisition of Piaggio Vehicles Pvt. Ltd. and the acquisition of the Derbi Group in 2003) of Euro 24.2 million, compared to positive income of Euro 6.3 million the previous year. Operating income thus increased from 0.7% of sales in 2002 to 2.5% in the year under examination.

Financial income and expense

These amount, net, to Euro 46.7 million (4.7% of sales) compared to Euro 30.5 million in 2002 (3.2% of sales), partly as a consequence of the extraordinary components illustrated below. In addition to the values resulting from the level of indebtedness during the year, these charges also include approximately Euro 2.1 million for charges due to Piaggio Holding Netherlands BV related to the concession of a pledge taken out on Piaggio & C. S.p.A. shares, in favour of the banks financing Piaggio & C. S.p.A. and the charges related to the loan of Euro 15 million granted to Piaggio & C. S.p.A. by IMMSI S.p.A..

But above all, they include Euro 6.1 million, related to the net negative impact of contracts to hedge financial interest rates signed in previous years, and the provision to the risk fund of Euro 12.2 million, derived from the evaluation at December 31, 2003, of a contract in the light of current and foreseeable interest rate trends.

And finally, the overall total includes Euro 4.2 million for the portion of the cost of the 2003 debt restructuring which could not be capitalised (related to short-term credit lines).

Extraordinary expenses

As mentioned earlier, various extraordinary expenses emerged during the year. The main components are listed briefly below:

- writedown of tangible and intangible fixed assets (research costs capitalised in previous years) for Piaggio & C and Nacional Motor projects with no future prospects, for a total of Euro 14.9 million;
- writedown of capitalised costs related to both the acquisition of the Piaggio Group in 1999 by the previous stockholders (through MOD), and the financing operation of 1999, for a total of Euro 9.6 million;
- provision to the inventory, materials, products and parts obsolescence reserve of

the parent company and some of its subsidiaries, for a total of Euro 11.5 million;

- writedown of the investment in Cirio Holding S.p.A., for Euro 1.1 million;
- provision to the risk fund for legal action and welfare disputes involving Piaggio Deutschland, for the investment in Piaggio Foshan Motorcycles and for a sell-out operation in Nacional Motor, for a total of Euro 9.5 million;
- restructuring expenses for a total of Euro 10 million, Euro 4.7 million of which for a provision in expectation of the turnover of personnel at Piaggio & C. S.p.A., Nacional Motor and Piaggio Deutschland, and expenses met by Piaggio Espana to complete the closure of the Arganda plant;
- the net impact of operations related to the termination of financial and operational relations between Piaggio & C. S.p.A. and its former parent company Piaggio Holding S.p.A., as part of the general agreements included in the closing contract, for a total of ¤ 6.3 million;
- the impact of the 2003 loss of Piaggio Foshan Motorcycles (Euro 7.5 million);
- various provisions and writedowns, for ¤ 0.6 million, net of gains for the disposal of non-industrial real estate (Euro 10.9 million) and non-core investments (Euro 2 million), illustrated in greater detail in the Notes to the Financial Statements.

Net Result

Net result at year-end shows a loss of Euro 139.5 million, compared to a loss of Euro 129.2 million the previous year, taking into consideration, on one hand, the improvement in operational management and, on the other, the extraordinary operations described above. Minority interest records positive income of Euro 0.3 million (compared to a profit of approximately Euro 1 million in 2002), while the net result pertaining to the Group shows a loss of Euro 139.5 million (a loss of Euro 130.2 million in 2002).

This result reflects the impact of income tax for the year of approximately Euro 13 million, compared to Euro 10 million in 2002; taxation primarily comprises the Italian

IRAP tax (regional tax on manufacturing activities) for Euro 6 million, PVPL income tax of Euro 2.6 million, and taxes in France, Greece and Croatia for a total of Euro 1.5 million.

During 2003 approximately Euro 3 million were booked for deferred tax pertaining to the year, comprising the reversal of gains on intercompany disposals by the parent company in 1996-98, and a provision for deferred tax of PVPL.

FINANCIAL OPERATIONS

The most important element in 2003 from a financial viewpoint was the significant reduction in the level of the Group's consolidated financial indebtedness (approximately Euro 295 million, from Euro 577.1 million at the end of 2002 to Euro 281.9 million at the end of 2003). This important result, which was also due to changes in the consolidation area, was partly the effect of the reduction in net capital invested and, above all, of the stock

capital increase of Euro 235 million, as part of the IMMSI operation.

Net working capital

Net working capital was negative for Euro 42.6 million, with a significant net improvement of Euro 98.4 million on the previous year, the result of both measures taken to limit stocks and to control receivables, and of writedown operations.

Fixed assets / Investments

Capital spending by the Group during the year amounted to Euro 79.2 million and primarily regarded dies and tooling for the expansion of the two-wheel product range, particularly licensed vehicles with the relevant new engines. The Group pursued its restructuring and reorganisation plan for the engine area, with the goal of further improving efficiency and manufacturing capacity.

The cumulative value of investments and intangible fixed assets, including net consolidation differences following the various operations described above and illustrated in detail in the Notes, produced an overall decrease of approximately Euro 82 million, including the writedowns already illustrated.

Cash Flow

Cash flow during the year was positive for Euro 295.2 million; this result, which included Euro 25 million related to the exit of the previous parent company, originated from the operations described above, and to the disposal of assets and fixed assets, most of which were no longer necessary for operating activities.

Sources of funding and net financial position

Group Stockholders' Equity amounted to Euro 180.2 million at year-end 2003, compared to Euro 106.2 million in 2002, the effect of net income for the year and the stock capital increase

of Euro 235 million (including share premium) referred to several times, and for the remainder, of the purchase of their investments in P&D and Piaggio Vehicles from Daihatsu and Simest.

The net financial position amounted to Euro 281.9 million in 2003, compared to Euro 577.1 million the previous year. Implementation of the contract that allowed IMMSI to take operating control of the activities performed by the Piaggio Group in Italy and abroad, resulted in a reduction in the debt towards the group of banks that participated in the leveraged buy-out of 1999 for Euro 250 million, and the transformation of Euro 235 million into capital, with IMMSI putting up the remaining Euro 15 million as a short-term loan. In addition to these effects, the closing referred to above also includes the important agreement to modify the syndicated loan and credit facility signed in 2000, and the credit facility with Banca Intesa. These amendments allowed the parent company to incorporate the two credit facilities falling due on December 31, 2003 in the repayment schedule, the reimbursement terms of which have been favourably modified to obtain 3 years of pre-amortisement, while maintaining the same residual duration.

	2003	2002
Cash and bank balances	(21.9)	(27.0)
Short-term indebtedness to banks	32.2	113.3
Total Short-term indebtedness to banks	**10.3**	**86.3**
Short-term indebtedness to parent company	15.5	0
Short-term quotas of secured loans	36.6	204.9
Medium/long term quotas of secured loans	219.5	285.9
Overall indebtedness	281.9	577.1

7. OPERATIONS OF PIAGGIO & C. S.p.A.

As explained in detail in the comment on the data for the Piaggio Group, from an economic and financial viewpoint, 2003 was affected not only by particular business trends, but also, and in particular by the above-mentioned change in control, resulting from the acquisition by IMMSI S.p.A. in the latter part of the year.

This produced a number of components unrelated to ordinary company management, linked to the concurrent operation to restructure the debt, the termination of relations with the previous parent company, and finally the strategies defined by the Board, consistent with the 2004-2007 Industrial Plan which supported the closing.

The nature and economic and financial impact of these components are described in detail in the Notes to the Financial Statements and are, briefly, represented by financial commission, the writedown of costs related to the previous acquisition of the Piaggio Group, etc..

To this have been added writedowns and provisions of tangible and intangible assets, receivables, inventory obsolescence, in consideration of their real future usefulness, as well as provisions to cover future risks in a number of subsidiaries, and foreseeable restructuring expenses.

What is more, as mentioned above, the delay in the parliamentary process to approve the law on Eco-incentives, has made it impossible to record under Revenues the envisaged contribution of ¤ 9.4 million corresponding to Piaggio’s share of the discounts granted to end customers on 2003 sales.

However, in consideration of the progress of this process, we can reasonably hope to receive said contribution in 2004.

In fact, as mentioned above, the Environmental Commission of the Senate has already approved the proposed law reorganising the responsibilities of the Ministry for the Environment, with a specific paragraph (no. 38) related to the above incentives, introducing a special clause that guarantees funding for the incentives for 2003.

After being approved by the Senate, the proposed law will return to the Chamber of Deputies for final approval.

Piaggio & C. S.p.A. has acquired the Nacional Motor S.A. company which owns the Derbi trademark, from Piaggio Holding S.p.A. as part of the contract for the acquisition of the Piaggio Group, dated October 23, 2003.

OPERATING RESULTS

Where the statutory financial statements of Piaggio & C. S.p.A. are concerned, 2003 results can be summarised as follows, and compared with those of 2002:

(Values in Euro/'000)

	2003	2002
VALUE OF PRODUCTION		
	862,802	864,992
Of which Revenues from sales	837,136	828,166
COST OF PRODUCTION	(890,564)	(892,079)
DIFFERENCE BETWEEN VALUE AND COST		
OF PRODUCTION	(27,762)	(27,087)
NET FINANCIAL INCOME AND EXPENSE	(42,853)	(30,306)
ADJUSTMENT TO FINANCIAL ASSETS	(20,567)	8,854
NET EXTRAORDINARY INCOME AND EXPENSE	(25,624)	(14,631)
PRE-TAX RESULT	(116,805)	(63,170)
INCOME TAX	(5.571)	(4,950)
PROFIT (LOSS) FOR YEAR	(122,376)	(68,120)

The increase in revenue from sales compared to 2002 can be attributed primarily to the

2-Wheel business which, thanks to the launch of new products at the top end of the range, grew by 5% on the previous year, while the LTV business, with the Ape and the Porter, contracted by 18% on 2002.

The value of production as a whole fell marginally on 2003 because, in addition to the business trends described above, it reflected the negative effect, worth Euro 9.4 million, of the delayed approval of the Italian law on Eco-incentives, as explained earlier.

Production costs as a whole also decreased marginally on the previous year.

In greater detail, while the cost of raw, ancillary and consumable materials and goods fell by Euro 14 million on 2002 (-2.75%), in 2003 the cost of services and personnel costs increased by 1.75% and 5.17% respectively on 2002.

Amortisation and depreciation of intangible and tangible fixed assets amounted to ¤ 85.7 million, up from Euro 86.6 million the previous year, and included the amortisation of the goodwill from the merger (Euro 18 million). Writedowns of tangible fixed assets were also recorded, for Euro 1.4 million, for dies for vehicles no longer in production.

The item "Changes to inventories of raw, ancillary and consumable materials and goods” increases by Euro 5.4 million on the previous year, and includes provisions to the obsolescence fund of Euro 9.5 million, compared to Euro 2.7 million in 2002. The increase in the provision for inventory obsolescence was considered necessary to reflect the expected absorption of raw materials for the manufacturing cycles and to take the parts clearance indices into account.

The provision for risks reflects the estimated risk the company may be exposed to as a result of ongoing legal proceedings.

The item "Sundry operating expenses" increased by Euro 1.9 million on the previous year, and comprised the loss of receivables recorded as a result of the total writedown of an advance to FIV S.p.A., formerly Italjet S.p.A., a company now bankrupt.

Net financial expense increased by Euro 12.5 million on the previous year and comprised the fees for the restructuring of the loan contracted in 1999 (Euro 4.2 million) and approximately Euro 2.1 million for charges related to the concession of a guarantee to the pledge in favour of the banks financing Piaggio & C. S.p.A. taken out on Piaggio & C. S.p.A. shares by the financing banks themselves, and for charges relating to the Euro 15 million loan granted to Piaggio & C. S.p.A. by IMMSI S.p.A.. It also includes Euro 3.3 million, related to the net negative impact of the contracts to hedge financial interest rates signed in previous years, and the prudential provision of Euro 12.2 million to the risk fund, because an evaluation at December 31, 2003, shows that one of the financial interests rates hedging contracts is negative for that amount.

Adjustments to financial assets for Euro 20.6 million are due essentially to the additional provision to the subsidiary Piaggio Foshan Motorcycles, to cover the latter's negative equity, and further expense that could derive from the disposal of the investment, from the writedown of the investment in Nacional Motor S.A. for Euro 10,000, in line with art. 2426 2nd paragraph of the Italian Civil Code, in order to exploit the advantages envisaged by tax legislation, and from the total writedown of the minority investment in Cirio Holding S.p.A., formerly Centrofinanziaria S.p.A.

Extraordinary Revenues and Expense comprises gains from the disposal of assets for Euro 10.9 million (Euro 2.4 million in 2002), Euro 4.9 million from other extraordinary revenues (Euro 10.2 million in 2002), deriving from the disposal of the investment in SAT (Euro 1.6 million) and from non-operating gains (Euro 3.3 million).

Extraordinary expenses deriving from prior years' taxation include an additional provision for the tax amnesty of Euro 0.2 million.

Other extraordinary expenses (Euro 40.9 million compared to Euro 20.9 million in 2002) comprise: restructuring charges, non-operating losses, writedowns of fixed assets and other provisions for Euro 39 million. Restructuring expenses of Euro 3 million refer to costs sustained in 2003 (Euro 1.5 million) and to the provision to cover the foreseen turnover of personnel that will take place in 2004 (Euro 1.5 million).

Other extraordinary expenses essentially comprise:

• Euro 7.2 million for the writedown of plant and expansion costs capitalised in 1999 in the context of the acquisition by Piaggio Holding S.p.a., which have no future usefulness after the new acquisition of the Group;

• Euro 9.5 million for the writedown of research and development projects capitalised in the past, with no future usefulness;

• Euro 2.4 million for the writedown of commissions on the long-term loan granted by a group of banks in 1999 to support the 1999 acquisition;

• Euro 0.6 million for the writedown of tangible fixed assets for products no longer in production;

• Euro 6.3 million for expenses related to the termination of relations with the former Piaggio Holding S.p.A., under the contract to sell the Group to IMMSI S.p.A.;

• Euro 1.5 million as provision to cover the liability of the Almec/Inps controversy, charged to Piaggio & C. S.p.A. because of the guarantees given during the sale of the investment;

• Euro 0.3 million for provisions to the agents' replacement indemnity provision for previous years.

Net Result

Net result shows a loss of Euro 122.4 million, compared to a loss of Euro 68.1 million the previous year.

This result, together with the effects of the extraordinary expenses and the other provisions and writedowns illustrated above, offsets the impact of income tax for the year for approximately Euro 5.6 million, compared to Euro 4.9 million in 2002; income tax for the year primarily comprises IRAP tax.

FINANCIAL OPERATIONS

Cash Flow

As illustrated in the Statement of Source and Application of Funds annexed to the Notes to the Statutory Financial statements of Piaggio & C. S.p.A., cash flow for the year was positive for Euro 225 million, thanks to the stock capital increase of Euro 235 million. The flow deriving from operations is positive for Euro 95.6 million, while the monetary flow for investment activities reflects uptake of Euro 105 million.

Working capital

Working capital was negative for Euro 75.6 million, representing a significant improvement (a net reduction of Euro 76.3 million) on the previous year.

Fixed assets / Shareholdings

The accumulated value of fixed assets plus investments at year-end 2003, was approximately Euro 0.5 million below the value of 2002, because of the reduction of Euro 55.4 million in Intangible and tangible fixed assets, and the increase of Euro 54.9 million in Financial fixed assets, due essentially to the acquisition of Nacional Motor from the former parent company Piaggio Holding.

The reduction in intangible fixed assets reflects the impact of the writedown of a number of capitalised projects, in view of the fact that they are no longer able to generate revenues, and the writedown of capitalised charges related to previous acquisitions. Where Tangible fixed assets are concerned, the reduction derives from the disposals performed in 2003, even generating substantial gains, and from normal depreciation for the period, only partially offset by new investments during the year. Capital spending by the company amounted to Euro 31.3 million and primarily regarded dies and tooling to expand the two-wheel product range, particularly licensed vehicles, with the relevant new engines. Piaggio & C. S.p.A. pursued its programme to restructure and reorganise the engine area, in order to further improve efficiency and capacity.

Sources of funding

Stockholders' equity of Piaggio & C. S.p.A. at year-end 2003 amounted to Euro 138.8 million, compared to Euro 26.2 million in 2002.

The company closed the year with a net financial position of minus Euro 274.4 million, reflecting an improvement of Euro 226 million, after Euro 235 million was generated by the capitalisation under the closing which has given IMMSI control of the activities of the Piaggio Group in Italy and abroad. This capitalisation, undertaken by Dutch parent company Piaggio Holding Netherlands BV, was achieved by contributing the receivables originally in the hands of the syndicate of banks backing the Piaggio Group. In addition to bringing the level of financial indebtedness into line with the structure of the financial statements, the restructuring of the syndicated debt for a total of Euro 192.3 million, allows the company to sustain its activities in the medium term without particular pressure deriving from the need to refinance debts coming due. The repayment schedule has been favourably revised, envisaging 3 years of pre-amortisation and 4 years of amortisation at progressive rates. In addition, a packet of operative credit lines has also been negotiated, to replace those expiring at year-end 2003, for a total of Euro 125 million, and the commitment to grant said lines expires on June 30, 2007.

8. IMPORTANT EVENTS DURING THE FIRST MONTHS OF 2004

On January 8, the Budget for 2004, approved by the Board of Directors on December 19, 2003, was presented to the entire management of the Group, making the entire first and second levels (approximately 250 executives and middle management) responsible for achieving the targets set for 2004 by the incentive system (MBO).

In February 2004, the negotiations begun in March 2003 to reach an agreement with the Zhongshen Group, the leading Chinese operator in the two-wheel vehicle sector, were confirmed by the signature of a further preliminary agreement. This agreement envisages a substantial reduction in Piaggio's investment in Piaggio Foshan Motorcycles (PFM), in the context of a joint programme for the marketing and manufacturing rebirth of the company, and the gradual withdrawal of the financing granted by Italian banks to the Chinese company for Euro 14 million, covered by guarantees from the parent company Piaggio & C. S.p.A.

The nature and presumable conditions for this operation, and in particular the possibility of exploiting, at a later date, the Piaggio trademark, and autonomous Global sourcing activities locally, have prompted the additional provision of Euro 4.8 million to the risk provision which, at year-end 2003 thus amounts to Euro 20.2 million.

Where the subsidiary Nacional Motor S.A. is concerned, as a result of the failure to reach the level of the covenants related to the syndicated loan to the company, on March 3, 2004 the parent company increased the subordinated loan granted to Nacional Motor by Euro 12.5 million.

9. FORESEEABLE OPERATING TRENDS

Starting in October 2003, the date the new stockholders took control, management has undertaken the necessary analysis of its business, which has so far led to the identification of areas needing restructuring and rationalisation, which will involve both the parent company and a number of subsidiaries, the cost of which has therefore been allocated in the financial statements to December 31, 2003.

In 2004 Piaggio will pursue its goal of strengthening its leadership position, aiming at increasing volumes, and at consolidating its market share in both the two-wheel and the light goods transport sectors. This increase will exploit the first tentative signs of a recovery in the two-wheel market, in the larger engine category, the growth of the Indian market, and significant new products from the Derbi trademark and the Indian subsidiary.

It will also maintain its commitment in areas of strategic interest, stepping up its capital spending on research and development, and on manufacturing activities.

10. INFRA-GROUP RELATIONS

Receivables and payables to subsidiary and associated companies at 31-12-2003 are listed in the annexed tables and derive from transactions undertaken at normal market values.

11. OTHER INFORMATION

11.1 CHANGES IN GROUP STRUCTURE

In January 2003, the company acquired the investments held in P&D S.p.A. by

Daihatsu Motor Co. Ltd., equal to 49% of the capital stock. As a result of this acquisition, the company now owns 100% of P&D S.p.A. What is more, this acquisition makes it possible to continue to manufacture and market the Porter, even through accessory contracts governing the manufacturing licence, ownership of technical information and expertise, the use of special tooling and engine supplies at least until 2005.

On March 25, 2003 the Board of Directors of Piaggio & C. S.p.A. approved the start of negotiation with the Zhongshen Group, with headquarters in Chongqing (China) to define the terms and conditions for a possible agreement that could envisage a decrease in the current investment in Piaggio Foshan Motorcycles and the gradual withdrawal of the guarantees given in favour of the Chinese company.

In the light of the state of negotiations at the date of the financial statements, potential losses have been evaluated, calculating the best realisable value, and entering the relative provisions in the financial statements.

In November 2003, with the approval of the courts of New Delhi and Mumbai, the merger between Piaggio India Pvt. Ltd. and Piaggio Vehicles Pvt. Ltd. was finalised. The legal effects of this merger were backdated to April 1, 2002. The merger of the Indian subsidiaries will make it possible to achieve significant administrative and financial synergies.

In December 2003, Piaggio Espana SA, a subsidiary of Piaggio Vespa BV, acquired an investment in the subsidiary Piaggio Deutschland Gmbh equal to 30% of the latter's capital stock. This acquisition will offer an opportunity to develop interesting synergies, thanks to a direct corporate relationship between the two companies, in the marketing of two-wheel vehicles and light transport vehicles.

11.2 DISPUTES

In 2002, the Europe Assistance Italia S.p.A. company summoned the Europe Car Lease s.r.l., Lease Plan s.r.l., Savarent S.p.A. and Leasys S.p.A. companies, grouped together in a temporary corporation, to appear before the Monza Court, regarding an insurance contract for a fleet of two-wheel vehicles leased to Poste Italiane S.p.A., asking to be reimbursed by the defendants for damages amounting to approximately Euro 2,000,000.

Piaggio & C. S.p.A. was involved as a third party, as the supplier of the vehicles in question, by the above Temporary corporation, in order to be relieved of any and all responsibility and any and all charges made against them by the plaintiff. As things stand, because the case is still at an early stage, and because the events in question between the plaintiff and the defendants did not involve Piaggio & C. S.p.A., it is not possible to foresee the outcome of the case, without at least waiting for the conclusion of the preliminary investigation.

Where the fiscal effects are concerned, in the financial statements closed on December 31, 2002, the company had already taken advantage of the tax amnesty to settle certain positions of both Piaggio & C. S.p.A. and other Italian companies incorporated between 1998 and 2000.

The company has decided to take advantage of the new deadline granted on March 16, 2004, to settle the allegations contained in the assessment notified on December 20, 2002 by the Tax Authority, regarding both corporate income tax and VAT. By paying the minimum amounts, the final term for tax assessment for all the years from 1997 to 2002 to which the simplified system is applicable, will be limited to the normal term.

All the costs deriving from further recourse to the tax amnesty will be charged to the financial statements at December 31, 2003.

We also point out that a number of companies owned by Piaggio & C. S.p.A. are still involved in tax disputes for which, in the opinion of independent experts consulted, no liability will arise for the companies or the Group. As a result, no allocation has been made for the disputes described below, because the risk is considered remote, nor was it considered necessary to have recourse to the recent amnesty.

P&D S.p.A. has received notification of assessments for the years 1995-1996-1997 for corporate income tax and local income tax for a total of ¤ 17 million, including fines and interest, duly challenged before the Provincial Tax Commission of Pisa. We remind you that the company has already been successful in similar cases, at both levels of judgement, for the years 1993 and 1994, with a ruling by the Regional Tax Commission of Florence. For this reason, we are waiting for the appropriate moment for the offices to lodge an appeal with the Court of Cassation.

With reference to the tax inspection of Almec S.p.A. and the subsequent dispute, for which guarantees were given under the selling contract up until the 1999 fiscal year, we point out that in addition to the favourable sentence for 1996 VAT before the Naples Regional Tax Commission in February 2003, the assessments notified regarding corporate income tax, local income tax and equity tax for 1996, and corporate income tax, local income tax, equity tax and VAT for 1997, have been challenged before the competent body, the Provincial Tax Commission of Avellino. On December 2 and 9, 2003, the hearings were held regarding the above-mentioned assessments, but the ruling has not been issued yet. Where the notification of assessment for corporate income tax and VAT in 1998 are concerned, these have also been duly challenged (corporate income tax) or remedied by payment or amnesty. The tax return with which the tax office requested the payment of one third of the taxes due, related to the above-mentioned notification, has also been challenged.

11.3 CORPORATE GOVERNANCE

On November 13, 2003, the Board of Directors of Piaggio & C. S.p.A. decided to prepare an organisational and operational model so as to prevent environmental situations favourable to the commission of offences generally and specifically those indicated in Legislative Decree 231/2001.

Piaggio & C. S.p.A. has therefore developed an organisational and operational model that respects the prescriptions of the above-mentioned law 231/2001. Said model will be submitted to the Board of Directors of Piaggio & C. S.p.A. for approval on March 12, 2004.

11.4 RELATIONS WITH RELATED PARTIES

The following tables complete the information regarding relations with related parties.

All the operations have been concluded at normal market conditions or in respect of specific legal requirements.

Financial Statements item	Amount	Description
Interest and other financial expense against parent companies	Euro 2.1 million	Commissions for the pledge on the shares that Piaggio Holdings Netherlands BV has issued on the shares of Piaggio & C. S.p.A. in favour of the banks that took part in the restructuring of the debt, and ¤ 0.1 million for
		interest on the loan received from IMMSI S.p.A.
Financial assets not constituting fixed assets	Euro 9.3 million	5-year loan (expiring September 23, 2008), fixed interest rate (2.5%) capitalised annually, granted to Scooter Holding 1 S.p.A. (formerly Piaggio Holding S.p.A.)
Payables to parent companies	Euro 15 million	A short-term financial debt with IMMSI at conditions similar to those applied by the banks in the syndicate

As a result of the corporate operation described in detail in the present report on operations, the following banking groups, through PB s.r.l., are now among the stockholders of Piaggio Holding Netherlands BV, sole stockholder of Piaggio & C.

S.p.A.:

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

We point out that, at year-end, the Piaggio Group has financing operations and derivative contracts outstanding with the above banking institutes, as illustrated in greater detail in the Notes to the financial statements. And as a natural consequence of the above, the following Members of the Piaggio & C S.p.A. Board also fill important positions in the banks with which the Group operates:

- Gaetano Micciché
- Pietro Faraoni
- Vincenzo de Bustis.

* * * * *

PROPOSED RESOLUTIONS

Stockholders,

if you approve the financial statements of Piaggio & C. S.p.A. to December 31, 2003, which close with an operating loss of Euro 122,376,326, submitted to you together with the present report, we propose using the “extraordinary Reserve”, the “Additional paid-in capital by stockholders Reserve” and the “Undistributable Reserve as per Art. 2423 of the Civil Code”, as well as the “Share premium Reserve” to cover the losses carried forward in previous years for Euro 242,215,138 and to partially cover the loss sustained in the current year up to Euro 91,184,339, carrying forward a loss of ¤ 31,191,988 for the year.

After the above operations, Stockholders’ Equity would be made up as follows:

Capital stock	Euro 169,347,431
Legal Reserve	Euro 671,394
Profit (Loss) carried forward	Euro (31,191,988)
TOTAL	Euro138,826,837

Milan, March 12 2004

for the Board of Directors

The Chairman

Dott. Roberto Colaninno

Note:

The data have been elaborated on the following basis: 50 cc market in Italy, Germany, France, Spain, Belgium, Holland, Portugal: internal estimates performed on the basis of multibrand panels or declared sell-in to national associations. UK, Greece, Austria, Switzerland, Croatia: Ministry of Transport; >50 cc scooters, Ministry of Transport for all the above countries. India, Japan, Brazil and Argentina: trade associations, China, Southeast Asia, USA and rest of world: internal estimates. The data have been processed on the basis of internal estimates for the three-wheel market in Italy, on the basis of ANFIA data for the Italian four-wheel market and of SIAM data for the Indian market.

PIAGGIO C. S.p.A. – Annexed to 2003 Annual Report
Table summarising relations with Group companies

RECEIVABLES

PARENT COMPANY

COMPANY	TRADE RECEIVABLES	RECEIVABLES INCL. IN FIXED ASSETS	FINANCIAL RECEIVABLES	OTHER RECEIVABLES	ADVANCES ON ASSETS
IMMSI SPA					

ASSOCIATED COMPANIES

COMPANY	TRADE RECEIVABLES	RECEIVABLES INCL. IN FIXED ASSETS	FINANCIAL RECEIVABLES	OTHER RECEIVABLES	ADVANCES ON ASSETS
P & D SPA	4,848,559			119,952	
PIAGGIO ARGENTINA	262.438			803	
PIAGGIO ASIA PACIFIC	497,073				
PIAGGIO BENELUX	1.321.145			73.556	
PIAGGIO CHINA				28,399	
PIAGGIO DEUTSCHLAND	2.098.616			200.000	
PIAGGIO ESPANA	4.817.660			79,638	
PIAGGIO FOSHAN	246.828	15.448.896		2.414.428	
PIAGGIO FRANCE	5,944,006			240,000	
PIAGGIO VEHICLES	-132.970			1.135.741	
PIAGGIO HELLAS	3,304,824			100,000	
PIAGGIO HRVATSKA	768.355			170.000	
PIAGGIO INDIA	41				
PIAGGIO INDOCHINA	95.052				
PIAGGIO LIMITED	1,626,122			166,191	
PIAGGIO PORTUGAL	2.103.681		7.538	535	
PIAGGIO USA	6,063,487			526,455	
NACIONAL MOTOR	958.420	15.000.000		750.096	
DERBI ITALIA SRL	13,500			566,438	
PIAGGIO VESPA B.V.					
	34,836,837	**30,448,896**	**7,538**	**6,572,232**	

ASSOCIATED COMPANIES

COMPANY	TRADE RECEIVABLES	RECEIVABLES INCL. IN FIXED ASSETS	FINANCIAL RECEIVABLES	OTHER RECEIVABLES	ADVANCES ON ASSETS
ALMEC SPA	451			5.166	
CONSORZIO RIC. BENEVENTO					
FONDAZIONE PIAGGIO	5.048		191.564	489.711	
MITSUBA F.N. EUROPE SPA					
MOTORIDE SPA				6.141	
OTTO FREY					
ROLLAG DISTRIBUTEUR					
SAT TUNISIA S.A.					
	5.499		**191,564**	**501,018**	

PIAGGIO C. S.p.A. - Annexed to 2003 Annual Report

Table summarising relations with Group companies

PAYABLES

PARENT COMPANY

COMPANY	TRADE PAYABLES	FINANCIAL PAYABLES	SUNDRY PAYABLES
IMMSI SPA		15,000,000	

SUBSIDIARY COMPANIES

COMPANY	TRADE PAYABLES	FINANCIAL PAYABLES	SUNDRY PAYABLES
P & D SPA	2,881,688	25,385	300,651
PIAGGIO ARGENTINA			
PIAGGIO ASIA PACIFIC	87,885		
PIAGGIO BENELUX	148,646		
PIAGGIO CHINA	4,488		58,243
PIAGGIO DEUTSCHLAND	3.018.327		
PIAGGIO ESPANA	3,594,892		
PIAGGIO FOSHAN	206,781		
PIAGGIO FRANCE	643,573		
PIAGGIO VEHICLES	89,795		2.289
PIAGGIO HELLAS	128,601		
PIAGGIO HRVATSKA	51.825		
PIAGGIO TURKEY			
PIAGGIO INDOCHINA	7.485		
PIAGGIO LIMITED	250,943		
PIAGGIO PORTUGAL	428.682		
PIAGGIO USA	-1,646,713		
NACIONAL MOTOR	140,089		
PIAGGIO VESPA B.V.	25,057	13,202 ,470	
	10,062,044	**38,587,957**	**361,183**

ASSOCIATED COMPANIES

COMPANY	TRADE PAYABLES	FINANCIAL PAYABLES	SUNDRY PAYABLES
ALMEC SPA	2,514,758		150,551
CONSORZIO RIC. BENEVENTO			
FONDAZIONE PIAGGIO	75,745		280
MITSUBA F.N. EUROPE SPA	178		
MOTORIDE SPA		473,818	
OTTO FREY			
ROLLAG DISTRIBUTEUR			
SAT TUNISIA S.A.			
	2.590.681	**473.818**	**150.831**

PIAGGIO C. S.p.A. - Annexed to 2003 Annual Report
Table summarising relations with Group companies

INCOME STATEMENT

PARENT COMPANY

COMPANY	REVENUES	SALE OF TANGIBLE FIXED ASSETS	COSTS	PURCHASE OF TANGIBLE FIXED ASSETS
IMMSI SPA			102,010	
PIAGGIO HOLDING NETHERLANDS BV			1,977,529	
			2,079,539	

SUBSIDIARY COMPANIES

COMPANY	REVENUES	SALE OF TANGIBLE FIXED ASSETS	COSTS	PURCHASE OF TANGIBLE FIXED ASSETS
P & D SPA	49.698.907		51.173.018	
PIAGGIO ARGENTINA				
PIAGGIO ASIA PACIFIC	1.800.636		515.662	
PIAGGIO BENELUX	8,574,805		744,378	
PIAGGIO CHINA				
PIAGGIO DEUTSCHLAND	52,843,704		1,555,211	
PIAGGIO ESPANA	46.891.410		5.157.234	
PIAGGIO FOSHAN	171,015		1,530,409	
PIAGGIO FRANCE	62.472.246		700.496	
PIAGGIO VEHICLES	3,477,653		395,472	
PIAGGIO HELLAS	25.352.436		114.220	
PIAGGIO HRVATSKA	12,467,086		77,115	
PIAGGIO INDOCHINA	152.886			
PIAGGIO LIMITED	25,309,374		532,190	
PIAGGIO PORTUGAL	509.246		10.772	
PIAGGIO TURKEY				
PIAGGIO USA	4.735.460		361.349	
NACIONAL MOTOR	4,788,771		10,946,591	
DERBI ITALIA SRL	184.245			
DERBI RACING SL			1,600,000	
PIAGGIO VESPA B.V.			452,800	
	299,429,880		**75,866,917**	

ASSOCIATED COMPANIES

COMPANY	REVENUES	SALE OF TANGIBLE FIXED ASSETS	COSTS	PURCHASE OF TANGIBLE FIXED ASSETS
ALMEC SPA	263.772		9.156.209	895.856
CONSORZIO RIC. BENEVENTO				
FONDAZIONE PIAGGIO	1.396			
MITSUBA F.N. EUROPE SPA	74,474		10,604,642	
MOTORIDE SPA	6.141		10.844	
OTTO FREY				
ROLLAG DISTRIBUTEUR				
SAT TUNISIA S.A.				
	345,783		**19,771,695**	**895,856**

PIAGGIO GROUP CONSOLIDATED FINANCIAL STATEMENTS

- **BALANCE SHEET**
- **INCOME STATEMENT**
- **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
- **INDEPENDENT AUDITORS' REPORT AS PER ART. 156 AND ART. 165 OF DECREE LAW DATED 24.2.1998, N. 58**

BALANCE SHEET

	ASSETS	12 months	Over 12	2003
A)	**Receivables from stockholders for payments still due**			0
B)	**Fixed Assets**			
	I. Intangible fixed assets			
	1) Start-up and expansion costs			874
	2) Costs for research, development and advertising			22,082
	3) Industrial patent rights and intellectual property rights			4,948
	4) Concessions, licences, trademarks and similar rights			382
	6) Assets under construction and payments on account			19,992
	7) Other			6,023
	8) Consolidation difference			367,072
				421,373
	II. Tangible Fixed Assets			
	1) Land and buildings			69,909
	2) Plant and machinery			48,696
	3) Industrial and commercial equipment			37,587
	4) Other assets			6,729
	5) Assets under construction and payments on account			19,320
				182.241
	III. Financial Fixed Assets			
	1) Investments in:			
	a) subsidiary companies			30
	b) associated companies			1,217
	c) other companies			112
	2) Receivables	12 months	Over 12	
	a) from subsidiary companies	15,449		15,449
	b) from associated companies			
	c) from parent companies			
	d) from other companies	1,935	723	2.,658
	3) Other securities			0
	4) Treasury stock			
				19,466
	Total Fixed Assets			**623,080**

ASSETS	12 months	Beyond	2003
C) Current assets			
I. **Inventories**			
1) Raw, ancillary and consumable materials			38,732
2) Work in progress and semi-finished products			13,111
3) Contract work in progress			
4) Finished products and goods			79,964
5) Payments on account			215
			132,022
II. Receivables	12 months	Beyond	
1) From trade	75,389	503	75,892
2) From subsidiary companies	5,015	0	5,015
3) From associated companies	507	0	507
4) From parent companies	0	0	0
5) From other companies	20,439	37,712	58,151
	101,350	38,215	
			139.565
III. Financial assets not constituting fixed assets			
1) Investments in subsidiary companies			0
2) Investments in associated companies			0
3) Other investments			0
4) Treasury stock			0
5) Other securities			0
6) Receivables			
- from subsidiary companies			0
- from associated companies			192
- from parent companies			0
- from other companies			9,338
			9,530
IV. Liquid funds			
1) Bank and post accounts			12,359
2) Cheques			0
3) Cash and cash equivalents			48
			12.407
Total current assets			**293,524**
D) Accrued income and prepaid expenses			
- discount on loans			1
- various			2,286
TOTAL CURRENT ASSETS			**2,287**
			918,890

Euro/1000

LIABILITIES	2003
A) Stockholders' Equity	
I. Share capital	169,347
II. Share premium reserve	292,987
III. Revaluation reserve	0
IV. Legal reserve	671
V. Treasury stock reserve	0
VI. Statutory reserves	0
VII Other Reserves	41,645
VII b Consolidation reserve	993
VIII Net income/(loss) carried forward	(188,233)
IX Profit (loss) for the year	(138,443)
Total Stockholders' Equity of Group	**178,967**
Capital and reserves attributable to minority interests	988
Stockholders' Equity of Group and minority interests	**179,956**
B) Reserves for risks and charges	
1) Employee retirement indemnity reserves and similar	878
2) Tax reserves	4,123
3) Other	59,176
	64,177
C) Employee retirement indemnity	54,409

Euro/1000

LIABILITIES			2003
D) Payables			
	12 months	Over 12 months	
1) Bonds			0
2) Convertible bonds			0
3) Bank loans	56,766	205,400	262,166
4) Payables to other financiers	12,055	14,108	26,163
5) Advances to suppliers	1,366	0	1,366
6) Trade payables	240,531	16	240,547
7) Payables represented by securities	0	0	0
8) Payables to subsidiary companies	618	0	618
9) Payables to associated companies	3,215	0	3,215
10) Payables to parent companies	15,000	0	15,000
11) Taxes payable	13,326	3,959	17,285
12) Payables to welfare and social security institutions	5,663	2,150	7,813
13) Other payables	27,240	12,880	40,120
	375,780	238,513	
			614,293
E) Accrued expenses and deferred income			6,055
TOTAL LIABILITIES			**738,934**
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES			**918,890**

MEMORANDUM ACCOUNTS	2003
Personal guarantees granted	
Guarantees in favour of third parties issued by:	
- Piaggio & C. on behalf of Group companies	25,032
- banks on behalf of Group companies	24,923
Total Guarantees	49,955
Risks of recourse on factored receivables	75,129
TOTAL MEMORANDUM ACCOUNTS	**125,084**

Euro/1000

INCOME STATEMENT	2003
A) Value of production	
1) Revenues from sales and services	925,140
2) Changes to work in progress, semi-finished and finished products	(17,178)
3) Changes to contract work in progress	
4) Additions to assets by internal production	15,369
5) other revenues and income	
-other	38,079
- operating contributions paid in	4,002
Total value of production	**965,412**
B) Cost of production	
6) For raw, ancillary and consumable materials and goods	510,195
7) For services	202,064
8) For leasing and rentals	7,074
9) For personnel:	
a) Wages and salaries	95,501
b) Social security contributions	31,112
c) Employee retirement indemnity	7,102
d) Pensions and similar benefits	7
e) Other costs	915
10) Depreciation, amortisation and writedowns:	
a) Amortisation of intangible fixed assets	59,008
b) Depreciation of tangible fixed assets	37,133
c) Other writedowns of assets	1,471
d) Writedown of receivables included in current assets and liquid funds	5,331
1 1) Change in inventories of raw, ancillary and consumable materials and goods	16,763
12) Provisions for risks	1,873
13) Other provisions	7,036
14) Other operating expenses	6,690
Total cost of production	**989,274**
Difference between value and cost of production (A-B)	**(23,862)**

INCOME STATEMENT	2003
C) Financial income and expenses	
15) Income from investments:	
- from subsidiary companies	0
- from other Group companies	0
- other companies	29
Total income from investments	29
16) other financial income:	
a) from receivables held as fixed assets:	
- subsidiary companies	0
- associated companies	0
- parent companies	0
- other companies	10
b) from securities entered in fixed assets	0
c) from securities entered in working capital	0
d) income other than the above:	
- from subsidiary companies	0
- from associated companies	0
- from parent companies	0
- from other companies	15,480
Total other financial income	15,490
17) Interest and other financial expenses:	
- from subsidiary companies	0
- from associated companies	11
- from parent companies	2,080
- from other companies	58,853
Total interest and other financial expenses	(60,943)
Total financial income (expenses)	**(45,423)**
D) Adjustments to financial assets	
18) Revaluations:	
a) of investments	0
b) of financial fixed assets	0
c) of securities entered in current assets	0
d) Profit on Equity investments	5
19) Writedowns:	
a) of investments	5,857
b) of financial fixed assets	0
c) of securities entered in current assets	0
d) Loss on Equity investments	7,562
e) Financial receivables	
Total adjustments in value of financial assets	**(13,414)**
E) Extraordinary income and expenses	
20) Income:	
- gains on disposals	13,438
- other income	4,373
Total extraordinary income	17,811
21) Expenses:	
- losses on disposals	536
- income tax relating to prior years	601
- other expenses	58,902
Total extraordinary expenses	60,038
Total extraordinary items	**(42,227)**
Result before tax (A-B+/-C+/-D+/-E)	**(124,926)**
22) Income tax	13,172
23) Result for the year	**(138,097)**
Net result attributable to minorities	346
26) Profit (Loss) of Group for the year	**(138,443)**

CASHFLOW STATEMENT

(Euro/000)

			31.12.2003
A.	**NET FINANCIAL POSITION AT START (2002 Pro-forma)**		**(476,011)**
B.	**CASH FLOW FROM DERBI GROUP ACQUISITION**		
Starting indebtedness of companies acquired			(27,029)
			(27,029)
C.	**CASHFLOW FROM (FOR) OPERATING ACTIVITIES**		
	Profit (loss) for the year		(138,443)
	Amortisation and depreciation		96,140
	(Gains) or losses from disposal of tangible and intangible fixed assets		(10,764)
	(Gains) or losses from disposal of financial fixed assets		(2,134)
	(Revaluations) or writedowns of fixed assets		18,345
	Net change in employee retirement indemnity reserve and other reserves		27,378
	Profit (Loss) on operating activities prior to changes in working capital		**(9,478)**
	(Increase) Decrease in inventories		37,357
	Increase (Decrease) in payables to suppliers and other payables		(15,100)
	(Increase) Decrease in receivables from customers and other receivables		60,442
	(Increase) Decrease in other working capital items		2,607
			75,828
D.	**CASHFLOW FROM (FOR) INVESTING ACTIVITIES**		
	(Investment) Divestment of fixed assets		
	- intangible		(65,642
	- tangible		(48,954)
	- financial		(3,417)
	Price obtained for or reimbursement value of fixed asset		38,761
	Differences from currency translation		2,962
			(76,290)
E.	**CASHFLOW FROM (FOR) FINANCIAL ACTIVITIES**		
Capital stock increase and share premium reserve			235,000
Change in stockholders' equity attributable to minorities			(14,948)
Increase in consolidation reserve			993
Currency translation reserve			591
			221,636
F.	**CASHFLOW FOR THE PERIOD**	**(B+C+D+E)**	**194,145**
G.	**NET FINANCIAL INDEBTEDNESS AT END**	**(A+F)**	**(281,866)**
* Made up as follows:			
Cash		12,407	
Short-term financial receivables			9,530
Short-term financial payables			(15,473)
Short-term debt			(32,194)
Medium- long-term debt			(256,136)
			(281,866)

NOTES TO THE FINANCIAL STATEMENTS

FOREWORD

As we described in detail in the Report on Operations, in 2003, Immsi S.p.A. acquired control of the Piaggio & C. Group, which was previously owned by Piaggio Holding S.p.A.

Under the contract for the acquisition of the Piaggio Group, dated October 23, 2003, Piaggio & C. S.p.A. also acquired Nacional Motor S.A., owner of the Derbi brand, from Piaggio Holding S.p.A.

The 2003 financial statements are therefore the first consolidated financial statements presented by the Group as it is now structured, and there are no data for a comparison with 2002.

However, in order to provide a clearer picture of your company's performance in 2003, it was decided to prepare pro forma accounts for the 2002 operating year.

These pro forma financial statements, illustrated in Annex 1, have been drafted with the consolidation area as of December 31, 2003, with the sole exception of the companies in the Derbi Group (Nacional Motor S.A., Derbi Retail Madrid S.L., Moto Sport S.A., Derbi Italia S.r.l., Derbi Racing S.L.), which Piaggio & C. S.p.A. acquired in October 2003.

The comments contained in the Notes regarding changes therefore refer to the above-mentioned 2002 pro forma statements. For the more significant items, we have also indicated the effects that would be seen if the Derbi Group had been included in 2002.

These pro forma accounts obviously have no statutory value and have been drafted purely to complete the information in the consolidated financial statements.

Where the Derbi Group is concerned, the Income Statement of the Group was only included for the last two months of the year, in line with Accounting Principle no. 17 of the National Boards of "Dottori Commercialisti" and "Ragionieri", because ownership of the Group changed hands at the end of October 2003.

The results of the Income Statement for the first ten months of the year have been recorded as an adjustment to initial Stockholders' equity.

For our analysis of the Group's economic performance, it was considered necessary to provide a pro forma 2003 income statement that includes the Derbi Group for all twelve months in the Report on operations.

STRUCTURE AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been drafted in accordance with Legislative Decree no. 127 of April 9, 1991, and comprise the balance sheet, the income statement and the present notes, which provide the information required by legislation regulating consolidated financial statements as well as complementary information considered necessary to give a true, correct picture of the situation.

The financial statements are prepared in thousands of Euro.

The consolidated financial statements of the Piaggio Group include the financial statements of the parent company Piaggio & C. S.p.A. and of the direct and indirect Italian and foreign subsidiary companies, a list of which is given in Annex 2. Subsidiary companies that are not operational, or whose operations are very limited and therefore insignificant, have not been consolidated on a line-by-line basis.

The present consolidated financial statements have been based on the financial statements at December 31, 2003 approved by the company boards of the subsidiaries, adjusted if necessary to bring them into line with the Group's Accounting Principles described below.

When the financial statements have not yet been approved, the draft financial statements examined by the respective boards of directors have been consolidated.

All the statutory financial statements considered close at December 31 of each year, with the exception of Piaggio Vehicles Pvt. Ltd., whose accounting year closes on March 31, and Derbi Racing SL, which closed its accounts on October 31, 2003.

Where the Indian subsidiary is concerned, it has been decided to prepare consolidated financial statements for the year, to close on December 31, 2003.

Because of the nature of Derbi Racing SL (management of the racing team), and its insignificance in terms of the consolidated data, the financial statements closed on the same date have been used.

The Group's accounting principles comply with current Italian legislation regarding the drafting of consolidated financial statements, interpreted and supplemented by the accounting principles issued by the Italian professional bodies (national boards of Dottori Commercialisti and Ragionieri) and, where these are lacking, by those of the International Accounting Standard Board (I.A.S.B.).

CONSOLIDATION AREA

The financial statements consolidated at December 31, 2003, include the financial statements of the parent company and the companies in which the Group holds the majority of the voting shares, and of all the companies in which it has a dominant influence, listed in Annex 2, consolidated on a line-by-line basis.

The 2002 pro forma consolidated financial statements have been drafted on the basis of the 2003 consolidation area, with the exception of:

- the acquisition by Piaggio & C. S.p.A., in January 2003, of its investment in P&D S.p.A. from Daihatsu Motor Co. Ltd., equal to 49% of the capital stock. As a result, your company now controls 100% of P&D S.p.A.;
- the transfer, on October 23, 2003, of 100% of the shares of Nacional Motor from Piaggio Holding S.p.A. to Piaggio & C. S.p.A.;
- the acquisition by Piaggio & C. S.p.A., in May 2003, of a 6.17% share of the

capital stock of Piaggio Vehicles Pvt. Ltd. from Simest S.p.A., taking advantage of the option of the anticipated re-acquisition of part of the shares envisaged in the contract. With this additional quota, and as a result of the merger described below, your company's investment in Piaggio Vehicles has increased from 85% to 91.51%. The remaining 8.49% is currently owned by the minority stockholder, Simest S.p.A., and the possibility of exercising the right of reacquisition in advance of the contract deadline is being considered.

The operation is described in the Memorandum accounts.

We also point out that during 2003, the following corporate operations have been undertaken:

- merger of Piaggio India Pvt. Ltd. with Piaggio Vehicles Pvt. Ltd.. The legal effects of the merger, which was finalised November 2003, are retroactive to April 1, 2002, under Indian law.

  The merger of the Indian subsidiaries will make it possible to achieve significant administrative and financial synergies.

  As part of the merger, a total of 1,342,368 new shares were issued, assigned entirely to Piaggio & C.

- acquisition in December 2003, by Piaggio Espana SA, a subsidiary of Piaggio Vespa BV, of an investment in the subsidiary Piaggio Deutschland Gmbh equal to 30% of the latter's capital stock. This acquisition may offer opportunities to develop interesting synergies, through a direct corporate link between the two companies, in the marketing of two-wheel vehicles and of light transport vehicles.
- sale by Piaggio & C. S.p.A. of its share (20 %) in the Swiss company Otto Frey Fin. AG.

  In 2003 the formal liquidation of Piaggio TRC (Turkey) and Pro-Ind Ltda (Brazil) was also concluded.

  At December 31, 2003 the subsidiary and associated companies of Piaggio & C. S.p.A., listed in Annex 2, break down as follows:

	Subsidiary			Associated			Total
	Italy	Abroad	Total	Italy	Abroad	Total	
Companies:							
consolidated on line-by-line basis	2	17	19				19
consolidated by equity method		3	3	2		2	5
valued at cost		2	2	3	1	4	6
Total companies	2	22	24	5	1	6	30

The Piaggio Foshan Motorcycle Co., Piaggio China and Universal Dynamic companies are consolidated by the equity method both because their operations were limited and in the light of the ongoing negotiations commented on elsewhere in the present Notes and in greater detail in the Report on Operations.

Their inclusion by the line-by-line method would increase fixed assets by Euro/1000 17,741, decreasing working capital by Euro/1000 3,577 and increasing net indebtedness by Euro/1000 14,166.

CONSOLIDATION PRINCIPLES

The assets and liabilities of the consolidated companies are recorded using the line-by-line method, eliminating the book value of consolidated investments against the relative Stockholders' equity at purchase or subscription date.

The difference between the carrying value of the consolidated investment and the corresponding net book value is attributed to the various asset and liability items on the basis of current value on the purchase date; the remainder is charged to "consolidation differences" (in the form of goodwill). Said item is amortised on a straight-line basis in the light of its envisaged future usefulness and in any case over a maximum of 20 years, consistent with the accounting principles issued by the Italian professional bodies (national boards of Dottori Commercialisti and Ragionieri) and the International Accounting Standard Board (I.A.S.B.).

Where no future use is envisaged the residual value is expensed.

The portions of Stockholders' equity and the operating result attributable to minority interest, as per Annex 5, have been reclassified in specific items in the Balance Sheet and Income Statement.

Accounts payable and receivable, costs and revenues and operations of a significant amount between the companies in the consolidation area have been eliminated.

Profits of a significant size deriving from operations between Group companies consolidated on a line-by-line basis or by the equity method, and not yet realised with third parties have been eliminated.

The items recorded in the financial statements of individual companies in order to obtain tax benefits that would otherwise not be obtainable are eliminated during consolidation, taking the relative fiscal effect into consideration.

Tangible fixed assets on lease are recorded in the consolidated financial statements by the so-called financial method, as envisaged by the International Accounting Standards (IAS).

Financial statements in currencies other than the currency of account (Euro) have been converted by applying the year-end exchange rate 31 to Balance Sheet items and the average exchange rate for the year to those of the Income Statement.

The following exchange rates have been used for the conversion:

	Year-end rate (Balance sheet)			Average rate (Income Statement)		
Local currency /Euro	31.12.2003	31.12.2002	% change	2003	2002	% change
US Dollar	1.2629	1.04869	20.4%	1.1311	0.945573	19.6%
Pound Sterling	0.7048	0.6505	8.3%	0.692	0.62883	10.0%
Indian Rupee	57.5705	50.507	14.0%	53.0532	47.12535	12.6%
Singapore Dollar	2.1451.8198	17.9%1.9703	1.69118	16.5%		
Croatian Kuna	7.6493	7.4521	2.6%	7.5572	7.39535	2.2%
Chinese RMB	10.458	8.6831	20.4%	9.366	7.829	19.6%

The exchange rate differences arising from the conversion of initial Stockholders' equity items at year-end exchange rates, compared to the original exchange rate at the date of acquisition of the investments, and the differences arising from the application of different exchange rates to balance sheet items and income statement items are highlighted under Stockholders' equity as "Conversion reserve".

EVALUATION CRITERIA

The most significant evaluation criteria adopted to draft the financial statements at December 31, 2003 are as follows:

Intangible fixed assets

These are recorded at purchase or production cost, including accessory charges and amortised systematically over the period of their envisaged future use. In the event of a permanent loss of value, independent of the amortisation already recorded, the asset is written down accordingly; the original value will be reinstated, adjusted to account for amortisation, should the reason for the writedown cease to exist in future years.

Plant and expansion costs, goodwill acquired at a cost, consolidation differences and expenses met to obtain medium/long-term loans are recorded under assets.

Research and development costs for specific products and engines, that are part of projects which are expected to produce sufficient revenues to allow the costs met to be recovered, are capitalised.

Advertising costs are charged entirely to the year they are met.

The amortisation rates adopted are indicated in the notes to the assets.

Tangible fixed assets

These are recorded at purchase, production or contribution cost, adjusted for certain assets by applying specific monetary alignment laws. The cost includes a portion of accessory charges and direct and indirect costs reasonably attributable to the asset.

Tangible fixed assets are depreciated systematically each year on a straight-line basis, with economic-technical rates that reflect the estimated useful lives of the assets in question.

In the event of a permanent loss of value, independent of the depreciation already recorded, the asset is written down accordingly; the original value will be reinstated, should the reason for the writedown cease to exist in future years.

Ordinary maintenance costs are charged to the Income Statement in the year they are met, or capitalised if they increase the value or the economic duration of the asset.

Tangible fixed assets under construction are valued at cost and depreciated from the year in which they enter the manufacturing process.

The depreciation rates used are indicated below, in the comment on the Balance Sheet.

Financial fixed assets

Investments in subsidiary companies not consolidated on a line-by-line basis and in associated companies are valued by the equity method. The cost method is adopted for investments in companies which are irrelevant for the purposes of the consolidated financial statements.

The equity method envisages that investments are recorded in the financial statements for a sum equal to the corresponding portion of stockholders' equity recorded in the last financial statements, having deducted the dividends and after the adjustments required by correct principles for the drafting of consolidated financial statements.

Should the financial statements of the subsidiary consolidated by the equity method reveal a loss higher than Stockholders' equity, said excess amount is recorded in the consolidated financial statements under "writedowns" and under the "reserve for risks and charges".

Investments in other companies are valued by the cost method.

By this method, the value recorded in the financial statements is decided by the purchase or subscription price or the value attributed to the assets paid-in. The cost is reduced for permanent losses of value when the subsidiary has sustained a loss and there is no reasonable expectation in the immediate future of profits sufficient to cover the losses sustained; the original book value of the investments will be reinstated, should the reason for the writedown cease to exist in future years.

Securities are valued at the lower of cost and market value at year end.

Receivables recorded under fixed assets are valued at their presumable market value.

Inventories

Inventories are recorded at the lower of purchase or production cost, calculated by attributing to products any costs met directly over and above indirect costs reasonably attributable to the performance of manufacturing activities in normal operating conditions, and the market value at the date of the financial statements.

Where raw materials and work in progress are concerned, the market value is represented by the presumed net realisable value of the corresponding finished products, after deducting the cost of completing them, and by the presumed net realisable value for finished products.

Any loss of value related to market trends is eliminated in subsequent years should the reasons for the lower value cease to exist.

The purchase or production cost is determined by the FIFO method, or by the average weighted warehouse cost when this does not differ significantly from the result obtained by valuing the inventories by the FIFO method.

Obsolete, slow-moving inventories and/or those in excess of normal requirements are written down on the basis of their possible future use or sale and recorded in an inventory writedown reserve.

Receivables

Receivables are recorded at par value adjusted to bring them into line with their presumed realisable value, and recorded in a writedown reserve. This reserve is calculated on the basis of the recovery value calculated by analysing the individual items and the overall risk of the total receivables, taking guarantees into consideration.

Factoring operations

Under the sale of receivables through factoring operations without recourse which do not entail the risk of recourse, the payment by the factor triggers the deduction of a corresponding sum from the outstanding trade receivables. A similar procedure is adopted in most cases for factoring operations with recourse. In this case the risk is recorded under the Memorandum Accounts.

Accruals and deferrals

This item includes quotas of costs and revenues, related to two or more years, respecting the principle of economic and temporal pertinence.

Reserves for risks and charges

Reserves for risks and charges are allocated to cover certain or probable losses or debts, the size or due date of which are not known at the close of the year.

Provisions reflect the best possible estimate on the basis of available elements.

Any risks, for which the emergence of a liability is only possible, are indicated in the note to the reserves, without any provision to a reserve for risks and charges.

Employee retirement indemnity reserve

The Employee retirement indemnity reserve comprises the total liability maturing in favour of all employees at the date of the financial statements, as established by law and collective labour contracts and supplementary company agreements applicable to individual companies in the area of consolidation.

Said liability is subject to indexed revaluation as required by law.

Payables

Payables are recorded at their par value, considered representative of their settlement value.

Grants

Grants to the "plant account" are recorded in the financial statements when the right to collect them is certain and they are charged to the income statement according to the useful life of the asset for which they have been paid.

Grants to the "operating account" are recorded in the financial statements when the right to collect them is certain, and they are credited to the income statement in relation to the costs which they are intended to cover.

Costs and revenues

They are recorded in the financial statements according to the principle of prudence and pertinence, with the relative accruals and deferrals. Income and revenues, expenses and charges are recorded net of returns, discounts, allowances and bonuses. Revenues and expenses for services are charged at the moment the service is rendered or received.

All operations with related parties are regulated at normal market conditions.

Dividends

The dividends recorded in the income statement for the year, received from minority investments, are recorded on the basis of pertinence, at the moment in which the relative entitlement arises, as resolved by the subsidiary.

Income tax for the year

The consolidated financial statements reflect the amounts allocated for income tax in the statutory financial statements of individual consolidated companies, on the basis of an estimate of taxable income determined in compliance with national legislation in force at the date of the financial statements, taking all applicable exemptions and tax credits owing into consideration. The tax provision is recorded under “Tax payables” net of any payments on account and deductions. No provision has been made for any tax liability arising in the event of the distribution of reserves pending tax indicated in the financial statements of individual Group companies, because no such distribution is envisaged. Provisions have also been made for deferred taxes and payments on account related to timing differences between the accounting values of assets and liabilities, and the corresponding tax values, and to consolidation adjustments and they are calculated on the basis of the rate that will presumably be applied in the period when the differences arise. Said taxes have been calculated on the basis of Accounting Principle no. 25 of the national board of Dottori Commercialisti.

Where payments on account are concerned, under the principle of prudence they have not been recorded when there is no reasonable certainty of the existence of a taxable income not lower than the differences in question, in the years when the anticipated timing differences come due.

We underline that, under the principle of prudence, payments on account related to tax losses due to a decrease in taxable income in future years are only recorded in the financial statements if there is a reasonable certainty of their future recovery.

Deferred taxation and payments on account have been recorded separately in the financial statements because it is probable that the relative effects are felt in different years.

Derivative contracts

These contracts are recorded in the Memorandum accounts at par value, based on the forward price. For forward purchases of currency, the profits and losses have been calculated on the basis of the year-end exchange rate and charged to the income statement, because they refer to a net currency debt related to specific operations.

Interest rate swap contracts, if undertaken to hedge envisaged financial charges on indebtedness, are described under Memorandum Accounts in the Notes and the related effects are charged to the Income Statement to reflect the related financial charges. If they are not hedging contracts, they are valued at market value at year end, and if this entails a loss, it is accrued in the financial statements.

Commitments and guarantees

Contract commitments and guarantees are recorded at the value resulting from the contract commitment in the Memorandum accounts.

Criteria for the conversion of items in foreign currencies

Receivables and payables originally expressed in foreign currencies other than those of the EMU, are converted into Euro at the rates valid at the date of the respective operations. The exchange rate differences arising from the collection of receivables and the payment of accounts in foreign currencies are charged to the Income Statement among financial revenues and expense.

Receivables and payables in currencies of countries not in the Euro zone and still outstanding at 31.12.2003 have been converted at the exchange rate at year-end, taking into account any existing hedging contracts. The difference arising from said operations (whether profit or loss) is accrued and reflected in the Income Statement for the period, with the respective receivable or payable as a balancing item.

Transition to international accounting principles (IFRS)

The Group and its parent company IMMSI S.p.A. has begun to analyse the problems relating to application of the IAS from the 2005 financial statements. In Spring 2004 a special team will present a proposal and guidelines for the changeover to the new international accounting principles.

Relations with affiliated and related companies

Relations with affiliated and related parties are illustrated in the Report on Operations.

OTHER INFORMATION

Exemptions under art. 2423, 4th paragraph, of the Italian Civil Code

No exceptional cases have emerged requiring exemptions to the legislation regulating financial statements under art. 2423, 4th paragraph of the Italian Civil Code.

Important events occurring in the first months of 2004

In February 2004, the signature of a preliminary agreement confirmed the negotiations tabled in March 2003 to reach an agreement with the Zhongshen Group, based in Chongqin and a leading Chinese manufacturer of two-wheel vehicles (engines, scooters, motorcycles, etc.), which envisaged, as part of a joint programme for the commercial and manufacturing recovery of Piaggio Foshan Motorcycle Co. Ltd (PFM), a substantial reduction in the Piaggio Group's investment in PFM and the gradual elimination of the loans granted to the Chinese company and covered by guarantees granted by the Italian parent company.

Negotiations are still ongoing at the close of the present financial statements.

As explained in the Report on Operations, when the financial statements were approved, examination of the proposed law governing subsidies by the Ministry for the Environment for the period May-December 2003 on sales of environment-friendly vehicles ("Eco-incentives"), had not yet been concluded. As a result, the revenues from these subsidies have not been recorded in the present financial statements (for a value of Euro/1000 9,447), although the corresponding price reduction has been passed on to customers.

At the present moment, the proposed law is awaiting approval by the Senate before returning to the Chamber of Deputies for final approval of a number of amendments.

Where the subsidiary Nacional Motor S.A. is concerned, the level of covenants related to the syndicated loan to the company was not reached, and on March 3, 2004 the parent company increased the subordinated loan granted to Nacional Motor S.A. by Euro/1000 12,500.

No other events have occurred since December 31, 2003 requiring adjustments or additional comments in the consolidated financial statements.

For any other important events occurring after the close of the year and for forecast operating trends, we refer you to the Report on Operations.

Currency used to present data

The data in the schedules of the consolidated financial statements, the additional tables and the notes are stated in thousands of Euro.

COMMENT TO THE BALANCE SHEET AND INCOME STATEMENT

COMMENT TO THE MAIN ASSET ITEMS

(values expressed in thousands of Euro)

In the remainder of the Notes, the phrase "changes to the area of consolidation" refers to the effects of the acquisition of the Derbi Group at the end of October 2003.

Intangible fixed assets

The item *Plant and expansion costs* includes costs of long-term utility amounting to Euro/1000 874, net of amortisation, which refer primarily to:

1. Costs met in 2001 to acquire 49% of the Piaggio Vehicles Pvt. Ltd. company, worth approximately Euro/1000 392 at year-end.

   The above acquisition costs are amortised on a straight-line basis over 5 years, in consideration of their residual utility.
2. "Start-up" costs, for a value of Euro/1000 172, met by Piaggio Vehicles Pvt. Ltd. to implement the new manufacturing process and to market the Ape MP501 in India.

   The marketing costs will be amortised over a period of 3 years, while those related to the implementation of the manufacturing process will be amortised in 5 years.
3. Plant and expansion costs met by Nacional Motor and charged to the financial statements for a net value of Euro/1000 285.

The reduction with respect to the 2002 pro forma data derives essentially from normal amortisation for the year (Euro/1000 7,888) and from the writedown of the outstanding amount still to be amortised of the costs capitalised in 1999, primarily for consultancy, relating to the acquisition of the Piaggio Group by the previous stockholders through MOD

S.p.A., as mentioned in the Report on Operations.

Research, development and advertising costs, which amount to Euro/1000 22,082 at December 31, 2003, include costs related to products and engines that are part of projects which are expected to give sufficient revenues, during the useful life of the asset, to recover the costs incurred.

Costs that meet the conditions for capitalisation, but regard products which will enter production in the years subsequent to that of the financial statements, are included under "Fixed assets under construction and advances".

During the year, the following changes occurred:

31 December 2002 Pro-forma	**17,281**
Capitalisation during the year	12,647
Transfers from assets under construction/reclassification	19,334
Changes to consolidation area	2,585
Amortisation	(18,383)
Writedowns	(12,357)
Disposals and other changes	975
31 December 2003	**22,082**

Capitalisation during the year, including the transfer of assets under construction for vehicles/engines which went on the market in 2003, refers to projects for the new large capacity engines, the X9 Evolution, Vespa GT, Nexus 500 and X8 models, the new models in the Derbi range, the Lombardini engines for the Ape Poker and various other engines for the Ape and Porter.

In the same period costs previously capitalised for Euro/1000 12,357 were written down because the reasons for which they were capitalised no longer exist.

These are mainly:

- the Super Sport 600 motorcycle project (Euro/1000 2,500)
- the Marcopolo project (Euro/1000 1,442)

- the motorcycle project for the Indian market (Euro/1000 1,225)
- the VCDI engine project (Euro/1000 1,237)
- the project for the 50 4S 3V engine (Euro/1000 1,548)
- the project for the 50 2S injection engine (Euro1/000 689)
- projects related to other engines developed by Piaggio & C. S.p.A. (Euro/1000 1,214)
- other projects capitalised both by Piaggio & C. S.p.A. (Euro1/000 872) and by Nacional Motor S.A. (Euro/1000 751)

Capital spending on research and development has also decreased by Euro/1000 490 as a result of the alignment of Nacional Motor S.A. to the Group's amortisation criteria; in fact, research and development costs capitalised before 2002 were amortised over a period of five years.

Research and development costs are now amortised in three years.

The item *Industrial patent rights and intellectual property rights* considers the following rights:

At 31 December	*2003*	*2002 Pro-forma*
Know how and software	4,725	8,101
Other	223	367
Total	**4,948**	**8,468**

The following changes occurred during the year:

31 December 2002 Pro-forma	**8,468**
Capitalisation during the year	1,999
Transfers from assets under construction/reclassification	358
Changes to consolidation area	595
Amortisation	(5,995)
Writedowns	(477)
Disposals and other changes	(0)
31 December 2003	**4,948**

Capitalisation during the year refers primarily to software projects developed by Piaggio & C. S.p.A. to develop applications in the areas of logistics, marketing and parts (Euro/1000 728), and for Intranet applications (Euro/1000 225).

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

Writedowns during the year refer to the alignment of the Nacional Motor S.A. amortisation criteria to those of the Group, because software costs capitalised before 2002 were amortised over a period of five years.

The item *Concessions, Licences, Trademarks and similar rights*, amounting to Euro/1000 382, primarily includes the industrial property costs capitalised by Nacional Motor S.A. and licence costs capitalised by Piaggio Vehicles Pvt. Ltd.

Fixed assets under construction and advances refer primarily to costs related to research and development of vehicles and engines that will be manufactured and marketed in the coming years. The most important projects included in this item are:

- the twin cylinder engine (Euro/1000 4,844)
- the restyling of the Liberty (Euro/1000 967), the Vespa ET and the NRG (Euro/1000 534)
- the Beverly 250 (Euro/1000 501) and X9 250 (Euro/1000 534)
- the Basic vehicle (Euro/1000 486)
- the project for the X10 vehicle (Euro/1000 1,285)
- the new Utility Vehicle (Euro/1000 2,491) and the new Heavy Quad cycle, for the Indian and European markets (Euro/1000 2,434)
- new Euro 2 engines (Euro/1000 621)
- other projects developed by Piaggio & C. S.p.A. (Euro/1000 1,970)
- projects developed by Nacional Motor S.A. for a total of Euro/1000 1.413 (GPR Racing 2004, Senda R 125 4S, Boulevard 125 4S)
- projects developed by Piaggio Vehicles Pvt. Ltd. (Euro/1000 756).

This item also includes contributions to suppliers for their participation in projects to develop new engines and new vehicles, for a total of Euro/1000 344.

The following changes occurred during the year:

31 December 2002 Pro-forma 27,141	
Capitalisation during the year	13,237
Transfers to other fixed assets/reclassification	(22,577)
Changes to consolidation area	2,282
Disposals, writedowns and other changes	(91)
31 December 2003	**19,992**

The item *Other intangible fixed assets* includes the following sub-headings:

At 31 December	*2003*	*2002 Pro-forma*
Costs for improvements to third party assets	48	94
Grants to suppliers	1,362	1,520
Accessory charges on loans	3,830	4,369
Other	783	551
Total	**6,023**	**6,534**

"Grants to suppliers" refers to the costs met to purchase tooling for manufacturing activities performed on behalf of the Group.

The following changes occurred with respect to 2002 pro forma values:

31 December 2002 Pro-forma	**6,534**
Capitalisation during the year	3,339
Transfers from fixed assets under construction/reclassification	559
Changes to consolidation area	298
Amortisation	(2,143)
Writedowns	(2,497)
Disposals and other changes	(67)
31 December 2003	**6,023**

The decrease in “writedowns” refers primarily (Euro/1000 2,440) to charges met in 1999 to obtain a medium/long-term loan from Banca Intesa/Medio Credito Lombardo

Group for the share of capital repaid in advance.

The sum of Euro/1000 57 refers to the writedown of grants to suppliers related to dies for suspended projects (Motorcycles and Marcopolo).

During the year, part of the commission due to banks for the restructuring of the medium/long-term terms was capitalised (Euro/1000 2,500).

These operations are described in greater detail in the Report on Operations.

The other intangible fixed assets are amortised over five years.

The item *Consolidation difference* regards the surcharge paid with respect to the corresponding portion of stockholders' equity of investee companies at the purchase date, after deducting amortisation.

For all the operations listed below, the difference between the carrying value of the investment and the net book value was recorded under the consolidation difference.

The operations that generated this item are:

- the acquisition by MOD S.p.A. of the Piaggio & C. Group, finalised in 1999 and 2000 (net value at December 31, 2003: Euro/1000 330,588). This consolidation difference is Euro/1000 60,717 higher than the deficit from the merger between MOD S.p.A., Piaggio & C. S.p.A. and Vipifin S.r.l., recorded in the statutory financial statements of the parent company. The reasons for this difference are:

a) different Stockholders' equity values; the consolidation difference was calculated on the basis of consolidated Stockholders' equity on 31.12.1998, which primarily discounted entries to eliminate intercompany surpluses, while the merger deficit was calculated on the basis of the statutory Stockholders' equity of the merging companies;

b) different timing for the merger referred to in the previous paragraph, which took place in 2000, compared to the consolidation years 1999 and 2000 when the acquisition of Piaggio & C. by MOD S.p.A. was finalised;

- the acquisition by Piaggio & C. S.p.A. of 49% of Piaggio Vehicles Pvt. Ltd. from its partner Greaves Ltd. finalised in 2001 (net value of Euro/1000 5,192 at December 31, 2003). To this we must add the acquisition from Simest S.p.A. in 2003 of 6.17% of the capital stock of the Piaggio Vehicles Pvt. Ltd. company (net value at December 31, 2003: Euro/1000 55);
- the acquisition by Piaggio & C. S.p.A. of 100 % of Nacional Motor S.A. in October 2003 at a price of Euro/1000 35,040, with a consolidation difference, net of amortisation, of Euro1'000 31,237.

On the basis of market research and the expected duration of company development, we continue to believe that the period of economic utility of the surcharge paid for the various acquisitions mentioned above, can be taken to be 20 years.

This period respects the limits indicated in the accounting principles drafted by the national boards of Dottori Commercialisti and Ragionieri and in the accounting principles issued by the International Accounting Standards Board (I.A.S.B.).

The Board of Directors will periodically monitor the recovery of the consolidation difference on the basis of the goals reached in the coming years.

The other operations that generated the consolidation difference are:

- the acquisition (1999) by Piaggio Vespa BV of the shares held by third parties in Piaggio Benelux BV and Piaggio Portugal LTDA (the amortisation period for these consolidation differences terminated in 2003);
- the acquisition (2001) by Nacional Motor S.A. of the 50% stake in the Derbi Italia Srl company held by third parties.

For the consolidation difference generated by this operation, the Board has verified the results of the current year and of previous years, and due to the situation of persisting uncertainty surrounding the future results of the affiliated company, it has prudentially decided to write the residual goodwill down entirely, net of amortisation for the year (Euro/1000 30), for Euro/1000 522.

The following table illustrates the changes that occurred in "Consolidation difference" in 2003.

	NET CONSOLIDATION DIFFERENCE AT 31.12.2002	*CHANGES IN 2003*	*AMORTISATION AND WRITE-OFF 2003*	*NET CONSOLIDATION DIFFERENCE AT 31.12.2003*
Acquisition of Piaggio & C. S.p.A. by MOD S.p.A. in 1999	352,629		22,041	330,588
Contribution of 100 % Nacional Motor (from former Piaggio Holding S.p.A. to Piaggio & C. S.p.A.)	-	32,881	1,644	31,237
Acquisition of 50 % of Derbi Italia		526	526	-
Acquisition of 49 % of Piaggio Vehicles Pvt. Ltd. from Greaves Motorcycle	5,498		306	5,192
Acquisition of 6.176 % of Piaggio Vehicles from Simest S.p.A.	-	58	3	55
Acquisition of Piaggio Portugal and Piaggio Benelux	427		427	0
TOTAL	**358,554**	**33,465**	**24,947**	**367,072**

For greater clarity, we summarise the amortisation periods for the various items in Intangible Fixed Assets:

- Plant and expansion costs: from 3 to 5 years
- Research and development costs: 3 years
- Industrial patent rights and intellectual property rights: 3 years
- Other: 5 years
- Consolidation differences: 5-20 years

A detailed description of the various items comprising intangible fixed assets and a comparison with 2002 pro forma data is provided in Annex 6.

Fixed assets

The item *Land and Buildings*, net of depreciation, breaks down as follows:

At 31 December	*2003*	*Pro-forma 2002*
Land	13,475	7,399
Industrial buildings	53,802	58,057
Civil buildings	195	3,332
Light constructions	630	710
Other	1,807	597
Total	**69,909**	**70,095**

The land and industrial buildings in question are the Group's manufacturing facilities located in Pontedera (Italy), Barcelona (Spain) and Baramati (India).

The following changes occurred during the year:

31 December 2002 Pro-forma	**70,095**
Acquisitions/capitalisation during the year	4,999
Transfers from fixed assets under construction/reclassification	(132)
Changes to consolidation area	7,779
Depreciation	(2,378)
Writedowns	0
Disposals and other changes	(10,454)
31 December 2003	**69,909**

In addition to the acquisition of the Derbi Group, which has caused this item to increase by Euro/1000 7,779, the main investment/divestment operations regarded:

- the acquisition of the land and buildings owned by Piaggio India Pvt. Ltd., previously consolidated at cost, and since merged with Piaggio Vehicles Pvt. (approximately Euro/1000 3,000);
- various operations to complete the new machining workshops and new vehicle test

circuit at the Pontedera plant (approximately Euro/1000 1,400);

- the sale of a number of buildings formerly occupied by the Group as offices, plants, workshops, warehouses and shops in a number of Italian towns. These operations generated an overall capital gain of Euro/1000 11,304, the main components of which are illustrated in the table below.

Property	Selling price	Book value (*)	Gain/ (Loss)
Arzano Plant	4,028	1,623	2,405
Former Ape warehouse	1,033	447	586
Curigliana land	310	13	297
Visitors centre	2,065	310	1,755
Rome office	2,211	218	1,993
Naples office	1,240	154	1,086
Milan warehouse	7,050	4,154	2,896
Milan Showroom	1,450	1,218	232
	19,387	**8,137**	**11,250**

The book value of the real estate has been adjusted to take into account their residual value at consolidated level, and therefore after having eliminated the gains originally achieved within the Group and the amortisation of the same.

In 2003, as resolved by the Board of Directors of Piaggio & C. S.p.A. on March 25, 2003, Piaggio Deutschland Gmbh sold the building in which the company had its headquarters, following the decision to relocate from Augsburg to Dusseldorf.
A loss of Euro/1000 190 was recorded on the sale.

Buildings are depreciated using rates that reflect their useful lives and in any case following a straight-line depreciation plan.
Industrial buildings are depreciated at rates between 3% and 5%, while light constructions are depreciated at rates between 7% and 10%.
Land is not depreciated.

The item *Plant and machinery*, net of depreciation, breaks down as follows:

At 31 December	*2003*	*Pro-forma 2002*
Non-specific plant	22,815	22,669
Automatic machinery	6,888	7,600
Ovens and fixtures	408	614
Other	18,585	20,048
Total	**48,696**	**50,931**

The plant and machinery in question refer to the Group's manufacturing plants in Pontedera (Italy), Barcelona (Spain) and Baramati (India).
"Other" mainly comprises non-automatic machinery (Euro/1000 17,250) and robotised work centres Euro/1000 550).

The following changes occurred during the year:

31 December 2002 Pro-forma	**50,931**
Acquisitions/capitalisation	5,733
Transfers from assets under construction/reclassification	884
Changes to consolidation area	4,342
Depreciation	(11,848)
Writedowns	0
Disposals and other changes	(1,348)
31 December 2003	**48,696**

The main investment/divestment operations regarded:

- various operations to complete new machining workshops and capital spending in other plant and machinery at the Pontedera workshops (Euro/1000 3,746);
- capital spending on plant by Piaggio Vehicles Pvt. Ltd. designed to increase manufacturing capacity (Euro/1000 1,212);
- operations to reorganise the layout of the materials handling areas and a number of assembly lines at the Barcelona plant;

The net decrease during the year is essentially the result of depreciation for the year and of the sale of worn-out assets removed from the manufacturing process, which produced a loss of Euro/1000 333.

Plant and machinery are depreciated at the following rates:

- non-specific plant: 10%;
- specific plant and non-automatic machine tools: 10%;
- specific plant and automatic machine tools: 17.5%;
- electrolytic cells: 20%;
- ovens and fixtures: 15%;
- robotised work centres: 22%;
- measurement and testing equipment: 30%;
- various equipment, small items: 25%.

The value of *Industrial and Commercial equipment*, amounting to Euro/1000 37,587, basically comprises manufacturing tooling of Piaggio & C. S.p.A., P&D S.p.A., Nacional Motor S.A. and Piaggio Vehicles Pvt Ltd.

The following changes occurred during the year with respect to 2002 pro forma data:

31 December 2002 Pro-forma	**37,234**
Acquisitions/capitalisation	17,181
Transfers from assets under construction/reclassification	473
Changes to consolidation area	4,358
Depreciation	(20,202)
Writedowns	(3,154)
Disposals and other changes	1,697
31 December 2003	**37,587**

Important capital spending in tooling regarded:

- the purchase of dies for the new Vespa GT, Nexus, X8, Senda 125 and Black Edition vehicles;
- the replacement of worn-out dies;
- the purchase of dies for the restyling of vehicles already in the range in previous years;
- the purchase of tooling and dies for 3 and 4 wheel vehicles;
- the purchase of specific engine assembly tooling.

In 2003, Piaggio & C. S.p.A. wrote down tooling for the Ice, Hexagon and Free vehicles, production of which ceased during the year, for Euro/1000 1,980; Nacional Motor S.A. wrote down dies for vehicles no longer in production for approximately Euro/1000 1,174.

Industrial and commercial equipment is depreciated on the basis of rates which are deemed to reflect the useful life of the assets, and in particular:

- measurement and testing equipment: 30%;
- various equipment and small items: 25%.

The item *Other assets,* net of depreciation, breaks down as follows:

At 31 December	*2003*	*2002 Pro-forma*
EDP Systems	2,105	2,521
Office furniture and equipment	2,444	2,287
Motor vehicles	634	233
Cars	1,033	956
Other	513	848
Total	**6,729**	**6,845**

The overall increase due to the acquisition of the Derbi Group companies in 2003 amounts to Euro/1000 1,530.

Assets under construction and advances, which is worth Euro/1000 19,320 at year end, primarily comprises:

- down payments for capital spending by Piaggio & C. S.p.A. on new assembly lines, tooling for new vehicles/engines and plant and machinery;
- capital spending of Euro/100 9,196 by Piaggio Vehicles Pvt. Ltd. during 2003 for new painting and welding systems, which came into use in the first months of 2004.

The Group did not acquire significant tangible fixed asserts under financial leasing contracts.

The changes occurring in the various items of tangible fixed assets with respect to the 2002 pro forma financial statements, are illustrated in Annex 7.

Financial fixed assets Investments

The changes are illustrated in the following table:

	Proforma at 31.12.02	Increases Decreseas	Revaluations Writedowns	at 31.12.03
Subsidiary Companies				
- Valued by the equity method:				
Piaggio Foshan Motorcycle Co. Ltd	0			0
Piaggio China Co. Ltd	0			0
Universal Dynamic Inv.	0			0
- Valued by the cost method:				0
Piaggio India Ltd.	61	-61		0
Derbi Deutschalnd Gmbh (not operative)	0	30		30
Piaggio Argentina S.A. (not operative)	0			0
Piaggio TRC - Turchia (liquidated)	15	-15		0
Pro-Ind Brasile Ltda (liquidated)	6	-6		0
Total subsidiary companies	**82**	**-52**	**0**	**30**
Associated companies				
- Valued by the equity method:				
Almec S.p.A.	509			509
Mitsuba F.N. Europe S.p.A.	118		5	123
- Valued by the cost method:				0
Otto Frey Finanz AG - Switzerland	522	-522		0
SAT S.A. Tunisia	45			45
Fondazione Piaggio	0			0
Motoride.com - Milan	590		-71	519
Corsorzio Ricerche Benevento	31		-31	0
Pont-Tech Pontedera	21			21
Total associated companies	**1836**	**-522**	**-97**	**1217**
Other Companies				
- Valued by the cost method:				
Centro Finanziaria - Rome	1084		-1084	0
Consorzio Pisa Ricerche	36			36
Centro per l'innovazione - Pisa	3			3
Ancma - Milano	1			1
Bic Liguria	5			5
Consorzio Fiat Media Center	3			3
E.Co.For - Pontedera	61			61
SAT Soc. Aeroporto Toscana - Pisa	282	-282		0
Acciones Depuradora	0			3
Total other companies	**1475**	**-282**	**-1084**	**112**
Total financial fixed asset investments	**3393**	**-853**	**-1181**	**1359**

Subsidiary companies

A Provision for Risks and charges of Euro/1000 20,286 is entered in the financial statements against the investments in the Piaggio Foshan Motorcycle Co., Piaggio China Co. Ltd, and Universal Dynamic Inv. companies, to balance negative Stockholders' equity of Euro/1000 15,400 at December 31, 2003, and to cover losses due to probable equity writedowns. The "Memorandum accounts" also include the guarantees given on loans granted to the subsidiary Piaggio Foshan Motorcycle Co. Ltd. by banks (Euro/1000 14,172).

In November, the merger between Piaggio India Pvt. Ltd. and Piaggio Vehicles Pvt. Ltd. was finalised. The legal effects of the merger are retroactive to April 1, 2002.

The Derbi Deutschland Gmbh (not operational) and Acciones Depuradora companies were not included in 2002, because they were owned by Nacional Motor S.A., which joined the area of consolidation in October 2003.

The investment in Piaggio Argentina SA, valued at cost because the company is not operational, is entered as zero on the asset side of the Balance Sheet. An investment writedown reserve of Euro/1000 156 has been included under liabilities.

During the year the formalities for the liquidation of the Piaggio TRC (Turkey) and Pro-Ind Ltda (Brazil) companies have been concluded.

Associated companies

The Mitsuba F.N. Europe S.p.A. company was valued by the equity method, and the value of the investment was adjusted by Euro/1000 4.

The entire investment (20%) in the Otto Frey Fin. AG company was sold for Euro/1000 1,078, making a profit of Euro/1000 556.

During 2004 it has been decided to withdraw from Consorzio Ricerche Benevento, and as a result the investment has been entirely written down.

Where the affiliated company Motoride.com is concerned, we point out that early in 2004 proceedings have been begun for its liquidation, and today it is reasonable to expect that no further charges will arise in addition to those already sustained.

The carrying value has been adjusted to the relevant Stockholders' equity at December

31, 2003.

Other companies

The entire value of the investment in Cirio Holding S.p.A., formerly Centrofinanziaria S.p.A., was written down during the year, for the sum of Euro/1000 1,084.

The entire investment in SAT, Società Aeroportuale Toscana S.p.A., was sold for the sum of Euro/1000 1,860, representing a profit of Euro/1000 1,578.

The information requested by Art. 39 of Legislative Decree 127 is provided in Annex 2.

Long-term receivables

The value of long-term receivables from subsidiary companies (Euro1000 15,449) is represented by receivables from Piaggio Foshan Motorcycle Co. Ltd..

The value of long-term receivables from other companies, equal to Euro/1000 2,658 at year end, also includes receivables for collateral deposits related to Nacional Motor (Euro/1000 913) and the sum of the deposit account opened as a guarantee against certain debts included in the accessory contracts between the former Piaggio Holding S.p.A. company and Piaggio & C. S.p.A., as part of the operation whereby Immsi S.p.A. acquired control of the Group (Euro/1000 434).

Current assets

Inventories

This item broke down as follows at year-end:

At 31 December	*2003*	*2002 Pro-forma*
Raw, ancillary and consumable materials	49,332	51,993
Obsolescence reserve	10,600	3,591
	38,732	48,402
Products under construction	14,540	19,590
Obsolescence reserve	1,429	852
	13,111	18,738
Finished products and goods	92,787	100,888
Obsolescence reserve	12,823	9,140
	79,964	91,748
Down payments	215	518
Total	**132,022**	**159,406**

Bearing in mind that the inclusion of the Derbi Group in the consolidation area in 2003 resulted in an increase in total inventories of Euro/1000 9,973, the real reduction on pro forma 2002 data is about Euro/1'000 37,357.

As shown in the following table, which illustrates the changes in the obsolescence reserves, a significant part of the decrease can be attributed to the high value of the provisions for the year, provisions which were considered necessary to reflect the real value of the inventories.

This is true in particular of raw materials, for which we have considered the absorption envisaged by standard production cycles, and of parts, for which clearance indices that are more consistent with sales trends have been used.

31 December 2002 Pro-forma	**13,584**
Increases for provisions	12,333
Changes to consolidation area	1,683
Decreases for uptake and other changes	(2,749)
31 December 2003	**24,851**

In addition to the above-mentioned increase in the obsolescence reserves, the overall level of the net inventories has also been reduced as a result of a new materials programming process which, combined with the increase in purchasing volumes overseas, lowered the value of stocks of raw materials.

Where finished products are concerned, stock levels have decreased, partly as a result of careful management of the warehouse to reflect market trends, combined with the sale of vehicles with a slower turnover.

Receivables

Trade receivables

At year-end, this item broke down as follows:

At 31 December

	2003	*2002 Pro-forma*
Trade receivables due within 12 months	92,825	114,443
Writedown reserve	17,435	16,414
	75,390	98,029
	1,508	1,432
Trade receivables due after 12 months	1,006	621
Writedown reserve		
Total	502	811
	75,892	98,840

Trade receivables due within 12 months regard receivables generated by normal sales.

Receivables due after 12 months, net of the writedown reserve, refer primarily to trade extensions granted by Piaggio France S.A. (Euro/1000 484). However, collection of said receivables is expected within 5 years.

The parent company normally factors its receivables with recourse, with the exception of a contract for the sale of engines, with an annual turnover of Euro/1000 4,100, factored without recourse.

During the year the receivables with recourse factored by Piaggio & C. S.p.A. totalled approximately Euro/1000 569,065, and Euro/1000 12,328 refer to receivables not yet collected by the factor at December 31, 2003 and as such included under “trade receivables”.

Receivables advanced by the factoring company are removed from the Balance sheet and stated under Memorandum Accounts.

The following changes occurred in the reserve with respect to 2002 pro forma data:

31 December 2002 Pro-forma	**17,035**
Increases for provisions	5,139
Changes to consolidation area	4,033
Decreases for uptake and other changes	(7,766)
31 December 2003	**18,441**

Receivables from subsidiary companies (not consolidated on a line-by-line basis) and associates

This item comprises mainly:

- receivables originating from commercial transactions with Piaggio Foshan Motorcycle Co. Ltd. for Euro/1000 1,999; Piaggio Argentina S.A. for Euro/1000 357; Fondazione Piaggio for Euro/1000 5;
- sundry receivables from Piaggio Foshan Motorcycle Co. Ltd for Euro/1000

2,656; Almec S.p.A. for Euro/1000 5; Fondazione Piaggio for Euro/1000 490; Motoride.com for Euro/1000 6.

These transactions are regulated at normal market conditions.

Receivables from third parties

This item breaks down as follows:

At 31 December	*2003*	*2002 Pro-forma*
Receivables from Tax authorities for VAT	7,324	289
Receivables from Tax authorities for income tax	7,036	7,469
Other receivables from authorities	347	637
Advances to employees	646	621
Receivables for deferred taxation	30,450	33,457
Other	12,348	3,040
Total	**58,151**	**45,513**

Receivables from Tax authorities for VAT refer primarily to the following companies Piaggio & C. S.p.A. (Euro/1000 5,285), Nacional Motor S.A. (Euro/1000 1,026), Piaggio Vehicles Pvt. Ltd. (Euro/1000 266), and Piaggio Hrvatska Doo (Euro/1000 449).

The increase compared to 2002 is due primarily to the fact that the parent company stopped using the Group VAT settlement procedure.

Receivables from Tax authorities for Income tax refer in particular to the following companies: Piaggio & C. S.p.A., for Euro/1000 2,052 (primarily receivables for reimbursements applied for, and receivables for sums to be compensated), Piaggio Espana S.A. (Euro/1000 3,398), Piaggio Vehicles Pvt. Ltd (Euro/1000 519), Piaggio Hellas Epe (Euro/1000 402), and Piaggio Benelux BV (Euro/1000 421).

Receivables for deferred taxation include:

1. deferred tax credits, which are considered recoverable through future taxable income before their due date, refer primarily:
   - to the writeback of intra-company profits not realised with third parties (Euro/1000 8.192);
   - to the fiscal effect of provisions to taxed reserves (Euro/1000 6,792)
   - and are prudentially booked only for the amount considered reasonably recoverable today on the basis of the economic and income plans of the companies involved;
2. tax credits and deferred tax credits of Nacional Motor S.A. for a total of Euro/1000 15,456. According to current Spanish legislation, these credits may be used to cover taxes for 15 years following the date they are recorded. The first portion, totalling approximately Euro/1000 3,563, will come due in 2008.

   Their recovery is therefore considered feasible on the basis of the strategic plans implemented by the new company management.

"Advances to employees" includes advances paid for travel expenses, sickness and accidents, cash reserve, etc.

"Other" primarily comprises receivables from suppliers and other creditors, invoices and credit notes to be issued, receivables for the sale of fixed assets.

Financial assets not constituting fixed assets

Receivables from subsidiary companies (not consolidated on a line-by-line basis) and associates

This item refers primarily to financial accounts receivable by Piaggio & C. from the Piaggio Foundation for Euro/1000 192.

Receivables from third parties

This item refers primarily to financial accounts receivable by Piaggio & C. from Scooter Holding 1 S.p.A., formerly Piaggio Holding S.p.A., related to the loan granted to the company under the agreements for the acquisition of the Piaggio & C. Group (euro/1000 9,310).

This loan, covering the MV Augusta transaction, will last 5 years (expiring September 23, 2008), with a fixed interest rate of 2.5% capitalised annually.

Liquid assets

This item breaks down as follows:

At 31 December	*2003*	*2002 Pro-forma*
Deposits with banks and post office	12,359	25,483
Cheques	0	227
Cash and cash equivalents	48	441
Total	**12,407**	**26,151**

For further explanation, we refer you to the Statement of source and application of funds.

Accrued income, prepaid expenses and deferred charges

This group of items broke down as follows on December 31:

At 31 December	*2003*	*2002 Pro-forma*
Accrued income and prepaid expenses		
- Contributions to interest	166	234
- Instalments paid	63	0
- Interest rate swap	1,497	0
- Other	157	142
Deferred charges		
- Rent payable	71	131
- Other	332	2,954
Total Deferred charges	**403**	**3,085**
Discount on loans	1	2
Total Accrued income, prepaid expenses and deferred charges	**2,287**	**3,463**

Accrued income on the interest swap contract refers to the hedging contract taken out with Caboto, which is described in the Memorandum Accounts. Since the parent company has an identical IRS contract outstanding, the effects of which have produced accrued expenses for interest of Euro/1000 1,090, the net effect of said contracts is positive for Euro/1000 415.

COMMENT ON THE MAIN LIABILITY ITEMS

(values expressed in thousands of Euro)

Stockholders' Equity

The changes occurring in the various items making up Stockholders' Equity are described in Annexes 3 and 4.

Below we provide a comment on the main items making up Stockholders' Equity and the related changes.

Capital stock

The capital stock at December 31, 2003, fully subscribed and paid up, comprises 325,668,137 ordinary shares with a par value of ¤ 0.52 each, for a total of Euro 169,347,431.24 after the stock capital increase subscribed and paid up by Piaggio Holding Netherlands B.V. on October 23, 2003.

Additional paid-in capital reserve

This amounts to Euro/1000 292,987, increasing by Euro 82,250 due to the surcharge of ¤ 0.28 applied to the 293,750,000 ordinary shares issued following the capital stock increase subscribed and paid up by Piaggio Holding Netherlands B.V. on October 23, 2003.

Legal Reserve

The Legal reserve amounts to Euro/1000 671.

Other reserves and income carried forward

This group of items breaks down as follows:

At 31 December	2003	2002 Pro-forma
Stockholders' additional paid-in capital reserve	32,000	32,000
Non-distributable revaluation reserve as per art. 2423	8,365	8,365
Conversion reserve	1,232	640
Extraordinary reserve	48	48
Total other reserves	41,645	41,053
Consolidation reserve	993	0
Profit / (loss) carried forward	(188,233)	(87,723)

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

The lower price of Euro/1000 13,506 paid, compared to the reference stockholder's equity of Euro/1000 14,499, has been charged to the consolidation reserve because it cannot be attributed to the forecast of future negative results.

Other reserves include a payment of Euro/1000 25,000 during 2002 for a future capital increase by the former Piaggio Holding S.p.A. company in favour of Piaggio & C. S.p.A., towards the capitalisation of said company and which, following the agreement for the acquisition of Piaggio & C. in October 2003, has been transformed into a definitive equity grant.

The same item includes, for the same purpose, a non-refundable payment of Euro/1000 7,000 from the former Piaggio Holding S.p.A. company.

The non-distributable revaluation reserve as per art. 2423 of the Civil Code refers to the reserve generated in 1999 by MOD S.p.A. (formerly U.A. S.r.l.), before the Piaggio Group was acquired by the previous stockholders, following the adjustment of the investment to the Stockholders' Equity of Piaggio & C. S.p.A.

Capital stock and reserves pertaining to third parties

This refers in particular to the minority stockholders' of the Piaggio Hrvatska and Piaggio Vehicles Pvt. Ltd. companies

The change with respect to the 2002 pro forma data, is due not only to income for the year of ¤/'000 346, but in particular to:

- the acquisition by Piaggio & C. S.p.A. of the investment in P&D S.p.A. held by Daihatsu Motor Co. Ltd., equal to 49% of capital stock (with a decrease of Euro/1000 14,499);
- the purchase by Piaggio & C. S.p.A., in May 2003, of a 6.17% share in the capital stock of Piaggio Vehicles Pvt. Ltd. from Simest S.p.A. (a decrease of Euro/1000 442);
- dividends distributed for Euro/1000 342.

These reserves break down as follows:

At 31 December	*2003*	*2002 Pro-forma*
Pension funds	878	310
Tax reserves:		
- Deferred taxation	1,868	2,515
	2,255	1,461
	4,123	**3,976**
Other reserves		
- Product warranty reserve	13,305	11,783
- Collateral risk reserve	58	58
- Investment risk reserve	20,443	10,825
- Restructuring charges reserve	7,325	10,937
- Other	18,045	175
Total other reserves	**59,176**	**3,778**
Total Reserves for risks and charges	**64,177**	**38,064**

The following changes have occurred in “other reserves”:

31 December 2002 Pro-forma	**33,778**
Increases for provisions	39,783
Changes to consolidation area	1,521
Decreases for uptake and other changes	(15,906)
31 December 2003	**59,176**

The Pension reserve primarily comprises the provisions to the agent’s supplementary indemnity provision, which represents the indemnities due to agents in the event of termination of the agency contract for reasons not attributable to them.

The provision for the year of Euro/1000 796, primarily regards Piaggio & C. S.p.A. (Euro/1000 481) and Piaggio Benelux BV (Euro/1000 215).

Deferred taxation reserves comprise the provision for deferred taxation to cover income items booked in the financial statements of the consolidated companies Piaggio & C. S.p.A. and Piaggio Vehicles Pvt. Ltd., the tax liability for which is, by law, deferred to years subsequent to the year in which the revenues are received. They also include deferred taxation calculated on the entries eliminating accelerated depreciation and the writeback of the LIFO effect on inventories.

The taxation reserve refers to the provisions made by Piaggio Espana S.A., Piaggio Deutschland Gmbh and Nacional Motor S.A. to cover tax risks.

The product warranty reserve regards provisions to cover work under warranty on serviced products which is expected to be performed during the warranty period envisaged by contract.

This period varies according to the type of product sold and the market, and is also determined by the customer’s commitment to a regular maintenance programme.

The reserve increases by Euro/1000 7,036 during the year (partially offset by the uptake of Euro/1000 6,564).

The investment risk reserve regards the Piaggio Argentina S.A. (Euro/1000 156), Piaggio Foshan

Motorcycle Co. Ltd. (Euro/1000 20,104), Piaggio China Co. Ltd. (Euro/1000 139) and Universal Dynamic Inv. (Euro/1000 43) companies. The reserve has increased by Euro/1000 9,618 during the year to cover the loss for the year of Piaggio Foshan Motorcycle Co. Ltd. and the further provision to cover probable losses of equity.

The company restructuring charges reserve regards the costs that will be met in future years under the restructuring plans of a number of Group companies. These are primarily Piaggio & C. S.p.A. for Euro/1000 4,159 (Euro/1000 1,500 of which allocated during the year), Nacional Motor S.A. Euro/1000 2,400 (all allocated during the year) and Piaggio Deutschland Gmbh Euro/1000 750 (allocated during the year).

The "other reserves" primarily regard Piaggio & C. S.p.A. for:

- provisions made during the year on the basis of the October 2003 agreement between Piaggio & C. S.p.A. and the former Piaggio Holding S.p.A., as part of the more comprehensive agreement for the sale of the Piaggio Group to Immsi S.p.A. Art. 2 "Acceptance of debts and waiver of credits" envisages that the possible balance between the credit waived by Piaggio & C. S.p.A. in favour of Piaggio Holding S.p.A. and the debit items of Piaggio Holding related to the activities performed by the latter as parent company of the Piaggio Group cannot exceed Euro/1000 750, in positive or negative. The provision reserve thus reflects the risk arising from this clause of the contract;
- provisions to cover the risk of legal disputes (Euro/1000 2,142), made during the year in the light of a number of legal and labour disputes between Almec S.p.A. and Inps begun in 2002, regarding the years prior to the sale of Almec S.p.A. and therefore guaranteed by Piaggio & C. S.p.A. under the 1999 divestment contract.

To which we must add:

- the reserve allocated during the year by Piaggio Deutschland Gmbh for Euro/1000 820 to cover costs that might have to be met to pay pensions to a number of employees on the basis of contracts signed in previous years;
- reserves allocated for a total of Euro/1000 633 by Piaggio Usa Inc. against the risk of the

closure in 2004 of a number of dealers no longer in line with the Group's marketing policies, and to cover the risk of the return of slow-moving stocks of vehicles from the network;

- the reserve allocated (Euro/1000 1,050) by Nacional Motor S.A. for the sell-out of vehicles already in the network and no longer in line with new European pollution standards.

With reference to the provision of Euro/1000 12,200 arising from the evaluation of an interest rate swap derivative contract, we refer you to the explanation in the Memorandum accounts.

With regard to legal and tax disputes, we refer you to the detailed description given in the Report on Operations.

Employee retirement indemnity reserve

The following changes have occurred during the year (in thousands of Euro)

Balance at 31.12.2002 Pro forma		50,749
Quota matured and allocated to Income Statement		7,102
Indemnities paid during the year		(3,463)
Changes to initial balance due to exchange rate and reclassification.		21
Balance at 31.12.2003	**54,409**	

The indemnities paid during the year refer to 796 employees leaving the company, 632 of whom with short-term contracts.

Payables

Bank loans and payables to other financiers

The value of accounts payable to banks and other financiers is illustrated in the following table:

At 31 December 2003

		Deadlines in years		
	Total	**Within 1**	**From 1 to 5**	**Over 5**
Payables to banks	**262,166**	**56,766**	**90,020**	**115,380**
Short-term payables	32,194	32,194		
Medium-term loans	37,672	24,572	13,100	
Restructured medium Long term loans	192,300		76,920	115,380
Other financiers	**26,163**	**12,055**	**6,009**	**8,099**
Total (Euro/1000)	**288,329**	**68,821**	**96,029**	**123,479**

Payables to banks primarily comprise the syndicated loan of ¤ 165.3 million and the credit facility of Euro 27 million, granted by Banca Intesa and restructured on October 23, 2003 under the contract by which Immsi S.p.A. acquired control of the activities performed by the Piaggio Group in Italy and abroad. This restructuring was made possible by a pool of 27 financial institutions which reformulated the repayment schedule which, while it maintains the final reimbursement date of 31-12-2010, envisages three years of pre-amortisement (first capital repayment on 31-12-2006) and 9 subsequent 6-monthly instalments with an interest rate indexed to the 6-month Euribor rate increased by a 2.5% margin. In addition to Banca Intesa, the most exposed banks in the pool of 27 are Monte Paschi di Siena, Unicredito, Banca Nazionale del Lavoro, Banca Popolare di Lodi, Interbanca, Cassa di Risparmio di Firenze, Capitalia Group and Banche Popolari Unite.

These loans are still guaranteed by the collateral on the real estate linked to the company's core business and on the machinery in particular, in addition to a pledge on 100% of the packet of shares held by the Dutch company Piaggio Holding Netherlands BV. In addition to the loans mentioned above, during the execution of the Immsi contract, operative credit facilities have been finalised for a total of Euro 125 million, to meet the requirements generated by working capital, and these are also backed by the guarantees granted for the syndicated loan and Banca Intesa credit facility mentioned above. These credit facilities are granted by 12 institutes in the pool that backs the Piaggio Group, under a commitment that expires on June 30, 2007.

The entire package of restructured credit facilities is covered by financial covenants, which is standard procedure for this type of operation, the test for which is fixed every six months from June 30, 2004, and the thresholds have been decided on the basis of the evolution of the Business Plan drawn up by Immsi.

Payables to other financiers comprise:

- Euro/1000 15,026 payable by Nacional Motor S.A. to Istituto Catalano di Finanza;
- Euro/1000 6,018 payable by Piaggio Espana S.A. to Ifitalia against cash advances on the factoring of receivables with recourse;
- Euro/1000 3,361 payable by Piaggio Hellas Epe to EFG Factor and Nacional Factoring, against advance cash payments on the factoring of receivables with recourse;
- Euro/1000 1,704 payable by Piaggio & C. S.p.A. for loans granted by the Ministry for Industry out of the special reserve for technological innovation, under Art. 16 c. III° Law 46/82.

Payables to banks and other financiers also include the syndicated loan of Euro/1000 19,500 in favour of Nacional Motor S.A., agreed in 1998 and restructured in 2000, organised by Santander Central Hispano with the participation of Istituto Catalano di Finanza and Banco Bilbao Vizcaja Argentaria. This loan, without collateral, has a repayment schedule with six-monthly instalments up to June 30, 2013 and a variable interest rate aligned to the Euribor plus 1%.

The clauses of the contract include respect for three financial covenants, in particular, a minimum level of Stockholders' equity (Euro/1000 17,900), a medium-term debt to Stockholders' Equity ratio and a medium-term debt service cover index, all of which can be remedied by June 30 each year.

The company's 2003 results do not respect the covenants regarding minimum Stockholders' equity and the ratio between medium-term payables and Stockholders' equity, and, as a result, on March 3, 2004, the sole stockholder, Piaggio & C. S.p.A. has increased the existing subordinated loan in favour of Nacional Motor S.A. by Euro/1000 12,500, thus remedying the covenants that were not respected.

Advances

This item comprises the advance payments received from customers of the Piaggio Vehicles Pvt. Ltd and Piaggio Hellas Epe companies for deliveries not yet completed.

Payables to suppliers

This item, which amounts to Euro/1000 240,547, comprises trade payables deriving from the purchase of goods and services to perform company activities (Euro/1000 232,180) and from the purchase of fixed assets (Euro/1000 8,367).

The increase generated by the acquisition of the Derbi group of companies in 2003 amounts to approximately Euro/1000 17,927.

Payables to subsidiary (not consolidated on a line-by-line basis), associated and parent companies

Payables to subsidiary, associated and parent companies primarily comprise trade and sundry payables to:

- Piaggio Foshan Motorcycle Co. Ltd. (Euro/1000 618);
- Almec S.p.A. (Euro/1000 2,666)
- Fondazione Piaggio (Euro/1000 76)

  and financial payables to:
- Immsi S.p.A (Euro/1000 15,000) related to the short-term loan granted to Piaggio & C. S.p.A. by Immsi S.p.A., without collateral and regulated at normal market conditions, expiring on October 23, 2004
- Motoride.com (Euro/1000 473).

Commercial transactions with subsidiary and associated companies are regulated at normal market conditions.

Tax payables
This item breaks down as follows:

At 31 December	*2003*	*2002 Pro-forma*
Payable for income tax for the year	6,111	6,257
Payable for taxes other than income tax	88	657
Payable to Tax authorities for:		
- VAT	1,915	1,596
- tax deducted	4,974	2,779
- other	4,197	7,656
Total	**17,285**	**18,945**

The item includes tax payables recorded in the financial statements of individual consolidated companies, allocated to cover each company's tax liability on the basis of applicable national legislation.

The liability attributable to the Derbi Group at December 31, 2003 is Euro/1000 2,358.

Accounts payable for tax deducted refer primarily to tax withheld on employees' salaries, on retirement indemnities and on payments to self-employed collaborators.

Payables to welfare and social security institutions

This item comprises the amount due to these institutions at year-end for the quotas paid by the company and by employees for salaries and wages for the month of December, calculated on the basis of national legislation applicable to the individual companies within the consolidation area.

It also includes the liability estimated and allocated for the so-called “long-term mobility” which the personnel of Piaggio & C. S.p.A. has had recourse to under the restructuring plan. This mobility was decided in 2002 and has affected 133 people, for a total of approximately Euro/1000 2,093.

Other payables

This item breaks down as follows:

At 31 December	2003	2002 Pro-forma
Collateral deposits	4,881	2,650
Payables to employees	20,671	19,493
Sundry payables to third parties	14,568	8,069
Total	**40,120**	**30,212**

Collateral deposits payable include the collateral deposit paid to Piaggio & C. S.p.A. in 1997 by T.N.T. Automotive Logistics S.p.A. to guarantee payment of the Employee retirement indemnity matured by employees of the demerged company division responsible for the reception, packaging, storage and physical distribution of parts and accessories. At year-end, said deposit amounts to Euro/1000 1,541.

It also includes the confirmative deposit (Euro/1000 3,000) received by Piaggio Espana S.A. on the sale of the Arganda (Madrid) plant.

Payables to employees include the indemnity for holidays matured and not yet taken (Euro/1000 7,029) and other salaries to be paid (Euro/1000 13,642).

Sundry payables include the amount of Euro/1000 4,588 payable by Piaggio & C. S.p.A. to Daihatsu Motor Company for the 3rd instalment of the purchase of 49% of its investment in P&D S.p.A., due on June 30, 2004.

They also include contributions as subsidies for research activities not yet definitively assigned, paid by the EU, as well as by Medio Credito Centrale and Medio Credito Toscano under Law 488/92, for a total of Euro/1000 1,051.

Sundry payables also include advances from customers for Euro/1000 2,864.

The value attributable to Derbi companies at December 31, 2003 amounts to Euro/1000 2,879.

Accrued expenses and deferred income

This group of items breaks down as follows:

At 31 December	*2003*	*2002 Pro-forma*
Accrued expenses		
- Interest payable on secured loans	1,543	186
- Other	3,132	3,223
Total Accrued expenses	**4,675**	**3,409**
Deferred income		
- Lease income	0	36
- Other	1,380	1,042
Total Deferred income	**1,380**	**1,078**

MEMORANDUM ACCOUNTS

Guarantees granted

The Memorandum Accounts highlight the risks, commitments and guarantees granted by the Group.

The most significant guarantees granted by banks in favour of third parties on behalf of Piaggio & C. S.p.A are as follows:

Guarantee of Banca Commerciale Italiana issued for Piaggio & C. S.p.A. in favour of the Head Collector of Customs, La Spezia	310
Guarantee of Banca Toscana of Pontedera in favour of the Pontedera Town Council issued on 21-10-1996	323
Guarantee of Cassa di Risparmi di Pisa in favour of the Pisa Provincial Council issued on 28-10-2002	129
Stand-by letter of credit issued by Monte dei Paschi di Siena in favour of CHEN SHIN RUBBER	400
Guarantee of Banca Commerciale Italiana issued on our behalf in favour of S I M E S T S.p.A. - Rome	709
Assicuratrice Edile guarantee insurance policy of 23-10-03	839
This policy was issued in favour of the Pontedera Revenue Agency for VAT	
Assicuratrice Edile guarantee insurance policy of 23-10-01	5,911
Assicuratrice Edile guarantee insurance policy of 27-6-00	3,553
These two policies were issued in favour of the Pisa VAT office as collateral to the tax credits compensated as part of the Group's VAT payment	
Assitalia policy of 16-01-01 issued in favour of the Pontedera Registrar's Office	1,641

Guarantee in favour of Associazione Cassa Nazionale Previdenza e Assistenza for the sale of the building in via Paisiello 24 in Rome, issued on 25-07-02 by Cassa di Risparmio di Pisa	221
Guarantee in favour of Daihatsu Motor Co. issued by Banca Intesa on 30-10-03 as collateral to the supply of CKD and other components	4,405
Guarantees in favour of Daihatsu Motor Co. issued by Banca Nazionale del Lavoro in 2002 and 2003 as collateral to the supply of CKD and other components	2,517
Guarantee in favour of Daihatsu Motor Co. issued by Monte dei Paschi in 2003 as collateral to the supply of CKD and other components	1,310
Guarantee in favour of the Ministry of Manufacturing Activities issued by Banca Toscana on 5-06-03	255

The most significant guarantees issued by Piaggio & C. S.p.A. in favour of third parties on behalf of non-consolidated Group companies or limited to the amount not used by said companies are as follows:

Guarantees in favour of Banca di Roma (Euro/1000 6,413) and Banca Intesa (Euro/1000 7,759) for credit facilities granted to Piaggio Foshan Motorcycle Co. Ltd. by the two banks	14,172
Guarantees in favour of Banca Intesa (Euro/1000 7,538) for credit facilities granted to the subsidiary Piaggio Vespa BV by the latter (limited to the amount not yet utilised by the company)	7,538

Guarantee in favour of Monte dei Paschi di Siena for credit facilities granted to the subsidiary Nacional Motor S.A. by the latter (limited to the amount not yet utilised by the company)	554
Guarantee in favour of Ifitalia for credit facilities granted to the subsidiary Nacional Motor S.A. by the latter (limited to the amount not yet utilised by the company)	2,768

The most important guarantees issued by banks (particularly BBVA) in favour of third parties on behalf of Piaggio Espana S.A. are as follows:

- Euro/1000 163, in favour of public authorities as collateral to the sale of vehicles
- Euro/1000 1,502 for tax disputes

Contract commitments

We point out that the contract for the disposal of the investment in Almec S.p.A. envisages the commitment to sell/buy the residual part of the investment in our hands by the end of 2005, for a value of Euro/1000 900.

Factoring of receivables with recourse

We point out that the Memorandum Accounts include Euro/1000 75,129 for the risk of recourse for receivables factored with recourse to factoring companies with respect to the amounts credited on their due date by these institutes.

Commitments for forward operations

On December 31, 2003, forward purchasing operations were outstanding for a value of Yen 769 million, corresponding to Euro/1000 5,800 (valued at the forward exchange rate) and forward selling operations for a value of CHF 1.589 million and US$ 17.1 million, corresponding to a total of Euro/1000 14,900 (valued at the forward exchange rate). These contracts were put into place to hedge the exchange rate risk on receivables and payables in foreign currencies, and are due in the first half of 2004.

Commitments for off balance sheet operations

On December 31, 2003, the Group has three derivative interest rate swap contracts outstanding, two due on 29/06/2005 and one due on 29/06/2006.

The three contracts envisage the payment of rate differentials, taking as a reference a notional capital of Euro 180.7 million, and two contracts in particular have identically opposite characteristics, i.e.:

New quanto gap floater swap in arrears	Charged to Group A fixed rate of 5.15% (if 6-month US LIBOR in arrears <5.75%) or 6-month US LIBOR in arrears plus 0.50% for 2003 and 2004. As of 2005, the rate charged to the Counterpart is 5.2% (if 6-month US LIBOR in arrears <6%) or 6-month US LIBOR in arrears plus 0.75%.	Charged to Counterpart 6-month Euribor
New quanto gap floater swap in arrears - mirror trade	6-month Euribor	A fixed rate of 5.15% (if 6-month US LIBOR in arrears <5.75%) or 6-month US LIBOR in arrears plus 0.50% for 2003 and 2004. As of 2005, the rate charged to the Counterpart is 5.2% (if 6-month US LIBOR in arrears <6%) or 6-month US LIBOR in arrears plus 0.75%.

As a result, the effects of the two contracts basically cancel each other out.

At December 31, 2003 the Group also has a "3.5 year Eur quanto basis collar swap - new trade" contract for a notional amount of Euro 180.7 million, with the following characteristics:

Charged to Group	**Charged to Counterpart**
1.7 * 12-month US LIBOR set in arrears < with the following characteristics: floor: 3% Cap: 5.20% European knock-out barrier: 5.50% from 29.12.02 to 28.06.04; 5.75% from 29.06.04 to 28.06.05; 6.10% from 29.06.05 to 28.06 06. Option: at every deadline from 30.06.04, the bank is entitled to transform the rate paid by Piaggio from variable to fixed, equal to 4.40% for the residual duration of the swap	6-month Euribor with maximum increase of 0.30% compared to the previous coupon

These hedging operations are based on net financial payables of approximately ¤ 281 million, made up primarily of loans and credit facilities granted in favour of Piaggio & C. S.p.A. for Euro 192.3 million due in 2010, amortised as of 2006, and in favour of Nacional Motor S.A. for Euro 19.5 million, due in 2013, already being amortised. The companies pay 6-monthly interest on these loans with a spread above the Euribor rate for the period, thus generating exposure towards the fluctuations of this financial parameter. The notional amount of the derivative contracts outstanding is certainly lower than the net debt (below 2/3), and is also lower than the mentioned loans in existence, and comes due before the underlying financial debts, and they also share the same due date and reference parameter (Euribor rate).

At December 31, 2003 the "3.5 years Eur quanto basis collar swap - new trade" derivative contract has a total negative value of Euro 12.2 million, and a provision for the same amount has been allocated to the Income Statement, in line with the principles of prudence and with Consob recommendation no. DEM/1026875 of 11-4-2001.

COMMENT TO THE MAIN ITEMS IN THE INCOME STATEMENT

(in thousands of euro)

Before we analyse the individual items, we remind you that comments to the general trend of costs and revenues are contained in the Report on Operations, as required by paragraph 1 of art. 2428 of the Italian Civil Code.

The analytical presentation of the positive and negative income items in the Income Statement and the previous comments on the items in the Balance Sheet, allow us to limit our comments here to the main items.

As explained in the Introduction to the present Notes, the acquisition of the Derbi group of companies in October 2003, has meant that these companies are only included in the income statement for the months of November and December.

Because of the significant impact on some of the more important items in the Income Statement, when useful, we will give an indication of what the situation would be if the first ten months of the income statement were not excluded.

Revenues from sales and services

Below we provide a breakdown of the revenues, net of bonuses granted to customers by category of activity and geographical area of destination.

Revenues from sales and services do not include the cost of transport charged to the clientele and the recovery of advertising expenses invoiced, which are included among other income and revenues.

Revenues by category of activity

Revenues from the sale of assets related to the Group's core activities refer essentially to the sale of vehicles and parts on European and non-European markets.

At 31 December	*2003*	*2002 Pro-forma*
- Vehicles	759,822	749,116
- Parts and Accessories	119,335	103,334
- Other	45,983	25,958
TOTAL	**925,140**	**878,408**

Other revenues refer primarily to the sale of engines (Euro/1000 37,756).

Revenues from sales and services rendered to third parties by the Derbi Group at December 31, 2002 amount to Euro/1000 78,398, while the value of the same in the last two months of 2003 included in the statutory financial statements amount to approximately Euro/1000 12,500.

As result, sales of the Piaggio Group alone for 2003, i.e. net of sales to third parties by Derbi in the last two months, would amount to Euro/1000 912,640, increasing by Euro/1000 34,232 on the previous year.

Revenues by geographical area

At 31 December	*2003*	*2002 Pro-forma*
Italy	**467,500**	**408,339**
- Vehicles and loose parts (CKD)	363,637	327,316
- Parts and Accessories	60,386	55,261
- Other	43,477	25,762
Europe	**340,158**	**395,920**
- Vehicles and loose parts (CKD)	290,391	355,223
- Parts and Accessories	47,352	40,664
- Other	2,415	33
Rest of the World	**117,482**	**74,149**
- Vehicles and loose parts (CKD)	105,794	66,577
- Parts and Accessories	11,597	7,409

Changes to inventories of work in progress, semi-finished goods and finished products

Inventories of semi-finished and finished products decreased by Euro/1000 17,178 during the year, a value that takes into account the impact of the inclusion of the Derbi Group from October, as described in the comment regarding "inventories" under assets in the Balance Sheet.

Provisions to the warehouse obsolescence reserve undertaken to reflect the real value of stocks (particularly of parts), in addition to normal provisions, amount to approximately Euro/1000 5,780.

Increase to fixed assets due to internal work

This refers to the costs incurred for the internal production of tangible and intangible assets and capitalised during the year.

They refer primarily to research and development projects and the following in particular:

- Nexus, for Euro/1000 1.903
- X8, for Euro/1000 1.793
- twin-cylinder scooter engine, for Euro/1000 1,099
- 250 engine, for Euro/1000 949
- 125 engine for the X8, for Euro/1000 803
- twin-cylinder X10, for Euro/1000 761
- X9 F.L., for Euro/1000 672
- Liberty Restyling, for Euro/1000 556
- Beverly 250, for Euro/1000 457
- other projects, for approximately Euro/1000 4,000.

Other income and revenues

This item breaks down as follows:

At 31 December	*2003*	*2002 Pro-forma*
- State grants for operating expenses	4,002	10,133
- Sundry income and revenues:		
- Instalment income	512	118
- Profits on assets	90	47
- Sales of diverse material	535	1,131
- Recovery of sundry costs	33,622	32,344
- Reimbursement of damages	1,492	241
- Non-operating profit from appraisals	0	424
- Licence and know-how rights	781	460
- Services rendered by third parties	0	59
- Other income	1,047	3,443
Total sundry income and revenues	**38,079**	**38,267**
Total other income and revenues	**42,081**	**48,400**

As described in the Report on Operations, the operating grants do not include the revenues (Euro/1000 9,447) deriving from the contributions from the Ministry for the Environment for the period May-December 2003, on the sale of environment-friendly vehicles (Eco-incentives), because at the date the financial statements were approved the Italian Parliament had not yet finished examining the relevant law; in spite of this, the corresponding price reduction was awarded to end customers.

Gains on assets refer primarily to the natural replacement of tooling and machinery employed in the manufacturing process, and therefore entered under operating revenues.

The “recovery of sundry costs” includes the recovery of transport and advertising costs from dealers for Euro/1000 27,011.

Other income and revenues of the Derbi Group at 31.12.2002 amounted to Euro/1000 415, while the value of the same for the first ten months of 2003, which were not included, amounted to Euro/1000 152.

Cost of Production

Cost of purchases

The item in question breaks down as follows:

At 31 December	*2003*	*2002 Pro-forma*
Raw, ancillary and consumable materials and goods	508,484	499,673
Other purchases	1,711	1,962
Total cost of purchases	**510,195**	**501,635**

Purchases of raw materials refer primarily to materials and components used in the manufacturing process by the parent company, Nacional Motor S.A. and Piaggio Vehicles Pvt. Ltd.

Bearing in mind that the value of purchases in 2002, including the Derbi Group, would be Euro/1000 542,741, and that the same value for 2003, inclusive of purchases for the entire year, would be Euro/1000 547.834, the overall increase, conditions being equal, would be Euro/1000 5,093.

This increase can be attributed entirely to the increase in manufacturing volumes related to higher sales during the year, although it is only marginally above the norm because of the effectiveness of the policy of purchasing globally and thus at a lower cost (approximately Euro/1000 2,000 more than in 2002).

Other purchases comprise stationery, printed matter, data processing equipment, gifts, etc..

Cost of services

This item breaks down as follows:

At 31 December	*2003*	*2002 Pro-forma*
Personnel expenses	6,620	6,052
Accessory purchasing expenses	2,525	2,129
External maintenance and cleaning expenses	6,955	6,411
Electricity, telephone, telex expenses	9,447	9,269
Commission payable	3,045	2,905
Advertising and promotion	24,088	38,049
Technical, legal and tax advice and services	45,113	38,498
Operating costs for company boards	440	258
Insurance	1,649	1,721
Third party operations	32,113	21,772
Transport of vehicles and parts	27,155	29,170
Registration documents	1,720	1,667
Sundry marketing expenses	9,699	7,229
Product warranties	25,610	26,734
Other	5,885	14,088
Total cost of services	**202,064**	**205,952**

The cost of services for the Derbi Group in 2002, net of the services acquired from Piaggio & C. S.p.A. companies, amount to Euro/1000 10,412, while the value of the same services for the first ten months of 2003, net of services purchased by Piaggio & C. companies from the Derbi Group in the same period, reclassified as third parties, amounts to Euro/1000 10.771.

Conditions being equal (the total inclusion of the Derbi Group in 2003 and 2002), the total cost of services purchased in 2003 would be Euro/1000 212,835, compared to Euro/1000 216,364 in 2002.

The cost of consultancy and services primarily includes costs for technical, legal and fiscal advice, outsourcing costs (Euro/1000 20,755), and warehouse management.

Operating costs for company boards, amounting to Euro/1000 440, refer to the emoluments paid to the directors of consolidated companies (Euro/1000 316) and to the boards of auditors (Euro/1000 124).

Third party operations are mainly mechanical operations, painting, sheet metal pressing and outfitting performed by subcontractors.

Leasing and rentals

This item includes rents payable on industrial buildings (Euro/1000 3,106), and leases on cars, computers and photocopying machines (Euro/1000 3,968).

Personnel costs

The cost breakdown is illustrated in the Income Statement.

Personnel costs of the companies in the Derbi group at 31.12.2002 amount to Euro/1000 12,748, while the value of the same for the first ten months of 2003, not included, amounts to Euro/1000 10,574. As a result, conditions being equal (total inclusion of the Derbi Group in 2003 and 2002), total personnel costs in 2003 would be Euro/1000 145,211, compared to Euro/1000 141,628 in 2002. A breakdown of the actual numbers of the various categories of personnel is given below; it refers to companies consolidated on a line-by-line basis.

At 31 December	*2003*	*2002 Pro forma*
Management	76	76
White-collars and employees	1,372	1,223
Foremen and blue-collars	3,233	3,151
Total	**4,681**	**4,450**

If we include the Derbi workforce, which numbered 333 in 2002, the Group's total workforce in 2002 would number 4,783.

A decrease in the personnel of Piaggio & C. S.p.A. companies (down 81) and of Piaggio Espana (down about 100 following the closure of the Arganda plant, Madrid), is offset by a significant increase in the workforce of Piaggio Vehicles Pvt. Ltd. (about 60 employees) as a result of the company's increased manufacturing capacity.

Amortisation and depreciation

Amortisation and depreciation for the year is illustrated below for the various categories:

Intangible fixed assets	
Plant and expansion costs	7,888
Research, development and advertising costs	18,383
Industrial patent rights and intellectual property rights	5,995
Concessions, licences, trademarks and similar rights	113
Goodwill	63
Other	2,142
Consolidation difference	24,424
Total amortisation of intangible fixed assets	59,008

Tangible fixed assets	
Land and Buildings	2,378
Plants and machinery	11,848
Industrial and commercial tooling	20,202
Other assets	2,705
Total depreciation of tangible fixed assets	37,133

The amortisation and depreciation rates adopted are illustrated in the comment to Tangible and Intangible fixed assets.

We inform you that during the year the rates applied by Nacional Motor S.A. to amortise research and development costs and capitalised software costs were aligned with Group criteria (from 20% to 33% per year).

Other writedowns of fixed assets

This item includes the writedowns performed by Piaggio & C. S.p.A. of tooling related to products that went out of production in 2003, as part of the effort to achieve a correct assessment of assets, as described in greater detail in the Report on Operations.

Writedown of receivables included in working capital and of liquid assets

The item refers to provisions to the receivables writedown reserve of Euro/1000 5,331, Euro/1000 2,000 of which to reflect the effort to achieve a correct assessment of assets, as described in greater detail in the Report on Operations.

Changes to inventories of raw, ancillary and consumable materials and goods

Inventories of raw, ancillary and consumable materials and goods decreased by Euro/1000 16,763 during the year.

Provisions made to the warehouse obsolescence reserve in order to reflect the true value of inventories, in addition to normal provisions, amount to approximately Euro/1000 4,938.

Provisions for risks

The item comprises provisions by Piaggio & C. S.p.A. for Euro/1000 690 to cover ongoing disputes, and by Piaggio Usa Inc. for Euro/1000 707 to cover the risk of closure of a number of dealers in 2004 because they are no longer in line with the Group's marketing policy, and to cover the risk of returns for slow-moving stocks of vehicles from the network.

It also includes provisions by Piaggio Espana S.A., Piaggio Benelux B.V. and Piaggio France S.A.

Other provisions

The item comprises the provision to the product warranty reserve for Euro/1000 7,036, calculated on the basis of intervention envisaged under warranty contracts for products sold during the year.

Sundry operating expenses

This item breaks down as follows:

At 31 December	*2003*	*2002 Pro-forma*
Taxes other than income tax	2,154	1,475
Losses on disposals of assets	94	83
Various association dues	707	687
Losses on receivables	1,291	8
Other operating expenses		
	6,690	**5,022**

Taxes other than income tax refer primarily to taxes paid by Piaggio & C. S.p.A. for local taxes and ICI (municipal property tax).

Losses on assets refer primarily to the normal replacement of tooling and machinery used in the manufacturing process, and therefore recorded under operating costs.

Losses on receivables of Euro/1000 1,291 are recorded as a result of the total write-off of an account paid to FIV S.p.A., formerly Italjet S.p.A., now bankrupt, for the development of a new product that it will not be possible to complete.

Financial income and expense

Income from investments in other companies

This item refers to dividends received during the year from a number of minor investments in other companies.

Other financial income

This includes the following:

At 31 December	*2003*	*2002 Pro-forma*
Income from subsidiary companies	0	213
From third party receivables stated under	10	0
Income other than the above from third		
Interest from customers	92	284
- Interest on bank and post office accounts	634	426
- Positive exchange differences	10,329	4,042
- Interest income on commercial paper	243	383
- Income from interest rate hedges	2,775	978
- Other	1,407	1,889
Total	**15,490**	**8,215**

Interest income of the Piaggio Group from the Derbi Group amounted to Euro/1000 784 at 31.12.2002 and Euro/1000 147 for the first 10 months of 2003, while interest income of the Derbi Group amounts to Euro/1000 23 in 2002 and Euro/1000 110 in the first 10 months of 2003.

As a result, conditions being equal (total inclusion of the Derbi Group in 2003 and 2002), financial income in 2003 would have been Euro/1000 15,453, compared to Euro/1000 7,454 in 2002.

Interest and other financial expense

This item breaks down as follows:

At 31 December	*2003*	*2002 Pro-forma*
Financial expense with parent companies	2,080	0
Financial expense with associated companies	11	0
Financial expense with third parties:		
- Interest on bank accounts	6,150	10,034
- Interest on bank loans	12,776	14,964
- Sundry interest payable	1,853	2,838
- Interest to suppliers	10	0
- Negative exchange differences	10,638	5,396
- Cash discounts to clientele	1,655	1,432
- Expenses for financial restructuring	4,198	0
- Interest rate hedging expenses	8,896	3,798
- Other	12,676	276
Total financial expense with third parties	**58,853**	**38,738**
Total	**60,943**	**38,738**

The financial expense of the Derbi Group at 31.12.2002, net of interest paid to Piaggio & C. Group companies, amounted to Euro/1000 1,769, while the value of the same for the first ten months of 2003, net of intercompany expenses for the same period, reclassified under third parties, amounted to Euro/1000 1,192.

As a result, conditions being equal (total inclusion of the Derbi Group in 2003 and 2002), financial expense in 2003 would have totalled Euro/1000 62,135, compared to Euro/1000 40,507 in 2002.

Financial expense with parent companies included expenses owing to Piaggio Holding Netherlands B.V. (Euro/1000 1,977) for the concession of the guarantee ~~in favour of Piaggio & C. S.p.A.~~ on the loans obtained by the latter, and interest payable to Immsi S.p.A. (Euro/1000 102) on the loan granted to Piaggio & C. S.p.A. by the latter, which is commented on under “Payables to subsidiary, associated and parent companies” under Liabilities.

"Expenses for financial restructuring" refer to bank commission paid in the context of the restructuring of the loan commented on under "Payables to banks and other financiers" under Liabilities, and described in greater detail in the Report on Operations.

"Other" includes the provision to the reserve for interest rate hedging for Euro/1000 12,220, which is commented on under Memorandum accounts and described in greater detail in the Report on Operations.

Adjustments to financial assets

Profit on equity investments

This refers to the adjustment to the value of the investment in the Mitsuba F.N. company to the year-end value of this company's Stockholders' equity.

Writedowns

This item breaks down as follows:

At 31 December	*2003*	*2002 Pro-forma*
Writedowns of investments		
- Piaggio Foshan Motorcycle Co. Ltd	4,657	0
- Piaggio Argentina S. A.	0	883
- Motoride S.p.A.	72	2,589
- Cirio Holding S.p.A. (formerly Centro Finanziaria)	1,084	0
- Consorzio Ricerche Benevento	31	0
- Piaggio TRC	13	0
Total writedowns	**5,857**	**3,472**
in Group companies		
Loss on Equity investments		
- Piaggio China Co. Ltd	26	3,183
- Universal Dynamic Inv.	3	4
- Piaggio Foshan Motorcycle Co. Ltd	7,533	6,977
- Mitsuba FN Europe S.p.A.	0	378
Total Loss on Equity investments	**7,562**	**10,542**
Total	**13,419**	**14,014**

The sum of Euro/1000 4,567 has been allocated to hedge probable equity losses by Piaggio Foshan Motorcycle Co. Ltd.

Extraordinary income and expenses

Income

This item includes:

At 31 December	*2003*	*2002 Pro-forma*
Extraordinary gains on disposal of assets	11,304	2,500
Gains on disposal of investments	2,134	441
Gains on disposal of company division	0	311
Other extraordinary income:		
- Non-operating profit	3,701	5,832
- Deferred tax credits	44	0
- Sundry extraordinary income	628	4,813
Total	**17,811**	**13,897**

Gains on the disposal of assets refer primarily to the sale by Piaggio & C. S.p.A. of a building in Arzano (Naples) for Euro/1000 2,405, of the warehouse and showroom in Milan (Euro/1000 3,128), of property in Rome (Euro/1’000 1,993) and Naples (Euro/1000 1,086), and to the sale of other property in Pontedera (Euro/1000 2,637).

Because the above-mentioned property has been the subject of sales between Group companies in the past, the gain realised is calculated taking into consideration the residual value at consolidated level and therefore after having eliminated the gains realised in the past within the Group and the amortisation of the same.

Gains from the disposal of investments refer to the sale of the quota held in the Otto Frey Fin. AG company by Piaggio Vespa B.V. (Euro/1000 556), and to the sale of the investment in SAT, Società Aeroportuale Toscana S.p.A. (Euro/1000 1,578).

Non-operating profits refer primarily to the settlement of old debts with suppliers and to adjustments to provisions made in previous years.

Expenses

This voice comprises:

At 31 December	*2003*	*2002 Pro-forma*
Losses on disposals	536	80
Prior years' taxation	601	7,140
Extraordinary transaction expenses	0	0
Company restructuring expenses	9,452	10,574
Non-operating losses	12,533	8,314
Other	36,916	10,755
Total	**60,038**	**36,863**

Losses on the disposal of assets refer to the sale of the building in Augsburg (Munich) used as the company headquarters, after the decision to relocate to Dusseldorf (Euro/1000 189), and to the sale of assets related to the closure of the Arganda plant (Euro/1000 333).

Extraordinary expenses for company restructuring primarily refer to operating costs incurred during the year under the restructuring plans approved in previous years by Piaggio & C. S.p.A. (Euro/1000 1,485), Piaggio Espana S.A. (Euro/1000 2,774) and P&D S.p.A. (Euro/1000 270), and provisions made during the year by:

- Piaggio & C. S.p.A. for Euro/1000 1,500, for refurbishing and a change in the mix of managerial resources;
- Nacional Motor S.A. for Euro/1000 2,400, for refurbishing and a change in the mix of managerial resources, to reduce the workforce following the programmed outsourcing and programmed transfer of some operations to the Pontedera plant;
- Piaggio Deutschland Gmbh for Euro/1000 750, to transfer the company headquarters from Diedorf to Dusseldorf/Cologne, including expenses to manage the impact that this operation could have on personnel.

Non-operating losses include:

- extraordinary expenses (Euro/1000 3,052) deriving from the merger of Piaggio Vehicles Pvt. Ltd. and Piaggio India Pvt. Ltd., including costs related to transactions with suppliers for non-fulfilment of contract obligations (approximately Euro/1000 1,600);
- the cost of the transaction with MV Agusta Motorcycle S.p.A. (Euro/1000 1,300) subscribed in September 2003 by the former Piaggio Holding S.p.A., which has resulted in the settlement of all outstanding accounts with MV Agusta even in the Piaggio & C. S.p.A. financial statements;
- adjustments to costs and revenues of previous years (Euro/1000 6,652);
- provisions by Piaggio Deutschland Gmbh for Euro/1000 820, to meet costs that could be incurred to pay pensions to a number of employees on the basis of contracts negotiated in previous years.

"Other" extraordinary expenses primarily comprise the following writedowns by Piaggio & C. S.p.A.

Writedown of costs related to the contract for the acquisition of the Piaggio Group in 1999, and in particular:

- Euro/1000 7,167 for the writedown of plant and expansion costs capitalised in 1999 as part of the acquisition of the Piaggio Group by the previous stockholders through MOD S.p.A., as described in the Report on Operations.
- Euro/1000 2,440 for the writedown of commission on the medium/long-term loan granted by a pool of banks in 1999, for the part related to the portion of capital stock repaid in advance.

Writedowns of research and development and tooling costs, for approximately Euro/1000 14,400, which have no future use because they regard products that have never entered production, or for which marketing was terminated before the complete amortisation of the projects themselves. In particular:

- Euro/1000 9,490 for research and development projects written down by Piaggio & C. S.p.A.
- Euro/1000 698 for the writedown of tooling for products no longer in production;
- Euro/1000 4,150 for the writedown by Nacional Motor of research and development projects and related tooling.

The item also includes:

- Euro/1000 6,252 for expenses deriving from the termination of economic-financial relations with the former parent company Piaggio Holding S.p.A., under the contracts for the sale of the Group to Immsi S.p.A.;
- Euro/1000 1,451 for the provision to cover the Almec/Inps dispute, charged to Piaggio & C. S.p.a. because of the guarantees given during the disposal of the investment;
- Euro/1000 393 for the provision to the agents' supplementary indemnity provision, for the quota pertaining to previous years;
- Euro/1000 2,041 for items pertaining to previous years.

The item also includes Euro/1000 1,050 allocated by Nacional Motor S.A. for the sell-out of vehicles already in the network and no longer in line with the new European pollution standards that will come into force in June 2004.

And the item includes Euro/1000 522 for the writedown of the consolidation difference deriving from the purchase of the 50% interest held by third parties in Derbi Italia Srl by Nacional Motor S.A. in 2001.

The reasons for this writedown have been commented on under "consolidation difference" in the paragraph dedicated to Intangible Assets in the present Notes.

Income tax for the year

The sum of Euro/1000 13,172 is the tax liability calculated on the basis of the income tax returns of companies consolidated on a line-by-line basis (Euro/1000 10,155), and deferred tax payables pertaining to the year (Euro/1000 3,015).

Milan, 12 March 2004

For the Board of Directors

The Chairman

Dott. Roberto Colaninno

Annex 1 - *Pro-forma data 2002 and comparison with data from consolidated financial statements 2003*

Euro/1000

ASSETS			2003	2002 Pro-
A) Receivables from shareholders for payments still due			0	7,000
B) Fixed Assets				
I. Intangible fixed assets				
1) Start-up and expansion costs			874	14.491
2) Costs for research, development and			22,082	17,281
3) Industrial patent rights and intellectual property rights			4,948	8,468
4) Concessions, licences, trademarks			382	1
6) Assets under construction and			19,992	27,141
7) Other			6,023	6,534
8) Consolidation difference			367,072	358,554
			421,373	**439,470**
II. Tangible fixed assets				
1) Land and buildings			69,909	70,095
2) Plant and machinery			48,696	50,931
3) Industrial and commercial equipment			37,587	37,234
4) Other assets			6,729	6,845
5) Assets under construction and			19,320	7,681
			182,241	**172,786**
III. Financial fixed assets				
1) Investments in:				
a) subsidiary companies			30	82
b) associated companies			1,217	1,836
c) other companies			112	1,475
2) Receivables	12	oltre		
a) from subsidiary companies	15,4		15,449	16,029
b) from associated companies				
c) from parent companies				
d) from other companies	1,9 35	72 3	2,658	817
3) Other securities				
4) Treasury stock			0	0
			19,466	**20,240**
Total Fixed Assets			**623,080**	**632,497**

ASSETS			2003	2002 Pro-
C) Current assets				
I. Inventories				
1) Raw, ancillary and consumable			38,732	48,402
2) Work in progress and semi-finished			13,111	18,738
3) Contract work in progress				
4) Finished products and goods			79,964	91,748
5) Payments on account			215	518
			132,022	**159,406**
II. Receivables	12	Over 12		
1) From trade companies	75,389	50	75,892	98,840
2) From subsidiary companies	5,015	0	5,015	7,503
3) From associated companies	507	0	507	743
4) From parent companies	0	0	0	3,895
5) From other companies	20,439	37,7	58,151	45,513
	101,350	38,2		
			139,565	**156,494**
III. Financial activities not constituting fixed assets				
1) Investments in subsidiary companies			0	0
2) Investments in associated			0	0
3) Other investments			0	0
4) Treasury stock			0	0
5) Other securities			0	0
6) Receivables				
- From subsidiary companies			0	4,753
- From associated companies			192	268
- From parent companies			0	37,768
- From other companies			9,338	5,688
			9,530	**48,477**
IV. Liquid funds				
1) Bank and postal accounts			12,359	25,483
2) Cheques			0	227
3) Cash and cash equivalents			48	441
			12,407	**26,151**
Total current assets			**293,524**	**390,528**
D) Accrued income and prepaid expenses				
- discount on loans			1	2
- sundry			2,286	3,461
TOTAL ASSETS			**2,287**	**3,463**
			918,890	**1,026,489**

Annex 1 - Pro-forma data 2002 and comparison with data from consolidated financial statements 2003

LIABILITIES	**2003**	**2002 Pro-forma**
A) Stockholders' Equity		
I. Share capital	169,342	16,597
II. Share premium reserve	292,98	210,730
III. Revaluation reserve	0	0
IV. Legal reserve	671	671
V. Treasury stock reserve	0	0
VI. Statutory reserves	41,645	0
VII Other reserves	0	41,053
VII bis Consolidation reserve	993	0
VIII Net income/ (loss) carried forward	(188,233)	(87,723)
IX Profit (loss) for the year	(138,443)	(100,510)
Total Group stockholders equity	**178.967**	**80.826**
Capital and reserves attributable to minorities	988	15,936
Stockholders' equità attributable to Group & minorities	**179,956**	**96,762**
B) Provisions for risks and charges		
1) Restirement reserves and similar	878	310 3,976
2) Tax Reserves	4,123	33,778
3) Other	59,176	
	64,177	**38,064**
C) Employee retirement reserve	54,409	50,749

LIABILITIES	12	Beyond	2003	2002 Pro-forma
D) Payables				
1) Bonds			0	0
2) Convertible bonds			0	0
3) Payables to banks	56,766	205,400	262,166	548,264
4) Sums due to other financiers	12,055	14,108	26,163	1,912
5) Advances	1,366	0	1,366	3,884
6) Accounts payable to suppliers	240,531	16	240,547	214,407
7) Payables represented by securities	0	0	0	0
8) Payables to subsidiary companies	618	0	618	751
9) Payables to associated companies	3,215	0	3,215	4,256
10) Payables to parent companies	15,000	0	15,000	6,074
11) Taxes payables	13,326	3,959	17,285	18,945
12) Payables to welfare and social Security institutions	5,663	2,150	7,813	7,722
13) Other payables	27,240	12,880	40,120	30,212
	375,780	238,513		
			614,293	**836,427**
E) Accrued expenses and deferred income			6,055	4,487
TOTAL LIABILITIES			**738,934**	**929,727**
			918,890	**1,026,489**

MEMORANDUM ACCOUNTS	2003	2002 Pro-
Personal guarantees granted		
Guarantees in favour of third parties issued by:		
- Piaggio & C. on behalf of Group companies	25,03	23,32
- banks on behalf of Group companies	24,92	29,22
-		
Total Guarantees	49,955	52,558
Risks of recourse on factored receivables	75,129	71,294
TOTAL MEMORANDUM ACCOUNTS	**125,084**	**123,852**

Annex 1 – Pro-forma data 2002 and comparison with data from consolidated financial statements 2003

Euro/1000

INCOME STATEMENT	2003	2002 Pro-forma
A) Value of Production		
1) Revenues from sales and services	925,140	878,408
2) Changes to work in progress, semi-finished and finished product	(17,178)	3,163
3) Changes to contract work in progress		
4) Additions to assets by internal production	15,369	17,693
5) Other revenues and income		
-other	38,079	38,267
- subsidies for operating expenses	4,002	10,133
Total value of production	**965,412**	**947,665**
B) Cost of production		
6) For raw, ancillary and consumable materials and goods	510,195	501,635
7) For services	202,064	205,952
8) Leasing and rentals	7,074	7,874
9) For personnel:		
a) Wages and salaries	95,501	90,936
b) Social security contributions	31,112	29,726
c) Employee retirement indemnity	7,102	7,234
d) Pension and similar benefits	7	23
e) Other costs	915	961
10) Depreciation, amortisation and writedowns:		
a) Amortisation of intangible fixed assets	59,008	56,142
b) Depreciation of tangible fixed assets	37,133	39,936
c) Other writedowns of assets	1,471	0
d) Writedown of receivables included in current assets and liquid funds	5,331	6,810
1 1) Change in inventories of raw, ancillary and consumable materials and	16,763	10,569
12) Provisions for risks	1,873	50
13) Other provisions	7,036	7,195
14) Other operating expenses	6,690	5,022
Total cost of production	**989,274**	**970,067**
Difference between value and cost of production (A-B)	**(23,862)**	**(22,402)**

INCOME STATEMENT	2003	2002 Pro-forma
C) Financial income and expenses		
15) Income from investments:		
- from subsidiary companies	0	0
- from other Group companies	0	0
- other companies	29	24
Total income from investments	29	24
16) Other financial income:		
a) from receivables entered in fixed assets:		
- subsidiary companies	0	0
- associated companies	0	0
- parent companies	0	0
- other companies	10	0
b) from securities entered in fixed assets	0	0
c) from securities entered in working capital	0	0
d) income other than the above:		
- from subsidiary companies	0	997
- from associated companies	0	0
- from parent companies	0	803
- from other companies	15,480	6,415
Total other financial income	15.490	8.215
17) Interest and other financial expenses:		
- from subsidiary companies	0	0
- from associated companies	11	0
- from parent companies	2,080	0
- from other companies	58,853	38,738
Total interest and other financial expenses	(60.943)	(38.738)
Total financial income (expenses)	**(45.423)**	**(30.499)**
D) Adjustments to financial assets		
18) Revaluations:		
a) of investments	0	365
b) of financial fixed assets	0	0
c) of securities entered in current assets	0	0
d) Profit on equity investments	5	0
19) Writedowns:		
a) of investments	5,857	3,472
b) of financial fixed assets	0	0
c) of securities entered in current assets	0	0
d) Loss on equity investments	7,562	10,542
e) Financial receivables		
Total adjustments to value of financial assets	**(13.414)**	**(13.649)**
E) Extraordinary income and expenses		
20) Income:		
- gains on disposals	13,438	8,370
- other income	4,373	5,526
Total extraordinary income	17.811	13.897
21) Expenses:		
- losses on disposals	536	80
- income tax relating to prior years	601	7,140
- other expenses	58,902	29,643
Total extraordinary expenses	60.038	36.863
Total extraordinary items Pre-tax result (A-B+/C+/-D+/-E)	**(42.227)**	**(22.966)**
	(124.926)	**(89.515)**
22) Income tax	13.172	9.970
23) Result for the year	**(138.097)**	**(99.485)**
Result attributable to minorities	346	1.025
26) Profit (Loss) of Group for year	**(138,443)**	**(100,510)**

Annex 2

List of Group companies at December 31 2003

Companies consolidated line by line	Head office	Share capital owned (Euro/000)	% by Group
Controlled directly by Piaggio & C. S.p.A.			
Nacional Motor S.A.	Barcelona (Spain)	9,182	100.00%
P&D SpA	Pontedera (Italy)	15,600	100.00%
Piaggio Vespa BV Piaggio	Amsterdam (Holland)	91	100.00%
Vehicles Pvt Ltd	Pune (India)	6,139	91.51%
Controlled through Nacional Motor SA			
Derbi Retail Madrid SL	Madrid (Spain)	603	100.00%
Moto Sport SA	Barcelona (Spain)	60	100.00%
Derbi Racing SL	Barcelona (Spain)	1,263	100.00%
Derbi Italia Srl	Bologna (Italy)	21	100.00%
Controlled through Piaggio Vespa BV			
Piaggio Deuschaland GMBH	Augsburg	5,113	100.00%
Piaggio France S.A.	Parigi	1,210	99.82%
Piaggio Espana S.A.	Madrid	8,723	100.00%
Piaggio Ltd	Londra	355	99.99%
Piaggio Portugal Ltda	Lisbona	499	100.00%
Piaggio Hellas Epe	Atene	7,080	99.98%
Piaggio Asia Pacific	Singapore	47	100.00%
Piaggio Indochina	Singapore	47	100.00%
Piaggio Benelux BV	Tilburg	45	100.00%
Piaggio USA Inc.	Wilmington	5,608	100.00%
Piaggio Hrvatska Doo	Spalato	53	75.00%

Companies consolidated by the equity method	Head office	Share capital (Euro/000)	% owned by Group
Direct Piaggio & C. SpA investments			
Almec S.p.A.	Nusco (Italy)	12,189	30.00%
Mitsuba F.N. Europe SpA	Pisa (Italy)	100	20.00%
Piaggio China Co Ltd.	Hong Kong	9,580	99.99%
Piaggio Foshan Motorcycles Co. Ltd.	Foshan (China)	24,473	75.00%
(of which 50% through Piaggio China e Universal Dynamic)			
Universal Dynamic Invest. Ltd.	Hong Kong	5,925	99.99%

Companies excluded from the consolidation area and valued according to the cost method	Head office	Share capital by (Euro/000)	% owned Group
Direct Piaggio & C. SpA investments			
C.R.B. Consorzio Ricerche di	Nusco (Italy)	124	33,33%
Benevento Pont-Tech Scrl - Pontedera	Pontedera (Italy)	103	20,00%
Motoride SpA	Milan (Italy)	1,990	28,29%
Fondazione Piaggio	Pontedera (Italy)	103	50,00%
Direct Nacional Motor SA investments			
Derbi Deutschland Gmbh	Germany (in liquidation)	26	100.00%
Direct Piaggio Vespa BV investments			
Piaggio Argentina S.A.	Argentina (non operative)	27	99.99%
SAT S.A.	Tunisi (Tunisia)	163	20.00%

Annex 3

RECONCILIATION PROFIT (LOSS) AND STOCKHOLDERS' EQUITY OF GROUP PARENT AND GROUP

(Values in thousands of Euros)

	Result at 31 December 2003	Stockholders' equity at 31 December
Piaggio & C. SpA	**(122,376)**	**138,827**
Difference between the carrying value of investments in companies consolidated on a line by line basis, non-consolidated subsidiaries and associated companies and their valuation with the equity method	(17,658)	41,996
Elimination of non-realised infragroup profits with third parties mainly from gains on disposal of fixed assets and sales of inventories, net of the respective tax effect where applicable	4,092	(15,752)
Elimination of items of a fiscal nature and effect of standardising accounting principles within the Group, net of the relative tax effect	(2,501)	13,896
Gruppo Piaggio & C.	**(138,443)**	**178,967**

Annex 4

TABLE SHOWING CHANGES IN GROUP STOCKHOLDERS' EQUITY ACCOUNTS

	Share capital	Share premium reserve	Legal reserve	Other reserves	Profit/(loss) carried forward	Result for the year	Consolidation reserve	Total
Balance Pro-forma 31-12-2002	**16,597**	**210,737**	**671**	**41,054**	**(87,723)**	**(100,510)**	**0**	**80,826**
Profit (Loss) carried forward					**(100,510)**	**100,510**		**0**
Increased share capital paid in plus Premiums as per resolution of Stockholders' meeting of 16 October 2003	**152,750**	**82,250**						**235,000**
Change in conversion reserve				**591**				**591**
Change in consolidation reserve							**993**	**993**
Profit (Loss)						**(138,443)**		**(138,443)**
Balance 31-12-2003	**169,347**	**292,987**	**671**	**41,645**	**(188,233)**	**(138,443)**	**993**	**178,967**

Annex 5

TABLE OF CHANGES IN STOCKHOLDERS' EQUITY ACCOUNTS OF MINORITIES

	Reserves	Profit (loss) carried forward	Result for the year	Total
Balance 31-12-2002 Pro-forma	**12,409**	2,502	**1,025**	**15,936**
Dividends to minorities		**(342)**		(342)
Profit (Loss) carried forward		**1,025**	**(1,025)**	0
Change in conversion reserve	**(11)**			**(11)**
Result			**346**	**346**
Reductions due to exit of minorities	**(11,756)**	**(3,185)**		**(14,941)**
Balance 31-12-2003	**642**		**346**	**988**

GRUPPO PIAGGIO & C.
TABLE OF CHANGES IN INTANGIBLE FIXED ASSETS
ACCOUNTS FOR THE YEAR CLOSED AT DECEMBER 31 2003

Annex 6

Intangible fixed assets	Balance 1/1					Transactions in year															Final Situation				
	Original Cost	Revaluations	Amortisation reserves	Writedowns	Balance 31.12.02	Purchases	Incr./Decr. Revaluat.	Incr./Decr. Writed	Reclassifications			Divestments	Amort.	Structural variation			Conversion difference			Decrease	Original cost	Revaluat.	Amort. Reserves	Writedown	Balance 31.12.03
									Cost	Rec./w.d.	Reserve			Cost	Writedown.	Reserve	Cost	Writedown	Reserve	Amort.res					
Costs of plant and expansion	45,477	0	(24,921)	(6,065)	14,491	430	0	(1,102)	584	0	170	(7,426)	(7,888)	1,098	0	(790)	(343)	0	289	1,361	39,820	-	(31,779)	(7,167)	874
Costs of research development and advertising	45,683	0	(28,402)	0	17,281	12,647	0	(12,357)	19,334	0	988	0	(18,383)	11,278	0	(8,693)	(51)	0	38	0	88,891	-	(54,452)	(12,357)	22.082
Industrial patent rights and intellectual property rights	50,955	0	(42,487)	0	8,464	1,999	0	(477)	358	0	0	(2)	(5,995)	1,931	0	(1,336)	(1)	0	1	2	55,240	-	(49,815)	(477)	4,948)
Goodwill	893	0	(893)	0	0	627	0	(564)	0	0	0	0	(63)	0	0	0	(110)	0	(110)	0	1,410	-	(846)	(564)	0
Concessions, licences, trademarks and similar rights	1,335	0	(1,334)	0	1	400	0	4,025	(77)	(1,006)	(3,019)	0	(112)	10,921	(7,545)	(3,191)	(21)	0	6	0	12,558	-	(7,650)	(4,526)	382
Assets under construction and payments on account	27,141	0	>0	0	27,141	13,237	0	0	(22,577)	0	0	0	0	2,282	0	0	(91)	0	0	0	19,992	-	0	0	19,992
Other	19,521	0	(12,987)	0	6,534	3,339	0	(2,497)	1,488	0	(929)	(704)	(2,143)	1,195	0	(897)	(214)	0	147	704	24,625	-	(16,105)	(2,497)	6,023
Consolidation differences	446,652	0	(88,098)	0	358,554	32,939	0	(523)	0	0	0	0	(24,424)	709	0	(183)	0	0	0	0	480,300	-	(112,705)	(523)	367,072
	637,657	0	(199,122)	(6,065)	432,470	65,618	0	(13,495)	(890)	(1,006)	(2,790)	(8,132)	(59,008)	29,414	(7,545)	(15,090)	(831)	0	591	2,067	722,836	0	(273,352)	(28,111)	421,373

GRUPPO PIAGGIO & C.
TABLE OF CHANGES IN TANGIBLE FIXED ASSETS ACCOUNTS
FOR THE YEAR CLOSED AT DECEMBER 31 2003

Tangible fixed assets	Balance 1/1					Transaction in year															Final situation				
	Original cost	Revaluations	Amortisation Reserve	Writedowns	Balance 31.12.02	Acqu	Incr. Rivalutaz.	Incr./Decr Svalutaz.	Reclassifications Cost	Reclassifications Riv./sval.	Reclassifications Reserve	Disinvest.	Amm.ti	Structural variation Costo	Structural variation Svalutaz.	Structural variation Fondo	Conversion difference Cost	Conversion difference Writedown	Conversion difference Reserve	Decrease Ammort.	Original cost	Revaluation	Amort. Reserve	Writedown	Balance 31.12.03
Land and buildings		7.031	(19.6381	0	70.095	4.999	(490)	0	(132)		312	(13.102)	(2.378)	8.433	0	(654)	(714)			3.483	82.186	6.541	(18.818)		
Plants and machinery	205.985	868	(155.922)	0	50.931	5.733		0	(2.275)		3.159	(13.108)	(11.848)	24.930	0	(20.588)	(1.449)	0	459	12.752	219.816	868	(171.988)	0	48.696
Industrial and commercial equipment	286.749	0	(249.515)	0	37.234	17.181	0	(3.154)	473		1.928	(4.331)	(20.202)	28.245	(80)	(23.807)	(21)	0	2	4.119	328.296	0	(287.475)	(3.234)	37.587
Other tangible assets	32.566	0	(25.721)	0	6.845	1.807	0	0	(1.750)		1.451	(2.229)	(2.706)	6.323	0	(4.793)	(466)	0	221	2.026	36.251	0	(29.522)	0	6.729
Fixed assets under construction and payments on account	7.681		945	(945)	7.681	19.233		0	(5.674)	945	(945)	(1.291)	0	178	0	0	(807)			0	19.320	0	0	0	19.320
		7.899	(449.851)	(945)	172.786	48.953	(490)	(3.154)	(9.358)	945	5.905	(34.061)	(37.134)	68.109	(80)	(49.842)	(3.457)			22.380	685.869	7.409	(507.803)	(3.234)	182.241

PIAGGIO & C S.P.A. FINANCIAL STATEMENTS

- **BALANCE SHEET**
- **INCOME STATEMENT**
- **NOTES TO THE FINANCIAL STATEMENTS**
- **INDEPENDENT AUDITORS' REPORT AS PER ART. 156 AND ART. 165 OF D. LGS. 24.2.1998, N. 58**
- **BOARD OF AUDITORS' REPORT**

PIAGGIO & C. SPA

BALANCE SHEET AT 31/12/2003 –Values expressed in euros

ASSETS	Within 12 months	Beyond 12 months	2003	2002	Difference
A – RECEIVABLES FROM STOCKHOLDERS FOR PAYMENTS STILL DUE			0	7,000,000	(7,000,000)
B – FIXED ASSETS					
I – INTANGIBLE FIXED ASSETS					
1) Start-up and expansion costs			392,817	13,637,453	(13,244,636)
2) Costs for research, development and advertising			18,832,607	13,838,898	4,993,709
3) Industrial patent rights and intellectual property rights			0	0	0
3-b) Software			4,724,265	8,101,035	(3,376,770)
4) Concessions, licences, trademarks and similar			10,907,570	16,361,355	(5,453,785)
5) Goodwill			269,869,469	287,860,767	(17,991,298)
6) Assets under construction and payments on account			17,821,591	26,576,129	(8,754,538)
7) Other			5,227,848	5,933,201	(705,353)
TOTAL			**327,776,167**	**372,308,838**	**(44,532,671)**
II – TANGIBLE FIXED ASSETS					
1) Land and Buildings			58,851,621	66,602,427	(7,750,806)
2) Plant and Machinery			37,415,318	41,794,022	(4,378,704)
3) Industrial and commercial equipment			31,894,047	32,448,820	(554,773)
4) Other assets			3,338,233	4,094,337	(756,104)
5) Assets under construction and payments on account			9,922,116	7,320,814	2,601,302
TOTAL			**141,421,335**	**152,260,420**	**(10,839,085)**
III – FINANCIAL FIXED ASSETS					
1) Investments in:					
a) Subsidiary companies			89,013,191	47,522,053	41,491,138
b) Associated companies			2,106,343	2,038,639	67,704
c) Parent companies			0	0	0
d) Other companies			108,275	1,474,562	(1,366,287)
Sub-Total			**91,227,809**	**51,035,254**	**40,192,555**
2) Receivables:	Within 12 months	Beyond 12 months			
a) from subsidiary companies	15,448,896	15,000,000	30,448,896	16,029,486	14,419,410
b) from associated companies	0	0	0	0	0
c) from parent companies	0	0	0	0	0
d) from other companies	504,068	212,518	716,586	402,333	314,253
	15,952,964	15,212,518			
Sub-Total			**31,165,482**	**16,431,819**	**14,733,663**
3) Other securities			0	**0**	0
4) Treasury stock V,N,€			0	**0**	0
TOTAL			**122,393,291**	**67,467,073**	**54,926,218**
TOTALE FIXED ASSETS			**591,590,793**	**592,036,331**	**(445,538)**
C – CURRENT ASSETS					
I - INVENTORIES					
1) Raw, ancillary and consumable materials			34,573,777	46,446,010	(11,872,233)
2) Work in progress and semi-finished products			12,622,556	17,953,443	(5,330,887)
3) Contract work in progress			0	0	0
4) Finished products and goods			58,069,720	63,060,127	(4,990,407)
5) Payments on account			0	440,000	(440,000)
TOTAL			**105,266,053**	**127,899,580**	**(22,633,527)**
II - RECEIVABLES	Within 12 months	Beyond 12 months			
1) From trade	26,939,044	9,072	26,948,116	42,074,210	(15,126,094)
2) From subsidiary companies	41,409,069	**0**	41,409,069	62,960,192	(21,551,123)
3) From associated companies	506,517	**0**	506,517	757,712	(251,195)
4) From parent companies	0	**0**	0	3,894,745	(3,894,745)
5) From other comapnies	14,221,693	8,325,885	22,547,578	27,188,644	(4,641,066)
	83,076,323	8,334,957			
TOTAL			**91,411,280**	**136,875,503**	**(45,464,223)**
III – FINANCIAL ASSETS NOT CONSTITUTING FIXED ASSETS					
1) Investments in subsidiary companies			0	0	0
2) Investments in associated companies			0	0	0
3) Investments in parent companies			0	0	0
4) Other investments			0	0	0
5) Treasury stock V,N, euro			0	0	0
6) Other securities			0	0	0
7) Receivables:					
a) From subsidiary companies			7,538	15,637	(8,099)
b) From association companies			191,564	268,493	(76,929)
c) From parent companies			0	37,768,412	(37,768,412)
d) From others			9,311,085	1,085	9,310,0
TOTAL			**9,510,187**	**38,053,627**	**(28,543,440)**
IV – LIQUID FUNDS					
1) Bank and post office accounts			4,442,628	11,831,888	(7,389,260)
2) Cheques			0	0	0
3) Cash and cash equivalents			9,269	5,323	3,946
TOTAL			**4,451,897**	**11,837,211**	**(7,385,314)**
TOTAL CURRENT ASSETS			**210,639,417**	**314,665,921**	**(104,026,504)**
D – ACCRUED INCOME AND PREPAID EXPENSES					
- Discount on loans			1,325	1,988	**(663)**
- Sundry accrued income and prepaid expenses			1,801,035	359,230	1,441,805
TOTAL			**1,802,360**	**361,218**	**1,441,142**
TOTAL ASSETS			**804,032,570**	**914,063,470**	**(110,030,900)**

PIAGGIO & C, S,p,A,

FINANCIAL STATEMENTS AT 31/12/2003 –Amounts expressed in euros

LIABILITIES	Within 12 months	Beyond 12 months	2003	2002	Difference
A – STOCKHOLDERS' EQUITY					
1 - SHARE CAPITAL			169,347,431	16,597,431	152,750,000
II - SHARE PREMIUM RESERVE			292,986,794	210,736,794	82,250,000
III - REVALUATION RESERVE			0	0	0
IV – LEGAL RESERVE			671,394	671,394	0
V - TREASURY STOCK RESERVE			0	0	0
VI - STATUTORY RESERVES			0	0	0
VII – OTHER RESERVES:					
- Extraordinary Reserve			48,078	48,078	0
- Stockholders' capital contributions reserve			32,000,000	32,000,000	0
- Non-distributable reserve as per art, 2423 e,e,			8,364,607	8,364,607	0
- Euro translation round-up reserve			(3)	1	(4)
VIII – NET PROFIT (LOSS) CARRIED FORWARD			(242,215,138)	(174,095,218)	68,119,920
IX - PROFIT (LOSS) FOR THE YEAR			(122,376,326)	(68,119,920)	54,256,406
TOTAL			**138,826,837**	**26,203,167**	**112,623,670**
B – RESERVES FOR RISKS AND CHARGES					
1) Pension funds and similar			481,010	0	481,010
2) Tax funds			6,232	15,661	(9,429)
3) Other funds			47,978,276	23,708,715	24,269,561
TOTAL			**48,465,518**	**23,724,376**	**24,741,142**
C – PROVISIONS FOR EMPLOYEE TERMINATION INDEMNITIES			**54,261,004**	**50,608,381**	**3,652,623**
D - PAYABLES	Within 12 months	Beyond 12 months			
1) Bonds	**0**	0	**0**	0	**0**
2) Convertible bonds	**0**	0	**0**	0	**0**
3) Payables to banks	32,750,588	199,901,419	232,652,007	517,735,728	(285,083,721)
4) Payables to other Financial Institutions	217,539	1,486,494	1,704,033	1,911,748	(207,715)
5) Payments on account	39,814	0	39,814	42,497	(2,683)
6) Payables to suppliers	211,436,847	0	211,436,847	206,622,500	4,814,347
7) Payables represented by securities	0	0	0	0	0
8) Payables to subsidiary companies	49,011,184	0	49,011,184	35,132,687	13,878,497
9) Payables to associated companies	3,215,330	0	3,215,330	6,758,671	(3,543,341)
10) Payables to parent companies	15,000,000	0	15,000,000	0	15,000,000
11) Taxes payable	7,474,835	0	7,474,835	11,761,475	(4,286,640)
12) Payables to welfare and social security institutions	4,841,003	2,149,905	6,990,908	7,091,589	(100,681)
13) Other Payables	24,434,628	7,560,621	31,995,249	24,216,741	7,778,508
	348,421,768	211,098,439			
TOTAL			**559.520.207**	**811.273.636**	**(251.753.429)**
E – ACCRUED EXPENSES AND DEFERRED INCOME					
- Commission on loans			0	0	0
- Accrued expenses and deferred income			2,959,004	2,253,910	705,094
TOTAL			**2,959,004**	**2,253,910**	**705,094**
TOTAL **LIABILITIES**			**804,032,570**	**914,063,470**	**(110,030,900)**

PIAGGIO & C. SPA

MEMORANDUM ACCOUNTS	2003	2002	Difference
1 Personal guarantees granted			15,434,661 0
Guarantees in favour of:			(2,809,496)
- Subsidiary companies	52,373,221	36,938,560	
- Associated companies	0	0	
- Third parties	23,258,506	26,068,002	
Total guarantees	**75,631,727**	**63,006,562**	**12,625,165**
2 Risks			
- Risks of recourse on factored receivables	75,128,916	71,294,310	3,834,606
Total risks	**75,128,916**	**71,294,310**	**3,834,606**
TOTAL	**150,760,643**	**134,300,872**	**16,459,771**

FINANCIAL STATEMENTS AT 31/12/2003 - amounts expressed in euros

INCOME STATEMENT	2003	2002	Differenzce
A –VALUE OF PRODUCTION			
1) Revenues from sales and services	837,194,812	828,166,335	9,028,477
2) Changes to work in progress, semi-finished and finished products	(6,677,888)	(5,632,789)	1,045,099
3) Changes to contract work in progress	0	0	0
4) Additions to assets by internal production	15,592,820	17,671,859	(2,079,039)
5) Other revenues and income:			
contributions to working capital	3,964,998	10,131,218	(6,166,220)
other income and revenues	12,727,699	14,655,476	(1,927,777)
TOTAL	**862,802,441**	**864,992,099**	**(2,189,658)**
B – COST OF PRODUCTION			
6) For raw, ancillary and consumable materials and goods	(496,412,621)	(510,492,248)	(14,079,627)
7) For services	(162,678,397)	(159,589,946)	3,088,451
8) For leasing and rentals	(4,709,946)	(4,949,632)	(239,686)
9) For personnel:			
a) wages and salaries	(79,490,232)	(74,906,270)	4,583,962
b) social security contributions	(27,429,607)	(26,106,619)	1,322,988
c) employee retirement indemnity	(7,079,999)	(7,213,880)	(133,881)
d) pensions and similar benefits	0	0	0
e) other costs	(89,178)	(88,242)	936
10) Depreciation, amortisation and writedowns:			
a) amortisation of intangible fixed assets	(54,368,342)	(53,147,958)	1,220,384
b) depreciation of tangible fixed assets	(31,361,205)	(33,460,517)	(2,099,312)
c) other writedowns of assets	(1,471,054)	0	1,471,054
d) writedown of receivables included in current assets and liquid funds	0	(4,210,768)	(4,210,768)
1 1) Change in inventories of raw, ancillary and consumable materials and goods	(15,496,003)	(10,108,705)	5,387,298
12) Provisions for risks	(690,000)	0	690,000
13) Other provisions	(4,774,368)	(5,142,066)	(367,698)
14) Other operating expenses	(4,513,372)	(2,662,578)	1,850,794
TOTAL	**(890,564,324)**	**(892,079,429)**	**(1,515,105)**
	(27,761,883)	**(27,087,330)**	**674,553**
C – FINANCIAL INCOME AND EXPENSES			
15) Income from investments in:			
subsidiary companies	1,823,192	0	1,823,192
associated companies	0	0	0
- other companies	29,170	24,309	4,861
16) Other financial income:			
a) from receivables held as fixed assets			
from subsidiary companies	0	0	0
from associated companies	0	0	0
from parent companies	0	0	0
from companies	7,710	946	6,764
b) **from securities entered in fixed assets not constituting investments**	2,425	0	2,425
c) from securities entered in working capital not constituting investments	0	0	0
d) income other than the above:			
subsidiary companies	2,537,990	973,445	1,564,545
associated companies	0	0	0
parent companies	947,003	803,329	143,674
- other companies	11,260,363	4,940,420	6,319,943
17) Interest and other financial expenses from:			
subsidiary companies	(9,240,124)	(2,195,985)	7,044,139
associated companies	(10,844)	0	10,844
parent companies	(1,977,529)	0	1,977,529
- other companies	(48,231,987)	(34,852,068)	13,379,919
TOTAL	**(42,852,631)**	**(30,305,604)**	**12,547,027**
D – ADJUSTMENTS TO FINANCIAL ASSETS			
18) Revaluation of:			
a) investments	0	19,678,503	(19,678,503)
b) **financial fixed assets not constituting investments**	0	482,636	(482,636)
c) **securities entered in current assets not constituting investments**	0	0	0
19) Writedowns of:			
a) investments	(20,567,237)	(11,306,931)	9,260,306
b) **financial fixed assets not constituting investments**	0	0	0
c) **securities entered in current assets not constituting investments**	0	0	0
d) financial receivables	0	0	0
TOTAL	**(20,567,237)**	**8,854,208**	**(29,421,445)**
E – EXTRAORDINARY INCOME AND EXPENSES			
20Extraordinary income deriving from:			
gains from disposal of assets	10,874,066	2,418,552	8,455,514
rounding up of euros	0	0	0
other extraordinary income	4,876,678	10,214,139	(5,337,461)
21) Extraordinary expenses deriving from:			
losses on disposal of assets	0	0	0
taxes regarding prior years	(433,413)	(6,414,846)	(5,981,433)
rounding up of euros	0	(2)	(2)
other extraordinary expenses	(40,941,336)	(20,849,261)	20,092,075
TOTAL	**(25,624,005)**	**(14,631,418)**	**10,992,587**
	(116,805,756)	**(63,170,144)**	**53,635,612**
22) Income tax for the year	(5,570,570)	(4,949,776)	620,794
26) **Profit (loss) for the year**	**(122,376,326)**	**(68,119,920)**	**54,256,406**

RE OF ACTIVITIES

As we have explained at length in the Report on Operations, in economic and financial terms 2003 was affected both by the business dynamics described in that document and, above all, by the change in management control following the acquisition by IMMSI S.p.A. in the final period of the year.

With respect to normal company operations, this produced a number of extraordinary components linked to the simultaneous restructuring of the debt and the termination of relations with the previous parent company, but also to the strategies defined by the Directors in line with the 2004-2007 Industrial Plan which supported the closing.

The nature and the economic and financial impact of these components are described in detail in the Notes to the Financial statements, and can be briefly summarised as financial commission, the writedown of costs related to the previous acquisition of the Piaggio Group, to which we must add writedowns and provisions related to Tangible and Intangible fixed Assets, inventory obsolescence in consideration of their presumable future use, provisions to cover future risks for a number of investee companies and foreseeable restructuring expenses.

What is more, the delay in the parliamentary process to approve the law on eco-incentives has made it impossible to record under revenues the envisaged contribution of Euro 9.4 million, represented by Piaggio's share of the discounts granted to end customers on 2003 sales.

However, the progress of this procedure allows us to expect that this contribution will be received during 2004.

In fact, as mentioned elsewhere, the Environment Committee of the Italian Senate has already approved the proposed law reorganising the responsibilities of the Ministry for the Environment, with a specific paragraph (no. 38) that considers the above-mentioned incentives, introducing a specific clause that guarantees funding for the incentives for 2003.

After approval by the Senate, the proposal will return to the Chamber of Deputies for final approval.

As part of the October 23, 2003 contract for the acquisition of the Piaggio Group, Piaggio & C. S.p.A. has acquired the Nacional Motor S.A. company, owner of the Derbi trademark, from Piaggio Holding S.p.A.

The structure of the Piaggio Group as it was on December 31, 2003, is annexed to the Report on Operations.

For the nature of the activities performed by the company and its performance, relations with the parent company and with direct and indirect subsidiary companies, and events occurring after year-end, we refer you to the comments in the Report on Operations.

The financial statements under examination have been audited by Deloitte & Touche S.p.A.

STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

The financial statements for the year closed on 31/12/2003 correspond to entries in the books of account, which have been held correctly, and have been drafted in compliance with the instructions of article 2423-bis. 1st paragraph of the Italian Civil Code, applying the evaluation criteria outlined in art. 2426 of the Civil Code, interpreted and supplemented by the accounting principles issued by the national boards of "Dottori Commercialisti" and "Ragionieri" and, where these are lacking, by the International Accounting Standards Board (I.A.S.B.).

The financial statements comprise the Balance Sheet (prepared as per the outline contained in arts. 2424 and 2424 bis of the Civil Code), the Income Statement (prepared as per the outline contained in arts. 2425 and 2425 bis of the Civil Code), and the present Notes which represent an integral part of the same under art. 2423, 1st para. of the same Code.

The purpose of the Notes is to illustrate, analyse, and in some cases to supplement the data in the financial statements and, where applicable, they contain the information required by art. 2427 of the Civil Code, by other requirements of Legislative Decree no. 127/1991, or other earlier laws. They also provide any additional information considered necessary to give a true, correct picture, even when this is not specifically required by law.

Under current legislation, we point out that the company is not obliged to prepare consolidated financial statements because it meets the conditions for exemption envisaged by art. 27, 3rd paragraph, of Legislative decree 127/91. The company, which has not issued stock listed on the Stock exchange, is owned by IMMSI S.p.A., which has its headquarters in Mantova (MN), Piazza Vilfredo Pareto 3, which prepares consolidated financial statements in compliance with legislative decree 127/91, which are audited as required by law. A copy of the IMMSI S.p.A. consolidated financial statements, complete with the report on operations and the Board of Auditors' report, will be deposited with the Company Register Office in Pisa. However, consolidated financial statements have been prepared for PIAGGIO & C. S.p.A. and its affiliated companies for the year closed on December 31, 2003, to provide an adequate overview of the economic, equity and financial situation of the Group, and they will be presented with the present statutory financial statements.

EVALUATION CRITERIA

The most significant evaluation criteria adopted to draft the financial statements at December 31, 2003, are illustrated below.

The principles and criteria referred to are those used in the past by the company, established by law for the preparation of statutory financial statements, interpreted and supplemented by the accounting principles issued by the national boards of “Dottori Commercialisti and Ragionieri”.

In the case of adjustments in value or provisions made exclusively to apply tax laws, these are commented on in the relevant items of the financial statements, indicating the effects on the operating result and on Stockholders’ equity. These criteria have been agreed with the board of auditors, when required by law.

Intangible fixed assets

These are recorded at purchase, including accessory charges, or internal production cost and amortised systematically over the period of their envisaged future use. In the event of a permanent loss of value, independent of the amortisation already recorded, the asset is written down accordingly; the original value will be reinstated, adjusted to account for amortisation should the reason for the writedown cease to exist in future years.

Software costs are normally amortised in three years, except for the purchase of particularly significant operating programmes, for which the period of future usefulness is expected to be longer, and these are amortised in 5 years.

The cost of the “Piaggio” trademark is amortised in 10 years.

Goodwill represents the share in the merger deficit that emerged in 2002, following the merger of Piaggio & C. S.p.A. and Vipifin S.p.A. with Piaggio & C. S.p.A. (formerly MOD S.p.A.). This goodwill is attributable to the surcharge paid when purchasing PIAGGIO & C. SPA and, on the basis of market analysis and the expected corporate development that justified this surcharge during the acquisition, it is believed that the period of economic usefulness will be 20 years.

This period is in line with the limits indicated in the accounting principles issued by the national boards of “Dottori Commercialisti and Ragionieri”, and the international accounting principles issued by the IASB.

Other capitalised costs are amortised within five years or on the basis of the length of the contract they refer to.

Advertising costs and expenses for studies, research and experiments are charged entirely to the year they are met.

Applied research and development costs regarding specific products and related to projects which are expected to produce sufficient revenues to allow the costs met to be recovered, are capitalised. These costs are amortised in three years.

We point out that no legal adjustments have been made to intangible fixed assets.

Tangible fixed assets

These are recorded at purchase, paying in or production cost, adjusted for some assets by applying specific monetary revaluation laws. The cost includes the portion of accessory charges and direct and indirect costs reasonably attributable to the asset.

Investments in fixed assets are systematically depreciated every year according to technical and economic plans that guarantee a constant distribution of the cost of the assets in relation to the possible residual use of the same, the rates applied are the maximum rates established by tax standards because they are considered suitable, reduced by 50% for the first year of use to take into account their limited usefulness, and they are illustrated in the following table:

Buildings

1) Industrial buildings: 3%;

2) light constructions: 10%.

Plant and Machinery

3) Non-specific plant: 10%;

4) specific plant and non-automatic machine tools: 10%;

5) specific plant and automatic machine tools: 17.5%;

6) electrolytic cells: 20%;

7) ovens and fixtures: 15%;

8) robotised work centres: 22%.

Industrial and Commercial tooling

9) Measurement and testing equipment: 30%;

10) various equipment and small items: 25%.

Other goods

11) Office furniture and machinery: 12%;

12) electronic office machinery - Computers: 20%;

13) transport vehicles – lift trucks: 20%;

14) cars, motorcycles, health and hygiene apparatus: 25%.

In previous years, accelerated depreciation has been recorded, within the limits of deductibility envisaged by tax laws, in order to take advantage of related tax benefits. Said accelerated depreciation has been entered as an adjustment to tangible fixed assets.

Ordinary maintenance and repair costs are charged entirely to the Income Statement in the year they are met. Maintenance costs that increase the value or economic life of the asset are attributed to the asset they refer to, and depreciated by the rate applied to the asset.

Tangible fixed assets under construction are valued at cost and depreciated from the year in which they enter the manufacturing process.

In the event of a permanent loss of value, independent of the depreciation already recorded, the asset is written down accordingly; the original value will be reinstated, adjusted to account for depreciation, should the reason for the loss of value cease to exist in future years.

Financial fixed assets

Investments are valued by the cost method.

The cost is determined on the basis of the purchase or subscription price and includes any accessory charges.

The cost is reduced in the event of permanent losses of value if the investee company records a loss and no profits are expected in the immediate future that are sufficient to absorb said loss; the original value will be reinstated if the reasons for the writedown cease to exist in future years.

Losses in value exceeding the corresponding book value are entered among the reserves for risks and charges.

Securities are entered in the financial statements at the lower of purchase cost and market value at year-end.

Inventories

Inventories are recorded at the lower of purchase or production cost and their presumable realisable value depending on market trends.

Obsolete or slow-moving stocks are valued on the basis of their possible use or sale.

The cost configuration adopted is the configuration known as periodically adjusted LIFO, except for work in progress which is evaluated on the basis of the average production cost for the year, taking the state of completion into consideration.

The cost of production comprises all the expenses met in the performance of manufacturing activities, including fixed production costs related to normal manufacturing capacity.

The difference compared to the value of inventories determined at current costs at year-end, is commented on in the specific Asset item.

Receivables

Receivables are recorded at their presumable realisable value, by creating a writedown reserve, and stated net of said reserve. The reserve is calculated on the basis of recovery evaluations performed by analysing the individual items and the overall risk of the total receivables, taking guarantees into consideration.

Factoring operations

The sale of receivables through factoring operations without recourse that do not entail the risk of recourse determines the writeback of a corresponding sum from the outstanding trade receivables at the moment of payment by the factoring company. Disposals with recourse are maintained under "Trade receivables" until payment by the Factoring company, which normally occurs when the account is due. Subsequently, and until the receivable sold is collected by the factoring company, the risk of recourse is highlighted in the Memorandum accounts.

Accruals and deferrals

These include portions of costs and revenues pertaining to two or more years, in respect of the principle of economic and temporal pertinence.

Reserves for risks and charges

Reserves for risks and charges are allocated to cover certain or probable losses or debts, the total amount and due date of which were not known at year-end. Provisions reflect the best possible estimate on the basis of the available elements.

The risks for which a liability is only possible are indicated in the Notes, but no provision is made to a reserve for risks and charges.

Employee retirement indemnity reserve

The retirement indemnity is allocated to cover the entire liability maturing for employees on the books at December 31, in line with current legislation, collective labour contracts and supplementary company agreements. This liability is subject to indexed revaluation, as established by law.

Payables

Payables are recorded at the nominal value, considered representative of their settlement value.

Revenues and costs

These are stated in the financial statement by the principle of prudence and pertinence, indicating the related accruals and deferrals. Income and revenues, costs and expenses are entered net of returns, discounts, allowances and bonuses. Revenues and costs for services are recorded at the time the service is rendered or received.

Operations between group companies and related parties have taken place at normal market conditions.

Grants

Grants to "plant account" are entered in the financial statements when the right to collect them is certain, and they are charged to the Income Statement on the basis of the useful life of the asset that they refer to.

"Operating grants" are entered in the financial statements when the right to collect them is certain.

Dividends

Dividends and related tax credits are recorded in the Income Statement for the year when the related right to the credit arises, following the resolution to distribute them taken by the investee company.

Taxation

Current taxation is calculated in compliance with current tax law and recorded under "Tax Payables" net of payments on account, withholding tax, and legally compensatable tax credits.

Deferred taxes and payments on account are entered on the basis of Accounting Principle no. 25 of the national board of Dottori Commercialisti. In particular, under the principle of prudence, deferred tax credits are not recorded if there is no reasonable certainty of a taxable income, in the years when the timing differences advanced or tax losses carried forward are recorded, at least equal to said differences and losses.

The deferred taxation reserve comprises deferred taxation, net of any compensation with payments on account, where the necessary conditions are met, deriving from the timing differences between the value attributed to the assets and liabilities according to statutory criteria and the value attributed to the same assets and liabilities for tax purposes.

Tax payments on account that cannot be compensated with deferred taxes are recorded under "receivables from third parties" in Working Capital.

Derivative contracts

Contracts taken out to hedge exchange rate risk are valued on the basis of the receivables / payables they refer to.

Interest rate swap contracts taken out to hedge an envisaged financial charge on indebtedness, are described under the Memorandum Accounts in the Notes and the related effects are charged to the Income Statement in relation to the relevant financial charges. If they are not hedging contracts, they are valued at market value at year-end, and if this entails a loss, it is accrued in the financial statements.

Commitment and guarantees

Contract commitments and guarantees are recorded under Memorandum Accounts at the value resulting from the contract commitment.

Criteria for the conversion of items in foreign currency

Operations in foreign currency are converted into the Euro at the exchange rate on the date of the relevant operations. Exchange rate differences on the occasion of the collection of receivables and payment of debts in foreign currency are charged to the Income Statement, with financial income and expenses.

Receivables and payables outstanding on 31.12.2003 in currencies not part of the Euro zone, are converted at the exchange rate at year-end, taking existing hedging contracts into account. The difference arising from said operation (whether profit or loss), is accrued and reflected in the Income Statement for the period, with the relative receivable or payable as a balancing item.

The following evaluation criteria have been adopted for items in foreign currency, for which forward contracts in foreign currency have been taken out subsequent to the date of the operation to cover the related exchange rate risk:

- the difference generated between the equivalent value in Euro determined by adopting the historical exchange rate by which the operation was recorded and the sum in Euro determined on the basis of the spot exchange established by contract, is charged to the income statement with the related trade receivable as a balancing item;

- the discount or bonus for the operation has been charged on the principle of pertinence, with respect to its duration.

OTHER INFORMATION

Important events during the first months of 2004

At the present there are no events occurring after December 31, 2003, which require adjustments or supplementary notes to the financial statements at that date.

We refer you to the Report on Operations for the significant events that have occurred after the close of the year.

Transition to the international accounting principles (IFRS)

The company, and its parent company IMMSI S.p.A., has begun analysing the problems that application of the IAS from the 2005 financial statements would entail. Before the end of Spring 2004, a special team will present the project and the guidelines for the changeover to the new international accounting principles.

Relations with affiliated companies and related parties

Relations with affiliated and related parties are illustrated in the Report on Operations.

COMMENTS TO THE MAIN ITEMS IN THE BALANCE SHEET (sums stated in Euro thousands)

FIXED ASSETS

Special tables have been prepared and annexed to the financial statements for the three classes of fixed assets (intangible, tangible and financial), indicating the historical cost, previous amortisation, depreciation and revaluation, any changes during the year, and the final balance for each item, as well as the total revaluations/writedowns outstanding at year-end.

Intangible fixed assets **Euro/1000 327,776**

They decrease as a whole by Euro/1000 44,533 on the previous year (Euro/1000 372,309).

Plant and expansion costs *Euro/1000 393*

These decrease by Euro/1000 13,245 overall on the previous year. This change is due both to normal amortisation during the year (Euro/1000 6,857) and to the writedown of the remainder of the 1999 acquisition costs (Euro/1000 7,167), still to be amortised, since the reasons that originally caused it to be capitalised no longer exist, following the changes occurring in the company, which are amply described in the Report on operations. The item also increases by Euro/1000 749 because of costs already capitalised in previous years under fixed assets under construction, and of new acquisitions (Euro/1000 30).

The costs recorded under this item are amortised on a straight-line basis, in five years, in the light of their residual useful life. We must also point out that, under art. 2426, paragraph 5 of the Italian Civil Code, Stockholders' equity is unavailable for an amount equal to plant and expansion costs and research and development costs still to be amortised.

Research, development and advertising costs *euro/1000 18,833*

This item increases by Euro/1000 4,994 during the year as a result of an increase of Euro/1000 31,340, Euro/'000 19,773 of which already capitalised in previous years under assets under construction, and a decrease for amortisation during the year (Euro/1000 16,724) and the writedown of a number of projects (Euro/1000 9,490) capitalised in previous years, which have no future usefulness. Where research and development expenses are concerned, internal costs of Euro/1000 15,379 have been capitalised during the year. The main projects capitalised refer to:

- New large capacity engines Euro/1000 287;
- The new X9 Evolution model Euro/1000 880;
- The new Vespa GT model Euro/1000 1,008;
- The new Nexus model Euro/1000 2,710;
- The new X8 model Euro/1000 2,238;
- Lombardini engines for the Ape/Poker Euro/1000 1,496
- Various engines for the Ape/Porter Euro/1000 439
- Euro 2 engines for the Ape TM Euro/1000 765
- Minicross version of the 50 cc engine Euro/1000 200
- 250 4T engines for the X9 Evolution Euro/1000 1440.

The main writedowns of previously capitalised costs refer to:

- Super Sport 600 motorcycle project Euro/1000 2,500
- Marcopolo project Euro/1000 1,442
- Motorcycle project for the Indian market Euro/1000 1,225
- 50 4T3V engine project Euro/1000 1,548
- 50 2T injection engine project Euro/1000 689
- Projects for other engines Euro/1000 1,214
- Other projects capitalised Euro/1000 872

Software *Euro/1000 4,724*

Software is stated separately in a special item so as to give a better picture of the quantity of these assets.

At year-end the item amounted to Euro/1000 4,724, after an increase of Euro/1000 1,943 and a reduction of Euro/1000 5,319 for depreciation.

The increases refer to software applications for the logistics, marketing and parts areas (Euro/1000 485), implementation of the SAP operating system (Euro/1000 490), development of the "PIAGGIO NET" project (Euro/1000 210), Euro/1000 360 to develop software for manufacturing (bill of materials), Euro/1000 140 to implement software in the administration area and Euro/1000 166 for other licences.

Concessions. licences and trademarks *Euro/1000 10,908*

The item "Concessions, licences, trademarks and similar rights" states the value of the Piaggio trademark net of the amortisation charged to the Income Statement.

Goodwill *Euro/1000 269,869*

This decreased by Euro/1000 17,991 as a result of amortisation for the year and following the writedown of the goodwill for the purchase of the Piaggio Holding division for Euro/1000 564.

"Goodwill" represents the share of the merger deficit paid for that purpose, and originating from the merger of Piaggio & C. S.p.A. and Vipifin S.p.A. with Piaggio & C. S.p.A. (formerly MOD S.p.A.) in 2000.

Analysis of market trends and the expected duration of company development allows us to continue to believe that the period of economic usefulness of the surcharge paid for the various acquisitions mentioned above will be 20 years.

The Board will periodically monitor the recoverability of the above goodwill on the basis of the objectives achieved in the coming years.

Assets under construction and advances *Euro/1000 17,822*

This item decreased by Euro/1000 8,755 on the previous year (Euro/1000 26,576) because the assets have become operational.

The item "Assets under construction and advances" refers primarily to costs of research and development projects regarding vehicles and engines that will be manufactured and marketed in future years (Euro/1000 16,677) and advances to suppliers for their participation in projects (Euro/1000 344).

The most important projects considered in this item are:

- The twin-cylinder engine (Euro/1000 4,844)
- The restyling of the Liberty (Euro/1000 967), the Vespa ET and the NRG (Euro/1000 534)
- The Beverly 250 (Euro/1000 501) and X9 250 (Euro/1000 534)
- The Basic vehicle (Euro/1000 486)
- The project for the X10 vehicle (Euro/1000 1,285)
- The new Utility Vehicle (Euro/1000 2.491) and the new Heavy Quad cycle, for India and Europe (Euro/1000 2,434)
- New Euro 2 engines (Euro/1000 621)
- Other projects for Euro/1000 1,970

Other Intangible fixed assets *Euroo/1000 5,228*

This item decreased by a total of Euro/1000 705 on the previous year (Euro/1000 5,933), as an effect of:

- an increase of Euro/1000 2,500, related to the capitalisation of part of the commission due to banks for the restructuring of medium/long-term loans out of a total of Euro/1000 6,685.
- an increase of Euro/1000 820 for contributions to suppliers for tooling.
- a decrease of Euro/1000 1,959 due to normal amortisation during the year.

- the transfer from assets under construction to operational assets (Euro/1000 433) for grants to suppliers related to tooling.
- a decrease of Euro/1000 2,440 related to the writedown of charges met in 1999 to obtain the medium/long-term loan from Banca Intesa/Medio Credito Lombardo Group, with reference to the portion of capital reimbursed in advance. The value still to be amortised on said charges at year-end is therefore Euro/1000 1,382.
- a decrease of Euro/1000 56 related to the writedown of contributions to suppliers for the purchase of tooling.

Tangible fixed assets **Euro/1000 141,421**

They decreased by Euro/1000 10,839 overall compared to the previous year (Euro/1000 152,260).

Land and Buildings *Euro/1000 58,852*

This item decreased by Euro/1000 7,751, primarily because of the sale of a number of properties previously housing offices, plants, warehouses and shops in a number of Italian towns, such as the plant in Arzano, the showroom and warehouse in Milan, offices in Naples and Rome, and property in Pontedera. A profit of Euro/1000 10,874 was made on these sales.

The profit was achieved as follows:

Property	Residual cost and selling expenses	Selling price ¤ Euro	Profit ¤ Euro
Industrial building in Arzano (Naples)	1,444,592	4,028,000	2,583,408
"Former APE" warehouse Pontedera (Pisa)	663,946	1,032,914	368,968
Land in Curigliana and via Dei Poggi area	132,026	309,874	177,848
Ind. building "Former purchasing visitor centre"	606,153	2,065,000	1,458,847
Office space in Rome, via Paisiello	231,725	2,211,000	1,979,275
Office building in Naples, Riviera di Chiaia	154,008	1,240,000	1,085,992
Ind. warehouse in Milan, via Trebazio	4,086,676	7,050,000	2,963,324
Shop premises in Milan, Corso Sempione	1,193,596	1,450,000	256,404
Totals	8,512,722	19,386,788	10,874,066

The increases during the year, (Euro/1000 1,449 due to new acquisitions and Euro/1000 243 to the reclassification of work in progress), primarily regarded:

- ✓ Construction of new machining workshops for Euro/1000 1,100;
- ✓ Construction of vehicle test track for Euro/1000 96;

✓ Sundry work in workshops for Euro/1000 235.

Plant and machinery *Euro/1000 37,415*

This item decreased by Euro/1000 4,379 on the previous year (Euro/1000 41,794).

The increase of Euro/1000 5,181 during the year was primarily the result of the following acquisitions:

- Construction of new machining workshops;
- Capital spending on new machinery;
- Updating of systems in the 2 and 3-wheel workshops.

The net decrease is due essentially to depreciation during the year and the sale of worn assets that are no longer used in the manufacturing process.

Tooling *Euro/1000 31,894*

This item decreased by Euro/1000 555 on the previous year (Euro/1000 32,449).

During the year, tooling built in preparation for new projects that will not go into production was written down for Euro/1000 640, and tooling for vehicles no longer in production (Free, Coguar, Hexagon, Ice) for Euro/1000 1,340.

The increase of Euro/1000 19,876 in the item "tooling" during the year was primarily related to:

- purchase of dies for the new Vespa GT vehicle;
- purchase of dies for the new Nexus vehicle;
- purchase of dies for the new X8 vehicle;
- renewal of worn dies;
- purchase of dies for restyling of vehicles already in the range in previous years;
- tooling and dies for 3/4 wheel vehicles;
- special tooling for engine assembly.

Other tangible assets *Euro/1000 3,338*

At 31-12-2003 the item "other assets" comprised:

	31-12-2003	31 -12-2002
- Office furniture and standard machinery	1,073	1,225
- Electronic office machinery	1,350	2,058
- Transport vehicles – lift trucks	257	224
- Cars, motorcycles, health and safety equipment	658	587
Total	3,338	4,094

Assets under construction and advances *Euro/1000 9,922*

This comprised advances for capital spending on:

- new aluminium machining and painting lines (Euro/1000 5,055), which will come into operation in the second half of 2004;
- tooling for the NQP (Euro/1000 204), which will enter production in the second half of 2004;
- tooling for the NUV (Euro/1000 1,460), which will enter production in the second half of 2004;
- tooling for the Liberty restyling which will enter production by March 2004;
- tooling for new engines (Euro/1000 1,272), which will enter production in late 2004 or early 2005.

The depreciation illustrated in the relevant table at the end of the financial statements, is calculated on the basis of rates deemed to represent the residual possible usefulness of the related tangible fixed assets.

In previous years, in addition to ordinary depreciation of plant, property and equipment, the company has also allocated accelerated depreciation under art. 67 of D.P.R. 917/86. This depreciation is recorded in the financial statements to reduce the value of the assets.

If the depreciation of the plant, property and equipment were calculated on a straight-line basis, on the basis of the ordinary fiscal depreciation rates, the residual value of the assets at December 31, 2003, would be Euro/1000 470 higher. As a result, Stockholders' equity at December 31, 2003 would be Euro/1000 295 higher and the loss for the year would be Euro/1000 1,093 lower, net of the theoretical tax effect.

The legal constraints existing on tangible fixed assets are illustrated in the comment to financial payables.

FINANCIAL FIXED ASSETS **Euro/1000 122,393**

Investments **Euro/1000 91,226**

These break down as follows (in Euro/1000):

(€*1.000)	Carrying value at 31/12/2002	Purchases	Paying up of capital cover of loesses	Writedowns	Disposals	Carrying value at 31/12/2003
Subsidiaries Companies						
Piaggio Vespa BV – Olanda	11.927					11.927
P & D S.p.A. – Pontedera	22.920	13.506				36.426
Nacional Motor S.A.	0	35.040		(10.000)		25.040
Piaggio China Co. Ltd. – Hong Kong	0					
Piaggio Foshan Motorcycles Co. Ltd. – Cina	0					
Universal Dynamic Investment Ltd. – Hong Kong	0					
Piaggio Vehicles PVT Ltd. – India	12.609	3.010				15.619
Pro Ind Ltda – Brasile	6			(6)		0
Piaggio India LTD	60				(60)	0
Total Subsidiaries Companies	**47.522**	**51.556**	**0**	**(10.006)**	**(60)**	**89.012**
Associated Companies						
Motoride.com – Milano	590			(71)		519
Mitsuba F.N. Europe S.p.A. – Pisa	497		170			667
Almec S.p.A.- Nusco (AV)	899					899
Consorzio Ricerche Benevento	31			(31)		0
Pontech Soc. Cons. a.r.l. – Pontedera	21					21
Total Associated Companies	**2.038**	**0**	**170**	**(102)**	**0**	**2.106**
Other Companies						
Bic Liguria S.p.A.	5					5
Cirio Holding già Centrofinanziaria S.p.A.	1.085			(1.085)		0
Società Aeroporto Toscano S.p.A.	282				(282)	0
E.CO.FOR. S.p.A.	62					62
Ass. Centro per l'innovazione – Pisa	2					2
Consorzio Pisa Ricerche	36					36
A.N.C.M.A. – Roma	1					1
Consorzio Fiat Media Center – Torino	2					2
Total Other Companies	**1.475**	**0**	**0**	**(1.085)**	**(282)**	**108**
Total Investments	**51.035**	**51.556**	**170**	**(11.193)**	**(342)**	**91.226**

The following changes occurred during the year with regard to investments in subsidiary, associated and other companies:

Subsidiary companies: **Euro/1000 89,012**

The increases recorded during the year derived from:

- the purchase of 49% of the capital of P&D agreed with Daihatsu Motor Company in January 2003. The overall price of the transfer amounted to Eiuro/1000 13,493, compared to acquired Stockholders' equity of Euro/1000 14,573. The value of the investment also increased by the accessory charges to the purchase (Euro/1000 14).
- the increase in the value of the investment in PVPL following the merger of PVPL and Piaggio India PVT Ltd.;
- the increase in the value of the investment in PVPL following the purchase of 2,100,000 shares from Simest S.p.A;
- the purchase of Nacional Motor S.A. from Piaggio Holding S.p.A. as part of the IMMSI investment contract. We also point out that the higher book value compared to Stockholders' equity was related to the goodwill paid to purchase the company, which we expect to be able to leave under assets, in view of the investee company's capacity to produce future income.

Decreases

- The merger of Piaggio India PVT Ltd. and Piaggio Vehicles PVT Ltd. was concluded during the year, with the consequent zeroing of the value of the investment in Piaggio India.

- At December 31, 2003, the value of the investment in Nacional Motor S.A. was reduced by Euro/1000 10,000, in line with the prescriptions of art. 2426 2nd paragraph of the Italian Civil Code, in order to take advantage of the benefits envisaged by tax regulations, 2003 being the last year that these benefits could be taken advantage of.
- The liquidation of Piaggio Pro-Ind Brasile Ltda was concluded.

  Provisions were also made to cover charges related to risks on the investment in Piaggio Foshan Motorcycles (Euro/1000 9,380), when negotiations for its disposal were reopened. For greater details we refer you to the comment on the reserve for risks, and charges.

Associated companies **Euro/1000 2,106**

Increases

The increase recorded in the year regarded the payment of Euro/1000 170 in favour of Mitsuba FN Europe S.p.A. to cover losses.

Writedowns

Writedowns undertaken during the year, for Euro/1000 102, referred to the losses recorded by the associated company Motoride S.p.A. and to the zeroing of the investment in Consorzio Ricerche Benevento. This investment was zeroed in view of the fact that the intention to recede, communicated to the Consortium on 04/02/2004, entails the loss of the company’s share of the Endowment Fund, under art. 17 of the Articles of the Consortium.

Other companies **Euro/1000 108**

Disposals/Writedowns

The investment in S.A.T., Società Aeroportuale Toscana S.p.A., was disposed of in June, for the sum of Euro/1000 1,860, generating a profit of Euro/1000 1,578. The writedown of Euro/1000 1,085 refers to the zeroing of the investment in Cirio Holding

S.p.a., formerly Centrofinanzia S.p.A.

A specific schedule is annexed, giving the information requested by art. 2427 paragraph 5, of the Italian Civil Code for each subsidiary and associated company.

Long-term financial receivables **Euro/1000 31,165**

Long-term financial receivables with subsidiary companies *Euro/1000 30,449*

These increased by a total of ¤/'000 14,419 on the previous year. The increase was due essentially to the effects of the purchase of Nacional Motor S.A. from the former Piaggio Holding S.p.A. as part of the closing of the IMMSI operation. At year-end, this item comprised:

- trade receivables from Piaggio Foshan Motorcycle Co. Ltd. for Euro/1000 15,449;
- receivables of Euro/1000 15,000 from Nacional Motor S.A. against a loan coming due on June 5, 2008. The loan was granted to the subsidiary in order to respect the equity covenants envisaged by the contract of the syndicated loan taken up by Nacional Motor. This loan may be repaid in advance if the minimum capitalisation index required by Spanish law is respected. The annual interest rate is equal to the Euribor rate plus a spread of 2.5%, provided positive income after tax is recorded. Because the covenants set by the syndicated loan to the subsidiary were not respected, on March 3, 2004 the parent company increased the subordinated loan granted to Nacional Motor by Euro/1000 12,500, modifying the spread from 2.5% to 3%.

Long-term financial receivables from third parties *Euro/1000 716*

These increased by Euro/1000 434 on the previous year, primarily as a result of the deposit account opened as collateral for certain debts, envisaged by the accessory contracts between the former Piaggio Holding S.p.A. and Piaggio & C. S.p.A. as part of the operation whereby IMMSI acquired control, and they decreased by Euro/1000 126 due to the collection of bills received from customers under agreed repayment plans.

The item also includes collateral deposits for Euro/1000 155.

CURRENT ASSETS **Euro/1000 210,639**

Inventories **Euro/1000 105,266**

They decreased by Euro/1000 22,634 compared to the previous year, and at year-end were made up as follows (in Euro/1000):

	Gross	Writedown	Net value
- Raw materials	41,466	(10,263)	31,203
- Consumable materials	3,370		3,370
- Work in progress	747		747
-Semifinished products	12,727	(852)	11,875
- Merchandise	23,716	(6,849)	16,867
- Finished products	42,563	(1,360)	41,203
- Advances for goods	0	0	0
Total	124,589	(19,324)	105,266

The decrease compared to inventories at 31.12.2002 was due on one hand to the reduction in stocks of raw materials, goods, work in progress and finished products, and on the other to the increase in the obsolescence funds allocated to the financial statements (Euro/1000 19,324, compared to Euro/1000 10,572 in 2002). We should therefore point out that Euro/1000 9,458 was allocated for the year, compared to Euro/1000 2,748 in 2002. This increase was considered necessary to reflect the envisaged absorption of raw materials by standard manufacturing cycles, and to take parts clearance into account.

If final inventories had been valued at current costs at year-end, instead of by the LIFO method with periodical adjustments, their net value would have been Euro/1000 263m higher.

The changes occurring in the obsolescence funds are summarised in the following table:

	1-1-2003	Uptake	Provision	31-12-2003
- Raw materials	2,763	-	7,500	10,263
- Work in progress	-	-	-	-
- Semifinished products	852	-	-	852
- Goods	4,891	-	1,958	6,849
- Finished products	2,066	(706)	-	1,360
Total	10,572	(706)	9,458	19,324

RECEIVABLES **Euro/1000 91,411**

Trade receivables **Euro/1000 26,948**

They decreased by Euro/1000 15,126 on the previous year and comprised receivables from normal sales activities, stated net of a provision for doubtful receivables of Euro/1000 3,183. The item includes receivables in foreign currencies, primarily SF/'000 2,671, DKr/1000 3,505, £ Sterling/1000 32, NKr/1000 2,165, SKr/1000 5,490 and US$/1000 540, for a total value at year-end of Euro/1000 3,519.

The item also includes invoices to be issued for Euro/1000 3,320 related to normal commercial operations and credit notes to be issued for Euro/1000 7,131 related to bonuses for targets achieved by the marketing network in Italy and abroad, as well as bills subject to collection and bank collection orders presented to the banks and not yet due, for Euro/1000 1,176.

The decrease in receivables is attributable to the improved collection conditions obtained during the last quarter of 2003 compared to 2002, and to a different distribution of revenues over the same period compared to the previous year.

Receivables are normally factored with recourse, except in the case of a contract for the sale of engines, the annual turnover of which amounts to about Euro/1000 4,100, which was factored without recourse.

The receivables factored with recourse during the year amounted to Euro/1000 569,065, and those factored but not yet due at 31.12.2003, and therefore included under trade receivables, to Euro/1000 12,493.

Trade receivables factored with recourse, for which the risk of recourse exists at 31.12.2002, are stated in the Memorandum accounts.

During the year, Euro/1000 3,597 was taken up from the receivables writedown provision, mainly related to the closure of the outstanding account with FIV S.p.A., formerly Italjet S.p.A. and now bankrupt.

The following changes occurred in the Receivables writedown provision:

	1-1-2003	Uptake	Provision	31 -12-2003
Receivables writedown provision	6,880	(3,597)	0	3,183

Receivables from subsidiary companies Euro/1000 41,409

Receivables from subsidiary companies refer to trade receivables for supplies of products performed at normal market conditions (Euro/1000 34,837), and to sundry receivables deriving from the recovery of miscellaneous costs (Euro/1000 6,572).

Receivables from associated companies Euro/1000 506

Receivables from associated companies comprise trade receivables (Euro/1000 5) and sundry receivables (Euro/1000 501).

The breakdown of receivables from subsidiary and associated companies is annexed to the Report on operations, of which it is an integral part.

Receivables from third parties Euro/1000 22,547

This item breaks down as follows (Euro/1000):

	31-12-2003	31-12-2002
- Receivables from Welfare institutions	217	125
- Receivables from Tax authorities for VAT	5,286	0
- Receivables from Tax authorities for reimbursements applied for:		
- Government concession tax on companies	7	12
- Interest on IRPEG/ILOR receivables	125	233
- Customs due to be reimbursed	91	62
- Registrar's Office	946	926
– Local Income Tax		1
- Corporate Income Tax	83	292

- Tax on Stockholders' equity	2	2
- VAT from German Tax authorities	156	156
- Other receivables	10	10
- Receivables from Tax authorities for sums to be compensated:		
-Corproate Income Tax	391	1,346
- Corporate income tax payments on account withheld	71	35
- Taxes paid abroad deductible from corporate income tax	0	12
- Tax credits on dividends	11	9
- Tax credits on scrapped vehicles	94	95
- Tax credits on electric bicycles Law 388/2000	15	34
- Other receivables	0	2
- Receivables from Tax authorities for disputed INVIM	50	50
- Receivables from employees	525	443
- Sundry receivables from third parties:		
- Advances on services supplied	269	167
- Outstanding balance from suppliers and other creditors	2,639	2,597
- Invoices and credit notes to be issued	906	1,028
- Sundry receivables	2,476	12,619
- For sale of fixed assets	1,384	139
- Tax credits for payments on account	6,793	6,793
T O T A L	**22,547**	**27,189**

The VAT receivable recorded in the financial statements at December 31, 2003 derives from the temporary interruption in VAT payments by the Group.

The receivable from the tax authorities for registration fees regards the amounts paid in 1988 and 1995 respectively by the merged companies Piaggio Veicoli Europei and Piaggio Italia on the transfer of company divisions, and refers to the amount awarded to the company in court, by final judgement.

Receivables from employees regard advances paid for travel expenses, sickness and accidents, contract advances, petty cash, etc.

Sundry receivables for Euro/1000 2,476 refer primarily to receivables from Italian and foreign persons, arising from transactions not linked to the core business. The decrease on the previous year is attributable to the payment by the previous Piaggio stockholders of their share of the amnesty paid in 2003, and the subsidy received from the Ministry for the Environment for the 2002 Eco-incentives.

Receivables from third parties for the sale of fixed assets comprise the credit of (Euro/1000 138) with SO.GE.S SPA for the sale of tooling, and the balance of the receivable (Euro/1000 1,239) from Pontedera Town Council for the sale of some property, payment of which is envisaged by contract on September 30, 2004.

In 2003, the company decided not to allocate other receivables for tax payments on account, bearing in mind those already posted. The receivable of Euro/1000 6,793 refers to the provision made in 2000. The total deferred tax credits not posted can be calculated as approximately Euro/1000 60,000, including tax losses carried forward.

"Receivables from third parties" due after twelve months of Euro/1000 8,326, comprise receivables from the tax authorities for reimbursements applied for (Euro/1000 8,326), receivables from the tax authorities for INVIM (Euro/1000 50), receivables from employees for withholding tax (Euro/1000 310) under the national collective agreement 73/76/70 and for permanent advances, and receivables for deferred tax credits (Euro/1000 6,793).

Financial assets not constituting fixed assets Euro/1000 9,510

Receivables from subsidiary companies Euro/1000 7

The sub-heading "from subsidiary companies" comprises short-term financial receivables from Piaggio Portugal Ltda.

Receivables from associated companies Euro/1000 192

The sub-heading "from associated companies" comprises short-term financial receivables from the Piaggio Foundation for Euro/1000 192.

Receivables from third parties Euro/1000 9,311

The sub-heading "from third parties" comprises medium-term financial receivables from Scooter Holding 1 S.p.A. (formerly Piaggio Holding S.p.A.), in the context of the broader agreement which has resulted in the sale of the Piaggio Group to IMMSI S.p.A.

This five-year loan, related to the MV Agusta operation, will expire on September 23, 2008, with interest at a fixed rate of 2.5% capitalised annually.

Liquid assets Euro/1000 4,452

This item breaks down as follows (in Euro/1000):

	31-12-2003	31 -12-2002
- Bank and post office deposits	4,443	11,832
- Cash and cash equivalents	9	5
Total	4,452	11,837

We refer you to the Cashflow statement for a more detailed explanation.

ACCRUED INCOME, PREPAID EXPENSES

AND DEFERRED CHARGES Euro/1000 1,802

This item breaks down as follows (Euro/1000):

	31-12-2003	31-12-2002
Accrued income and prepaid expenses		
- Discount on loans	1	2
- Interest income	63	-
- Contribution to interest on IMI loans	166	166
- Interest income on interest rate swap	1,497	68
- Other	1	1
Total accrued income and prepaid expenses	1,728	237
Deferred charges		
- Rent payable	22	10
- Insurance	25	60
- Other	27	54
Total Deferred charges	75	124
Total Accrued income, prepaid expenses and deferred charges	1,802	361

Prepaid expenses on the interest rate swap account refer to the hedging contract with Caboto described in the Memorandum Accounts. Because the company has an identical IRS contract outstanding, the effects of which have determined accrued expenses for interest of Euro/1000 1,090, the net effect of these contracts is Euro/1000 415.

STOCKHOLDERS' EQUITY Euro/1000 138,827

The changes in the classes making up Stockholders' equity are described in detail in a separate annex.

We comment briefly here on the main components of Stockholders' equity and the various changes.

Capital stock **Euro/1000 169,347**

At December 31, 2003, the stock capital, entirely subscribed and paid up, comprised 325,668,137 ordinary shares with a par value of ¤ 0.52 each, for a total of Euro 169,347,431.24, after the stock capital increase subscribed and paid up by Piaggio Holding Netherlands B.V. on October 23, 2003.

Legal Reserve **Euro/1000 671**

This amounts to ¤ 671,394 and has not changed with respect to December 31, 2002.

Additional paid-in capital **Euro/1000 292,987**

This amounts to Euro/1000 292,987, increasing by Euro/1000 82,250 following the share capital increase on October 23, 2003.

Other reserves **Euro/1000 40,413**

This group of reserves breaks down as follows (in Euro/1000):

	31-12-2003
1. Extraordinary Reserve	48
2. Shareholders capital account increase reserve	32,000
3. Non-distributable reserve as per art. 2423 Civil Code	8,365
Total	40,413

The "Shareholders capital account increase reserve" is the result of two payments, respectively of Euro 7 and 25 million, by the previous parent company Piaggio Holding S.p.A. The first was paid on December 17, 2002, as a non-returnable payment, and the second, on December 20, 2002, was qualified as a payment not contributing to a future capital stock increase, effective December 31, 2002, as resolved by the Board of Directors of Piaggio Holding S.p.A. on May 13, 2003. In the contracts for the sale of the Piaggio Group to IMMSI S.p.A., it is reiterated that Piaggio Holding S.p.A. has attributed to Piaggio & C. S.p.A. a definitive equity grant and that Piaggio Holding does not have any rights and/or claims with respect to Piaggio & C. regarding the above payment and/or the related "Shareholders' capital account increase reserve" stated in the statutory financial statements of Piaggio & C. at 31.12.2002, including the reimbursement and/or return, for any reason, of the above-mentioned sum of Euro 25 million and/or the subscription of Piaggio & C. capital.

The non-distributable revaluation reserve as per art. 2423 of the Italian Civil Code, refers to a reserve that was generated in 1999 by MOD S.p.A. before the acquisition of the Piaggio Group by the previous stockholders, following the adjustment of the value of the investment to Piaggio & C. S.p.A. stockholders' equity.

RESERVES FOR RISKS AND CHARGES Euro/1000 48,466

These reserves break down as follows:

Amounts in Euro/1000	01-01-03	Provisions	Uses	31-12-03
1. Provisions for pensions and similar obligations	0	481	0	481
2. Tax provisions:				
- deferred taxes on capital grants	16		(10)	6
3. Other reserves:				
- provision for losses on investments	10,919	9,380	(0)	20,299
- provision for interest rate risk hedge		12,220		12,220
- provision for future risks	0	750	(0)	750
- provision for risks on guarantees granted	58	-	(0)	58
- product warranty reserve	8,572	4,774	(4,996)	8,350
- company restructuring charges reserve	4,160	1,500	(1,500)	4,160
- provision for risk on legal disputes	0	2.142	0	2,142
total other reserves	23,709	30,766	(6,496)	47,979
TOTAL RESERVES FOR RISKS AND CHARGES	23,725	31,247	(6,506)	48,466

The pension fund comprises the provision to the agents' supplementary indemnity provision, which represents the indemnity due to agents in the event of termination of the agency contract for events not attributable to them.

The provision for risks on investments outstanding at the date the financial statements close refers to the investments in Piaggio Foshan Motorcycle Co., Piaggio China Co. Ltd., and Universal Dynamic Inv. (Euro/1000 20,105) against negative equity at December 31, 2003 of approximately Euro/1000 15,000, and to hedge losses due to probable losses in equity, in the light of ongoing negotiations.

The "Memorandum accounts" highlight the guarantees given on loans granted by banks to the subsidiary Piaggio Foshan Motorcycle Co. Ltd. (Euro/1000 14,172).

We refer you to the comments to the "Memorandum accounts" regarding the provision of Euro/1000 12,220 arising from the evaluation of a derivative interest rate swap contract.

The provision for future risks was allocated on the basis of the expectations of the October 16, 2003 agreement between Piaggio & C. S.p.A. and the former Piaggio Holding S.p.A., under the broader agreement for the sale of the Piaggio Group to IMMSI S.p.a. Art. 2 "Taking on of debts and waiving of receivables" envisages that the possible balance between the receivable waived by Piaggio & C. S.p.A. in favour of Piaggio Holding S.p.A. and the debit items of Piaggio Holding related to the latter's activities as parent company of the Piaggio Group, may not exceed Euro/1000 750, positive or negative. The provision reserve therefore reflects the risk deriving from this clause in the contract.

The company restructuring charges reserve refers to the future charges that are expected to be met in future years in relation to personnel leaving the company.

The provision for the risk of legal disputes was allocated during the year in the light of a number of labour disputes, on the advice of specially consulted legal advisors, and of the dispute between Almec S.p.A. and INPS begun in 2002, and guaranteed by Piaggio & C. S.p.a. under the 1999 sale contract.

The product warranty reserve reflects the estimated risk at year-end and is calculated on the basis of the expected future risk.

We also point out that in 2002, the Europe Assistance Italia S.p.A. company took Europe Car Lease s.r.l., Lease Plan s.r.l., Savarent S.p.A. and Leasys S.p.A., which formed a temporary industrial group, to court, before the Monza Magistrates Court, regarding an insurance contract for a fleet of two-wheel vehicles rented to Poste Italiane S.p.A., asking for the reimbursement of damages from the counterparts for a total sum of approximately Euro/1000 2,000.

Being the supplier of the vehicles in question, Piaggio & C. S.p.A. was called to testify as a third party by the above-mentioned temporary industrial group, in order to be relieved of any responsibility and any allegations made against it by the plaintiff. As things stand today, because the case is still in its early days and because the contract agreements between Poste Italiane and the temporary industrial group did not involve Piaggio & C. S.p.A., it is impossible to foresee the outcome of the case without waiting to see how the investigation develops.

Where tax risks are concerned, your company has already applied for a tax amnesty for certain items in the financial statements closed at December 31, 2002 regarding Piaggio & C. S.p.A. and other Italian companies incorporated in 1998 and 2000.

The company has decided to use the new deadline of March 16, 2004 to completely settle the allegations contained in the assessment notified by the Guardia di Finanza on December 20, 2002, regarding both Corporate Income Tax and VAT. In fact, while the higher taxable income of approximately Euro/1000 7,000 accrued for Corporate Income Tax can be absorbed by considerably higher accumulated losses matured in 2001 and 2002, the new deadline will make it possible to definitively settle disputed VAT payments for 2002. Non-deductibility for approximately Euro/1000 308,000 will be pardoned with a payment of about Euro/1000 154,000. And by paying the minimum values as simple integration, it will also be possible to bring into line the accounts outstanding for all the years from 1997 to 2002 to which the simplified system applies. Piaggio Pro-Ind S.p.A., Piaggio Finance S.p.A., and Piaggio Veicoli Europei S.p.A. will only settle the balance for 1997, having merged with Piaggio & C. S.p.A. in 1998. Your company will pay the simple integration for 1998 and 2002. For the years 1999, 2000 and 2001, the amnesty on the assessment mentioned above, which represented a general audit, will protect the company from future verification.

All the costs deriving from this further recourse to the tax amnesty have been allocated to the financial statements closed at December 31, 2003.

We also point out that a few companies owned by Piaggio & C. S.p.A. are currently involved in tax disputes from which no expense will arise for the company or the group, in the opinion of specially consulted external experts. As a result, for the disputes described below, no provisions have been made, because the risk is considered to be remote, nor has it been considered necessary to apply for the tax amnesty.

P&D S.p.A. has been notified of tax assessments for the years 1995, 1996 and 1997 for corporate income tax and local income tax, for a total value of Euro/1000 17,000, including penalties and interest, duly challenged before the Provincial Tax Commission of Pisa. We remind you that the company has already been successful in similar cases, at both levels of judgement, with a ruling by the Regional Tax Commission of Florence for the years 1993 and 1994. For the recent assessments, the competent company offices are now waiting for the appropriate moment to lodge an appeal with the Court of Cassation.

With reference to the tax inspection of Almec S.p.A. and the subsequent dispute, for which guarantees were given under the selling contract covering up to 1999, we point out that in addition to the favourable judgment regarding 1996 VAT from the Naples Regional Tax Commission in February 2003, the assessments notified for corporate income tax, local income tax and equity tax for 1996, and for corporate income tax, local income tax, equity tax and VAT for 1997, have been challenged through the appropriate channel, the Provincial Tax Commission of Avellino. On December 2 and 9, 2003, the preliminary hearings regarding the above-mentioned assessments were held, but the ruling has not been issued yet. With regard to the notification of assessments for 1998 corporate income tax and local income tax, these have been duly challenged (Corporate Income Tax) or settled by payment or amnesty; they regard sums amounting to only Euro/1000 34. The tax return with which the tax office demanded payment of one third of the tax due in relation to the above notification has also been contested, on October 28, 2003 before the Provincial Tax Commission of Avellino.

EMPLOYEE RETIREMENT INDEMNITY

Euro/1000 54,261

The following changes occurred in this provision during the year (**in Euro/1000):**

Balance 1-1-2003	50,608
Quota matured and charged to income statement	7,165
Additional contribution under art. 3 Law 297/82	(350)
IRPEF 1 1 % on revaluation of 2001 Retirement Indemnity	(187)
Funds transferred from other Group companies	1,460
Funds transferred from other companies (MDM)	593
Indemnities paid during the year	(4,801)
Quota transferred to supplementary welfare reserves	(847)
Tax credit for IRPEF payment on account for Retirement Indemnity under Law 140/97:	
- Revaluation of tax credit outstanding at 31/12/00	(111)
- Decrease for uptake of tax credit	803
- Increase for transfer from other companies	(29)
- Increase for transfer from other Group companies	(42)
Balance 31.12.2003	54,262

The balance at 1-1-03 is stated net of the tax credit for the IRPEF payment on account for the Retirement Indemnity, as per Law 140/97, of Euro/'000 3,670.

PAYABLES **Euro/1000 559,901**

We comment on the breakdown of and changes to this group of items below.

Payables to banks **Euro/1000 232,652**

The situation is as follows on December 31, 2003 (in Euro/1000):

	Balance at 31-12-2003	Due in years		
	Total	Within 1	From 1 to 5	Over 5
Restructured medium/long-term loans	192,300	0	76,920	115,380
Other medium-term loans	11,748	4,146	7,602	
Short-term credit and loans	3,419	3,419		
Loans in foreign currencies	25,185	25,185		
Total	232,652	32,751	84.521	115,380

During the year, instalments totalling Euro/1000 8,619 were repaid.

Under art. 2427, no. 6) of the Italian Civil Code, we point out that the loan granted by Mediocredito Lombardo as the leading bank is covered by a guarantee on shares, real estate and some of the company's machinery.

Payables to banks primarily comprise the syndicated loan of Euro 165.3 million and the credit facility of Euro 27 million granted by Banca Intesa and restructured on October 23, 2003, as part of the contract by which IMMSI acquired control of the activities performed by the Piaggio Group in Italy and abroad.

This restructuring has involved a pool of 27 banks in the redefinition of the repayment schedule which, while it maintains the final deadline for repayment of 31-12-2010, envisages a three-year pre-amortisement period (first capital repayment due on 31-12-2006) and 9 subsequent 6-monthly instalments with interest indexed to the 6-month Euribor rate increased by 2.5%. In addition to

Banca Intesa, the most exposed banks in the pool of 27 are Monte Paschi di Siena, Unicredito, Banca Nazionale del Lavoro, Banca Popolare di Lodi, Interbanca, Cassa di Risparmio di Firenze, Capitalia Group and Banche Popolari Unite.

Where the guarantees are concerned, these loans are still covered by the collateral on the real estate linked to the company's core business, and on the machinery in particular, in addition to a pledge on 100% of the company stock held by the Dutch company Piaggio Holding Netherlands BV.

In addition to the loans mentioned above, during the execution of the IMMSI contract, operational credit facilities for a total of Euro 125 million have been finalised to meet the requirements generated by working capital.

These credit facilities are granted by 12 banks from the pool that supports the Piaggio Group under a commitment that expires on June 30, 2007. Financial covenants exist on the entire packet of credit facilities, which is standard procedure for this type of operation, the test for which is fixed every six months from June 30, 2004, and the thresholds have been determined on the basis of the evolution of the Business Plan drawn up by IMMSI.

Other loans for Euro/'000 11,478 comprise 4 low-interest loans without collateral granted by S.Paolo IMI with subsidy on interest under Law 46 regarding Applied Research, which comes due on July 1, 2004 (Euro/1000 1,064); a variable rate loan from Unicredito Italiano with EIB funds, due on July 1, 2007 (Euro/1000 3,389); a variable rate loan from the European Investment Bank guaranteed by Banca Toscana, due on June 30, 2007 (Euro/1000 4,519); a low interest loan from Mediocredito Centrale under Law 49 art. 7 regarding international cooperation, due on June 16, 2008 (Euro/1000 2,034), and a low interest loan from Mediocredito Centrale under Law 100/90, due on September 5, 2005 (Euro/1000 742).

Loans in foreign currencies for Euro/1000 25,185 comprise advances on short-term trade receivables in Euro and foreign currencies as the uptake of the self-liquidating credit facilities granted by the banks backing the Group. In addition to being a source of finance, advances in foreign currency are an instrument used by the company to cover the accounting exposure to exchange rate risks.

Payables to other financiers **Euro/1000 1,704**

Payables to other financiers primarily comprise loans granted by the Ministry for Industry out of the special fund for technological innovation, under art. 16 c. III of Law 46/82.

During the year instalments for Euro/1000 208 were reimbursed.

The table that follows illustrates the total of this item at year-end, and the amount coming due in the future.

Balance at 31-12-2003 (¤/'000)

	Due in years		
Total	Within 1	From 1 to 5	Over 5
1,704	218	960	526

Advances **Euro/1000 40**

This comprises the advances received from customers for supplies.

Payables to suppliers **Euro/1000 211,437**

This item, amounting to Euro/1000 211,437, comprises trade payables deriving from the purchase of goods and services for the year's activities (Euro/1000

204,521) and from the purchase of fixed assets (Euro/1000 6,916). The item includes credits to be received from external Italian suppliers (Euro/1000 633) and invoices to be received for materials, services and fixed assets (Euro/1000 68,437). The increase of Euro/1000 4,814 on the previous year derives primarily

(approximately Euro/1000 7,500) from the reclassification of the accounts payable to the supplier Metalplastic S.p.a. (stated under payables to associated companies at December 31, 2002), from the decrease of approximately Euro/1000 6,600 in accounts payable to other suppliers and the increase of Euro/1000 3,700 in invoices to be received charged to the financial statements.

Payables to subsidiary companies Euro/1000 49,011

Payables to subsidiary companies break down as follows:

(in Euro/'000)	31-12-2003	31-12-2002
Payables to subsidiary companies:		
- Trade	10,062	6,053
- Financial	38,588	28,966
- Other	361	113
Total	49,011	35,132

For an analysis of financial payables, which are regulated at market rates, we refer you to the tables annexed to the Report on Operations.

Payables to associated companies Euro/1000 3,215

Payables to associated companies comprise:

(in Euro1000)	31-12-2003	31-12-2002
Payables to associated companies:		
- Trade	2,292	6,296
- Financial	474	463
- Other	449	0
Total	3,215	6,759

and refer primarily to the commercial relationship with Almec S.p.a. the decrease on the previous year derives primarily from the reclassification of the overdraft with Metalplastic S.p.a. under “Payables to suppliers”.

Payables to parent companies **Euro/1000 15,000**

This refers to a short-term loan granted by IMMSI S.p.A. without collateral and regulated at the Euribor rate +1.5%, due on October 23, 2004.

Tax payables **Euro/1000 7,475**

This item breaks down as follows (in Euro/1000):

	31-12-2003	31-12-2002
Payables to Tax authorities for:		
- Withholding tax on salaries and wages	2,500	2,536
- Withholding tax on payments to external collaborators	110	55
- Withholding tax on capital income	43	
- Withholding tax on severance indemnities	108	25
- Withholding tax for suppl. Regional/Municipal IRPEF	13	11
- Ten-year INVIM	0	424
- Income tax and tax payable	185	159
- Corporate Income Tax	48	1,139
- IRAP	705	

- Tax amnesty as per Law 289/2002	3,762	7,405
- Other	1	6
Total	7,475	11,761

The IRAP account payable is stated net of the payment on account made during the year, of Euro/1000 4,875.

Tax payables for the tax amnesty under Law 289/2002 increase by Euro/1000 158 due to the additional pardon which your company has decided to apply for, taking advantage of the new deadline of March 16, 2004, and they decrease by Euro/1000 3,789 due to payments made in 2003, for amnesty applications already presented.

Payables to welfare and social security institutes Euro/1000 6,991

This item comprises the sums due to these institutes at year-end for the quotas paid by the company and by employees for salaries and wages for the month of December, and the amounts estimated and allocated for the so-called "long-term mobility" for employees leaving the company under the restructuring plan.

Payables due after 12 months refer to the account payable to INPS and allocated for the above-mentioned mobility, for Euro/1000 2,150.

Other payables Euro/1000 31,995

This item breaks down as follows:

(in Euro/1000)	31-12-2003 3	1-12-2002
Payables to company organs	193	40
Payables to employees for December salaries, retirement indemnities and other items		
Advances from customers	18,767	17,651
Collateral deposits payable	1,530	2,628
Sundry payables	8,641	3,272
Total	31,995	24,217

Payables to employees include holidays matured but not taken by year-end, for Euro/1000 5,794.

Collateral deposits payable comprise the collateral deposit paid in 1997 by T.N.T. Automotive Logistics S.p.A. to the subsidiary Piaggio Veicoli Europei S.p.A. to guarantee payment of the Severance indemnity matured with the latter company by employees of the demerged company division responsible for the reception, packaging, storage and physical distribution of parts and accessories. At year-end said deposit amounted to Euro/1000 1,512.

Sundry payables include the account payable to Daihatsu Motor Company (Euro/1000 4,588) for the 3rd instalment of the purchase of its 49% investment in P&D S.p.A., which will come due on June 30, 2004, contributions for easy term loans on research activities not yet definitively acquired and paid by the EU., by Medio Credito Centrale and Medio Credito Toscano under Law 488/92, for a total of Euro/1000 1,051.

Payables to third parties due after 12 months regard payables to personnel for holidays matured and not taken (Euro/1000 5,794), the collateral deposit in favour of TNT (Euro/1000 1,521) and other payables (Euro/1000 254).

ACCRUED EXPENSES AND DEFERRED INCOME Euro/1000 2,959

This item breaks down as follows:

	31-12-2003	31-12-2002
Accrued expenses		
Interest payable on loans	417	147
Interest payable on other debts	1	3
Interest payable on swaps	1,090	20
Accrued expenses on rents	16	0
Sundry accrued expenses	55	1,002
Total Accrued expenses	1,579	1,172

Deferred income

Interest implicit on receivables from third parties	0	97
Incoming rents	0	36
Other	966	390
Royalties	96	97
Grants to plant account	318	462
Total Deferred income	1,380	1,082
Total Accrued expenses and deferred income	2,959	2,254

The accrued expense Interest payable on swaps should be seen in the light of the comment to the item Accrued income.

The item Other Deferred income includes the contribution received from Aprilia for the supply of 125/150 cc 4T 2V and 125/200/250 cc 4T 4V engines (Euro/1000 600). This deferred income is charged to the income statement for the duration of the amortisation of the related capitalised projects (three years).

MEMORANDUM ACCOUNTS

Guarantees granted: Euro/1000 75,632

These total Euro/1000 75,632, as illustrated in the table at the end of the Balance Sheet, and refer primarily to the following (in Euro/1000):

Guarantee from Cassa di Risparmio di Pisa issued on our behalf in favour of PISA Provincial Council	130
Guarantee from Banca Commerciale Italiana issued on our behalf in favour of the Head Collector of Customs, La Spezia	310
Guarantee from Banca Toscana di Pontedera in favour of Pontedera Town council, issued on 21-10-1996	323

Guarantee from Cassa di Risparmio di Pisa in favour of Ass. Cassa Naz. Previd. e Ass., issued on 25/07/02	221
Stand-by letter of credit issued by Monte dei Paschi di Siena in favour of CHEN SHIN RUBBER, for the equivalent value of ¤ 400,000	400
Stand-by letter of credit issued by BNL in favour of DAIHATSU MOTOR CO., for Yen 240,000,000	1,777
Stand-by letter of credit issued by MPS in favour of DAIHATSU MOTOR CO., for Yen 180,000,000	1,310
Stand-by letter of credit issued by BNL in favour of DAIHATSU MOTOR CO., for Yen 100,000,000	740
Guarantee as collateral to purchase of shares in P & D S.p.A., for Yen 594,944,535	4,405
Suretyship to guarantee 51% of the loan granted by State Bank of India to the subsidiary Piaggio Vehicles, for Rupees 79,050,000	1,373
Suretyship to guarantee the credit facility of US$ 8,100,000 granted by Banca di Roma to the subsidiary Piaggio Foshan	6,413
Suretyship to guarantee the credit facility granted by M.P.S. to the subsidiary Nacional Motor	2,500
Suretyship to guarantee the credit facility granted by IFITALIA to the subsidiary Nacional Motor	5,000
Suretyship to guarantee the credit facility granted by BNL to PIAGGIO VESPA BV, of US$ 15,000,000	11,876
Suretyship to guarantee the credit facility granted by IFITALIA to the subsidiary PIAGGIO ESPANA	7,000
Guarantee from Banca Commerciale Italiana issued on our behalf in favour of SIMEST S.p.A. - Rome	709

Suretyship to guarantee the credit facility granted by Banca Intesa BCI to the subsidiary Piaggio Vespa BV, of US$ 23,000,000	18,211
Assicuratrice Edile guarantee insurance policy of 23-10-2003	839
Assicuratrice Edile guarantee insurance policy of 27-06-00	3,553
Assicuratrice Edile guarantee insurance policy of 23-10-01	5,911
The three above policies were issued in favour of the VAT Office of Pisa as collateral to the tax credits compensated as part of the Group's VAT procedure	
ASSITALIA guarantee insurance policy of 16/01/01 in favour of the Pontedera Registrar's Office as guarantee to the instalment payment of the sums owing following judicial settlement	1,641

Contract commitments

We point out that the contract for the sale of the investment in Almec S.p.A. envisages a commitment to dispose of the residual part of the investment in our hands by the end of 2005, and that the contract with Simest s.p.a. of Rome envisages a commitment to buy back the investment held by the latter in Piaggio Vehicles PVT LTD for Euro/1000 709.

Risk of recourse on factored receivables Euro/1000 75,129

This item, totalling Euro/1000 75,129 (Euro/1000 71,294 on December 31, 2002), reflects the risk of recourse on trade receivables factored with recourse to factoring companies in relation to the sums credited by these institutes when they come due.

Commitments for off balance sheet operations

At December 31, 2003 the Group has three derivative interest rate swap contracts outstanding, two due on 29/06/2005 and one due on 29/06/2006.

The three contracts envisage the payment of rate differentials, taking as a reference a notional capital of Euro 180.7 million, and two of the contract have identical features, i.e.:

	Charged to Group	Charged to counterpart
New quanto gap floater swap in arrears	Fixed rate of 5.15% (if 6-month US LIBOR in arrears <5.75%) or 6-month US LIBOR in arrears plus 0.50% for 2003 and 2004. From 2005, the rate charged to the Counterpart is 5.20% (if 6- month US LIBOR in arrears<6%) or 6-month US LIBOR in arrears plus 0.75%.	6-month Euribor
New quanto gap floater swap in arrears - mirror trade	6-month Euribor	A fixed rate of 5.15% (if 6-month US LIBOR in arrears <5.75%) or 6-months US LIBOR in arrears plus 0.50% for 2003 and 2004. From 2005, the rate charged to the Counterpart is 5.20% (if 6-month US LIBOR in arrears <6%) or 6-month US LIBOR in arrears plus 0.75%

As a result the effects of the two contracts essentially cancel each other out. At December 31, 2003, the Group also has a "3.5 years Eur quanto basis collar swap - new trade" contract outstanding, for a notional amount of ¤ 180.7 million, with the following features:

Charged to the Group	Charged to Counterpart
1.7 * 12-month US LIBOR set in arrears < with the following characteristics floor: 3% Cap: 5.20% European knock-out barrier: 5.50% from 29.12.02 to 28.06.04; 5.75% from 29.06.04 to 28.06.05; 6,10% from 29.06.05 to 28.06 06 Option: the bank has the right, at each expiry date from 30.06.04 to transform the rate paid by Piaggio from variable to fixed at 4.40% for the residual life of the swap.	6-month Euribor with maximum increase of 0.30% compared to previous coupon

The benchmark for these operations are financial payables for approximately Euro 281 million, composed primarily of loans and credit facilities for Euro 192.3 million, granted in favour of Piaggio & C. S.p.A., due in 2010 and amortised from 2006, and for Euro 19.5 million granted in favour of Nacional Motor S.A. and due in 2013, already being amortised. On the above-mentioned loans, the companies pay interest on a half-yearly basis with a spread above the Euribor rate for the period, thus generating exposure towards the fluctuation of this financial parameter. The notional amount of the derivative contracts is certainly lower than the net debt (below

2/3) and it is also lower than the existing loans mentioned above, and comes due before the underlying financial payables; they also share the same coupon features, in terms of date and reference parameter (Euribor rate).

At December 31, 2003, the value of the derivative contract known as "3.5 years Eur quanto basis collar swap - new trade" is negative for a total of Euro 12.2 million, and an equivalent sum is prudentially allocated to the Income Statement.

Commitments for forward operations

At December 31, 2003, forward purchase operations are outstanding for a total of Yen 769 million, equivalent to Euro/1000 5,892 (calculated at the forward exchange rate) and forward selling operations for SF 1,589 million and US$ 17.1 million, corresponding to a total of Euro/1000 14,941 (calculated at the forward exchange rate). These contracts have been taken out to hedge exchange risk on receivables and payables in foreign currencies and are due in the first half of 2004.

COMMENT TO THE MAIN ITEMS IN THE INCOME STATEMENT

(stated in Euro/1'000)

Before analysing the individual items, we remind you that the comments on the general trends of costs and revenues are contained in the Report on Operations as required by paragraph 1 of art. 2428 of the Italian Civil Code. Moreover, analysis of the positive and negative income items in the Income Statement and the previous comments on the items in the Balance Sheet, allow us to limit the comments that follow only to the main items.

VALUE OF PRODUCTION

Revenues from sales and services Euro/1000 837,195

Revenues from the sales of goods related to the company's core activities, refer essentially to the sale of vehicles and parts on European and non-European markets. They are stated net of bonuses paid to customers and gross of transport costs charged to the clientele.

A breakdown by category of activity and geographical area of destination follows.

Revenues by category of activity (in Euro/1000):

	2003	2002
Assembled vehicles	698,589	705,447
Loose parts	624	5,463
Spare parts	90,192	90,402
Other	47,731	26,854
General total	**837,136**	**828,166**

Revenues by geographical area (in ¤/'000):

		2003	2002
Italy:	Assembled vehicles / Loose parts	427,249	413,791
	Spare parts	60,643	57,361
	Other	43,078	19,057
Europe:	Assembled vehicles / Loose parts	246,267	229,836
	Spare parts	24,785	27,251
	Other	4,604	7,427

Rest of world: Assembled vehicles / Loose parts	25,697	67,282
Spare parts	4,764	5,790
Other	49	371
General total	**837,136**	**828,166**

The increase in revenues from sales over the previous year can be attributed to the 2 Wheel Business which has grown by 5% on the previous year, thanks to the launch of new products in the upper reaches of the range, while the LTV Business, with the Ape and Porter, has contracted by 18% on 2002.

Changes to inventories of work in progress, semifinished goods and finished products (Euro/1000 6,678)

The contraction in this case can be attributed:

- For Euro/1000 1,347 to finished products.
- For Euro/1000 4,995 to semifinished goods.
- For Euro/1000 336 to work in progress.

As a whole the contraction is Euro/1000 1,045 greater than it was the previous year, due essentially to the gradual reduction in inventories. A quota of the obsolescence fund has also been taken up for finished products (Euro/1000 706).

Increase in assets by internal work Euro/1000 15,593

During the year internal research and development costs of Euro/1'000 15,379 were capitalised (Euro/1000 17,563 the previous year), as well as internal costs related to the construction of tangible fixed assets for Euro/1000 214.

Other income and revenues Euro/1000 16,693

This item comprises operating grants for Euro/1000 3,965, and sundry income and revenues as indicated below:

	2003	2002
- Rental income	406	777
- Instalment income	30	36
- Ordinary profits on disposal of items	87	35
- Non-operating profits from appraisals	0	424
- Recovery of transport and packaging costs	549	529
- Recovery of marketing costs from third parties	36	8
- Recovery of sundry costs from third parties	2,619	4,180
- Recovery of promotional costs	1,195	3,189
- Recovery of marketing and advertising costs	62	100
- Recovery of cost of labour	1,440	639
- Reimbursement of customs on exported products	29	102
- Recovery of costs from suppliers	1,459	1,620
- Recovery of warranty costs	631	682
- Know-how and licence rights	2,311	1,462
- Incoming commission	0	263
- Sales of materials and miscellaneous tooling	327	304
- Payment of damages by third parties	1,475	241
- Services rendered to third parties	33	25
- Other	39	39
Total other income and revenues	12,728	14,655

COST OF PRODUCTION **Euro/1000 890,564**

Cost of purchases **Euro/1000 496,413**

This item decreased with respect to the previous year by Euro/1000 14,080, and breaks down as follows:

in Euro/1000	2003	2002
- Raw, ancillary and consumable materials and goods	496,380	510,462
- Other purchases	33	30
Total	496,413	510,492

They decreased by Euro 14 million on the previous year, in spite of an increase in revenues from sales and services, primarily because of the effectiveness of the Global Sourcing purchasing policy.

Other purchases comprise stationery, printed materials and vehicles purchased for tests and experiments.

Cost of services **Euro/1000 162,678**

This item increased by Euro/1000 3,088 on the previous year, and breaks down as follows:

in Euro/1000	2003	2002
- Accessory purchasing expenses	2,393	1,968
- Transport services	19,355	21,788
- Electricity, telephone, telegram expenses, etc.	7,600	7,522
- Expenses related to personnel	4,629	4,446
- External maintenance and cleaning expenses	5,535	5,236
- Product warranty expenses	21,690	21,186
- Promotional activities and material	4,809	13,692
- Vehicle registration papers	805	1,003
- Sundry marketing expenses	8,854	7,058
- Advertising and promotion	7,148	8,325
- Market research	802	670
- Sales commissions	3,014	2,859
- Third party operations	27,404	16,412
- Factoring and Riba-Rid collection, commissions	1,644	1,552
- Technical, legal, tax and notarial services	5,151	2,675
- Independent services and consultancy	1,258	1,777
- Catalogues, Technical Service manuals, magazines, etc.	0	11
- Miscellaneous services rendered during the year's operations	37,976	39,528
- Expenses related to functioning of company boards	377	194
- Insurance	1,071	940
- Miscellaneous	1,163	748
Total	**162,678**	**159,590**

The expenses related to the functioning of company boards regard the activities of the Board of Directors and the Board of Statutory Auditors, and amount to Euro/1000 301 and Euro/1000 76 respectively.

Services rendered during the year's operations include outsourced services (Euro/1000 20,750), warehouse management services (Euro/1000 1,520) and administrative/accounting services rendered by Piaggio Holding Spa, up to the acquisition of its own company division (Euro/1000 4,375).

Leasing and rentals **Euro/1000 4,710**

This decreased by Euro/1000 240 on the previous year, and primarily regards rental costs for the lease of civil buildings for industrial purposes (Euro/1000 1,664), and rental charges for cars, computers, photocopy machines, etc., for Euro/1000 3,046.

Personnel costs **Euro/1000 114,089**

These increased by Euro/1000 5,774 on the previous year. A breakdown of the costs is given in the Income Statement.

At 31-12-2003 the workforce was made up as follows:

Category	31.12.02	Entering (*)	Leaving (*)	Transf. (+)	Transf. (-)	31.12.03
Executives	50	16	(11)	3		58
Middle management	135	20	(9)	9	(3)	152
White collar	554	74	(27)	31	(9)	554
Foremen	7	1			(8)	0
Blue collar	2,490	706	(745)	0	(23)	2,428
Total	3,236	817	(792)	43	(43)	3,261

Employee retirement costs are stated net of the revaluation on the tax credit for the IRPEF payment on account for the Severance indemnity, as per Law 140/97 (Euro/1000 187). Much of the increase in the workforce in the Executive and Middle Management categories derives from the acquisition of the company division responsible for all the administrative/financial activities of the former Piaggio Holding S.p.A.

Amortisation depreciation and writedowns **Euro/1000 87,149**

This item decreased by Euro/1000 3,670 on the previous year.

The following table gives a detailed list of the amortisation, depreciation and writedowns recorded in the financial statements.

	2003	2002
Amortisation of intangible fixed assets	54,368	53,147
Depreciation of tangible fixed assets	31,361	33,461
Writedown of Intangible fixed assets	132	0
Writedown of tangible fixed assets	1,339	0
Writedown of trade receivables	0	4,211
TOTAL	87,200	90,819

The item "depreciation of tangible fixed assets" only includes ordinary depreciation.

As a result of accelerated depreciation allocated in the past, the amount of ordinary depreciation for the year stated under this item is Euro/1000 1,537 lower than the economic-technical depreciation calculated on the basis of the possible residual usefulness of the assets.

Writedowns recorded during 2003 regarded projects and products with no future usefulness.

Changes to inventories of raw, ancillary and consumable materials and goods

Euro/1000 15,496)

The decrease in inventories of raw, ancillary and consumable materials and goods was higher than in the previous year (by Euro/1000 5,400) and includes approximately Euro/1000 9,500 allocated to the obsolescence fund, compared to Euro/1000 2,700 in 2002. The increase in the inventory obsolescence provision was considered necessary to reflect the envisaged uptake of raw materials during standard manufacturing cycles and to take parts clearance indices into account.

Allocation for risks and other allocations Euro/1000 5,464

This refers to the provision to the product warranty reserve (Euro/1000 4,774), calculated bearing in mind future work envisaged by contract on products sold during the year, and to provisions to the risk fund to cover ongoing disputes (Euro/1000 690).

Sundry operating expenses Euro/1000 4,513

This item increased by Euro/1000 1,851 on the previous year, and breaks down as follows:

	2003	2002
- Tax other than income tax	1,067	780
- Municipal property tax (I.C.I.)	566	598
- Association dues	692	685
- Expenses of social utility	131	134
- PR expenses	2	5
- Ordinary losses on disposal of assets	90	71
- Sundry expenses	675	389
- Losses on receivables	1,290	0
Total	4,513	2,662

Losses on receivables of Euro/1000 1,290 are stated because of the total writedown of an account paid to FIV S.p.A., formerly Italjet S.p.A., and now bankrupt, for the development of a new product that will never be completed.

FINANCIAL INCOME (EXPENSE) **Euro/1000 (33,133)**

Income from investments **Euro/1000 1,852**

In Euro/1000	2003	2002
- Dividends from associated companies	0	0
- Tax credit on dividends from associated companies	0	0
- Dividends from minority investments	19	16
- Dividends from subsidiary companies	1,823	0
- Tax credit on dividends from minority investments	10	8
Total	1,852	24

Dividends from subsidiary companies have been distributed by Piaggio Vehicles PVT Ltd., while those from minority investments have been distributed by SAT S.p.A.

Other financial income **Euro/1000 14,755**

The subheading "other" in the item "other financial income" includes Euro/1000 7 of interest income on collateral deposits.

The item "sundry revenues" from subsidiary companies comprises positive exchange rate differences for Euro/1000 2,538, while the item sundry revenues from parent companies refers to interest income on intercompany loans between P&C and the former Piaggio Holding S.p.A.

The subheading "other" of the item "sundry financial revenues" breaks down into:

in Euro/1000	2003	2002
- Interest income from third parties	20	19
- Interest income from banks	357	67
- Interest income from third parties	3,213	1,311
- Implicit interest separate from gains/losses	98	192
- Revenues from swaps and options	264	119
- Exchange rate profits on incoming and outgoing foreign payments	1,309	384
- Exchange rate profits on import/export advances	629	1,085
- Exchange rate profits on currency accounts	5,357	1,761
Other	13	2
Total	11,260	4,940

The item interest income from third parties includes interest income deriving from interest rate hedging operations commented on previously, for Euro/1000 2,775.

Interest and other financial expense **Euro/1000 43,056**

The subheading "subsidiaries" regards exchange rate differences for Euro/1000 8,232 and interest payable on loans for Euro/1000 1,007.

The subheading "other" breaks down as follows:

	2003	2002
- Cash discounts	587	290
- Sundry interest payable	10,469	6,626
- Interest payable on current accounts with banks	5,321	8,656
- Interest payable on mortgages and loans	11,503	13,646
- Interest payable on import/export advance accounts	1,229	1,461
- Allocation to provision to hedge interest rate risk	12,220	0
- Bonuses to customers for advance payments	861	945
- Charges on swaps and options	0	9
- Exchange rate losses on incoming and outgoing foreign payments	308	2,146
- Exchange rate losses on currency accounts	1,774	745
- Losses on import/export advance accounts	103	651
- Bank discounts payable	12	0
- Bank commission on loans	4,185	0
- Other	9	26
Sub total	48,581	35,201
- Contributions to interest as per art. 1, Law 346	(349)	(349)
Total	48,232	34,852

In 2003 financial charges of Euro/1000 48,232 were recorded, compared to Euro/1000 34,852 in 2002. The item includes commission related to the changes in the syndicated loan agreements, commented on for the item Payables to banks, and the provision to the risk fund created during the year for the derivative interest rate swap contracts commented on above.

The item sundry interest payable also includes interest payable recorded during the year on interest rate swap operations for Euro/1000 8,896.

ADJUSTMENTS TO FINANCIAL ASSETS Euro/1000 (20,567)

Writedown of investments Euro/1000 20,567

The writedown of investments – performed in line with art. 2426 of the Italian Civil Code and the main accounting principles applied - regards:

In Euro/1000	2003
Subsidiary companies	
- Piaggio Foshan Motorcycles	9,380
- Nacional Motor	10,000
Associated companies	
- Motoride S.p.A.	71
- Consorzio Ricerche Benevento	31
Minority investments	
- Cirio Holding S.p.a., formerly Centrofinanziaria	1,085

Where Nacional Motor is concerned, we refer you to the item Investments.

The other writedowns have been booked to cover losses recorded by investee companies, deemed to be permanent.

EXTRAORDINARY REVENUES AND EXPENSES Euro/1000 (26,625)

Revenues Euro/1000 15,751

This item includes gains on the disposal of assets net of INVIM tax and directly attributable sales expenses for a total of Euro/1000 10,874, deriving from the disposal of land and buildings, as illustrated in the comment on tangible fixed assets.

The other extraordinary revenues break down as follows:

In Euro/1000	2003	2002
- Non-operating profits	3,247	5,775
- Gains on the disposal of investments	1,578	0
- Contributions to plant account	0	154
- Other extraordinary revenues	52	4,285
Total	4,877	10,214

Non-operating profits comprise adjustments to costs or revenues from previous years.

Gains on the disposal of investments refer to the disposal of the investment in SAT Società Aeroportuale Toscano.

Expenses Euro/1000 41,374

This item comprises taxes related to previous years (Euro/1000 433) and charges for adjustments to costs or revenues from previous years (Euro/1000 1,911), and other extraordinary expense made up of:

in Euro/1000	2003	2002
- Extraordinary expenses for company restructuring programmes	2,985	3,514
- Sundry non-operating losses	7,952	4,524
- Other extraordinary expenses	28,093	9,727
- Extraordinary expenses for damage sustained	0	197
- Extraordinary transaction expense	0	1,563
Total	39,030	19,525

Extraordinary expenses for company restructuring programmes reflect the cost met during the year for the restructuring plan approved last year, and a further provision of Euro/'000 1,500 during 2003. Non-operating losses are due essentially to the cost of the transaction with MV Agusta Motorcycles S.p.A, subscribed in September 2003 by the former Piaggio Holding S.p.A., which entails the closure of all open accounts even in the financial statements of Piaggio & C. S.p.A., and the adjustment of costs or revenues from previous years.

Other extraordinary expenses primarily comprise:

- Euro/1000 7,167 for the writedown of plant and expansion costs capitalised in 1999 as part of the acquisition by Piaggio Holding S.p.a., which no longer has any future usefulness in view of the new acquisition involving the Group;
- Euro/1000 9,490 for the writedown of research and development projects previously capitalised which have no future usefulness, because they are related to products that have never entered production or which have gone off the market before the complete amortisation of the projects;
- Euro/1000 2,440 for the writedown of commission on the medium/long-term loan granted by a pool of banks in 1999 to support the 1999 acquisition;
- Euro/1000 641 for the writedown of tangible fixed assets on products no longer in production;
- Euro/1000 6,252 for expense deriving from the termination of relations with the former Piaggio Holding S.p.A., under the contracts to transfer the Group to IMMSI S.p.A.;
- Euro/1000 1,451 for provisions to cover the dispute between Almec and Inps, charged to Piaggio & C. S.p.A. because of the guarantees given during the disposal of the investment;
- Euro/1000 393 for provisions to the agent's supplementary indemnity provision for previous years.

INCOME TAX FOR THE YEAR Euro/1000 5,571

No provision was made for corporate income tax on the basis of the year's result, whereas the provision for IRAP amounted to Euro/1000 5,571.

ANNEXES

The annexes comprise:

- table of changes to intangible fixed assets;
- table of changes to tangible fixed assets;
- table of changes to financial fixed assets;
- table of changes in Stockholders' equity accounts for the years closed on December 31, 2003 and 2002;
- list of investments in subsidiary and associated companies on December 31, 2003 as per art. 2427, para. 5 of the Italian Civil Code;
- table of assets still held under Law no. 72/1983 art. 10, which have been revalued in line with specific laws;
- cashflow statement for the years closed on December 31, 2003 and 2002;
- table of emoluments to Board of Directors;

and contain additional information that complements the present Notes, and are an integral part of said Notes.

Pontedera, 12 March 2004

for the Board of Directors

The Chairman

Dott. Roberto Colaninno

TABLE OF CHANGES IN INTANGIBLE ASSET ACCOUNTS FOR THE YEAR CLOSEDE AT DECEMBER 31 2003

Intangible fixed assets	Initial situation					Transactions in the year								Final Situation				
										Writedown								
	Original Cost	Writedown Reserves	Depreciation Reserves	Roun ding	Balance at 01.01.2003	Purchases	Divestim	Reclassific	Depreciation	Increases	Decreseas	Decreases Depreciation	Roun ding	Original Cost	Writedown Reserves	Depreciation Reserves	Roun ding	Balance at 31.12.2003
Costs of plant expansion	42.633.846	(6.065.045)	(22.931.348)	-	13.637.453	30.305	(7.425.580)	748.841	(6.857.086)	(7.166.696)	6.065.045	1.360.534	1	35.987.412	(7.166.696)	(28.427.900)	1	392.817
Costs of research and development	41.992.553	-	(28.153.655)	-	13.838.898	11.567.852	-	19.772.748	(16.724.573)	(9.622.317)	-	-	(1)	73.333.153	(9.622.317)	(44.878.228)	(1)	18.832.607
Industrial patent rights and intellectual poperty rights	972.302	-	(972.302)	-	-	-	-	-	-	-	-	-	-	972.302	-	(972.302)	-	-
Software	47.090.241	-	(38.989.207)	1	8.101.035	1.931.638	(591)	11.620	(5.319.634)	-	-	197	-	49.032.908	-	(44.308.644)	1	4.724.265
Concessions, licenses, trademarks and similar rights	55.157.597	-	(38.796.243)	1	16.361.355	-	-	-	(5.453.785)	-	-	-	-	55.157.597	-	(44.250.028)	1	10.907.570
Assets under construction and payments on account	26.576.129	-	-	-	26.576.129	12.211.513	-	(20.966.051)	-	-	-	-	-	17.821.591	-	-	-	17.821.591
Goodwill	371.704.468	-	(83.843.701)	-	287.860.767	627.077	-	-	(18.054.006)	(564.369)	-	-	-	372.331.545	(564.369)	(101.897.707)	-	269.869.469
Other intangible fixed assets	17.460.432	-	(11.527.232)	1	5.933.201	3.320.533	(3.228)	432.842	(1.959.258)	(2.497.120)	-	878	-	21.210.579	(2.497.120)	(13.485.612)	1	5.227.848
Total	603.587.568	(6.065.045)	(225.213.688)	3	372.308.838	29.688.918	(7.429.399)	-	(54.368.342)	(19.850.502)	6.065.045	1.361.609	-	625.847.087	(19.850.502)	(278.220.421)	3	327.776.167

TABLE OF CHANGES IN FINANCIAL FIXED ASSET ACCOUNTS

FOR THE YEAR CLOSED AT DECEMBER 31 2003

Financial fixed Assets	Initial Situation						Transaction in the Year								Final Situation					
	Original Cost	Revaluations	Depreciation Reserve	Depreciations	Rounding	Balance at 01.01.2003	Purchases	Reclassific.	Disinvest.	Depreciations (*)	Revaluation Incr./(Decr.)	Writedown (Incr.)/Decr.	Rounding	Decrease Deprec. Reser.	Original Cost	Revaluations	Depreciation Reserve (*)	Depreciations	Rounding	Balance at 31.12.2003
Land & building	80.067.140	7.030.287	(20.495.001)	-	1	66.602.427	1.448.617	243.359	(10.425.400)	(2.231.978)	(489.691)	-	-	3.704.287	71.333.716	6.540.596	(19.022.692)	-	1	58.851.621
Plant and Machinery	188.018.670	868.072	(147.092.720)	-	-	41.794.022	3.746.754	1.434.333	(9.970.219)	(9.393.112)	-	-	-	9.803.540	183.229.538	868.072	(146.682.292)	-	-	37.415.318
Industrial and commercial equipment	227.502.782	-	(195.053.963)	-	1	32.448.820	15.906.061	3.969.603	(3.800.740)	(18.304.297)	-	(1.979.810)	-	3.654.410	243.577.706	-	(209.703.850)	(1.979.810)	1	31.894.047
Other tangible assets	22.941.743	-	(18.847.406)	-	-	4.094.337	685.316	-	(234.260)	(1.431.818)	-	-	(1)	224.659	23.392.799	-	(20.054.565)	-	(1)	3.338.233
Fixed assets under construction & payments on account	7.320.815	-	-	-	(1)	7.320.814	9.539.739	(5.647.295)	(1.291.142)	-	-	-	-	-	9.922.117	-	-	-	(1)	9.922.116
T OT A L	525.851.150	7.898.359	(381.489.090)	-	1	152.260.420	31.326.487	-	(25.721.761)	(31.361.205)	(489.691)	(1.979.810)	(1)	17.386.896	531.455.876	7.408.668	(395.463.399)	(1.979.810)	0	141.421.335
(*)of which payed in advance			(57.881.086)											3.951.778			(53.929.308)			

TABLE OF CHANGES IN FINANCIAL FIXED ASSET ACCOUNTS
FOR THE YEAR CLOSED AT DECEMBER 31 2003

Financial fixed Assets	Initial Situation: Original cost or value	Revalutations	Writedowns	Balance 1°/01/2003	Transactions in the year: Increases	Reclassifications	Net decreases	Revaluations	(Writedowns)	Resets	Rounding	Final Situa[tion]: Balance 31/12/2003
Investments												
Subsidiary companies	131.284.142	-	(83.762.089)	47.522.053	51.557.201	2.444.669	(2.510.731) *	-	(10.000.000)	-	(1)	89.013.191
Assoc. Companies	15.509.396	-	(13.470.757)	2.038.639	170.000	-	-	-	(102.296)	-	-	2.106.343
Other companies	2.211.691	-	(737.129)	1.474.562	-	-	(281.727) **	-	(1.084.559)	-	(1)	108.275
Total Investments	**149.005.229**	**-**	**(97.969.975)**	**51.035.254**	**51.727.201**	**2.444.669**	**(2.792.458)**	**-**	**(1.186.855)**	**-**	**(2)**	**91.227.809**
Receivables												
From subsidiary Comp.	16.029.486	-	-	16.029.486	16.870.141	(2.450.731)	-	-	-	-	-	30.448.896
From assoc. Comp.	-	-	-	-	-	-	-	-	-	-	-	-
From other Comp.	402.333	-	-	402.333	434.568	6.062	(126.377) ***	-	-	-	-	716.586
Total Receivables	**16.431.819**	**-**	**-**	**16.431.819**	**17.304.709**	**(2.444.669)**	**(126.377)**	**-**	**-**	**-**	**-**	**31.165.482**

*** of which:**	
Original cost	**(2.510.731)**
**** of which**	
Original cost	**(281.727)**
***** of which**	
Original cost	**(126.377)**

ELENCO DELLE PARTECIPAZIONI IN IMPRESE CONTROLLATE E COLLEGATE
AL 31 DICEMBRE 2003 (ART. 2427 n. 5 c.c.)

Name		Head offices		Capital Stock	Stockholders Equity Total amount	Stockholders Equity pro-quota amount (A)	Result for the Year Total amount	Result for the Year pro-quota amount	Ownership amount	Carrying value (B)	Differences (A) - (B)
Subsidiaries companie											
- P & D Spa		Pontedera (PI)	€	15.600.000	28.147.994	28.147.994	(1.591.948)	(1.591.948)	100%	36.426.171	(8.278.177)
- Piaggio Vespa B.V.		Amsterdam	€	90.756	11.979.557	11.979.557	7.150	7.150	100%	11.927.120	52.437
- Piaggio China Co ltd		Hong Kong	USD	12.100.000	(175.356)	(175.356)	(29.392)	(29.392)	100%	n/a	n/a
" "	(1)	"	€	9.580.364	(138.841)	(138.841)	(23.272)	(23.272)	100%	(140.054)	1.213
- Universal Dinamic Investment ltd		Hong Kong	USD	7.483.439	(54.598)	(54.598)	(2.985)	(2.985)	100%	n/a	n/a
" " "	(1)	"	€	5.925.130	(43.229)	(43.229)	(2.363)	(2.363)	100%	(54.485)	11.256
- Piaggio Foshan Motorcycle Ltd		Foshan	RMB	255.942.515	(161.558.376)	(161.558.376)	(70.556.414)	(70.556.414)	25% (3)	n/a	n/a
" " "	(2)	"	€	24.474.307	(15.448.896)	(15.448.896)	(6.746.903)	(6.746.903)	25% (3)	(20.104.844)	4.655.948
- Piaggio Vehicles Private Ltd		Pune (India)	RPS	340.000.000	691.159.749	632.491.345	119.692.269	109.532.310	91,5116% (3)	n/a	n/a
" " "	(4)	"	€	5.904.623	12.003.052	10.984.185	2.078.640	1.902.197	91,5116% (3)	15.619.576	(4.635.391)
- Nacional Motor SA (Derbi)		Barcellona (Spagna)	€	9.182.190	(4.800.682)	(4.800.682)	(8.467.297)	(8.467.297)	100%	25.040.324	(29.841.006)
Associated companie											
- Motoride SPA		Pontedera	€	1.989.973	1.833.740	518.737	(54.296)	(15.359)	28,288%	518.737	0
- Almec Spa		Montemiletto (AV)	€	12.188.383	n/a	n/a	n/a	n/a	30%	899.602	n/a
- C.R.B. Consorzio Ricerche Benevento	(5)	Nusco (AV)	€	123.950	123.950	30.988	0	0	25%	0	30.988
- Mitsuba FN Europe Spa	(6)	Pisa (loc. Mortellini)	€	500.000	790.953	158.191	7.607	1.521	20%	667.346	(509.155)
- Fondazione Piaggio		Pontedra	€	103.291	103.291	51.646	n/a	n/a	50%	0	n/a
- Pontech Soc. Cons. a Resp. Limitata		Pontedra	€	103.291	n/a	n/a	n/a	n/a	20%	20.658	n/a

(1) Exchange rate at 31.12.2003 USD/ € 1,263
(2) Exchange rate at 31.12.2003 RMB/ € 10,4576
(3) Direct ownership quota
(4) Exchange rate at 31.12.2003 RPS/ € 57,582
(5) Stockholders equity at 31/12/2001
(6) Data at 31/12/2003 not definitive

TABLE OF ASSETS STILL FORMING PART O FEQUITY FOR THE PURPOSES OF LAW NO. 72/1983, ART. 10, WHICH HAVE BEEN REVALUED IN ACCORDANCE WITH THE LAW

Tangible fixed assets	Historic costs	Law N. 823 of 19.11.73	Law N. 576 of 2.12.75	Law N. 72 of 19.3.83	Law N. 413 of 30.12.91	Revaluation exception to art.2425 C.C.	Values to 31.12.03	Writedown Reserves at 31.12.03	Depr. Reserves at 31.12.03 (*)	Rounding	Balance sheet values at 31.12.03
Land and buildings	71.333.696	16.113	422.639	2.038.630	3.165.148	898.086	77.874.312		(19.022.692)	1	58.851.621
Plants and machinery	183.229.538	-	166.064	702.008	-	-	184.097.610		(146.682.292)	-	37.415.318
Industrial equipment	243.577.706	-	-	-	-	-	243.577.706	(1.979.810)	(209.703.850)	1	31.894.047
Other tangible fiexed assets	23.392.799	-	-	-	-	-	23.392.799		(20.054.565)	(1)	3.338.233
Fisexed assets under construction	9.922.116	-	-	-	-	-	9.922.116		-	-	9.922.116
Total	531.455.855	16.113	588.703	2.740.638	3.165.148	898.086	538.864.543		(395.463.399)	1	141.421.335
(*) of which accelerated ===>									(53.929.308)		

CASHFLOW STATEMENT

	2004	31.12.2002
A. NET FINANCIAL DEBT AT START	(499,185,888)	(489,420,541)
B. CASHFLOW FROM (FOR) OPERATING ACTIVITIES		
Profit (loss) for the year	(122,376,326)	(68,119,920)
Amortisation and depreciation	85,729,547	86,608,475
(Gains) or losses from disposal of fixed assets	12,448,774	(2,382,571)
(Revaluations) or writedowns of fixed assets	42,397,550	(2,789,163)
Net change in employee retirement indemnity reserve and other reserves	19,013,384	(18,450,853)
Profit (Loss) on operating activities prior to changes in working capital	**12,315,381**	**(5,134,032)**
(Increase) Decrease in current payables	52,464,223	25,823,096
(Increase) Decrease in inventories	22,633,527	16,272,579
Increase (Decrease) in payables to suppliers and other payables	8,905,482	(24,846,271)
(Increase) Decrease in other working capital items	(736,048)	140,390
	95,582,565	**12,255,762**
C. CASHFLOW FROM (FOR) CAPITAL SPENDING ACTIVITIES		
Spending on fixed assets:		
intangible	(29,688,917)	(31,027,587)
tangible	(31,326,487)	(18,649,366)
financial	(69,031,910)	(10,085,433)
Price obtained for or reimbursement value of fixed assets	24,194,909	5,741,280
	(105,852,405)	**(54,021,106)**
D. CASHFLOW FROM (FOR) FINANCIAL ACTIVITIES		
Payments by shareholders on capital account		32,000,000
Increase in capital stock	152,750,000	
Increase in share premium reserve	82,250,000	
Other decr. in stockholders' equity (euro translation rounding reserve	(4)	(3)
	234,999,996	**31,999,997**
E. CASHFLOW FOR THE PERIOD (B+C+D)	**224,730,156**	**(9,765,347)**
F. NET FINANCIAL INDEBTEDNESS AT END (1) (A+E)	**(274,455,732)**	**(499,185,888)**
(1)Made up as follows:		
Cash	4,451,897	11,837,211
Financial acitivty receivables not constituting fixed assets	9,510,187	38,053,627
Short-term bank payables	(28,604,179)	(108,686,747)
M/L term bank payables (including short-term quota)	(204,047,828)	(409,048,981)
M/L term payables to other financiers (including short term quota)	(1,704,033)	(1,911,748)
Financial payables to subsidiary companies	(38,587,958)	(28,966,319)
Financial payables to associated companies	(473,818)	(462,931)
Financial payables to main companies	(15,000,000)	(462,931)
	(274,455,732)	**(499,185,888)**

TABLE OF EMOLUMENTS paid to Directors and Internal Auditors
FINANCIAL STATEMENTS AT 31/12/03

Table of emoluments paid to Directors and Internal Auditors

(Values in ¤/'000)

NAME/SURNAME	OFFICE HELD	PERIOD FOR WHICH OFFICE HELD	EMOLUMENTS FOR OFFICE IN THE COMPANY DRAFTING THE **FINANCIAL STATEMENTS**
BOARD OF DIRECTORS			
Roberto COLANINNO	Chairman	from 23/10 to 31/12/03	93
Rocco SABELLI	Managing Director	from 23/10 to 31/12/03	112
Matteo COLANINNO	Director	from 23/10 to 31/12/03	
Graham CLEMPSON	Director	from 23/10 to 31/12/03	
Vincenso DE BUSTIS FIGAROLA	Director	from 23/10 to 31/12/03	
Piero FARAONI	Director	from 23/10 to 31/12/03	
Luciano Pietro LA NOCE	Director	from 23/10 to 31/12/03	
Giogio MAGNONI	Director	from 23/10 to 31/12/03	
Gaetano MICCICHE'	Director	from 23/10 to 31/12/03	
BOARD OF STATUTORY AUDITORS			
Antonino PARISI	Chairman	from 23/10 to 31/12/03	2
Attilio Francesco ARIETTI	Auditor	from 23/10 to 31/12/03	1
Alessandro LAI	Auditor	from 23/10 to 31/12/03	1
Mauro GIRELLI	Alternate Auditor	from 23/10 to 31/12/03	
Maurizio MAFFEIS	Alternate Auditor	from 23/10 to 31/12/03	

PIAGGIO & C. S.p.A.

THE BOARD OF STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS CLOSED ON 31.12.2003

Stockholders,

We submit the financial statements of Piaggio & C. S.p.A. for the year closed on December 13, 2003, which present a loss of Euro 122,376,326, for your approval.

These financial statements, drafted by the Board of Directors in compliance with the Law, and duly transmitted by the same to the Board of Auditors with the Report on operations, have been audited and are presented together with the consolidated financial statements. The latter have been prepared in spite of the fact that the conditions for exemption exist under art. 27 of Legislative Decree no. 127 of April 9, 1991.

During the year, the Board of Auditors – the composition of which was changed on October 23, 2003 following the renewal of the company organs as part of the extraordinary operation leading to the change of ownership of the company – has performed the watchdog role envisaged by law, under arts. 2403 and following of the Italian Civil Code.

Subsequent to the acquisition of the company by Immsi S.p.A., a listed company, the duties of the Board of Auditors have changed: the Board now has to comply with art. 156 of Legislative Decree no. 58 of February 24, 1998, regarding companies controlled by listed companies. As a result, the stockholders' meeting of January 26, 2004 has employed Deloitte & Touche S.p.A. as the external auditor, to audit the statutory and consolidated financial statements for the three years 2003,

2004 and 2005, to audit the consolidated half-year report for 2004 and 2005, and finally to perform a regular inspection of the company's accounting records in 2004 and 2005.

After having verified that during 2003 no facts emerged that are worthy of mention in relation to its previous responsibilities, the Board of Auditors has therefore drafted this report on the basis of its new role, in compliance with Legislative Decree no. 58/98.

In order to allow information to supplement that of the parent company Immsi, a listed company, this report also complies, where and when compatible, with the request for information contained in CONSOB bulletins no. DEM/1025564 of April 6, 2001 and no. DAC/RM/97001574 of February 20, 1997 regarding listed companies: the purpose of this is to allow more effective coordination of information within the Group.

In particular, we inform you that:

1– The Board of Auditors has been correctly informed about the operations of major economic significance undertaken by the Company in the past year, through reports and data communicated during the meetings of the Board of Directors, which the Board of Auditors has always attended.

This regards the following operations in particular:

♦ acquisition by Immsi S.p.A., recapitalisation and restructuring of the medium/long-term debt. This operation entailed:

- changes to the group structure of Piaggio & C., with the entrance of Immsi as the new governing body, and the participation of creditor banks in the company capital stock; as a result of this reorganisation, Piaggio & C. is now controlled 100% by the newly created Dutch company Piaggio Holding Netherlands B.V., owned by Immsi (31.25%), PB s.r.l., owned in turn by the creditor banks of the Piaggio Group (37.50%), and Scooter Holding 3 B.V. (31.25%), a company created by the former Piaggio Holding S.p.A. and the previous stockholders. Immsi has the majority of voting rights at the Piaggio Holding Netherlands B.V. stockholders meetings, and the majority of members on the Supervisory Boards of both Piaggio Holding Netherlands B.V. and Piaggio & C. S.p.A.;

- the redefinition of the financial structure, with a capital stock increase and a corresponding adjustment to indebtedness, accompanied by the reformulation of the repayment schedule for the debts with the creditor banks;

- acquisition from the former Piaggio Holding S.p.A., of the Spanish company Nacional Motor S. A., owner of the Derbi trademark, and of the company division of the former Piaggio Holding S.p.A. that manages all the Group's administrative, financial and control activities.
- acquisition of the investment held by Daihatsu Motor Co. Ltd. in P&D, equal to 49% of the capital stock. As a result of this operation, Piaggio & C. now owns 100% of P&D;
- the start of negotiations with the Zongshen Group with the aim of decreasing the investment in Piaggio Foshan Motorcycles, and gradually eliminating the guarantees in favour of said company; negotiations were still underway when the financial statements were closed;
- the merger of Piaggio India Pvt Ltd. with Piaggio Vehicles Pvt Ltd.;
- the acquisition by Piaggio Espana SA, a subsidiary of Piaggio Vespa BV, of 30% of the capital stock of the affiliated company Piaggio Deutschland Gmbh;
- the solution of the dispute between the former Piaggio Holding S.p.A. and MV Agusta Motor S.p.a. for the disposal of the MV Agusta Motorcycles S.p.A. company, owner of the Husqvarna and Cagiva trademarks and manufacturer of the motorcycles with these trademarks.

The complex series of operations described above have removed the reservations expressed in the Board of Auditors' Report on the Statutory Financial statements closed on 31.12.2002, and in the report of the external auditors KPMG S.p.A. dated June 6, 2003 – October 6, 2003.

We believe that these operations respect the Law and company Articles and that they are not manifestly imprudent or reckless, do not contrast with the resolutions adopted by the Stockholders' meeting, nor are they likely to jeopardise the integrity of Stockholders' equity.

2- The following operations with related parties or between Group companies are particularly significant:

a) operations of an ordinary nature related to infra-group purchases/sales, which the Board of Directors' Report states are performed at normal market values; in particular, revenues deriving essentially from the sale of vehicles and parts, plus costs charged to the company for personnel seconded to subsidiary companies. Revenues from associated companies refer to rejects or manpower losses charged to them. Costs from parent companies derive from financing operations and/or guarantees outstanding at year-end. Costs from subsidiary companies derive from the purchase of vehicles and parts during the year. Costs from associated companies derive from the purchase of components for vehicles and engines.

b) operations linked to the corporate and financial reorganisation of the Group, as described in paragraph 1 above. In detail:

- the Piaggio Group has a number of financing operations and derivative contracts outstanding with the banks that make up the capital stock of PB s.r.l.; these loans are backed by collateral on the real estate linked to the company's core business and on the machinery in particular, in addition to a pledge on 100% of the packet of company stock which is in the hands of Piaggio Holding Netherlands B.V..

- Piaggio & C. S.p.A. has also received a loan of ¤ 15,000,000 from the parent company Immsi S.p.A. and credit facilities from third parties, ¤ 125 million of which from banks investing in PB s.r.l. These credit facilities are not secured by guarantee.
- in 2003, Piaggio & C. S.p.A. met: - commissions on the pledge that Piaggio Holding Netherlands B.V. has issued on Piaggio & C. stock, in favour of the banks that have taken part in the corporate *restructuring*; - interest payable on the loan received from Immsi S.p.A.;

- the start of negotiations with the Zongshen Group for the disposal of a share of the investment in Piaggio Foshan Motorcycles is also directed at the gradual elimination of the guarantees given in favour of the Chinese subsidiary.
- "Financial assets not constituting fixed assets" include a loan granted to the former parent company Piaggio Holding S.p.A. in relation to the MV-Agusta operation.

Operations related to the MV Agusta transaction, and the other operations between group companies and with related parties mentioned here, are justified by the complex, far-reaching operation that has led to the merger with the Immsi group and to the substantial restructuring of the Group's financial set-up.

Where we are concerned, we believe that said operations are in the company's interest.

3- The Directors' Report on Operations describes operations between Group companies or with related parties. We believe that the report on operations also describes the essential elements with regard to the characteristics of the operations and their economic effects, in paragraphs 10, "Relations between Group companies", and 11.4, "Relations with related parties".

4- On March 29, 2004, the external auditors Deloitte & Touche S.p.A. issued its report, under article 156 of Legislative Decree no. 58/1998, in which it declares that the statutory financial statements closed at December 31, 2003 give a truthful, correct picture of the company's equity and financial situation and operating results.

This report contains the following proviso, of which the Board of Auditors takes note: *"The company's statutory financial statements at December 31, 2003 present a loss of Euro 122.376 million. This loss is attributable not only to the sluggish reference market, but also to the new strategies defined by the Board of Directors in the 2004-2007 industrial plan formulated during the acquisition by IMMSI S.p.A. at the end of the year. In contrast to normal operations, this has resulted in the emergence of extraordinary non-repetitive* *components related to the restructuring of the financial debt, the termination of relations with the previous parent company, the writedown of assets and allocations to risk provisions. The nature of these components and their impact in economic and equity terms are described in detail in the Report on Operations and the Notes to the financial statements."*

The external auditors have also prepared a report on the consolidated financial statements, which contains a similar informative proviso.

5 - No allegations have reached this Board during the year under article 2408 of the Italian Civil Code.

6 – No complaints have reached the Board of Auditors.

7 – The external auditors KPMG, which audited the financial statements at 31.12.2002, have been commissioned to audit the accounts of Piaggio & C., and to carry out the audit during the period of *due diligence* in Spain (charged to Piaggio & C. by Nacional Motor at Euro 22,000).

8 - KPMG Business Advisory Services has performed activities relating to the analysis and improvement of financial operations and the subsequent implementation of the SAP Cash Management module, providing assistance in the creation of a medium-term financial planning tool for the Piaggio Group, the cost of which amounts to Euro 133,490.

9 - During the year, and when appropriate, the Board of Auditors has formulated the opinions envisaged by Law.

Decisions taken subsequently are not in contrast with said opinions.

10 - During the year, the Board of Auditors has held 5 plenary meetings.

Moreover, the Board of Auditors has attended the ordinary and extraordinary Stockholders' meetings held last year, as well as those of the Board of Directors.

11 – In the performance of its mandate, the Board of Auditors has acquired information,

and has checked, within the limits of its responsibilities, that the principles of correct administration have been respected, by direct observation, by gathering information from the head of the administrative function and the heads of specific functional areas, and by meeting with the external auditors, in order to maintain a mutual exchange of relevant information.
In this regard, this Board refers you to the considerations contained in paragraph 12 below.

12 – The Board of Auditors has become familiar with the company's organisational structure. This structure is undergoing a process of adaptation, partly in relation to the impulse given by the new owners.

13 – The new owners have envisaged an Internal Control System, which will be implemented in the course of the current year. Where the internal audit system is concerned, the company will draw on the professional services of the E-Consulting company for all connected relations and operations of the company and the Group.

14 The company has an administrative department whose structure was illustrated to the Board of Auditors during a visit to headquarters. As a result, this Board is convinced that this area is under control.

15 -The company has investments in subsidiary companies, both Italian and foreign, with which it coordinates activities, partly through the presence of people appointed to the Boards of said companies.

16 – No significant elements have emerged during the meetings held with the auditors, under article 150, paragraph 2 of Legislative Decree no. 58/98 .

17 - Because the company is not listed on the Stock Exchange, it has not adopted the "Code of self-discipline" of the Commission for *Corporate Governance* of listed companies.

18 – As a result of the above, the Board of Auditors can declare that, during its supervision

and control no further elements have emerged that require inclusion in the present report.

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We also point out that in the statutory financial statements and the consolidated financial statements the item relating to goodwill and to the consolidation difference is substantial. This goodwill is the result of the merger deficit arising from the incorporation of Piaggio & C. and Vipifin S.p.A. in Piaggio & C. S.p.A. (formerly MOD S.p.A.) in 2000, and will be amortised in 20 years. The consolidation difference is fuelled to a large extent by this goodwill.

The Board of Auditors has been able to ascertain that the company is monitoring the sustainability of this value in the light of perspective analysis of the management programme laid out in the development plans.

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Stockholders,

Taking into account the comments made on operations and on the results, the Board of Auditors asks you to approve the Financial Statements at December 31, 2003, as they have been prepared by the Board of Directors.

We also approve the Board's proposal regarding the provision to cover losses for the year and those carried forward.

March 30, 2004

THE BOARD OF STATUTORY AUDITORS

Dott. Antonino PARISI – *Chairman of the Board of Auditors*

Dott. Attilio Francesco ARIETTI - *Member*

Prof. Alessandro LAI - *Member*

Deloitte.

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EXTERNAL AUDITORS' REPORT
AS PER ARTS. 156 AND 165 OF LEGISLATIVE DECREE No. 58 OF 24.2.1998

To the Stockholders of
Piaggio & C. S.p.A.

1. We have audited the consolidated financial statements of Piaggio & C. S.p.A. (the "Group") closed on December 31, 2003. Responsibility for drafting the financial statements lies with the Directors of Piaggio A C. S.p.A.. It is our responsibility to express a professional opinion on the financial statements based on our audit of the accounts.

2. Our examination was conducted according to the principles and criteria for accounting audits recommended by CONSOB. In compliance with these principles, the audit was planned and performed to enable us to acquire any element necessary to ascertain whether the consolidated financial statements contained any significant errors, and whether they were reliable as a whole. The audit procedure includes an examination, on the basis of sample checks, of the elements that justify the balances and information contained in the financial statements, and an analysis of the suitability and correctness of the accounting criteria used, and the soundness of the estimates made by the Directors. We believe that the work done provides a reasonable basis on which to express our professional opinion.

   As described in the report on operations and in the notes to the financial statements, because of the essential continuation of the activities at Piaggio &. C. S.p.A. from 2002 to 2003, the data from the consolidated statements for 2003 have been compared with pro forma statements for 2002, which have not been audited, drafted on the basis of the area of consolidation outstanding at December 31, 2003, the sole exception being the companies of the Derbi Group, acquired by Piaggio & C. S.p.A. in October 2003.

3. In our opinion, the consolidated financial statements of Piaggio & C. S.p.A. at December 31, 2003, respect the standards for their preparation; as a result, they are clearly drafted and present a truthful, correct picture of the Group's equity and financial situation and operating results.

4. We draw your attention to the fact that the Group's consolidated financial statements at December 31, 2003 present a loss of Euro 138.443 million. This loss is attributable not only to the sluggish reference market, but also to the new strategies defined by the Board of Directors in the 2004-2007 industrial plan formulated during the acquisition by IMMSI S.p.A. at the end of the year. In contrast to normal operations, this has resulted in the emergence of extraordinary non-repetitive components related to the restructuring of the financial debt, the termination of relations with the previous parent company, the writedown of assets and allocations to risk provisions. The nature of these components and their impact in economic and equity terms are described in detail in the Report on Operations and the Notes to the financial statements.

DELOITTE & TOUCHE S.p.A.

Vincenzo Mignone
Partner

Milan, March 29, 2004

Deloitte.

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AS PER ARTS. 156 AND 165 OF LEGISLATIVE DECREE No. 58 OF 24.2.1998

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1. We have audited the statutory financial statements of Piaggio & C. S.p.A. (the "Company") closed on December 31, 2003. Responsibility for drafting the financial statements lies with the Directors of Piaggio & C. S.p.A.. It is our responsibility to express a professional opinion on the financial statements based on our audit of the accounts.

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3. In our opinion, the statutory financial statements of Piaggio & C. S.p.A. at December 31, 2003, respect the standards for their preparation; as a result, they are clearly drafted and present a truthful, correct picture of the Company's equity and financial situation and operating results.

4. We draw your attention to the fact that the Company's statutory financial statements at December 31, 2003 present a loss of Euro 122.376 million. This loss is attributable not only to the sluggish reference market, but also to the new strategies defined by the Board of Directors in the 2004-2007 industrial plan formulated during the acquisition by IMMSI S.p.A. at the end of the year. In contrast to normal operations, this has resulted in the emergence of extraordinary non-recurrent components related to the restructuring of the financial debt, the termination of relations with the previous parent company, the writedown of assets and allocations to risk provisions. The nature of these components and their impact in economic and equity terms are described in detail in the Report on Operations and the Notes to the financial statements.

DELOITTE & TOUCHE S.p.A.

Vincenzo Mignone
Partner

Milan, March 29, 2004