PIAGGIO GROUP

Financial Statements 2017

Contents

REPORT ON OPERATIONS

Key operating and financial data [1]

	2017	2016	2015
In millions of euros			
Data on financial position			
Net revenues	1.342,4	1,313.1	1,295.3
Gross industrial margin	411.3	389.2	374.4
Operating income	72.3	60.9	56.7
Profit before tax	40.1	25.5	20.1
Net profit	20.0	14.0	11.9
.Non-controlling interests			
.Group	*20.0*	*14.0*	*11.9*
Data on financial performance			
Net capital employed (NCE)	831.8	884.7	902.4
Net debt	(446.7)	(491.0)	(498.1)
Shareholders' equity	385.1	393.7	404.3
Balance sheet figures and financial ratios			
Gross margin as a percentage of net revenues (%)	30.6%	29.6%	28.9%
Net profit as a percentage of net revenues (%)	1.5%	1.1%	0.9%
ROS (Operating income/net revenues)	5.4%	4.6%	4.4%
ROE (Net profit/shareholders' equity)	5.2%	3.6%	2.9%
ROI (Operating income/NCE)	8.7%	6.9%	6.3%
EBITDA	192.3	170.7	161.8
EBITDA/net revenues (%)	14.3%	13.0%	12.5%
Other information			
Sales volumes (unit/000)	552.8	532.0	519.7
Investments in property, plant and equipment and intangible assets	86.7	96.7	101.9
Research and Development[2]	43.9	50.1	46.8
Employees at the end of the period (number)	6,620	6,706	7,053

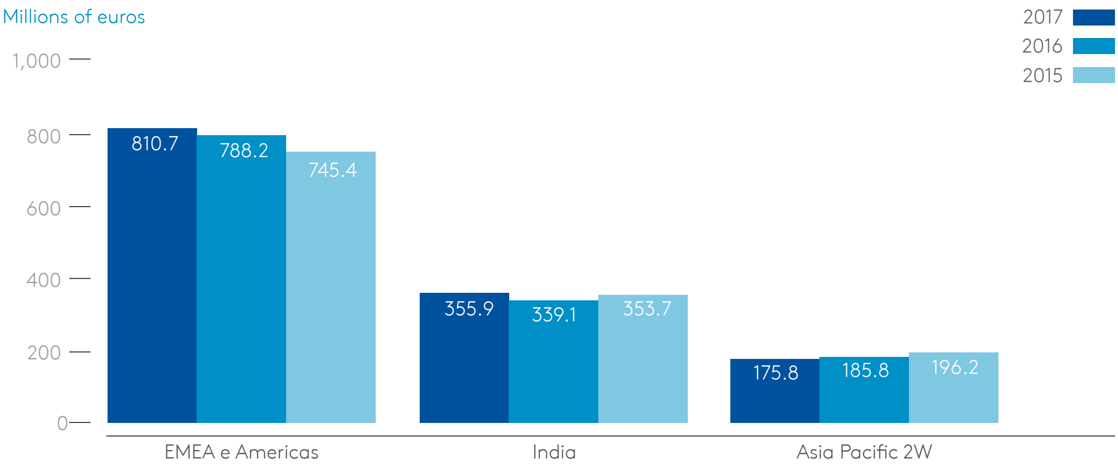
1) For a definition of individual items, see the "Economic Glossary".

2) The item Research and Development includes investments for the year recognised in the statement of financial position and costs recognised in profit or loss.

Results by operating segments

		EMEA and AMERICAS	INDIA	ASIA PACIFIC 2W	TOTAL
Sales volumes (units/000)	2017	245.9	228.7	78.2	**552.8**
	2016	237.5	212.9	81.6	**532.0**
	Change	8.4	15.8	(3.5)	**20.7**
	Change %	3.5%	7.4%	-4.2%	**3.9%**
Turnover (million euros)	2017	810.7	355.9	175.8	**1.342,4**
	2016	788.2	339.1	185.8	**1,313.1**
	Change	22.5	16.8	(10.0)	**29.3**
	Change %	2.9%	5.0%	-5.4%	**2.2%**
Average number of staff (no.)	2017	3,730	2,109	829	**6,668**
	2016	3,827	2,286	869	**6,982**
	Change	(97)	(177)	(40)	**(314)**
	Change %	-2.5%	-7.7%	-4.6%	**-4.5%**
Investments property, Property, plant and equipment intangible assets (million euros)	2017	65.1	15.1	6.5	**86.7**
	2016	71.9	15.3	9.5	**96.7**
	Change	(6.9)	(0.2)	(2.9)	**-10.0**
	Change %	-9.5%	-1.2%	-30.9%	**-10.3%**
Research and Development[3] (million euros)	2017	34.2	6.1	3.6	**43.9**
	2016	40.0	4.4	5.7	**50.1**
	Change	(5.8)	1.7	(2.1)	**(6.2)**
	Change %	-14.4%	37.8%	-37.1%	**-12.4%**

3) The item Research and Development includes investments for the year recognised in the statement of financial position and costs recognised in profit or loss.



Revenues by geographic segment

Sales volumes by geographic segment 2017

Group profile

The Piaggio Group, based in Pontedera (Pisa, Italy) is Europe's largest manufacturer of two-wheeler motor vehicles and an international leader in its field. The Group is also a major player worldwide in the commercial vehicles market.

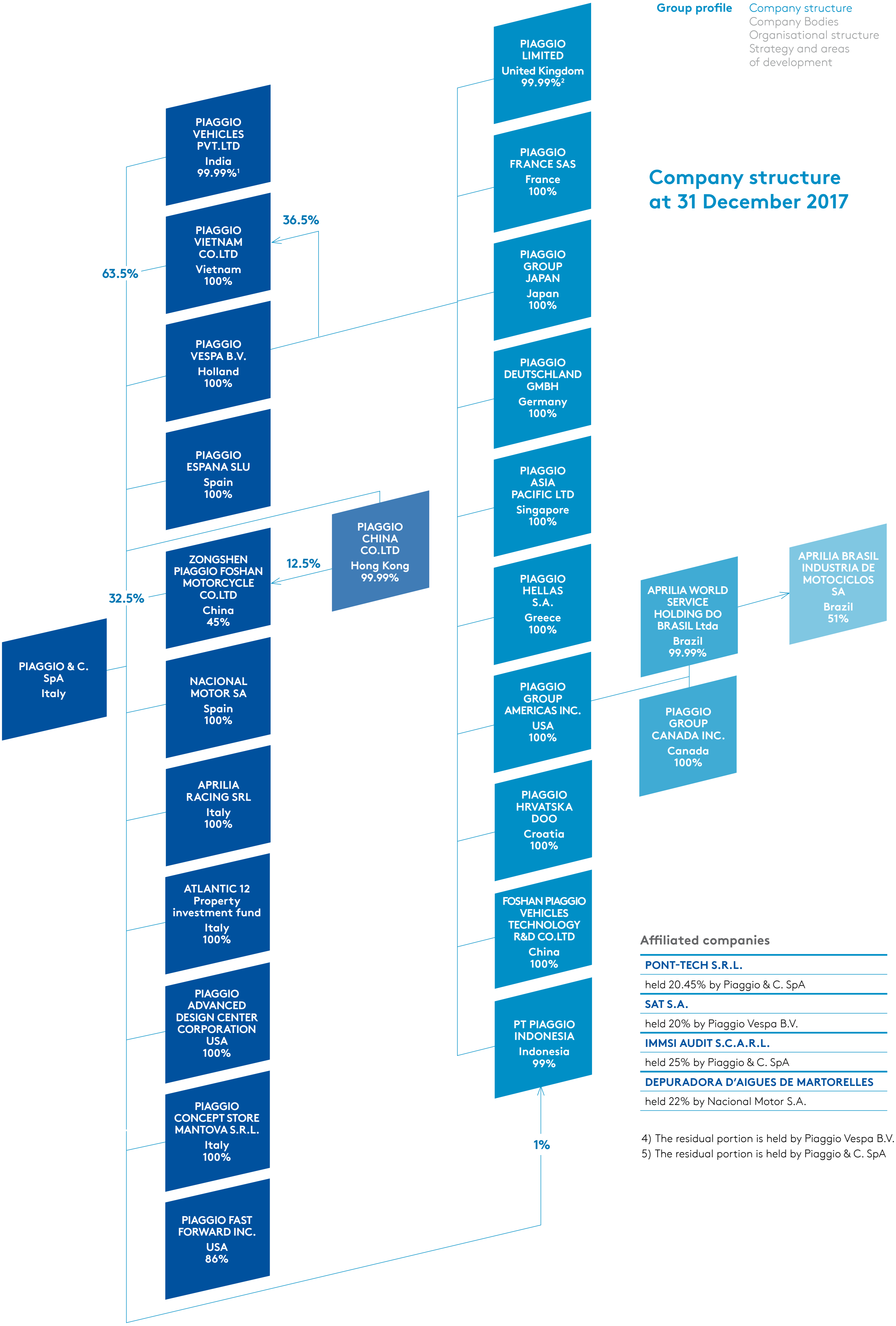
Mission

The mission of the Piaggio Group is to generate value for its shareholders, clients and employees, by acting as a global player that creates superior quality products, services and solutions for urban and extraurban mobility that respond to evolving needs and lifestyles.
To stand out as a player that contributes to the social and economic growth of the communities in which it operates, considering, in its activities, the need to protect the environment and the collective well-being of the community. To be an Italian global player in the light mobility segment, standing out for its superior design, creativity and tradition. To become a leading European company with a world class reputation, championing a business model based on the values of quality and tradition, and on the ongoing creation of value.

Values

› ***Value for customers:*** Managing and developing a fast, flexible organisation, in which all processes, persons and external partners (suppliers and dealers) are focused on the generation of value perceivable by the client.
› ***Value for shareholders:*** Achieving objectives for returns on capital employed to meet the expectations of shareholders and ensure ongoing growth.
› ***Value of people:*** Nurturing the capabilities and talents of each individual, attracting and retaining the highest value resources.
› ***Value of brands:*** Investing in brand strength as leverage for developing market share and building a unique and distinctive market positioning.
› ***Customer-focussed innovation:*** Developing innovative products that stand out for their unique style, quality, safety, energy efficiency and low environmental impact.
› ***Internationalisation:*** Becoming a truly multinational business in terms of organisation, culture, global market presence and respect for local culture in each of the countries in which the group operates, and in exemplary the way its international human resources are handled.

Company structure at 31 December 2017



Affiliated companies

PONT-TECH S.R.L.	held 20.45% by Piaggio & C. SpA
SAT S.A.	held 20% by Piaggio Vespa B.V.
IMMSI AUDIT S.C.A.R.L.	held 25% by Piaggio & C. SpA
DEPURADORA D'AIGUES DE MARTORELLES	held 22% by Nacional Motor S.A.

4) The residual portion is held by Piaggio Vespa B.V.
5) The residual portion is held by Piaggio & C. SpA


Vespa
Primavera

Company Bodies

Board of Directors	
Chairman and Chief Executive Officer	Roberto Colaninno (1), (2)
Deputy Chairman	Matteo Colaninno
Directors	Michele Colaninno
	Giuseppe Tesauro (3), (4), (5), (6)
	Graziano Gianmichele Visentin (4), (5), (6)
	Maria Chiara Carrozza (4)
	Federica Savasi
	Vito Varvaro (5), (6)
	Andrea Formica

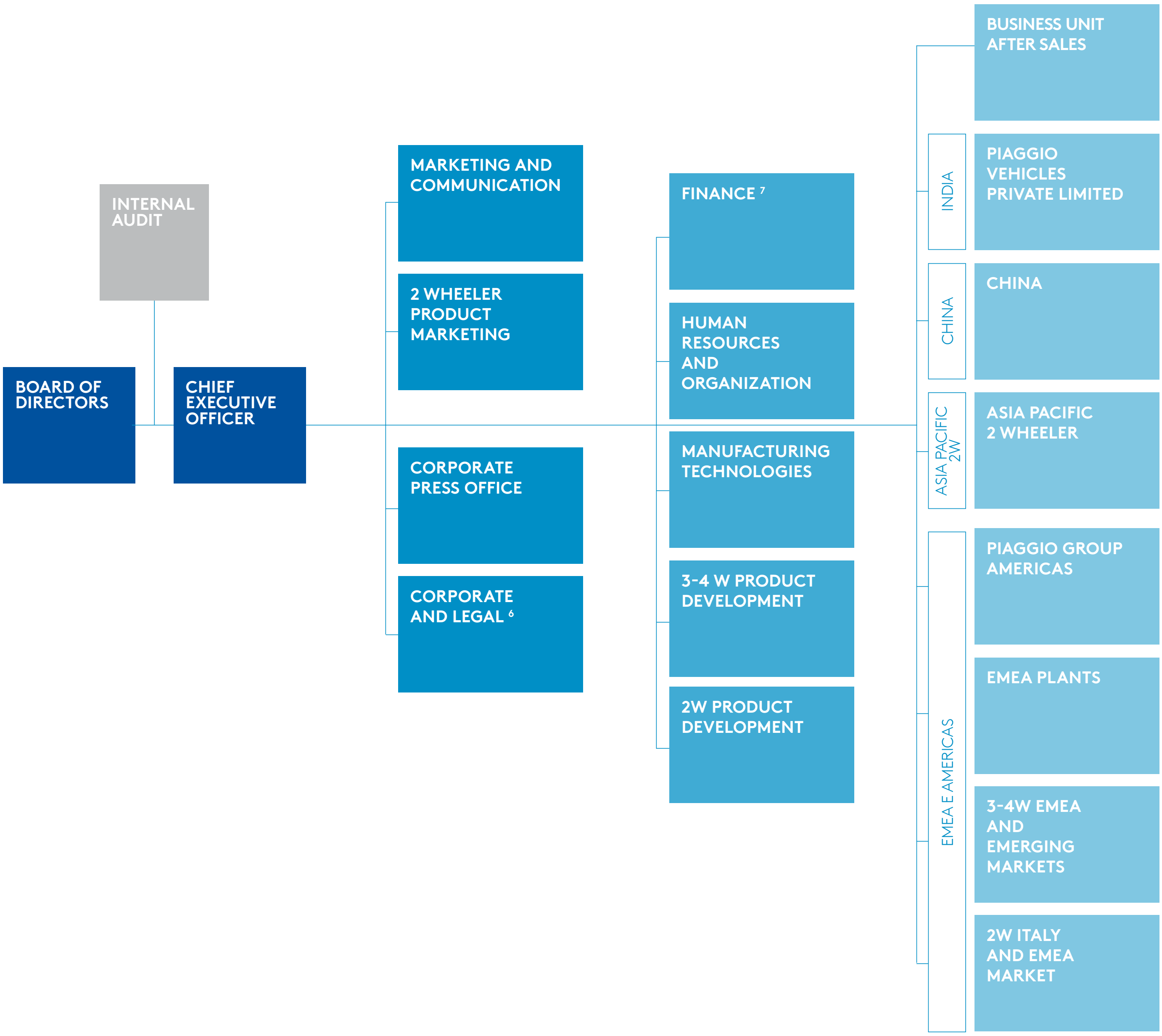
Board of Statutory Auditors	
Chairman	Piera Vitali
Statutory Auditors	Giovanni Barbara
	Daniele Girelli
Alternate Auditors	Giovanni Naccarato
	Elena Fornara

Supervisory Body	
	Antonino Parisi
	Giovanni Barbara
	Ulisse Spada
Chief Financial Officer	Simone Montanari
Executive in charge of financial reporting	Alessandra Simonotto
Independent Auditors	PricewaterhouseCoopers S.p.A.

(1) Director responsible for the internal control system and risk management
(2) Executive Director
(3) Lead Independent Director
(4) Member of the Appointment Proposal Committee
(5) Member of the Remuneration Committee
(6) Member of the Internal Control and Risk Management Committee

All the information on the powers reserved for the Board of Directors, the authority granted to the Chairman and CEO, as well as the functions of the various Committees of the Board of Directors, can be found in the Governance section of the Issuer's website www.piaggiogroup.com.

Organisational structure



6) The Compliance Officer works within this structure and functionally reports to the Board of Directors of Piaggio & C. S.p.A.
7) The Risk Officer works within this structure and functionally reports to the Board of Directors of Piaggio & C. S.p.A..

As of 31 December 2017 the structure of Piaggio & C. S.p.A.'s organisation was based on the following Front-line functions:

› ***Internal Audit:*** this function is responsible for developing all activities concerning and functional to internal auditing, in order to improve the effectiveness and efficiency of the internal control system and evaluate its operation.
› ***Corporate Press Office:*** this function oversees media management and coordination for Corporate activities, inviting the press to attend institutional events, preparing notices and issuing press releases.
› ***Marketing and Communications:*** this function is responsible for managing and coordinating at a global level sales communication, digital marketing and customer experience activities, as well as monitoring brand image and awareness of the Group's brands and managing the Museums and historical archives of Group brands. This function also manages and coordinates communication activities and relations with the media and end consumers, and guarantees the management and coordination of relations with product and racing media at a global level.
› ***Corporate and Legal:*** this function is responsible for providing assistance for all legal aspects, including assistance for contracts, managing problems concerning litigation involving the Group, guaranteeing protection of the Group's trademarks at a worldwide level, and the management of obligations concerning company law.
› ***Two-wheeler Product Marketing:*** this function is responsible for identifying market/customer needs and opportunities arising from technological innovation and developments in laws and standards, in order to assist the definition of the two-wheeler vehicle concept, as part of product range development.
› ***Two-wheeler Product Development:*** this function is responsible for activities focussing on innovation, style, engineering, reliability, quality and the regulatory framework for scooters, motorcycles and two-wheeler engines, and for protecting industrial property relative to the Group's technical patents and models.
› ***Three-, Four-wheeler Product Development:*** this function is responsible for activities concerning style, engineering, reliability and quality relative to three- and four-wheeler commercial vehicles and engines.
› ***Manufacturing Technologies:*** this function is responsible for guaranteeing innovation and developments in production technologies, managing infrastructure and plants, ensuring the establishment of new industrial sites worldwide, overseeing purchasing (of materials and components, goods, services and supplier management), and logistics (distribution of two-, three- and four-wheeler vehicles).
› ***Human Resources and Organization:*** this function is responsible for human resources development and organisation, and for handling industrial relations.
› ***Finance:*** this function is responsible for administrative, tax and financial matters, as well as investor relations, planning and control and information technology.
› ***Two-Wheeler Italy and EMEA Market,***
› ***Three-, Four-Wheeler EMEA Market and Emerging Markets:***
each department, for the area and products in its management, is responsible for achieving sales targets, defining price policies for single markets and identifying appropriate actions to develop the sales network, through the coordination of sales companies in Europe, and for managing corporate sales to Major Clients and the central public administration sector at a European level.
› ***EMEA Plants:*** this function is responsible for guaranteeing the manufacture and quality of engines, motorcycles, scooters and commercial vehicles.
› ***Asia Pacific 2 Wheeler:*** this function is responsible for coordinating the companies Piaggio Vietnam, Piaggio Asia Pacific, Piaggio Group Japan Corporation and Piaggio Indonesia, in order to guarantee business and industrial profitability, turnover, market share and customer satisfaction for the Group's two-wheeler vehicles, by managing production and sales on reference markets.
› ***China:*** this function is responsible for monitoring operations in the area, coordinating the Company Foshan Piaggio Vehicles Technology Research & Development.

› ***Piaggio Vehicles Private Limited:*** this function is responsible for guaranteeing business and industrial profitability, turnover, market share and customer satisfaction for the Group's commercial vehicles and scooters in India, by managing production and sales on reference markets.
› ***Piaggio Group Americas:*** this is responsible for guaranteeing business profitability for its reference area, turnover, market share and customer satisfaction by managing sales of Group products.
› ***Business Unit Aftersales:*** this function is responsible for managing after-sales activities, defining the range of spare parts and accessories, establishing prices in conjunction with the sales department and ensuring turnover, the distribution of the Group's spare parts and accessories, and customer care activities.

Strategy and areas of development

Business strategy

The Piaggio Group aims to create value by adopting a strategy which:
› consolidates its leadership position on the European two-wheeler market and on the Indian light commercial vehicles market;
› increases its presence on international markets, with particular reference to the Asian area;
› Increase in the operating efficiency of all company processes, with a focus on industrial productivity.

EMEA and Americas

Europe Two-wheeler – lever market recovery, consolidating a leadership position in the scooter segment. Focus on the Aprilia and Moto Guzzi brands to improve sales and profitability in the motorcycle segment. Expand the range of electric vehicles, targeting its technological and design leadership, and the distribution network.
America Two-Wheeler segment - growth, with the introduction of the premium products Aprilia and Moto Guzzi and consolidation of the sales network.
Europe Commercial Vehicles - maintain growth based on eco-sustainable solutions, with a product range featuring new engines with zero or low environmental impact and lower emissions.

India

Two-wheeler - consolidate the position on the scooter market with the expansion of the Vespa range and the introduction of new models in the premium segment (scooters and motorcycles).
Commercial Vehicles - an increase in volumes and profitability, through the consolidation of a strong competitive position on the three-wheeler market thanks to the Apè city Pax, the introduction of the new four-wheeler products, the sub 0.5 stroke and sub 1 stroke, and a focus on the export of three-wheeler vehicles to Africa and Latin America, reversing the negative effects of the demonetisation affecting the Indian economy from November 2016 onwards.

Asia Pacific 2W

Development: the objective is to expand sales throughout the area (Indonesia, Thailand, Malaysia, Taiwan), exploring opportunities for medium and large engine motorcycles, penetrating the premium segment on the Chinese market thanks to a new, direct presence in the country.

Key Assets

The Group will aim to consolidate its business position by levering and investing in the potential of its key assets:
› distinctive brands, recognised worldwide;
› an extensive sales network on reference market;
› competency in research and development, focussed on innovation, safety and the environment;
› a strong international presence, with local operations for all core company processes, from marketing to research and development, production and purchasing.

Sustainability strategy

The Group's Corporate Social Responsibility (CSR) strategic objectives – which are largely integrated with and connected to the development of the strategic plan – are based on the following areas:

- **Economic:** timely, correct, in-depth information to stakeholders.
  Creating value while respecting business ethics.

- **Product:** technological investments to meet the need for sustainable mobility - innovation to develop products that are environmentally friendly, safe and cost-effective.

- **Environmental:** decreasing energy consumption, reducing CO_2 emissions and emissions of other pollutants - conserving natural resources - waste management.

- **Social:** developing, training and promoting human resources so that everyone's expectations and aspirations are met. Engaging with customers in order to establish relations based on transparency and trust - developing Company Advocacy in partnership with the dealer network – selling products that are environmentally friendly, reliable, safe and cost-effective. Engaging and cooperating with suppliers through shared development projects - respecting human rights. Fighting against corruption. Engaging and supporting local communities through social, cultural and educational initiatives.

Piaggio and financial markets

Investor Relations

Piaggio considers financial disclosure to be of vital importance in building a relationship of trust with the financial market.

In particular its Investor Relations function engages institutional and individual investors as well as financial analysts in an ongoing dialogue, producing transparent, timely and accurate information to promote a correct perception of the Group's value.

In 2017 there were numerous opportunities to interact with the financial community, with the Group meeting more than 130 investors on main European financial markets during road shows and conferences.
Initiatives also included direct meetings and conference calls, managed daily by the IR function, and institutional communication events concerning quarterly results.

To ensure adequate reporting and compliance with Borsa Italiana and Consob regulations, the Company's website is promptly and continually updated with all information concerning the group and key corporate documents, published in both Italian and English.
In particular, press releases disclosed to the market, the Company's periodic financial reports, the Corporate Social Responsibility Report, and the Company's business and financial performance are all published on-line, along with the material used in meetings with the financial community, Piaggio share consensus, as well as corporate governance documents (articles of association, insider trading and material concerning shareholders' meetings).

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Shareholding structure

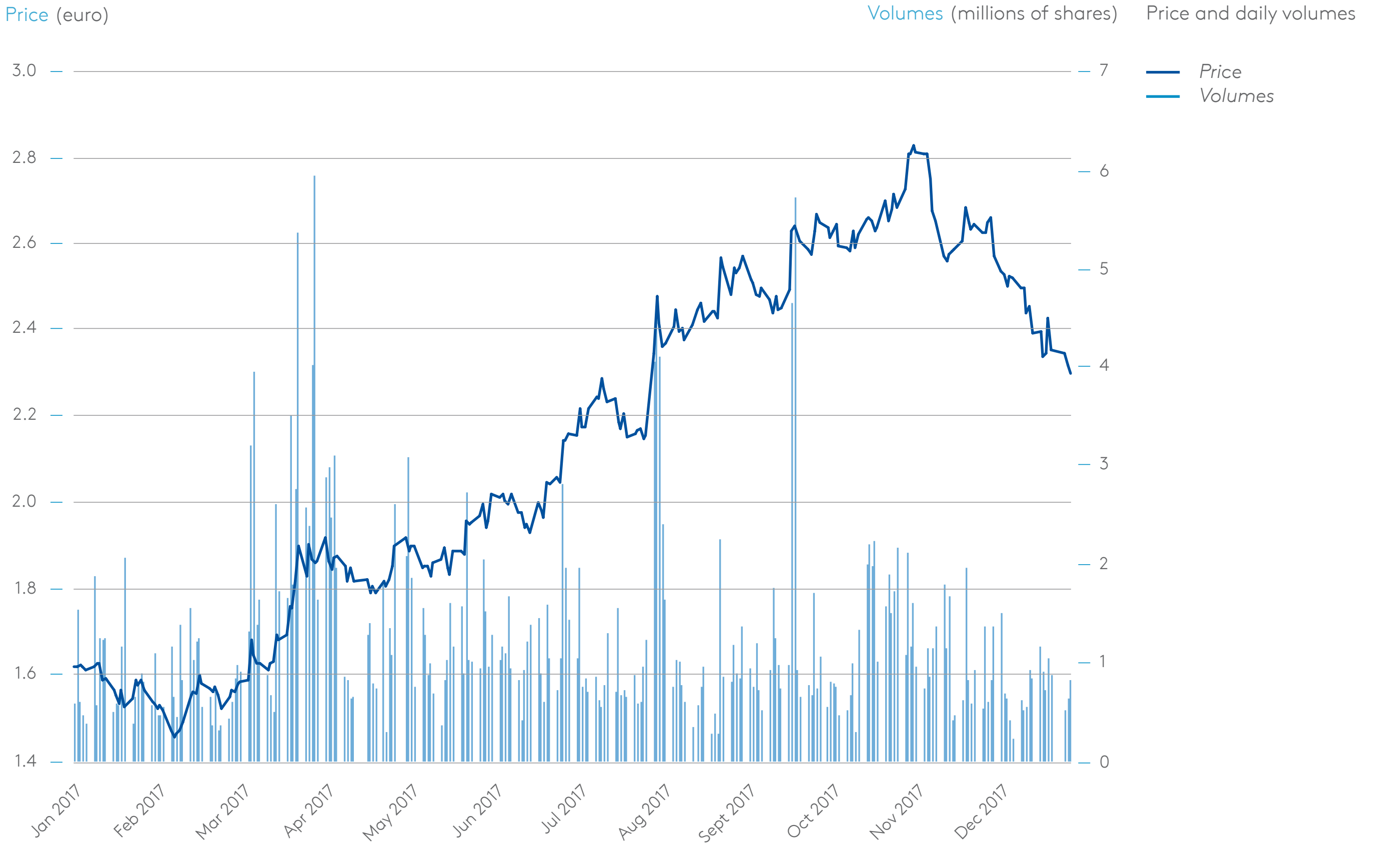
As of 31 December 2017 share capital comprised 358,153,644 ordinary shares. At the same date, the shareholding structure, according to the shareholder ledger supplemented with notices received pursuant to article 120 of Legislative Decree no. 58/1998 and other available information, was as follows:

As of 31 December 2017 no treasury shares were held.

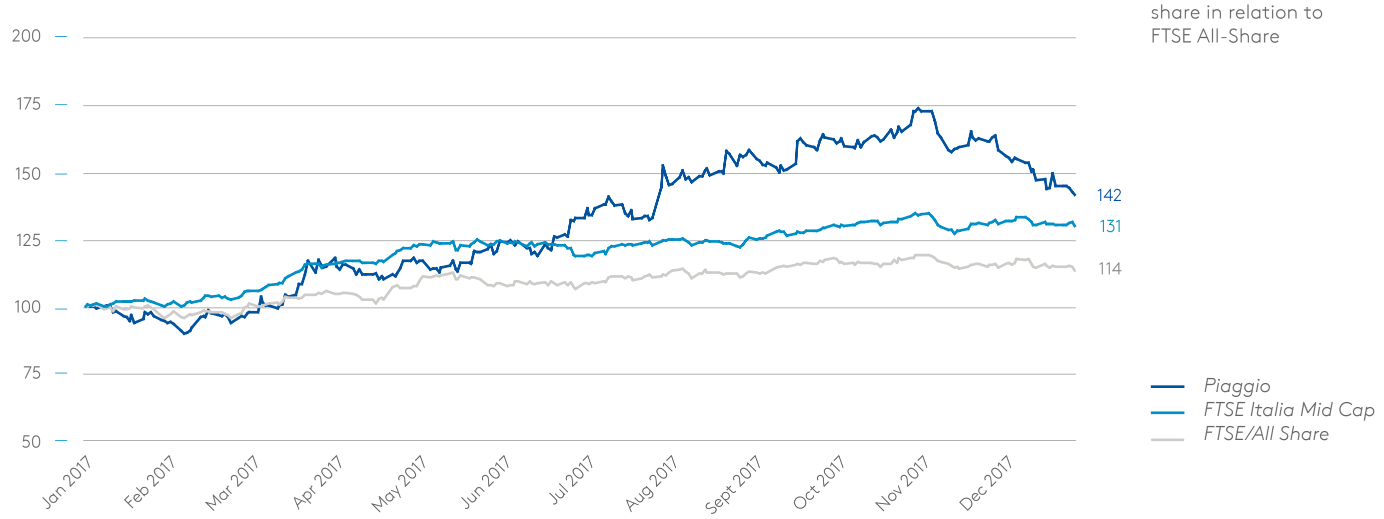
Share performance

Piaggio & C. SpA has been listed on the Milan Stock Exchange since 11 July 2006. The Piaggio share closed 2017 at 2.31 euro, up by 42% compared to the start of the year, outperforming main benchmarks.

Price and daily volumes



Trend of the Piaggio share in relation to FTSE All-Share



Main share indicators

	2017	2016
Official share price on the last day of trading (euro)	2.31	1.59
Number of shares (no.)	358,153,644	361,208,380
Earnings per share (euro)		
Basic earnings	0.056	0.039
Diluted earnings	0.056	0.039
Shareholders' equity by share (euro)	1.08	1.09
Market capitalisation (millions of euros)[8]	827.58	574.10

8) Source Borsa Italiana.

Dividends

The Shareholders Meeting of Piaggio & C. S.p.A. of 12 April 2017 resolved to distribute a dividend of 5.5 eurocents per ordinary share. During 2016, a dividend of 5.0 cents per share was distributed.

Statement of Piaggio & C. SpA dividends for 2016 and 2015

Reference Financial Statements	2016	2015
Detachment date	24 Apr-2017	18 April 2016
Payment date	26 Apr-2017	20 April 2016
Dividend per share (euro)	0.055	0.050

Group ratings

	Current	31/12/2016
Standard & Poor’s		
Corporate	B+	B+
Outlook	Stable	Stable
Moody’s		
Corporate	B1	B1
Outlook	Stable	Stable

Significant events during the year

15 February 2017 - The Bangkok Motoplex was opened, helping the Piaggio Group to expand its offering on the Thai market, launching the motorcycle business with the Aprilia and Moto Guzzi brands, alongside the well-established scooter segment with Piaggio and Vespa. The goal is to further consolidate its position in a market with strong growth.

2 February 2017 – The Piaggio Group presented GITA and KILO - the first projects developed by Piaggio Fast Forward (PFF), an advanced US research centre for future mobility, established and controlled by Piaggio - in Boston, just a stone's throw from Harvard and the MIT. Through its centre, the Group is exploring the world of mobility and thinking about its future, expanding its vision to technological solutions that are far wider-ranging than its current core business.
GITA is an autonomous, intelligent vehicle, designed to assist people. It can transport up to 18 kg, and observes and communicates. It can follow a person, reaching 35km/h and can move autonomously in a mapped environment. Its round shape and clean lines are a part of its personality.
KILO is the "big brother" of GITA; thanks to its larger payload, it is able to carry up to 100 kg in weight in its 120-litre load area. It is incredibly stable thanks to the 3-wheel support.
GITA and KILO are revolutionary because they can assist people in their activities when out and about on a daily basis, increasing the radius of action and limited load capacities of human beings. In fact the KILO and GITA have been designed as a platform for mobility, and can be customised and integrated to meet different needs in multiple scenarios.

1 March 2017 – Effective from 1 March 2017, Simone Montanari replaced Gabriele Galli as CFO who left the Group after a cycle lasting more than a decade during which he contributed to the achievement of major goals with his experience and expertise.

6 April 2017 - The Court of Turin handed down a historical ruling that declared the full validity of the 3D brand of the Vespa scooter and acknowledged the creative nature and artistic value of its shape. The ruling came at the end of a case started in 2013, when, on the occasion of the inauguration of EICMA, the two-wheeler show in Milan, the Mobile Unit of the Rho Company of the Italian Finance Police seized 11 scooters on display belonging to 7 different exhibitors because their shape was an imitation of a Vespa. The Italian Finance Police seized the vehicles after determining that the products violated the exclusive right of the Piaggio Group to the so-called "three-dimensional brand" registered by Piaggio to protect the distinctive shape of a Vespa. It is a title constituting an essential means of protection for the unique lines that characterise Vespa and is the most comprehensive instrument to protect the iconic shape of this global product. One of the companies involved in the seizure, the Chinese manufacturer Taizhou Zhongneng, filed a countersuit against Piaggio at the Court of Turin to declare null the brand constituted by the 3D form of the scooter and to rule out that the "Ves" scooter seized at EICMA was a counterfeit of the said brand. However, the Court of Turin rejected petitions and threw out the suit.

12 April 2017 - The Extraordinary Shareholders' Meeting of Piaggio & C. S.p.A. resolved to cancel 3,054,736 treasury shares. The share capital of the company (fully subscribed and paid up) is unchanged at €207,613,944.37 and is now divided into 358,153,644 shares. The change was filed for entry at the competent Register of Companies on 18 April 2017 and registered on 19 April 2017.

29 May 2017 - Piaggio Fast Forward (PFF), the advanced research centre for future mobility of the Piaggio Group, won the Disruptive Genius – Company category of the 2017 MITX Awards, for distinction in "unconventional innovative thinking, being the first to explore new frontiers and promoting the innovation economy through its operations".
Now in its 21st edition, the MITX Awards are an important annual competition for the technology and innovation sector held in the States.

12 June 2017 - The new Piaggio Porter 700 was unveiled in India - a modern, versatile, revolutionary vehicle for India, developed based on continual engagement between the Company and customers. The Piaggio Porter 700 is ideal for last-mile deliveries, but also perfect for intercity transport.

13 June 2017 - Aprilia was hailed as the most innovative company in Italy in the Motorcycle/Scooter segment, by the German Quality and Finance Institute, which hands out "TOP INNOVATIVE COMPANY" quality seals each year.

28 June 2017 – A long-term bond of a total value of 30 million euros was issued, subscribed by Fondo Sviluppo Export, the fund set up by SACE (CDP Group) and managed by Amundi SGR. The purpose of the five-year bond is to consolidate the Piaggio Group's internationalisation and support expansion on new markets, as part of ongoing actions to optimise the Group's financial debt structure and extend maturity times. The issue, for institutional investors, was subscribed by Fondo Sviluppo Export, with UniCredit acting as placement agent, using resources provided by SACE for Italian export companies, and is wholly guaranteed by SACE.

4 September 2017 – Piaggio Fast Forward was ranked by the leading international publication "Disruptor Daily" as among the 100 most innovative companies thanks to "the considerable technological drive of GITA", "the high-performance robot able to carry cargo while being mindful of safety". Disruptor Daily is the most authoritative international publication on innovation, and a reference for companies engaged in reshaping the future in their industry.

19 September 2017 – The Chairman and CEO of Piaggio & C. S.p.A. (PIA), Roberto Colaninno, and the CEO of Foton Motor Group, Wang Jinyu, signed an important preliminary agreement in Beijing for the strategic development of a new range of light commercial four-wheelers. In the coming months, a team of representatives from both parties will work on validating a production and business plan, and on defining contract documents, and if successful, will finalise technical project documents and relative contracts before the end of Spring 2018. The agreement, in keeping with the strategy to consolidate and modernise the Piaggio Commercial Vehicles Division and the Group's strategic guidelines, will develop a new range of commercial vehicles to drive considerable expansion on the Group's reference market, while achieving major cost savings. A number of vehicle versions will be developed, including mini cab and mini van models, for passenger and goods transport, to meet the growing demand for commercial mobility solutions that are particularly suited to intracity routes, featuring eco-friendly, latest-generation engines and the latest technologies. All vehicle types will have a capacity up to 1.5 tons. The new product range will be manufactured at the Piaggio Group's Italian sites, with lines used for current production. The models will be launched on the market starting from 2019, through a customer-centric distribution network.

23 September 2017 – Aprilia RSV4, ridden by the Aprilia Grebenstein team, won the European FIM Endurance Open Championships. Riding an RSV4 RF, the German team with Ralph Uhlig, Oliver Skach, and Andreas and Jurgen Scheffel, secured a decisive victory in the Oschersleben 6 hours, the third and last race of the championship.

4 October 2017 - The Piaggio Group consolidated its partnership with (RED) and the fight against AIDS unveiling the (VESPA)RED VXL model for the Indian market, in Mumbai. For each (VESPA)RED purchased, the Group will make a donation of 50 USD to the Global Fund for the fight against AIDS in India. Each vehicle sold will provide more than 165 days of vital treatment for AIDS, which can help save the lives of many mothers and prevent the transmission of the virus to their unborn child.

4 October 2017 – Piaggio was selected by Borsa Italiana, along with another 21 listed companies, for the Italian Listed Brands basket. Starting from this list, a new dedicated FTSE Russell index will be created for the Italian market. Borsa Italiana made its selection based on creativity, excellence, innovation and drive towards internationalisation.

24 November 2017 - Piaggio & C S.p.A., along with Eni and A2A, were ranked as the top three companies (in the Major Listed Companies category) for financial reporting and stakeholder relations in Italy's 2017 Corporate Reporting Award. More than 100 companies competed in the award, which is promoted by Federazione Relazioni Pubbliche Italiana (the Italian Federation of Public Relations) along with Borsa Italiana and Bocconi University.

18 December 2017 - Piaggio Fast Forward (PFF) received the prestigious GOOD DESIGN® AWARDS 2017, one of the world's leading and most well-known design awards. PFF received this important accolade in the Robotics category, thanks to GITA, the revolutionary, visionary idea which stands out among contemporary design projects. GITA is not just a robot with a futuristic design, but also boasts an innovative, technological edge, and a focus on sustainability, creativity, environmental awareness, cutting-edge materials and functionality.

Financial position and performance of the Group

Consolidated income statement (reclassified)

Consolidated income statement (reclassified)

	2017		2016		Change	
	In millions of euros	Accounting for a %	In millions of euros	Accounting for a %	In millions of euros	%
Net revenues	1.342,4	100.0%	1,313.1	100.0%	29.3	2.2%
Cost to sell[9]	931.1	69.4%	923.9	70.4%	7.2	0.8%
Gross industrial margin[9]	**411.3**	**30.6%**	**389.2**	**29.6%**	**22.2**	**5.7%**
Operating expenses	339.0	25.3%	328.3	25.0%	10.7	3.3%
EBITDA[9]	**192.3**	**14.3%**	**170.7**	**13.0%**	**21.6**	**12.6%**
Amortisation/Depreciation	120.0	8.9%	109.8	8.4%	10.2	9.2%
Operating income	**72.3**	**5.4%**	**60.9**	**4.6%**	**11.4**	**18.8%**
Result of financial items	(32.3)	-2.4%	(35.4)	-2.7%	3.1	-8.8%
Profit before tax	**40.1**	**3.0%**	**25.5**	**1.9%**	**14.6**	**57.1%**
Taxes	20.1	1.5%	11.5	0.9%	8.6	75.1%
Net profit	**20.0**	**1.5%**	**14.0**	**1.1%**	**5.9**	**42.3%**

9) *For a definition of the parameter, see the "Economic Glossary".*

Net revenues

	2017	2016	Change
In millions of euros			
EMEA and Americas	810.7	788.2	22.5
India	355.9	339.1	16.8
Asia Pacific 2W	175.8	185.8	(10.0)
Total	**1.342,4**	**1,313.1**	**29.3**
Two-wheeler	950.6	916.5	34.1
Commercial Vehicles	391.9	396.6	(4.7)
Total	**1.342,4**	**1,313.1**	**29.3**

In terms of consolidated turnover, the Group closed 2017 with net revenues up compared to 2016 (+ 2.2%). At a geographic level, growth in revenues in India (+5.0%) and EMEA and the Americas (+ 2.9%) more than offset the downturn in Asia Pacific. As regards product types, the increase in turnover mainly referred to two-wheeler vehicles (+ 3.7%), while figures for Commercial Vehicles recorded a decrease (- 1.2%).
Consequently, sales of two-wheeler vehicles accounting for overall turnover went up from 69.8% in 2016 to the current figure of 70.8%, while sales of commercial vehicles accounting for overall turnover went down from 30.2% in 2016 to 29.2% in 2017.

The Group's **gross industrial margin** increased compared to the previous year, in absolute terms (€+22.2 million), and in relation to net turnover (30.6% against 29.6% in 2016).
Amortisation/depreciation included in the gross industrial margin was equal to €34.8 million (€35.8 million in 2016).

Operating expenses in 2017 also went up compared to the previous year, and amounted to €339.0 million (€328.3 million in 2016). The increase is mainly due to the increase in amortisation and depreciation included in operating expenses (€85.2 million in 2017 compared to €74.0 million in 2016).

This performance resulted in a consolidated **EBITDA** which was higher than the previous year, and equal to €192.3 million (€170.7 million in 2016). In relation to turnover, EBITDA was equal to 14.3%

(13.0% in 2016). In terms of Operating Income (**EBIT**), performance was better compared to 2016, with a consolidated EBIT equal to €72.3 million, up by €11.4 million compared to 2016; in relation to turnover, EBIT was equal to 5.4%, (4.6% in 2016).

The result of financing activities improved compared to the previous year by €3.1 million, with Net Charges amounting to €32.3 million (€35.4 million in 2016). This improvement is related to the positive trend of currency operations, the decrease in average debt for the period and reduction in the cost of funding, partially offset by the lower capitalisation of borrowing costs.

Adjusted net profit stood at €20.0 million (1.5% of turnover), up on the figure for the previous year of €14.0 million (1.1% of turnover).

Taxes for the period were equal to €20.1 million, while they amounted to €11.5 million in 2016. In 2017 the impact of taxes on profit before tax was estimated as equal to 50.1% (44.9% in 2016). The increase is related to the decrease in the tax rate in the US, which led to deferred tax assets and liabilities allocated by the subsidiary Piaggio Group Americas being remeasured in relation to the new tax rate (which fell from 35% last year to 21%) and to the increase in the tax rate in Vietnam due to the decrease in the tax subsidy applicable to the Group in the past.

Operating data

Vehicles sold

	2017	2016	Change
In thousands of units			
EMEA and Americas	245.9	237.5	8.4
India	228.7	212.9	15.8
Asia Pacific 2W	78.2	81.6	(3.5)
Total	**552.8**	**532.0**	**20.7**
Two-wheeler	376.0	344.0	32.0
Commercial Vehicles	176.8	188.0	(11.3)
Total	**552.8**	**532.0**	**20.7**

During 2017, the Piaggio Group sold 552,800 vehicles worldwide, registering a growth of 3.9% in volume over the previous year (532,000 units sold). Sales in India were up (+ 7.4%), where the increase in sales of two-wheeler vehicles (+ 71.1%) offset the decrease in sales of Commercial Vehicles (- 7.1%), and also performed well in EMEA and the Americas (+ 3.5%) boosted by volumes sold on the Italian market (+ 2.6%) and European market (+ 4.4%). Sales of vehicles in the Americas (- 2.1%) and Asia Pacific 2W (- 4.2%) were down.
In global terms, and as regards product types, the growth in sales mainly concerned two-wheelers (+ 9.3%), while sales of commercial vehicles decreased (- 6.0%).
For a more detailed analysis of market trends and results, see relative sections.

Consolidated statement of financial position[10]

Statement of financial position	As of 31 December 2017	As of 31 December 2016	Change
In millions of euros			
Net working capital	(45.9)	(36.3)	(9.6)
Property, plant and equipment	284.5	312.8	(28.3)
Intangible assets	649.0	668.7	(19.7)
Financial assets	7.7	7.9	(0.1)
Provisions	(63.6)	(68.4)	4.7
Net capital employed	**831.8**	**884.7**	**(52.9)**
Net Financial Debt	446.7	491.0	(44.3)
Shareholders' equity	385.1	393.7	(8.7)
Sources of financing	**831.8**	**884.7**	**(52.9)**
Non-controlling interests	(0.2)	(0.3)	0.1

10) For a definition of individual items, see the "Economic Glossary".

Net working capital as of 31 December 2017 was negative (€45.9 million), generating a cash flow of approximately €9.6 million during 2017.

Property, plant and equipment which includes investment property, totalled €284.5 million as of 31 December 2017, decreasing by €28.3 million compared to figures for the previous year. Depreciation for the year (€44.6 million), impairment (€0.2 million) and disposals (€2.7 million), as well as the value adjustment of this balance sheet item to the year-end exchange rate which decreased the carrying amount by approximately €9.5 million, were only partially offset by investments for the year equal to approximately €28.8 million.

Intangible assets totalled €649.0 million, down by approximately €19.7 million compared to 31 December 2016. This decrease is mainly due to amortisation (€71.1 million), impairment (€4.3 million) and the value adjustment of this balance sheet item to the year-end exchange rate which decreased the carrying amount by approximately €2.2 million that exceeded investments for the year (€57.9 million).

Financial assets totalled €7.7 million, showing a slight decrease compared to figures for the previous year.

Provisions totalled €63.6 million, falling compared to 31 December 2016 (€68.4 million).

As fully described in the next section on the "Consolidated Statement of Cash Flows", **net financial debt** as of 31 December 2017 was equal to €446.7 million, compared to €491.0 million as of 31 December 2016. The reduction of €44.3 million is mainly attributable to the positive performance of operations and greater efficiency in managing working capital. Overall, cash generation resulted in the payment of dividends (€19.7 million) and funding for the investments programme.

Shareholders' equity as of 31 December 2017 amounted to €385.1 million, down €8.7 million compared to 31 December 2016.

Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows, prepared in accordance with international accounting standards, is presented in the "Consolidated Financial Statements and Notes as of 31 December 2017"; the following is a comment relating to the summary statement shown.

Change in consolidated net debt	2017	2016	Change
In millions of euros			
Opening Consolidated Net Debt	**(491.0)**	**(498.1)**	**7.2**
Cash flow from operating activities	135.2	123.4	11.8
(Increase)/Reduction in Working Capital	9.6	5.4	4.1
(Increase)/Reduction in net investments	(71.9)	(97.1)	25.1
Change in shareholders' equity	(28.6)	(24.6)	(4.0)
Total change	**44.3**	**7.2**	**37.1**
Closing Consolidated Net Debt	**(446.7)**	**(491.0)**	**44.3**

During 2017 the Piaggio Group generated **financial resources** amounting to €44.3 million.

Cash flow from operating activities, defined as net profit, minus non-monetary costs and income, was equal to €135.2 million.

Working capital generated a cash flow of approximately €9.6 million; in detail:
› the collection of trade receivables[11] used financial flows for a total of €9.0 million;
› stock management absorbed financial flows for a total of €10.2 million;
› supplier payment trends generated financial flows of €16.3 million;
› the movement of other non-trade assets and liabilities had a positive impact on financial flows by approximately €12.5 million.

11) Net of customer advances.

Investing activities involved a total of €71.9 million of financial resources. The investments refer to approximately €26.7 million for capitalised development expenditure, and approximately €60.0 million for property, plant and equipment and intangible assets.

As a result of the above financial dynamics, which generated a use of €44.3 million, the net debt of the Piaggio Group amounted to €– 446.7 million.

Alternative non-GAAP performance measures

In accordance with Consob Communication DEM/6064293 of 28 July 2006 as amended (Consob Communication no. 0092543 of 3 December 2015 that enacts ESMA/2015/1415 guidelines on alternative performance measures), Piaggio, in its Report on Operations, refers to some alternative performance measures, in addition to IFRS financial measures (Non-GAAP Measures).
These are presented in order to measure the trend of the Group's operations to a better extent and should not be considered as an alternative to IFRS measures.
In particular the following alternative performance measures have been used:

- **EBITDA:** defined as "Operating income" before the amortisation/depreciation and impairment costs of intangible assets and property, plant and equipment, as resulting from the consolidated income statement;
- **Gross industrial margin**: defined as the difference between net revenues and the cost to sell;
- **Cost to sell:** this includes costs for materials (direct and consumables), accessory purchase costs (transport of incoming material, customs, warehousing), employee costs for direct and indirect manpower and related expenses, work carried out by third parties, energy costs, depreciation of property, plant, machinery and industrial equipment, maintenance and cleaning costs net of sundry cost recovery recharged to suppliers;
- **Consolidated net debt:** gross financial debt, minus cash on hand and other cash and cash equivalents, as well as other current financial receivables. Consolidated net debt does not include other financial assets and liabilities arising from the fair value measurement of financial derivatives used as hedging and the fair value adjustment of related hedged items. The notes to the Consolidated Financial Statements include a table indicating the statement of financial position items used to determine the measure.

Background

The macroeconomic framework

The economy in western countries reported moderate, widespread growth in 2017 (around 3.6%), with the trend expected to continue against a backdrop of reduced inflation and commodity prices up slightly at the end of the period.
The two main economies in East Asia confirmed important growth trends. The growth trend in India decreased slightly (+6.4%), mainly due to a slowdown in domestic consumption, and was stationary in China (+6.8%) in a scenario where public spending is ever increasing, with the consequent problem of controlling financial risk. Growth improved in Japan (1.7%), thanks to its ongoing budget and expansive monetary policy.
Growth was consolidated in the United States (approximately 2.3%), despite the start of the process to normalise monetary policy, which did not affect the weakening of the dollar. Despite a considerable level of public debt, growth led to the ideal situation of full employment without particular inflationary pressures.
Overall growth was also consolidated in the eurozone (approximately 2.3%), in a context of marginal inflation, which led the ECB to confirm monetary intervention programmes of a considerable scope but which will gradually slow down.
Growth in Italy was close to 1.6%. The improvement in propensity to consume and employment confirmed the need for further structural reforms to improve competitiveness, and for EU policies that not only focus on the strict control of government undertakings, but also on supporting investments.

The market

Two-wheeler

The two-wheeler sector (scooters and motorcycles) at a global level, based on figures from monitored markets, recorded sales of over 48 million vehicles in 2017, with an overall increase of 4.2% compared to the previous year, but with different dynamics per geographic segment.

India, the most important two-wheeler market, continued its growth trend in 2017, ending the year with just under 19.2 million vehicles sold, up by 8.4% compared to 2016.

After years of slowdown, the People's Republic of China reversed the trend in 2017, recording growth (+0.13% compared to the previous year) and closed with just over 8 million units sold.

The Asian area, termed Asean 5, reported an increase in 2017 (+3.2% compared to 2016) ending the period with 12.7 million units sold. Indonesia, the main market in this area, reported a slight downturn in 2017 (-0.8% compared to 2016), with total volumes of just under 5.9 million items. Thailand also recorded an upwards trend in 2017 (1.8 million units sold; +3.8% compared to 2016); Malaysia reported a considerable increase compared to the previous year (435 thousand units sold; +9.7% compared to 2016). The sales trend in Vietnam remained buoyant in 2017 (3.3 million units sold; +4.8% compared to 2016). The Philippines reported the strongest growth in this area in 2017 (1.32 million units sold; +15.7% compared to 2016).

Volumes of other Asian area countries (Singapore, Hong Kong, South Korea, Japan, Taiwan, New Zealand and Australia) increased considerably, in overall terms, compared to the previous year, with 1.5 million units sold (+8.2%). The most important increase was recorded in Taiwan, which closed the period with 910 thousand units sold (+15.5% compared to 2016). Japan reversed its trend, with 384 thousand units sold (+1% compared to 2016).

The North American market recorded a downturn of 3.3% compared to 2016 (510,000 vehicles sold in 2017).

Brazil, the leading market in South America, recorded a further downturn (- 5.1%), with 814.5 thousand vehicles sold in 2017.

Europe, the reference area for Piaggio Group operations, reported a steady trend in 2017, with a very slight fall in sales compared to 2016 (-0.37%; -3.7% in the motorcycle segment and +2.6% in the scooter segment) closing the period with 1.313 million units sold.

The scooter market

Europe

The European scooter market in 2017 accounted for 714,500 registered vehicles, with sales up by 2.6% compared to 2016.

The over 50cc scooter segment recorded a considerable downturn in 2017 (382,000 units, with a 11% decrease); on the other hand, the 50cc market reported a considerable growth trend (332,500 units, up by 24.3%).

Italy was still the most important market among leading countries in 2017, with 142,050 units sold, followed by France with 141,250 units and Spain with 103,200 units. Holland ranked fourth, for sales, (83,650 units) ahead of Germany, with 56,600 units sold. Lastly, Greece and the United Kingdom recorded sales of 27,500 and 25,800 vehicles respectively.

In 2017, the Italian market reported a positive growth trend compared to the previous year (2.7%). The 50cc segment went down by 1.7%, with 20,100 units sold. In the over 50cc segment, 121,900 units were sold, registering an increase of 3.4% compared to 2016.

The French market reported a considerable increase in 2017, compared to 130,350 vehicles sold in the previous year (+8.4%): the 50cc segment increased by 16.6% (84,900 units sold in 2017), while the over 50 scooter segment recorded a decrease of 2% (56,300 units sold).

After a strong increase in the previous year, growth in Spain came to a standstill in 2017, down by 10.3% compared to 2016. This result was due to the increase in the 50cc scooter segment (+32.9%) and decrease in the over 50cc scooter segment (-16.8%).

The German market recorded a downturn of 7.7% during 2017, compared to 2016. On this market as well, the downturn was due to the over 50cc scooter segment (-25.2%), while the 50cc scooter segment reported an increase (+10.8%).

The United Kingdom recorded a considerable downturn (-28.6%), caused by the decrease in the over 50cc segment (-32.2%) and in the 50cc scooter segment (- 15.7%).

North America

In 2017 the market still reported a downturn (-6.6%), with approximately 27,700 units sold: this negative trend is due to the over 50cc scooter segment, where sales fell by 4.3% and to the 50cc scooter segment, with sales going down by 8.5%.

The scooter market in the United States (which accounts for 88% of the reference area), declined by 7.3%, with 24,400 vehicles sold; the Canadian market also reported a downturn, albeit more modest (-1.2% compared to 2016).

Asia

The main scooter market in the Asean 5 area is Indonesia, with just over 5.25 million items sold, reporting an increase of 0.7% compared to 2016. the Cub segment continued to decrease in 2017, closing at -17.1%, with 433 thousand units. Instead, the automatic scooter segment reported a positive trend in 2017 (+2.7% compared to 2016, with 4.8 million units sold).

The second main market is Vietnam, which reported a 3.7% increase and 3.17 million units sold, of which 1.65 million Cub scooters (-0.4% compared to 2016) and 1.52 million automatic scooters (+8.6% compared to 2016).

Vietnam
The Vietnamese market mainly concerns scooters, as sales in the motorcycle segment are not particularly significant. The 50cc scooter segment is not operative on this market. the 51-115 sub-segment was still the most important, with sales of just under one million units (+4%).
The premium automatic scooters segment continued its growth trend in 2017 (+ 23.8%), with 342 thousand units sold.

India
The automatic scooter market increased by 14% in 2017, ending the year with 6.4 million units sold. The 125cc segment was the best performer, with more than 6.2 million units sold in 2017, accounting for 97% of the total automatic scooter market. Thanks to sales of the Aprilia SR 150, the 150cc segment reported a growth trend of over 100%, closing the period with 38,500 units sold in 2017. The 50cc scooter segment is not operative in India.

The motorcycle market

Europe
With 598,600 units registered, the motorcycle market ended 2017 with a 3.7% decrease. The 50cc segment also performed well (+23.2%) closing with 42,800 units sold, while the over 50cc segment decreased by 5.2%, closing the period with 555,800 units sold.
During 2017, France was the most important market with 124,600 units sold, exceeding Germany which closed the period with 116,450 units.
Thanks to an excellent performance, Italy moved up to third place with 86,250 units, while Great Britain came fourth, closing the period with 79,300 units; Spain ranked fifth with 57,000 vehicles sold.
The main countries in the eurozone reported different trends in 2017: of the most important European countries in terms of sales trends, Italy recorded an increase of +9.5%, while France's performance was also good (+3.6%).
Inverse trends were reported instead in other main geographic areas: Germany (+17.8%), Great Britain (-14%) and Spain (-0.5%).

North America
The motorcycle market in North America (USA and Canada) recorded a downturn of 3.1% in 2017, closing the period with 482,300 units compared to 497,800 the previous year. In the United States (accounting for 88% of the area), the motorcycle segment recorded a 3.9% decrease, selling 426,600 units compared to 444,600 units in 2016. The trend on the Canadian market was instead positive, ending the period with 55,800 units sold, up by 3.6% compared to the previous year.

Asia
India is the most important motorcycle market in Asia, selling over 11.9 million units in 2017, accounting for a 6.4% increase.
The motorcycle market in the Asean 5 area is far less important than the scooter sector. Sales of motorcycles in Vietnam were not significant. In other countries, the highest sales were recorded in Indonesia; however with 637 thousand units sold, this meant a decrease of 1.1% compared to the previous year.

Commercial Vehicles

Europe

In 2017, the European market for light commercial vehicles (vehicles with a maximum mass of up to 3.5 tons) where the Piaggio Group operates, accounted for 2 million units sold, up 3.9% compared to 2017 (source ACEA data). In detail, the trends of main European reference markets are as follows: Germany (+4.9%), France (+7.1%), Italy (-3.4%) and Spain (+15.5%).

India

Sales on the Indian three-wheeler market, where Piaggio Vehicles Private Limited, a subsidiary of Piaggio & C. S.p.A. operates, fell from 546,000 units in 2016 to 544,000 in 2017, registering a 0.4% decrease.
Within this market, the cargo vehicles subsegment reported a positive trend (+7.3%), closing with 114,700 units (107,000 units in 2016). The passenger segment reported a decrease (-2.2%), from 439,000 units in 2016 to 429,100 units in 2017.
Through its Indian affiliate, the Piaggio Group also operates on the four-wheeler light commercial vehicles (LCV) market (cargo vehicles for goods transport). The LCV cargo market, with vehicles with a maximum mass below 2 tons and on which various versions of the Porter are sold, accounted for 141,500 units in 2017, going up by 21.5% compared to 2016.

The regulatory framework

European Union

As part of the revision of the current European Directive on driving licences, a report was published in April on the conclusion of the European Commission's study on "Training, assessing the ability and medical fitness of drivers". Improving road user education and training in Europe is an important strategic goal of the EU Commission for the 2011-2020 period. Another objective is to protect more vulnerable road users, and in particular motorcyclists and more senior drivers. The report outlined the following main suggestions: gradual access in all countries to licences to ride more powerful motorcycles; training that teaches users to perceive danger; a standard process to assess the physical fitness of drivers, in particular senior drivers, based on unambiguous, medical-based aspects rather than age.
In November 2017, the European Commission published a document explaining the effects on the European Union of adopting the Directive 2006/126/EC on driving licences As European drivers increasingly cross borders within the European Union for personal or professional reasons, or take up residence in other Member States, the need for harmonised regulations that facilitate free movement and improve road safety has increased. The third directive on driving licences came into force in January 2013. The directive establishes harmonised regulations to consolidate the free movement of road hauliers, reduce the possibility of driving licence forgery and improve road safety in the European Union.
The document investigates the adoption of the third directive on driving licences in Member States four years after its implementation, and evaluates whether new regulations introduced have helped achieve the directive's objectives. The effects of new legislation introduced by the directive were assessed combining the results of documentary research, interviews with experts and consultation with parties concerned. Given the lack of available literature, the effects were mainly assessed based on interviews with experts and consultation with parties concerned.
At the same time, the most important political recommendations to address in order to further achieve the main objectives of the directive and support overall efforts to establish a common framework for EU transport policy were identified.
In May, the European Commission (EC) published its set of initiatives "Europe on the Move", which has been expected since Juncker became Commission President. The initiatives do not specifically focus on two-wheeler vehicles, but on cars and heavy-duty vehicles to a greater extent, establishing a "programme for a socially fair transition towards clean, competitive and connected mobility" with a time frame up to 2025.

In June, the European Commission presented the final report of the study commissioned in January 2016 to a group of European laboratories to carry out testing on models and technologies currently on the market, to assess possible applicability with a view to 2020 - and the cost/benefit ratio of Euro 5 requirements for L category vehicles.
The report mainly confirmed the requirements and limits laid down by Regulation 168/2013 and its delegated acts in most cases, apart from a few exceptions, mainly concerning in-vehicle diagnostic systems, the testing procedure for the durability of pollutant systems and entry into force of Euro 5 standards for some vehicle sub-categories (trial, enduro motorcycles and minicar vehicles).
Based on the report, the Commission is preparing some proposed changes to the regulation and delegated acts to submit to the European Parliament and Council. The new proposed provisions are expected to be adopted by the Commission during 2018, starting the co-decision stage with the European Parliament and Council, which generally lasts one year. Consequently, amendments are expected to be published in the first few months of 2019.

During 2017, the study on the sound emissions of L category vehicles (powered two- and three-wheelers and quadricycles) assigned to a group of European Laboratories in mid-2016 by the European Commission also continued, to define future post-2020 approval limits. Emission measurements have been completed and the cost/benefit ratio of various possible scenarios was assessed in July and August. The final report on the study conducted by EU Advisors was published in November 2017: resulting proposals for new noise limits, which could come into force in 2024 are fairly restrictive (a reduction of 2-3 dB compared to current limits has been proposed), however Manufacturers, through ACEM, the European Association of Motorcycle Manufacturers, have already reported a number of inaccuracies and shortcomings in the final document, which affect the Advisors' findings and proposals, to the Commission. In addition, Italian manufacturers (Piaggio and Ducati) promptly put forward their own proposal for new limits and procedures, backed up by the results of scientific tests held last November and which are equally effective in terms of reducing the noise levels of motorcycles. This proposal was welcomed by other manufacturers who are members of ACEM and will be officially presented as the proposal of the European industry to the European Commission in the new few weeks. At the end of Commission/Industry bilateral consultations, the resulting EC proposal and relative application dates will be discussed with the European Parliament and Council. A European Council, Parliament and Member States co-decision is expected to be reached during 2019, with the final text published in the Official Journal of the European Union in 2020.
On 7 July, the third European Regulation on Real Driving Emissions (RDE Act 3) for passenger and goods' vehicles was published in the Official Journal of the European Union; this regulation mainly concerns the measurement of road nitrogen oxide emissions and particle number emissions and further develops approval testing methods. The requirements are compulsory from 1 September 2017 for newly approved vehicles (some less rigid constraints will apply to small-volume vehicle manufacturers).
A new bench testing cycle also came into force on this date for vehicles, for approval measurements of pollutant emissions. This cycle (WLTP - Worldwide Harmonized Light vehicles Test Procedure) is stricter than the current one and has been established at international level within the framework of the United Nations Economic Commission for Europe (UNECE).
The new laboratory test (WLTP) introduces test conditions to measure emissions of pollutants and CO_2 that are far more realistic than the previous, obsolete test (New European Driving Cycle) and provides a more accurate basis for measuring fuel consumption and vehicle emissions.
An additional new test to measure pollutants emitted by vehicles while driven on the road, known as the RDE (Real Driving Emissions) test, will come into force on 1 September 2018, making Europe the only area to use this type of test.
During this test, a car is driven on public roads in a wide range of conditions, using a PEMS (portable emissions measurement system). The RDE test complements the WLTP guaranteeing that the levels of pollutant emissions measured during laboratory testing are confirmed on the road.
On 7 December 2017, the European Parliament, EU Member States and the European Commission came to a final agreement on a reformed system for the approval of vehicles before they are placed on the market within the EU (ECWVTA - European Community Whole Vehicle Type Approval).

Based on this agreement, Member States will test vehicles transiting on roads, checking at least one vehicle for every 40,000 new registered vehicles (with a minimum of five tests per Member State). 20% of these tests will concern emissions. The European Commission will also be authorised to conduct tests on each national type approval authority, every five years.
Under the agreement, a forum will be set up to exchange information, that may aid uniform interpretations and enhance EU supervision. The stringent criteria for testing organisations, based on international standards adopted by accredited bodies, should also further improve the quality of vehicle testing.

One year on from the publication of the EU Commission's proposal to replace Directive 2007/46, which contains main requirements currently applicable for the approval of motor vehicles, the European Parliament's Committee on Internal Market and Consumer Protection (IMCO) adopted a report in February, with some amendments to the original proposal - designed to further restrict approval testing (for example concerning market surveillance, recall campaigns, the designation and monitoring of Technical Services, etc.). The IMCO Report was approved by Parliament in a plenary session in April and text of the proposed amendment will be adopted by the European Council in May. At present, it is not possible to predict when the new legislation will be adopted.

In November 2017, the European Commission published the second mobility package, including CO_2 emission reduction targets for cars and light commercial vehicles for after 2021. The car industry is now working with its members to assess all aspects of the proposals before committing to this package with the EU.
As regards the CO_2 proposal, the European Car Industry, represented by ACEA (the European Automobile Manufacturers' Association) believes that an additional target set for 2025, just a few years after the 2021 targets, does not leave enough time to make necessary technical and design modifications to vehicles, and particularly to light commercial vehicles considering their longer development and production cycles. It also believes the CO_2 emission reduction target of 30% proposed by the Commission is excessive and ahead of the ambitious target established in the climate and energy framework and Commission's impact assessment of 2016. In keeping with this, ACEA hopes the Commission will re-think its proposal and believes that a 20% reduction by 2030 will enable manufacturers to produce cars at a higher, but acceptable, cost.

Italy
On 13 January, the Government issued a decree implementing European Directive 2014/94 on the deployment of alternative fuels infrastructure (hydrogen, biofuels, natural gas and LPG) over the next few years.
The decree also established the "National Strategic Framework" with objectives and procedures for developing the infrastructure, incorporating measures already introduced by the National Infrastructure Plan for recharging electric vehicles (PNire) and promoting guidelines for urban Sustainable Mobility plans.

In March, the Ministry of Transport issued Circular no. 7260 on 27/03/2017, which requires AM driving licence applicants (applicants for licences to ride two-wheelers up to 50cc and 45 km/h) to wear the following during the practical test: full-face helmet, gloves, jacket with elbow and shoulder protection, closed shoes, long trousers and knee protection.

On 12 June, the Ministry for the Environment and Ministry for Economic Development held a public consultation on the 2017 National Energy Strategy. The strategy submitted to the public addresses the competitiveness of energy prices, security of procurement and environmental objectives. In the transport sector, national objectives and initiatives will be flanked by local panels on sustainable mobility, to steer urban transport towards alternatives to private systems (pedestrian mobility, bicycles, public transport), pinpoint smart mobility initiatives (car sharing, car pooling, smart parking and bike sharing) and reduce traffic in town and city centres.

Last autumn, the Ministry for Transport and Infrastructure decided to trial a 30% discount on motorway tolls, compared to normal rates for motor vehicles, for vehicles accessing the national motorway network. Moreover, the vehicle ownership certificate, for all road vehicles, was abolished on 1 July. This means that the new vehicle registration document combines data on vehicle ownership and the former registration document.
ANCMA, Italy's National Association for Cycle and Motorcycle Accessories, re-presented its request for incentives (tax relief) for people who buy protective clothing for motorcycles.
In December 2017, as with the previous year for Euro3 motor vehicles, documents were sent to the Italian Ministry for Transport and Infrastructure to obtain an end-of-series exception, which is necessary to continue selling and registering Euro2 and Euro3 mopeds in 2018 and 2019, of which type approval expired on 31/12/2017. The same procedure was also adopted in other EU countries.
Work has been ongoing since October 2017 to start a nationwide road and laboratory testing programme, to verify the conformity of all types of vehicles, both new and already registered, to main technical type approval regulations (on pollution, noise levels, maximum speed, etc.). This programme will last for one year. If the results of the first year prove useful and the required budget is re-allocated (approximately €5 million), the programme will be repeated in subsequent years.

France

On 10 February, the Secretary General of the Ministry of the Economy and Finance, signed the document "Commitments of the Ministry of Economy and Finance for road safety". The Ministry of the Economy and Finance has committed to maintaining a strategy which is fully in line with government action to half the number of road victims by 2020, with seven undertakings: a ban on phone conversations while driving, a total ban on drinking alcohol and driving, the mandatory use of seat belts, observing speed limits, rest times included in calculations of goods' transport times, awareness and training for road safety officers and promoting safety devices for motorcyclists.

Norway

The Norwegian government introduced an amendment to registration tax for motorcycles based on provisions already in use for cars. A gradual tax will be introduced based on CO_2 emissions rather than the previous method based on engine power. As from 1 July 2017, models with registered CO_2 emissions (i.e. Euro 4 models[12]) will be taxed based on their CO_2 emissions:

- for emissions above 75 grams, 630 Norwegian krone (equal to approximately €65) for each gram/km,
- for emissions above 140 grams, 800 Norwegian krone (equal to approximately €83) for each gram/km.

12) For non-Euro 4 motorcycles, the registration tax will continue to be based on engine power.

USA

In the context of a twenty-year dispute involving the US against the EU concerning the EU's ban on imports to Europe of meat from animals bred using hormones, the USTR (United States Trade Representative) declared it intended applying duties (up to 100%) on some EU products, including two-wheeler vehicles with a horsepower from 51 to 500cc. On 14 February, a hearing at the USTR took place with various stakeholders attending, including Piaggio and the Motorcycle Industry Council, who spoke out against the senselessness of including two-wheeler products in a dispute concerning the food and agricultural industry, thus targeting a sector such as small two-wheelers in which US manufacturers have no interest. In the following months, the hearing came to a standstill and at present, the initial intention of levying a tax on certain types of motorcycles from the EU no longer seems to be on the agenda.
The proposal submitted by the US Department of Transportations' National Highway Traffic Safety Administration (NHTSA) in 2016 for a new Federal Motor Vehicle Safety Standard (FMVSS), no. 150, which would require manufactures of vehicles and light goods' transport vehicles to add V2V communication systems was discussed and put to public consultation in the first few months of the year. Currently, the intention appears to be to standardise the message and format of V2V transmissions and include some data, such as vehicle speed, direction and braking status, in transmitted messages.

Canada

In February, the second parliamentary hearing on the Bill S-2 "Strengthening Motor Vehicle Safety for Canadians Act" took place. The act will amend the current law on motor vehicle safety in order to consolidate its application and conformity and further protect citizens' safety, giving greater flexibility to support advanced safety technologies and other innovations designed for vehicles. In the future and with a view to harmonising laws, the Bill S-2 could also lead to manufacturers being able to choose whether to market vehicles in Canada that conform to UNECE regulations or to American FMVSS standards.

India

In the first few months of the year, institutions and industry representatives continued to discuss the future Bharat VI emission standards (similar to Euro 5). Based in information currently available, the standards should apply to all new vehicles as from 1 April 2020, so a few months before the entry into force of Euro 5 in the EU (as from 1 January 2021 for newly registered vehicles). Requirements for in-vehicle diagnostic systems should instead apply after EU dates.
The National Institution for Transforming India, also called NITI Aayog, formed via a resolution of the Union Cabinet on 1 January 2015 and the premier policy 'Think Tank' of the Government of India, presented the report "Transformative Mobility Solutions for India" in May 2017, which estimated that India could save up to 64% of its energy demand relative to passenger mobility and up to 37% of carbon emissions in 2030, compared to a "business as usual" strategy, pursuing a future of shared, electric and connected mobility. This report, although not a legislative document, is highly indicative of the Indian government's considerable focus on disseminating alternative mobility systems.

Thailand and Malaysia

Emission measures similar to Euro 4 standards currently in force in Europe for motorcycles will come into effect in Malaysia as from 2020, albeit with some limitations on requirements for in-vehicle diagnostic systems and for evaporative emissions. Thailand is also assessing whether to adopt similar measures in the near future on evaporative emissions, together with Regulation UNECE No. 41-04 on sound emissions.

Vietnam

On 1 January 2017, a new anti-pollution regulation came into force for two-wheelers, with requirements that are similar to Euro 3 standards, apart from some provisions concerning evaporative emissions.

Results by type of product

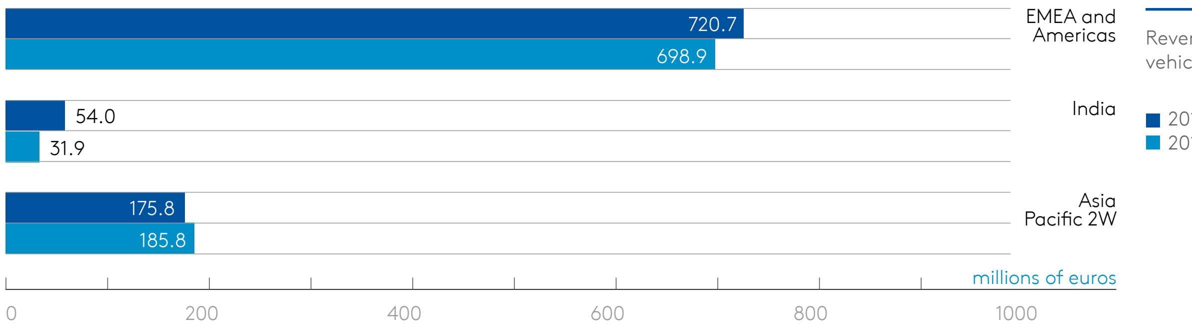
The Piaggio Group is comprised of and operates by geographic segments (EMEA and the Americas, India and Asia Pacific) to develop, manufacture and distribute two-wheeler and commercial vehicles.
Each Geographical Segment has production sites and a sales network dedicated to customers in the relative segment. Specifically:

› Emea and the Americas have production sites and deal with the distribution and sale of two-wheeler and commercial vehicles;
› India has production sites and deals with the distribution and sale of two-wheeler and commercial vehicles;
› Asia Pacific 2W has production sites and deals with the distribution and sale of two-wheeler vehicles.

For details of results and final capital invested by each operating segment, reference is made to the Notes to the Consolidated Financial Statements.
The volumes and turnover in the three geographic segments, also by product type, are analysed below.

Two-wheeler

	2017		2016		Change %		Change	
	Volumes Sell-in (units/000)	Turnover (million euros)	Volumes Sell-in (units/000)	Turnover (million euros)	Volumes	Turnover	Volumes	Turnover
EMEA and Americas	230.1	720.7	222.8	698.9	3.3%	3.1%	7.3	21.9
of which EMEA	216.1	652.3	208.9	634.1	3.4%	2.9%	7.1	18.2
(of which Italy)	*47.5*	*159.6*	*46.1*	*149.8*	*3.1%*	6.5%	*1.4*	9.8
of which America	14.0	68.4	13.9	64.8	1.2%	5.6%	0.2	3.6
India	67.7	54.0	39.6	31.9	71.1%	69.6%	28.1	22.2
Asia Pacific 2W	78.2	175.8	81.6	185.8	-4.2%	-5.4%	-3.5	-10.0
Total	**376.0**	**950.6**	**344.0**	**916.5**	**9.3%**	**3.7%**	**32.0**	**34.1**
Scooters	343.5	660.4	313.7	635.5	9.5%	3.9%	29.8	24.9
Motorcycles	32.5	159.1	30.3	153.3	7.1%	3.8%	2.2	5.8
Spare parts and Accessories		129.0		124.5		3.6%		4.4
Other		2.2		3.2		-31.6%		-1.0
Total	**376.0**	**950.6**	**344.0**	**916.5**	**9.3%**	**3.7%**	**32.0**	**34.1**



Revenues of Two-wheeler vehicles

Two-wheeler vehicles can mainly be grouped into two product segments: scooters and motorcycles, in addition to the related spare parts and accessories business, the sale of engines to third parties, involvement in main two-wheeler sports championships and technical service.

The world two-wheeler market comprises two macro areas, which clearly differ in terms of characteristics and scale of demand: economically advanced countries (Europe, United States, Japan) and emerging nations (Asia Pacific, China, India, Latin America).
In the first macro area, which is a minority segment in terms of volumes, the Piaggio Group has a historical presence, with scooters meeting the need for mobility in urban areas and motorcycles for recreational purposes.
In the second macro area, which in terms of sales, accounts for most of the world market and is the Group's target for expanding operations, two-wheeler vehicles are the primary mode of transport.

Main results

In terms of turnover, increases in India (+69.6%) were particularly important, thanks to the success of the Aprilia SR 150, which was unveiled in July 2016.
Revenues in EMEA and the Americas also went up (+3.1%), driven above all by performance in Italy (+6.5%) and the Americas (5.6%), while revenues in Asia Pacific (-5.4%) recorded a downturn. Similar trends were recorded for volumes. The increase in sales of two-wheeler vehicles in India (+71.1%) and EMEA and the Americas (+3.3%) more than offset the fall in sales in Asia Pacific (-4.2%).

Market positioning[13]

The Piaggio Group maintained its leadership position on the European market in 2017, closing with a 15.1% share (15.4% in 2016), thanks to a strong presence in the scooter segment, where it held a 24.2% share (25.4% in 2016). In Italy, the Group is a well-established leader in the scooter segment (30.0%) and an important player on the domestic two-wheeler market (a 20.1% share in 2017 and a 21.8% share in 2016).
The Group, with its own sites in India and Vietnam, also operates in the "premium" segment of the Indian market and in Asia Pacific countries. In particular, Piaggio is one of the leading segment operators in Vietnam, which is the Group's main market in the Asian area.
The Group retained its strong position on the North American scooter market, where it closed the year with a market share of 22,1%, and where it is committed to increasing its profile in the motorcycle segment, through the Aprilia and Moto Guzzi brands.

13) *Market shares are calculated based on "sell out" volumes, i.e. sales by the distribution network to end purchasers. Market shares for 2016 might differ from figures published last year, due to final vehicle registration data, which some countries publish with a few months' delay, being updated.*

The distribution network

EMEA

In EMEA, the Piaggio Group has a direct sales presence in main European countries. On other European markets and in the Middle East and Africa, it operates through importers.
In December 2017, the Group's sales network comprised 1,300 partners managing around 2,800 sales agency agreements for various brands. 33% of these dealers sell only Group brands (one or more), without handling competitors' products.
At present, the Piaggio Group is active in 76 countries in the area and in 2017 further consolidated its sales activities.
Actions targeting the distribution network followed market trends in the area, focussing on a better qualitative/quantitative balance for the sales network.
In addition, new sales and after-sales quality standards continued to be distributed, geared to offering end customers a better experience throughout the customer journey.
Guidelines on the distribution network cover the following areas:

1. improving customer experience at the sales outlet, with the implementation of a new retail format which is consistent with the premium positioning of Piaggio products;
2. consolidating local coverage, through a quality-based selection of the network, with the objective of increasing the weight of exclusive Group dealers;
3. consolidating retail channel activities through a gradual increase in the importance of the primary network;
4. improving dealers' financial performance by expanding areas of expertise and opportunities for selling products and services attributable to the Piaggio Group;
5. improving the service level for dealers, through dedicated training and appropriate support tools;
6. continually improving service for end customers, through an integrated platform to manage the entire customer life cycle and customer loyalty.

Americas

In the Americas, the Piaggio Group is directly present in the United States and Canada, while in Latin America it operates through a network of importers. At the end of 2017, the Group had 351 partners, of which 283 in the United States, 73 in Canada and a network of 18 importers in Central and South America.
In 2017, the process to streamline and consolidate the distribution network continued, through the replacement and appointment of new partners to support the growth of Piaggio's brands with a special focus on the motorcycle segment and on consolidating the Group's presence in the scooter segment.

Asia Pacific

In the Asia Pacific Area, the Piaggio Group has a direct commercial presence in Vietnam, Indonesia, China and Japan, while in all other markets of this area it operates through importers.
The distribution network is being continually developed in line with the Group's strategic objectives, which plan to expand operations in the region.
Past and ongoing actions for all markets in the Asia Pacific area, include:

- increasing the number of sales outlets, consolidating all retail services and other services;
- consolidating a local presence, with a more focussed, detailed geo-marketing study;
- growth in terms of the size of the retail area and after sales;
- gradually channelling Corporate Identity towards a Motoplex concept, which is therefore increasingly consistent and uniform in all countries.

In Vietnam, the headquarters of the entire Asia Pacific area, the Group's distribution network of 4 importers in 2008 had increased to a system with 94 sales outlets throughout the country. In Indonesia, Japan and China, Piaggio has a network of 44, 56 and 21 sales outlets respectively.
In other areas of Asia Pacific, the number of sales outlets totalled 261 at the end of 2017, with major changes to the current network focussed on the Motoplex concept, and 16 distributors operating in

Thailand, Singapore, Taiwan, Australia, Malaysia, South Korea, New Zealand, Cambodia, Hong Kong, the Philippines, Myanmar and Macau.
During 2017, the Bangkok Motoplex in Thailand was opened.

India
In India, Piaggio Vehicles Private Limited had 135 dealers as of 31 December 2017. At present, the network covers main areas throughout the country.

Investments

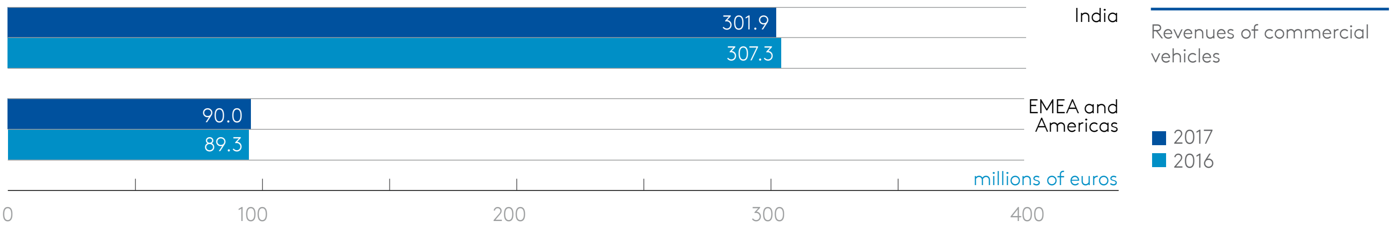
Investments mainly targeted the following areas:
› developing new products and face lifts for existing products;
› updating 50cc vehicles to Euro 4 standards;
› improving and modernising current production capacity.

As regards product investments in particular, considerable resources were allocated to developing new products to market on both European and Asian (Vietnamese and Indian) markets.

Industrial investments were also made, targeting safety, quality and the productivity of production processes.

Commercial Vehicles

	2017		2016		Change %		Change	
	Volumes Sell-in (units/000)	Turnover (million euros)	Volumes Sell-in (units/000)	Turnover (million euros)	Volumes	Turnover	Volumes	Turnover
EMEA and Americas	15.8	90.0	14.7	89.3	7.4%	0.7%	1.1	0.7
of which EMEA	14.0	86.2	12.4	84.2	12.8%	2.3%	1.6	1.9
(of which Italy)	*4.8*	*48.5*	*4.9*	*48.7*	*-2.2%*	*-0.2%*	*(0.1)*	*(0.1)*
of which America	1.8	3.8	2.3	5.0	-21.4%	-25.3%	(0.5)	(1.3)
India	160.9	301.9	173.3	307.3	-7.1%	-1.7%	(12.3)	(5.4)
TOTAL	**176.8**	**391.9**	**188.0**	**396.6**	**-6.0%**	**-1.2%**	**(11.3)**	**(4.7)**
Ape	170.6	295.2	180.4	301.7	-5.5%	-2.2%	(9.9)	(6.5)
Porter	3.6	42.4	3.2	36.3	14.9%	16.9%	0.5	6.1
Quargo	0.3	1.3	1.1	6.7	-73.8%	-80.4%	(0.8)	(5.4)
Mini Truk	2.3	6.3	3.3	7.4	-30.3%	-14.2%	(1.0)	(1.0)
Spare parts and Accessories		46.6		44.5		4.8%		2.1
TOTAL	**176.8**	**391.9**	**188.0**	**396.6**	**-6.0%**	**-1.2%**	**(11.3)**	**(4.7)**



Revenues of commercial vehicles

The Commercial Vehicles category includes three- and four-wheelers with a maximum mass below 3.5 tons (category N1 in Europe) designed for commercial and private use, and related spare parts and accessories.

Main results

In 2017, sales of Commercial Vehicles generated a turnover of approximately €391.9 million, including approximately €46.6 million relative to spare parts and accessories, down by 1.2% over the previous year. During the year, 176,800 units were sold, down by 6.0% compared to 2016.

On the EMEA and Americas market, the Piaggio Group sold 15,800 units, generating a total net turnover of approximately €90.0 million, including spare parts and accessories for €17.9 million. The 7.4% increase in sales was supported by the good performance of the reference EMEA market.

On the Indian three-wheeler market, Group sales went down from 157,750 units in 2016 to 144,377 units in 2017, registering an 8.5% decrease, only partially offset by a good performance from exports (14,097 three wheeler vehicles; 11,786 in 2016).
On the four-wheeler market, sales of Piaggio Vehicles Private Limited decreased by 34% in 2017 compared to 2016, closing with 2,475 units.

Market positioning [14]

The Piaggio Group operates in Europe and India on the light commercial vehicles market, with vehicles designed for short-range mobility in urban areas (European range) and suburban areas (the product range for India).

In Europe, the Group acts as operator on these markets in a niche segment (urban mobility), thanks to its range of low environmental impact products.

14) Market shares are calculated based on "sell out" volumes, i.e. sales by the distribution network to end purchasers. Market shares for 2016 might differ from figures published last year, due to final vehicle registration data, which some countries publish with a few months' delay, being updated.

Piaggio operates in India in the passenger vehicle and cargo sub-segments of the three-wheeler market. It also operates on the four-wheeler light commercial vehicles (LCV) market (cargo vehicles for goods transport) with the Indian Porter range.

On the Indian three-wheeler market, Piaggio Vehicles Private Limited had a market share of 26.5% in 2017 (28.9% in 2016). Detailed analysis of the market shows that Piaggio Vehicles Private Limited maintained its market leader position in the goods transport segment (cargo segment) with a share of 48.8% (50.7% in 2016). Its market share, although decreasing, remained steady in the Passenger segment, at 20.6% (23.6% in 2016). On the four-wheeler market, Piaggio Vehicles Private Limited played a marginal role, with its share decreasing to 1.7% (3.2% in 2016).

The distribution network

Europe and Overseas

The Piaggio Commercial network is going through considerable change, due to the need to prepare for new challenges from the product range in upcoming years.
In Europe, the basically stable number of dealers (approximately 400) is only the result of a neutral balance between new appointments and streamlining actions. In general, a process to assess the network began, and along with dealers, the state of the art is being evaluated, and gaps in required standards identified. A strategy to improve deserving dealers is also being planned, for the bottom-up realignment of all official sales and after-sales operators before the end of 2019.
At the same time, Network Development is starting a process to recruit operators from the professional vehicles business which, in terms of dimensions, structures, expertise and staff, can make a considerable contribution not only to optimally covering the potential market, but also to upgrading the Network's quality level.
This process was already started in France, in 2017, as a priority action, with the appointment of 9 new operators, that are already making a mark with their operating procedures and sell out results. In Italy, two dealers have opened, and in Germany and Spain one.
As for the indirect network, two new partnerships are underway in Europe, with a new market opening (Bulgaria) and the requalification of our position on an existing market (Romania); in both cases, the operators are important in terms of size and organisation.
Outside Europe, the process to upgrade the network in Latin America, Africa and Asia continued in 2017, in line with the general objective of increasing network quality standards. 24 countries are now covered, with the opening of new markets, replacements and closure of operators that no longer hold a prominent position in countries which are already operative. This positive trend is expected to continue, with steady growth in 2018 as well.

India

In India, Piaggio Vehicles Private Limited has 365 dealers.

Investments

Investments mainly targeted the following areas:
› developing new products and face lifts for existing products;
› improving and modernising current production capacity.

Industrial investments were also made, targeting safety, quality and the productivity of production processes.

Risks and uncertainties

Due to the nature of its business, the Group is exposed to different types of risks. To mitigate exposure to these risks, the Group has adopted a structured and integrated system to identify, measure and manage company risks, in line with industry best practices (i.e. CoSO ERM), which was updated during 2017. Scenarios applicable to Group operations were mapped, involving all organisational units. These scenarios were then grouped as referring to external, strategic, financial or operational risk.
Main findings are reported below.

External risks

Risks related to the macroeconomic and geopolitical context

To mitigate any negative effects arising from the macroeconomic and geopolitical context, the Piaggio Group continued its strategic vision, diversifying operations at international level - in particular in Asia where growth rates of economies are still high, and consolidating the competitive positioning of its products. To achieve this, the Group focuses on research activities, and in particular on the development of engines with a low consumption and a low or zero environmental impact.

Risks connected to consumer trends

Piaggio's success depends on its ability to manufacture products that cater for consumer's tastes and can meet their needs for mobility. Levering customer expectations and emerging needs, with reference to its product range and customer experience, is essential for the Group to maintain a competitive edge. Through market analysis, focus groups, concept and product testing, investments in research and development and sharing a roadmap with suppliers and partners, Piaggio can seize emerging market trends to renew its own product range.
Customer feedback enables Piaggio to evaluate customer satisfaction levels and fine tune its own sales and after-sales service model.

Risks related to a high level of market competition

Over the last few years, the characteristics and dynamics of the competitive background of markets on which the Group operates have changed considerably, above all regarding prices, also due to a declining demand worldwide. In addition, the Group is exposed to the actions of competitors that, through technological innovation or replacement products, could obtain products with better quality standards and streamline costs, offering products at more competitive prices.
Piaggio has tried to tackle this risk, which could have a negative impact on the financial position and performance of the Group, by manufacturing high quality products that are innovative, cost-effective, reliable and safe, and by consolidating its presence in Asia.

Risk relative to the regulatory and legal framework

Numerous national and international laws and regulations on safety, noise levels, consumption and the emission of pollutant gases apply to Piaggio products. Strict regulations on atmospheric emissions, waste disposal, the drainage and disposal of water and other pollutants also apply to the Group's production sites.
Unfavourable changes in the regulatory and/or legal framework at a national and international level could mean that products can no longer be sold on the market, forcing manufacturers to invest to renew their product ranges and/or renovate/upgrade production plants.
To deal with these risks, the Group has always invested in research and development into innovative

products, anticipating any restrictions on current regulations. Moreover, the Group, as one of the sector's leading manufacturers, is often requested to be represented on parliamentary committees appointed to discuss and formulate new laws.

Risks connected with natural events

The Group operates through industrial sites located in Italy, India and Vietnam. These sites could be affected by natural events, such as earthquakes, typhoons, flooding and other catastrophes that may damage sites and also slow down/interrupt production and sales.
The potential impact of these risks is mitigated by specific insurance cover allocated to various sites based on their relative importance.

Risk connected with the use of new technologies

The Piaggio Group is exposed to risk from the difficulty of keeping abreast with new product and production process technologies. To tackle this risk, departments at Pontedera in Italy and PADc – the Piaggio Advance Design Center in Pasadena are dedicated to research, development and trialling new technological solutions (thanks also to Aprilia Racing's experience in MotoGrp racing), while Piaggio Fast Forward in Boston is studying innovative solutions to anticipate and meet future mobility needs.

Risks connected with the sales network

The Group's business is closely related to the sales network's ability to guarantee end customers a high quality sales and after-sales service. Piaggio deals with this risk by establishing specific technical/professional standards to adopt in contracts, and by adopting periodic controls.

Risks connected with external offences

As regards this category, the main potential risks refer to fraudulent events connected with cyber attacks. These risks may stop activities supporting production and sale or compromise the confidentiality of personal data managed by the Group. To mitigate the occurrence of these risks, Piaggio has adopted a system of controls to improve the Group's IT security.

Strategic risks

Reputational and Corporate Social Responsibility risks

In carrying out its operations, the Group could be exposed to stakeholders' perception of the Group and its reputation and their loyalty changing for the worse because of the release of detrimental information or due to sustainability requirements in the Corporate Governance Report not being met, as regards economic, environmental, social and product-related aspects.

Risks connected with the definition of strategies

In defining its strategic objectives, the Group could make errors of judgement with a consequent impact on its image and financial performance.

Risks connected with the adoption of strategies

In carrying out its operations, the Group could be exposed to risks from the wrong or incomplete adoption of strategies, with a consequent negative impact on achieving the Group's strategic objectives.

Financial risks

Risks connected with exchange rate trends

The Piaggio Group undertakes operations in currencies other than the euro and this exposes it to the risk of fluctuating exchange rates of different currencies.
Exposure to the business risk consists of envisaged payables and receivables in foreign currency, taken from the budget for sales and purchases reclassified by currency and accrued on a monthly basis.
The Group's policy is to hedge at least 66% of the exposure of each reference month.
Exposure to the settlement risk consists of receivables and payables in foreign currency acquired in the accounting system at any moment. The hedge must at all times be equal to 100% of the import, export or net settlement exposure for each currency.
During the year, currency exposure was managed based on a policy that aims to neutralise the possible negative effects of exchange rate variations on company cash flow. This was achieved by hedging economic risk, which refers to changes in company profitability compared to the planned annual economic budget, based on a reference change (the "budget change"), and transaction risk, which refers to differences between the exchange rate at which receivables and payables are recognised in currency in the financial statements and the exchange rate at which the relative amount received or paid is recognised.
The Group has assets and liabilities which are sensitive to changes in interest rates and are necessary to manage liquidity and financial requirements. These assets and liabilities are subject to an interest rate risk and are hedged by derivatives or by specific fixed-rate loan agreements.
For a further description, reference is made to section 43 of the Notes to the Consolidated Financial Statements.

Risks connected with insufficient cash flows and access to the credit market

The Group is exposed to the risk arising from the production of cash flows that are not sufficient to guarantee Group payments due, or adequate profitability and growth to achieve its strategic objectives. Moreover, this risk is connected with the difficulty the Group may have in obtaining loans or a worsening in conditions of loans necessary to support Group operations in appropriate time frames.
To deal with these risks, cash flows and the Group's credit line needs are monitored or managed centrally under the control of the Group's Treasury in order to guarantee an effective and efficient management of financial resources as well as optimise the debt maturity standpoint.
In addition, the Parent Company finances the temporary cash requirements of Group companies by providing direct short-term loans regulated in market conditions or guarantees.

Risks connected with credit quality of counterparties

This risk is connected with any downgrading of the credit rating of customers and consequent possibility of late payments, or the insolvency of customers and consequent failure to receive payments.
To balance this risk, the Parent Company evaluates the financial reliability of its business partners and stipulates agreements with primary factoring companies in Italy and other countries for the sale of trade receivables without recourse.

Risks connected with deleverage

This risk is connected with compliance with covenants and targets to reduce loans, to maintain a sustainable debt/equity balance.
To offset this risk, the measurement of financial covenants and other contract commitments is monitored by the Group on an ongoing basis.

Operating risks

Risks relative to the product

The "Product" category includes all risks concerning faults due to a nonconforming quality and safety and consequent recall campaigns that could expose the Group to: the costs of managing campaigns, replacing vehicles, claims for compensation and above all if faults are not managed correctly and/or are recurrent, damage to its reputation.
To mitigate these risks, Piaggio has established a Quality Control system, it tests products during various stages of the production process and carefully sources its suppliers based on technical/professional standards. The Group has also defined plans to manage recall events and has taken out insurance to protect the Group against events attributable to product defects.

Risks connected with the production process / business continuity

The Group is exposed to risk connected with possible interruptions to company production, due to the unavailability of raw materials or components, skilled labour, systems or other resources.
To deal with these risks, the Group has necessary maintenance plans, invests in upgrading machinery, has a flexible production capacity and sources from several suppliers of components to prevent the unavailability of one supplier affecting company production. Moreover, the operating risks related to industrial sites in Italy and other countries are managed through specific insurance cover assigned to sites based on their relative importance.

Risks connected with the supply chain

In carrying out its operations, the Group sources raw materials, semifinished products and components from a number of suppliers. Group operations are conditioned by the ability of its suppliers to guarantee the quality standards and specifications requested for products, as well as relative delivery times. To mitigate these risks, the Group qualifies and periodically evaluates its suppliers based on professional/technical/financial criteria in line with international standards.

Risks connected with the environment and with health and safety

The Group has production sites, research and development centres and sales offices in different nations and so is exposed to the risk of not being able to guarantee a safe working environment, with the risk of causing potential harm to property or people and exposing the Group to legal sanctions, lawsuits brought by employees, costs for compensation payments and reputational harm.
To mitigate these risks, Piaggio adopts a sustainable development model that is based on environmental sustainability, in terms of safeguarding natural resources and the possibility that the ecosystem might absorb the direct and indirect impact of production activities. Specifically, Piaggio seeks to minimise the environmental impact of its industrial activities through careful definition of the technological transformation cycle and using the best technologies and most modern methods of production. This commitment, enacted in the Code of Ethics and stated by top management in the Group's "environmental policy" which is the basis for environmental certification (ISO 14001) and health and safety certification (BSOHSAS 18001) already awarded and maintained at production sites, is a mandatory benchmark for all company sites no matter where they are working.

Risks connected with processes and procedures adopted

The Group is exposed to the risk of shortcomings in planning its company processes or errors and deficiencies in carrying out operations.
To deal with this risk, the Group has established a system of directives comprising organisational notices and Manuals/Policies, Management Procedures, Operating Procedures and Work Instructions. All documents relative to Group processes and procedures are part of the single Group Document Information System, with access that is regulated and managed on the company intranet.

Risks relative to human resources

The main risks the Group is exposed to concerning human resources management include the ability to recruit expertise, professionalism and experience necessary to achieve objectives. To offset these risks, the Group has established specific policies for recruitment, career development, training, remuneration and talent management, which are adopted in all countries where the Group operates according to the same principles of merit, fairness and transparency, and focussing on aspects that are relevant for the local culture.
In Europe, the Piaggio Group operates in an industrial context with a strong trade union presence, and is potentially exposed to the risk of strikes and interruptions to production activities.
In the recent past, the Group was not affected by major interruptions to production because of strikes. To avoid the risk of interruptions to production activities, as far as possible, the Group bases its relations with trade union organisations on dialogue.

Legal risks

The Piaggio Group legally protects its products and brands throughout the world. In some countries where the Group operates, laws do not offer certain standards of protection for intellectual property rights. This circumstance could render the measures adopted by the Group to protect itself from the unlawful use of these rights by third parties inadequate.
Within the framework of its operations, the Group is involved in legal and tax proceedings. As regards some of the proceedings, the Group could be in a position where it is not able to effectively quantify potential liabilities that could arise. A detailed analysis of the main disputes is provided in the specific paragraph in the Notes to the Consolidated Financial Statements.

Risks relative to internal offences

The Group is exposed to risks of its employees committing offences, such as fraud, active and passive corruption, acts of vandalism or damage that could have negative effects on its business results in the year, and also harm the image and integrity of the Company and its reputation. To prevent these risks, the Group has adopted a Model pursuant to Legislative Decree no. 231/2001 and a Code of Ethics which sets out the principles and values the entire organisation takes inspiration from.

Risks relative to reporting

The Group is exposed to the risk of possible inadequacies in its procedures that are intended to ensure compliance with Italian and relevant foreign regulations applicable to financial disclosure, running the risk of fines and other sanctions. In particular there is a risk that financial reporting for Group stakeholders is not accurate and reliable due to significant errors or the omission of material facts and that the Group provides disclosure required by applicable laws in a manner which is inadequate, inaccurate or untimely.
To deal with these risks, the financial statements are audited by Independent Auditors. Moreover, the control activities required by Italian Law 262/2005 were extended to cover the most important subsidiaries, Piaggio Vehicles Pvt. Ltd., Piaggio Vietnam Co.Ltd., Aprilia Racing Srl and Piaggio Group Americas Inc.


MOTO GUZZI
PROUDLY AUTHENTIC MOTORCYCLES.
MOTO GUZZI

Events occurring after the end of the period

30 January 2018 – The development and consolidation of the Motoplex distribution network continued; the Motoplexes are Piaggio Group multibrand flagship stores offering a unique venue to showcase the Group's main brands (Vespa, Piaggio, Aprilia and Moto Guzzi). In fact, in line with the Group's global, in-store innovative strategy with customer-centric sales, the remarkable record of 300 stores opened worldwide in just three years has been reached, improving on and partially replacing the conventional distribution network.

6 February 2018 – During the Brand Identity GrandPrix, the document centre Biblioteca Bilancio Sociale awarded a prize to brands investing in sustainability and levering this aspect as a business asset. The Piaggio Group received a special mention in the "Environment" category.

8 February 2018 – The Piaggio Group, boosted by its considerable success with the Aprilia SR 150 sports scooter, expanded its range of Aprilia scooters in India, unveiling the new Aprilia SR 125 and Aprilia Storm 125 at Auto Expo; the models will reach a broad-ranging target in a segment with strong growth, with the Vespa brand sold as a premium scooter product.

Operating outlook

In a macroeconomic context targeting a recovery in the global economy, though still affected by uncertainties over the growth rate in Europe and risks of a slowdown in some countries in Far East Asia, the Group is committed, in commercial and industrial terms, to:

› confirming its leadership position on the European two-wheeler market, optimally levering expected recovery by:
  - further consolidating its product range;
  - maintaining current positions on the European commercial vehicles market;

› consolidating operations in Asia Pacific, thanks also to the opening of new Motoplex stores, exploring new opportunities in countries in the area, always paying particular attention to the premium segment of the market;

› boosting sales of the scooters on the Indian market, thanks to the Vespa range and success of the new Aprilia SR 150;

› increasing the penetration of commercial vehicles in India, also thanks to new engines, and sales in emerging countries, targeting a further development of exports to African and Latin American markets.

From a technological point of view, the Piaggio Group will continue research to develop new solutions to current and future mobility challenges through the efforts of Piaggio Fast Forward (Boston) and to explore the new frontiers of design through PADc (Piaggio Advanced Design center) in Pasadena.

More in general, the Group is committed - as in the past and for operations in 2018 - to increasing productivity with a strong focus on efficient costs and investments, while complying with its business ethics.

Transactions with related parties

Revenues, costs, payables and receivables as of 31 December 2017 involving parent companies, subsidiaries and affiliated companies refer to the sale of goods or services which are a part of normal operations of the Group.
Transactions are carried out at normal market values, depending on the characteristics of the goods and services provided.
The information on transactions with related parties, including information required by Consob in its communication of 28 July 2006 DEM/6064293, is given in the notes to the Consolidated Financial Statements and notes to the separate Financial Statements of the Parent Company.
The procedure for transactions with related parties, pursuant to article 4 of Consob Regulation no. 17221 of 12 March 2010 as amended, approved by the Board on 30 September 2010, is published on the institutional site of the Issuer www.piaggiogroup.com, under Governance.

Investments of members of the board of directors and members of the control committee

Members of the board of directors and members of the control committee of the Issuer do not hold shares in the Issuer.


aprilia

Corporate Governance

Profile

The Company is organised in accordance with the traditional administration and control model mentioned in articles 2380-bis et seq. of the Italian Civil Code, with the Shareholders' Meeting, the Board of Directors and the Board of Statutory Auditors.
Roberto Colaninno is Chairman and Chief Executive Officer of the Company, Matteo Colaninno is Deputy Chairman and Gabriele Galli was General Manager Finance until 28 February 2017.
The Company has adopted the Corporate Governance Code of Borsa Italiana S.p.A. and observes principles of corporate governance contained in the code.
The Company is subject to the management and coordination of IMMSI S.p.A. pursuant to article 2497 et seq. of the Italian Civil Code.

Board of Directors

The Board of Directors of the Company in office at the date of this Report comprises nine members, appointed by the Ordinary General Meeting of Shareholders of 13 April 2015 based on the two lists of candidates submitted by the majority shareholder IMMSI S.p.A. and by the Legal Practice Trevisan & Associati. The Board of Directors will remain in office until the date of the Ordinary General Meeting of Shareholders called for approval of the Financial Statements for the financial year ending 31 December 2017.

The majority of the Board of Directors are non-executive, independent directors, and their number and authority are such that they ensure that their opinion has a significant weight in the Issuer's Board decisions. Non-executive directors and independent directors bring their specific competencies to Board discussions, contributing to the making of decisions that conform to corporate interests.

Committees

The Appointment Proposal Committee, the Remuneration Committee, the Internal Control and risk management Committee and the Related Parties Transactions Committee have been established within the Board.

Internal control and risk management system

The internal control and risk management system requires the Board, after consulting with the Internal Control and Risk Management Committee, to define guidelines for the internal control and risk management system which comprises all processes to identify, measure, manage and monitor main risks. This system helps ensure efficient and effective company operations, the reliability of financial information, compliance with laws and regulations as well as the company's articles of association and with internal procedures, and the safeguarding of company assets.
In this context, the Board of Directors is assisted by a Director appointed to oversee operation of the internal control and risk management system and an Internal Control and risk management Committee.
The Board of Directors, in response to a proposal by the Director in charge of the internal control and risk management system and having obtained the opinion of the Internal Control and risk management Committee and the Board of Statutory Auditors, appointed the Internal Auditing Supervisor to verify that the internal control and risk management system is operative and adequate, ensuring that he/she receives adequate means to carry out his/her functions, including - as regards the operating structure and internal organisational procedures - access to information needed for his/her position.

Board of Statutory Auditors

The Board of Statutory Auditors in office at the date of this Report was elected by the Ordinary General Meeting of Shareholders held on 13 April 2015, based on the two lists of candidates submitted by the majority shareholder IMMSI S.p.A. and by the Legal Practice Trevisan & Associati, in accordance with the provisions of article 24.2 of the Articles of Association, and will hold office until approval of the annual financial statements for the year ending 31 December 2017.

Corporate Governance Report

The Company produces an annual Report on Corporate Governance and Corporate Ownership, describing the corporate governance system adopted by the Issuer, and containing information on corporate ownership and the internal control and risk management system. The entire report is available on the website of the Issuer www.piaggiogroup.com under Governance.

Other information

Personal data processing – Legislative Decree no. 196 of 30 June 2003 – Regulation (EU) 679 of 27 April 2016 (GDPR – General Data Protection Regulation)

With reference to the obligations of the "Consolidated Privacy Act", enacted with Italian Legislative Decree no. 196 of 30 June 2003, – Annex B), Technical Regulations – Piaggio & C. S.p.A., as Data Controller, has adopted the security measures listed in the regulations.
In view of the entry into force of the GDPR, in May 2018 the Company is completing the process to align with the regulation.

Article 36 of the Consob Regulation on Markets (adopted with Consob resolution no. 16191/2007 as amended): conditions for listing companies controlling companies established and governed according to laws of non-EU Member States on the stock exchange

As regards regulatory requirements on conditions for listing companies controlling companies established and governed according to laws of non-EU Member States on the stock exchange and material importance for the purposes of consolidated financial statements, the following is reported:
- as of 31 December 2017, the regulatory requirements of article 36 of the Regulation on Markets apply to the subsidiaries: Piaggio Vehicles Private Limited, Piaggio Vietnam Co Ltd and Piaggio Group Americas Inc;
- adequate procedures for ensuring full compliance with the above regulation have been adopted.

Article 37 of the Consob Regulation on Markets Conditions preventing the listing of shares of subsidiaries subject to the management and coordination of another company

Pursuant to article 2.6.2, section 13 of the Regulation of Stock Markets organised and managed by Borsa Italiana S.p.A., the conditions as of article 37 of Consob regulation no. 16191/2007 exist.

Article 2428 of the Italian Civil Code

The information required as of article 2428 paragraphs 1, 2, 3 and 6 is given in the Report on Operations. Information on financial instruments, objectives and policies of the Group concerning financial risk management is given in section F of the Notes to the Consolidated Financial Statements and in section E of the Parent Company's Financial Statements. Information about secondary sites of the Parent Company is given in section A of the Parent Company's Financial Statements.

Statement of reconciliation between shareholders' equity and net profit for the period of the Parent Company and consolidated companies

In thousands of euros	Shareholders' equity 31/12/2017	2017 result	Other changes	Shareholders' equity 31/12/2016
Piaggio & C. SpA	**310,613**	**20,593**	**(28,898)**	**318,918**
Net profit and shareholders' equity of subsidiaries	216,861	40,000	(48,019)	224,880
Elimination of the carrying amount of investments	(135,534)	(44,808)	48,279	(139,005)
Elimination of the effects of intergroup transactions	(6,880)	4,199		(11,079)
Piaggio Group	**385,060**	**19,984**	**(28,638)**	**393,714**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Economic glossary

Net working capital: defined as the net sum of: Trade receivables, Other current and non-current receivables, Inventories, Trade payables, Other current and non-current payables, Current and non-current tax receivables, Deferred tax assets, Current and non-current tax payables and Deferred tax liabilities.

Net property, plant and equipment: consist of property, plant, machinery and industrial equipment, net of accumulated depreciation, investment property and assets held for sale.

Net intangible assets: consist of capitalised development costs, costs for patents and know-how and goodwill arising from acquisition/merger operations carried out by the Group.

Financial assets: defined by the Directors as the sum of investments and other non-current financial assets.

Provisions: consist of retirement funds and employee benefits, other long-term provisions and the current portion of other long-term provisions.

Gross industrial margin: defined as the difference between "Revenues" and corresponding "Cost to sell" of the period.

Cost to sell: include the cost for materials (direct and consumables), accessory purchase costs (transport of incoming material, customs, movements and warehousing), employee costs for direct and indirect manpower and related expenses, work carried out by third parties, energy costs, depreciation of property, plant, equipment and industrial equipment, external maintenance and cleaning costs net of sundry cost recovery recharged to suppliers.

Operating expenses: consist of employee costs, costs for services, leases and rentals, and additional operational expenditure net of operating income not included in the gross industrial margin. Operating expenses also include amortisation and depreciation not included in the calculation of the gross industrial margin.

Consolidated Ebitda: defined as "Operating income" before the amortisation/depreciation and impairment costs of intangible assets and property, plant and equipment, as resulting from the Consolidated Income Statement.

Net capital employed: determined as the algebraic sum of "Net fixed assets", "Net working capital" and provisions.

In some cases, data could be affected by rounding off defects due to the fact that figures are represented in millions of euros; changes and percentages are calculated from figures in thousands of euros and not from rounded off figures in millions of euros.

Consolidated non-financial statement – Legislative Decree no. 254 of 30 December 2016

General

This document, "Non-Financial Disclosure" (hereinafter also "DNF" or disclosure), which will be prepared annually, is published by Piaggio & C. S.p.A. (hereinafter "Piaggio" or the "Group") in compliance with Legislative Decree no. 254/2016 ("Implementation of Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups).

REPORTING PERIOD	› Financial year 2017 (from 1 January to 31 December 2017). Data relative to 2016 are presented for comparison.
SCOPE OF THE REPORT	› The information and figures in the DNF refer to subsidiaries (Italian and foreign) as of 31 December 2017, and to the activities they engaged in over the course of the year, unless otherwise indicated. The report duly indicates when aggregate data derive from estimates. In some cases, data could be affected by rounding off defects due to the fact that figures are represented in millions of euros; please be noted that changes and incidence in percent were calculated based on data expressed in thousands and not on the rounded figures expressed in millions.
CONTENTS OF THE REPORT	› The contents of the DNF were selected based on a process of materiality, focussing on non-financial issues.
REPORTING STANDARD	› 2017 Non-Financial Disclosure was prepared in compliance with the "Sustainability Reporting Guidelines" (GRI-Referenced), published by the GRI - Global Reporting Initiative.

At the end of the document is reported the "Correlation Table D.Lgs. 254/2016 - Material Matters - GRI Standard" which allows to clearly identify which are the non-financial material issues for the Piaggio Group and the Standards used for the reporting of each theme. This table also contains specific information regarding the compliance of requests pursuant to Legislative Decree 254/2016.

Description of the process to identify material issues for Non-Financial Disclosure purposes

The contents are based on principles of materiality, the inclusion of stakeholders, the context of sustainability and completeness. The quality of information and adequacy of its presentation is guaranteed by principles of fairness, clarity, accuracy, timeliness, comparability and reliability.

Materiality Analysis

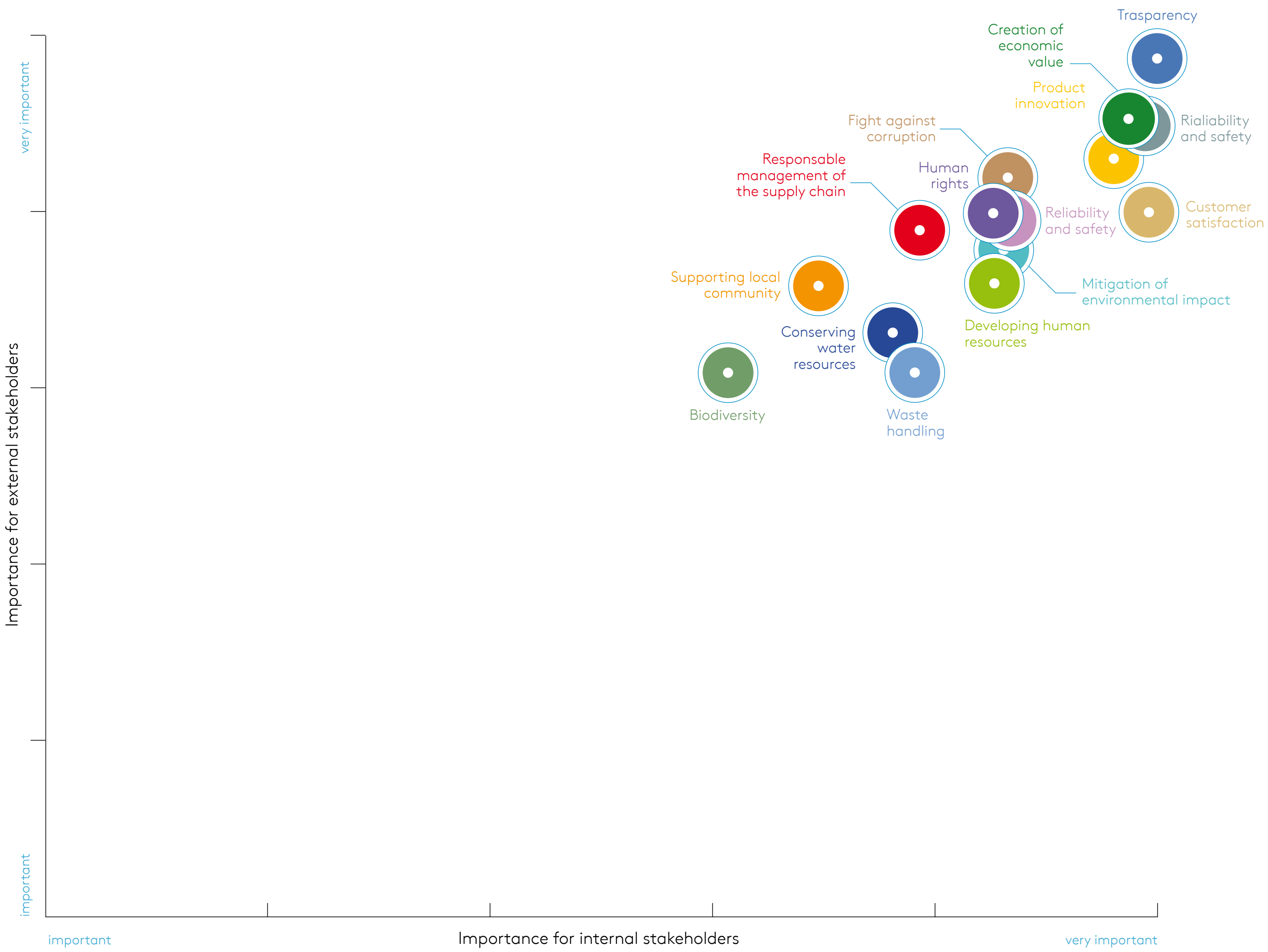
For 2017, as in previous years, the Group adopted a structured process of mapping the stakeholders considered to be of relevance to the Group, which saw the involvement of the company structures dedicated to relations with these various stakeholders (Business Ethics Committee, Investor

Relator, Personnel and Organisation Department, Legal and Corporate, Market Department, Product Development Department, Finance Department, Technology Department, Marketing and Communications Department, Corporate Press Office, India, Asia Pacific 2W). The topics relevant to Piaggio were defined based on different sources, among which are the corporate policies and principles, the 2016 Sustainability Report, and the initiatives for listening to the stakeholders.
Two dimensions were looked into on these topics:

- on the Stakeholder side, the relative importance of each topic as perceived by the Company function in relation with the stakeholders;
- with regard to the Group, the issues upon which Piaggio has planned to focus its efforts and the "level" of commitment demonstrated.

Therefore, in the upper part of the matrix there are topics into which - in the area of the Group's strategic objectives - a significant investment is foreseen in the next few years.
The analysis of the two dimensions has made it possible to prioritise the topics and position them on a matrix. The materiality matrix provides a summary framework of the topics which could potentially influence the actions and performances of Piaggio, its stakeholders' decisions, as well as the level of "alignment" or "misalignment" between the priority of intervention that stakeholders attribute to the different topics and the level of commitment that the Group takes on relative to them.

Materiality diagram



Contents of Non-Financial Disclosure

Based on the results of materiality analysis, the format of 2017 Non-Financial Disclosure was defined, focussing on non-financial material issues, as referred to in Legislative Decree no. 254 of 30 December 2016. Similarly, the level of materiality of the topics - in turn broken down into detailed subtopics - has influenced the level of depth with which the individual topics and GRI G4 indicators are gone into, as well as the choice of the most suitable reporting tool to represent them (2017 Consolidated Financial Statements and Corporate Governance Report).
The table below shows material issues for the Company, represented based on their dimension, the impact on stakeholders, and the relative section in Non-Financial Disclosure or the reporting document or perimeter.

Dimension	Topic	Impact on	Relative section in the DNF/Other document	Reporting perimeter
ECONOMIC	Transparency Creating economic value	All Group companies – Shareholders and Lenders – Human resources – Suppliers	Consolidated Financial Statements and Corporate Governance Report	All Group companies
FIGHTING AGAINST CORRUPTION AND COMPLIANCE	Fighting against corruption	All Group companies – Shareholders and Lenders – Human resources – Suppliers	DNF: Fighting against corruption and compliance and the Corporate Governance Report	All Group companies
PRODUCT	Product innovation and sustainable mobility Safety and reliability	Piaggio & C - Piaggio Vietnam - Piaggio Vehicles Private Limited - Piaggio Advance Design Center – Piaggio Fast Forward - Foshan Piaggio Vehicles Technologies - Customers	DNF: The business model and the Corporate Governance Report	Piaggio & C - Piaggio Vietnam - Piaggio Vehicles Private Limited - Piaggio Advance Design Center – Piaggio Fast Forward - Foshan Piaggio Vehicles Technologies
	Meeting customer requirements	Customers and dealers	Corporate Governance Report	Piaggio & C - Piaggio Vietnam - Piaggio Vehicles Private Limited
ENVIRONMENTAL	Energy efficiency Waste management Conserving water resources Biodiversity	All Group companies - Local communities - Suppliers	DNF: The environmental dimension and the Corporate Governance Report	All Group companies
SOCIAL	Respecting human rights	All Group companies - Local communities, Human resources, Suppliers	DNF: Respecting human rights and the Corporate Governance Report	All Group companies
	Developing human capital Health and safety	Human resources	DNF: The social dimension and the Corporate Governance Report	All Group companies
	Responsible management of the supply chain	Piaggio & C - Piaggio Vietnam - Piaggio Vehicles Private Limited - Piaggio Advance Design Center – Piaggio Fast Forward - Foshan Piaggio Vehicles Technologies - Suppliers	DNF: The social dimension and the Corporate Governance Report	Piaggio & C - Piaggio Vietnam - Piaggio Vehicles Private Limited - Piaggio Advance Design Center – Piaggio Fast Forward - Foshan Piaggio Vehicles Technologies
	Supporting local communities	All Group companies - Local communities	DNF: The social dimension and the Corporate Governance Report	Piaggio Museum and Foundation - Piaggio & C - Piaggio Vietnam - Piaggio Vehicles Private Limited

For details of the stakeholder map and stakeholder engagement process, see the section "The commitment of the Piaggio Group" in the 2017 Corporate Governance Report.

The business model

The Piaggio Group Business Model

The Piaggio Group places the continuous search for solutions for the mobility of people and things at the centre of its business model.
The Group's ultimate goal is the creation of long-term value through the effective and efficient use and management of available resources, constantly guided by the principles and values that make up the Code of Ethics.

Our resources

Financial
Shareholders, bondholders and banks ensure that Piaggio has the financial resources it needs, on the condition that their expected return on invested capital is met.

Human
Human resources, and the skills, abilities and dedication offered by individuals, represent a key factor in Piaggio's competitiveness and growth at global level. Everything we do as individuals or as a team is shaped by our strategic vision, result-driven approach, constant commitment to customer satisfaction, desire for innovation and awareness of the future needs of the market, to generate value for each and every stakeholder. People are the key element that enables us to meet challenges in an increasingly dynamic and competitive international scenario. It is for these reasons that Piaggio places such central importance on people in the organisation, assuring them our respect and protection in all Group companies.

Intellectual
The Piaggio Group is aware of the great value of innovation and research and believes in the importance of sharing knowledge and ideas and in the stimulus that it can give to improving technologies, processes and products. For this reason, the Piaggio Group has always been engaged on many fronts, with a view to consolidating the synergies between its research and development centres (located in Italy, India, Vietnam, the United States and China), external research environments and the industrial context in which it operates.
Every year, the Group's intensive research and development activities lead to patents being filed in the countries in which it operates.

Production
The Piaggio Group operates on a global scale, with a series of production plants in:
› **Pontedera**, the main technical headquarters of the Group, which manufactures Piaggio, Vespa and Gilera branded two-wheel vehicles, light transport vehicles for the European market and engines for scooters and motorcycles;
› **Noale (Venice)**, the technical centre for the development of motorcycles for the entire Group, and the headquarters of Aprilia Racing;
› **Scorzè (Venice)**, a factory for the production of two-wheel vehicles for the brands Aprilia, Scarabeo and Derbi, and for Wi-bikes;
› **Mandello del Lario (Lecco)**, a factory which produces Moto Guzzi vehicles and engines;
› **Baramati** (**India**, a factory dedicated to the production of 3 and 4-wheel light transport vehicles for the Indian market and for export, an another facility dedicated to the production of the Vespa scooter for the Indian market, the Aprilia SR 150 sports scooter, and the diesel and turbodiesel engines for the Group's commercial vehicles;
› **Vinh Phuc (Vietnam)** where Vespa and Piaggio scooters are produced.

The Piaggio Group also operates via a joint venture company in **China** (Zongshen Piaggio Foshan Motorcycles, in **Foshan**, in the province of Guangdong), which is 45% owned by Piaggio (and therefore not consolidated in the Group's results).

How we build our strategic advantage

Organisational structure

The Piaggio Group is structured into and operates within geographical segments (EMEA and the Americas, India and Asia Pacific), for the development, manufacture and distribution of two-wheel and commercial vehicles.
Each geographical area is equipped with production facilities and a sales network specifically dedicated to customers in this region.
The Group boast an agile and flexible production capacity, enabling it to adapt quickly to the needs of the market.

A unique brand portfolio

The Piaggio Group sells 2-wheel vehicles under the brands **Piaggio**, **Vespa**, **Aprilia**, **Moto Guzzi**, **Gilera**, **Derbi**, **Scarabeo** and commercial vehicles under the brands **Ape**, **Porter** and **Quargo** (**Ape Truck**).
Some of the Piaggio Group brands are the most prestigious and historic in the world of motorcycle racing: from **Gilera** (established in 1909), to **Moto Guzzi** (established in 1921), **Derbi** (1922) and **Aprilia** which in just over twenty years has made a name for itself as one of the most successful manufacturers taking part in the world speed and superbike championships. In the scooter sector, the legendary **Vespa** brand has been synonymous with two-wheel mobility since 1946, and with over 18 million units produced to date, it represents a commercial success story of incredible longevity, as well as being one of the most recognisable icons of Italian style and technology in the world.

Distribution and service network

Piaggio distributes its products in more than 100 countries. It has an extensive distribution and sales network of qualified and reliable partners.
Since the right location is essential in order to enable each brand to express its values, for a number of years, Piaggio has been using a new distribution format called "Motoplex", joined by about 300 sales points around the world.
The Motoplex concept revolves around the idea of "brand island" displays, placing the customer in the real experiential context of the brand being represented and providing an appropriate offering in terms of the vehicle, accessories and communications.

Product range

The main objective of the Piaggio Group is to meet the most progressive needs for mobility, through a deep understanding of people and their habits, reducing the environmental impact and fuel consumption of its vehicles, ensuring customers excellent levels of performance. In its effort to ensure the sustainability of its products, the Piaggio Group takes into account the entire life cycle, which comprises the design, procurement of raw materials, production proper, use of the product by customers and, finally, decommissioning, which consists in disassembly at the end of service life and in the disposal and/or recycling of the components and raw materials.
The Piaggio Group product range includes scooters, motorcycles and mopeds with engine displacements ranging from 50 to 1,400 cc, as well as light commercial vehicles with three and four wheels.
In a society which is increasingly aware of the issue of sustainability, creating products with low environmental impact, in factories that are safe, non-polluting and do not waste resources, is becoming vital for survival.
Constant focus is placed on research into vehicles that are at the cutting edge in terms of:

- **ecology:** products that can cut the emissions of pollutant gases and CO_2 in urban and extra-urban areas; this is achieved by further developing traditional engine technologies (increasingly sophisticated internal combustion engines), as well as making more use of renewable, sustainable energy sources;
- **reliability and safety:** vehicles that allow a growing number of people to get about town easily, while contributing to ease traffic congestion and ensuring high levels of active, passive and preventive safety;

- **recyclability:** products that reduce the environmental impact at the end of their life cycle to a minimum;
- **cost-effectiveness**: vehicles with lower running and maintenance costs.

Quality control

Piaggio has a comprehensive quality management system to monitor end product quality levels in the various phases of the production process and prior to dispatch to the client. The standard procedures introduced in all Piaggio Group plants enable the constant monitoring of the quality of all the vehicles produced, ensuring product standards that fully meet both regulatory and type-approval specifications and the expectations of the end customer.

Supply chain

Some components are purchased externally in line with a global sourcing model that guarantees the quality and economy of the products supplied.
Piaggio ensures that its suppliers sign its Code of Ethics, in order to ensure compliance with its ethical values throughout the cycle of production and sales of its products. Sustainability for Piaggio does not begin and end at the gates of its factories.

Environmental sustainability

Piaggio aims at applying a model of sustainable development that not only satisfies the expectations of stakeholders (investors, shareholders, staff, suppliers, community, public administration) by guaranteeing economic and social sustainability, but also roots its actions in environmental sustainability, meaning the ability to safeguard natural resources and the ability for the ecosystem to absorb direct and indirect impacts generated by production activities.
Specifically, Piaggio seeks to minimise the environmental impact of its industrial activities by carefully defining the manufacturing technological cycle and by using the best technology and the most modern production methods. The pursuit of these environmental sustainability goals is blazing a trail of ongoing improvement of environmental performance.

Results

Remuneration to lenders

During 2017, dividends for €/000 19,698 were distributed.
The Piaggio share closed 2017 at 2.31 euro, up by 42% compared to the start of the year, outperforming main benchmarks.

Employees

In 2017, the Piaggio Group employed 6,668 people (annual average figures), providing them and their family members with a health scheme. The number of accidents at all sites decreased in 2017, to reach a minimum physiological level. 61,452 hours of training were delivered.
During 2017, none of the Piaggio Group companies were affected by episodes concerning employee discrimination or the breach of employee rights.

R&D

In 2017, the Piaggio Group continued its policy of retaining technological leadership in the sector, allocating total resources of €43.9 million to research and development, of which €25.5 million capitalised under intangible assets as development costs.

			2017			2016
	Capitalised	Expenses	Total	Capitalised	Expenses	Total
In millions of euros						
Two-wheeler	20.6	14.7	35.3	27.3	16.6	44.0
Commercial Vehicles	4.9	3.8	8.6	3.6	2.6	6.1
Total	**25.5**	**18.4**	**43.9**	**30.9**	**19.2**	**50.1**
EMEA and Americas	19.4	14.8	34.2	22.4	17.5	40.0
India	3.6	2.5	6.1	3.8	0.6	4.4
Asia Pacific 2W	2.5	1.1	3.6	4.7	1.0	5.7
Total	**25.5**	**18.4**	**43.9**	**30.9**	**19.2**	**50.1**

Patents are registered in countries where Piaggio operates on a continual basis, thanks to intense research and development carried out by the Group at its research centres. As of 31 December 2017, the number of new patented solutions remained high, confirming the Group's strong focus on intellectual property.
Piaggio has been at the cutting edge within the field of advanced engines (Advanced ICE - Internal Combustion Engines) since 2009, the year in which the 125 and 300 Hybrid engine fitted on the Mp3 Hybrid was presented. This is a parallel hybrid A-ICE solution, in which the integrated management of the two engines, electric and ICE, enables improvements in the overall performance of the vehicle and a drastic reduction in polluting emissions.
The wealth of knowledge gained during the development of the Mp3 Hybrid led to the creation of the pure electric powertrain used to equip the Liberty eMail version, which was first placed on the market in 2011.
This line of research has generated the brand-new electric powertrain that is fitted on the new Vespa Primavera Elettrica and the revolutionary version on the Vespa Primavera X.

Risk Management

The Piaggio Group started an Enterprise Risk Management (ERM) project to define and implement a structured, integrated system to identify, measure and manage company risks in line with applicable best practices. As part of the 2017 Risk Assessment campaign, involving company managers across the Group, 129 risk scenarios were identified, comprising 26 categories which were grouped into 4 level-one macro-categories (External, Operational, Financial, Strategic Risks). In this framework, issues concerning environmental and social aspects, human resources, human rights and the fight against corruption were all analysed, as explained below.

Environment

The analysis refers to the actual and potential effects of the Group's operations on the environment considering, for example, atmospheric emissions, waste management practices, the use and conservation of natural resources, etc.
Greenhouse gases (mainly CO_2) and Volatile Organic Compounds (VOCs), released by solvents used in painting, are some of the most hazardous substances for air pollution generated by automotive operators. Structural measures taken for the Group's production sites have reduced pollutant emissions for some sites and resulted in stable levels for other sites.
Although the structure of the Company's production sites has been designed to run on fossil fuels, Piaggio is engaged in optimising the management of existing sites to cut consumption.
Operations to clean up sites were necessary because of historical site contamination: the pollutants removed had not been used for several decades by the sites, proving the historical nature of the contamination. Other cases of ground contamination (spills or other significant pollution episodes) have never concerned Group operations.
Piaggio has ISO 140001 environmental certification and invests each year to reduce the environmental impact of its production sites.

Despite a considerable risk level, in line with other industry operators, control measures adopted significantly reduce environmental risks.

Employees

Risks concerning personnel include all aspects of an inadequate management of the Group's human capital, including career paths, remuneration and training, diversity (age, gender, sexual orientation, disability, religious beliefs, ethnic background, etc.) as well as risks relative to occupational health and safety and industrial relations.

Piaggio operates globally with employees in Europe, the Americas and Asia. It promotes diversity of gender, age, nationality, ethnic background, ideology and religious beliefs, as it endorses different ways of pursuing and achieving maximum performance within a single and broad-ranging Group organisational framework. The integration of disabled people into the workforce is also made possible in practice by the accessibility of company facilities and the existence of a relative company procedure.

Piaggio adopts a system of recruitment, development and salary packages for personnel which recognises and rewards merit and performance. Development tools are used to build on and continually improve skills, while empowering potential, recognising and rewarding outstanding performance. Reward policies are designed to reward individuals and recognise their contribution to the company, according to the criteria of competitiveness, fairness and meritocracy. The above mechanisms reduce potential risks related to these aspects to a residual level which is not significant.

The Piaggio Group acknowledges the role of trade union organisations and workers' representatives and is committed to establishing relations with them focussed on attention, dialogue and a common understanding; in fact, assessment and continual engagement are considered essential for identifying the best solutions for the company's specific needs. For these reasons and despite the high number of employees with trade union membership, strikes are infrequent.

As regards occupational health and safety, testing motorcycles with a medium and large engine capacity entails the highest risk levels. Generally, the risk of accidents/injuries to personnel is mitigated by adapting processes, adopting procedures and structures aligned with applicable occupational safety laws and international best standards, and promoting safe behaviour, through targeted training.

Social sphere

The social sphere includes aspects concerning Piaggio's relations with consumers, as well as the effects of the business on the community.

In the first case, product quality and reliability are essential and key to obtaining and guaranteeing customer satisfaction and safety. In the "Product – Operational Risk" category, risk scenarios relating to potential product defects have been mapped. To mitigate these risks, Piaggio has established a Quality Control system. It tests products during various stages of the production process and carefully sources its suppliers based on technical/professional standards. The Group is also committed to being awarded and maintaining certification of its quality management systems at a global level (ISO 9001 or ISO/TS 16949).

Human rights

As set out in the Code of Ethics, adopted in 2004, Piaggio specifically prohibits any form of discrimination or forced labour. This Code has been distributed to all subsidiaries and clearly states the principles and values the entire organisation takes inspiration from.

Based on the significant and specific nature of the Indian market, the following have been adopted: the Code of Business Conduct & Ethics and Whistle Blower Policy in 2016; the latter is designed to protect people reporting infringements of the Code, and therefore to guarantee the Code's validity; a Policy on the Prevention of Sexual Harassment of women at the workplace.

Based on prevention and control mechanisms established in the Code of Ethics and adopted by all Group subsidiaries, no risk scenarios relative to the violation of human rights were identified.

Fighting against corruption

The fight against both active and passive corruption comes under the risk categories "Internal/external offences" of the Group's risk model. In its Code of Ethics, Piaggio strictly prohibits any practice of corruption, request for and/or provision of preferential treatment, of any collusive behaviour, solicitation, whether direct/indirect and/or through third parties, of personal benefits of any kind for oneself and/or for others, of material benefits and/or any other advantage of any extent in favour of third parties.
A number of processes, procedures, roles and responsibilities have been defined to achieve the above objective, as regards business negotiations/relations with the public administration sector and with private entities.
The controls briefly described above decrease residual risk relative to episodes of active/passive corruption to a negligible level.

Fighting against corruption and compliance

As described in the previous paragraph, in pursuing its mission the Group ensures, through the adoption of appropriate tools, including organisational tools, compliance with the absolute prohibition of any practice of corruption.
When participating in public tenders or competitions called by Public Administration as well as in any negotiations or contracts entered into with both Public Administration and private entities, all those involved must behave according to good faith and in accordance with the law, correct commercial practice and current regulations, as well as with the corresponding company procedures, avoiding any situation from which violation of laws and/or principles of fairness and transparency in the conduct of negotiations may arise. Such negotiations must be conducted only by those previously and expressly authorised to do so, respecting roles and in accordance with corporate procedures; adequate mechanisms for traceability of information flows towards the contracting party must also be put in place. Any request for advantages, any intimidating and/or constrictive or oppressive behaviour on the part of Public Administration officials or third contracting parties or which one has merely become aware of, must be immediately reported.
The functional managers who are commonly in touch with the Public Administration must:

› provide their partners with guidelines regarding which operative conduct to follow in formal and informal contacts with the various public subjects, according to the characteristics of each individual area of activity, sharing their knowledge of regulations and their awareness of situations liable to crime;
› provide for adequate tracing mechanisms as regards official information channels with the Public Administration;
› maintain and request on the part of those having relations with Public Administration conduct characterised by fairness, transparency, traceability and in good faith, respecting the roles and responsibilities attributed; strictly observe and enforce therefore, also with specific reference to relations with Public Administration, company procedures aimed at abstractly identifying and tracing the functions and positions responsible and appointed for relations with Public Administration, in compliance therefore with corporate roles;
› make clear, truthful, complete and traceable statements to public authorities and exhibit complete, truthful and unaltered documents and data;
› maintain correct and clear conduct such as to avoid inducing the counterparty into even potential error. All consultants, suppliers, customers, and whoever is related to the Company, are committed to the observance of the laws and regulations in force in all the countries where the Company operates;
› no relation will be initiated or continued with those who do not intend to comply with such principles. When appointing these subjects to operate as representatives and/or in the interest of the Group towards Public Administration, the appointment must be in writing, with a specific binding clause requiring compliance with the principles of ethics and conduct adopted by the Group.

Identical conduct guidelines to those indicated for relations with Public Administration must also be adopted with regard to relations with any private third party, such as suppliers, customers, competitors, partners and/or any contractual counterparty.

When contributions, grants or financial support are requested from the State, the public corporations or the European Union, all the employees involved in such procedures must:
- be correct and truthful when using and presenting documents and declarations that are complete and pertinent to the activities for which such benefits can be legitimately requested and obtained;
- once the requested outpayment has been obtained, the sum should be employed for the goals to which it was originally requested and obtained. The people in charge of administrative/accounting functions must verify that each operation and transaction is: legitimate, consistent, congruous, authorised, verifiable; correctly and adequately registered, so that the process of decision, authorisation and implementation can be verified; supported by correct, authentic and appropriate documentation, so that careful inspections can be carried out at any time regarding the characteristics and the motivations of the operation, and the individuation of those who have authorised, carried out, registered and verified the operation itself.

Please note that no incidents of corruption occurred in the reporting year.

Organisational model pursuant to Legislative Decree 231/2001

The internal control and risk management system of Piaggio & C. includes the Organisational, Management and Control Model for the prevention of corporate crimes pursuant to Legislative Decree no. 231/2001 ("Model pursuant to Legislative Decree 231/2001"), which Piaggio & C. has adopted since 2004.
The Model pursuant to Legislative Decree no. 231/2001 sets out the Code of Ethics and Guidelines for Conduct, and comprises two sections. The general part, with an introduction, followed by a description of the general principles of internal control, the disciplinary system and functions and duties of the Supervisory Body. The specific part, comprising several sections, one for each type of offence.
During the year, the Model was updated in certain parts and brought more into line with the Company's organisation and trends in case law. Updates concerned additions to and the introduction of further predicate offences, as required by legal reforms, of which the most recent dates to March 2017, and amendments to the Model format.
The section on corporate offences was updated, with the following introduction, implementing Legislative Decree no. 38 of 15 March 2017 (*Implementing Council Framework Decision 2003/568/JHA of 22 July 2003 on combating corruption in the private sector*), as well as measures introduced by article 2635 of the Italian Civil Code on the offence of "corruption between private individuals" and the introduction of the new offence "instigating corruption between private individuals", whereby corruption is a punishable offence even if the offer is not accepted (*article 2635 bis of the Italian Civil Code*).
The Specific Section of the Model was revised to align with evidence from the updated Risk Assessment and all procedures. In accordance with the Supervisory Body, the configuration of groups of predicate offences was kept, but process-based approval was introduced, formalising specific decision protocols for "sensitive processes" in relation to individual groups of offences.
The update also includes regulations on Whistleblowing being added to the general section, as provided for by Law no. 179 of 2017, and additions to the list of predicate offences which are not considered applicable to the Company, including new offences established by Law no. 161 of 2017 on illegal immigration and xenophobia.

The Company has for some time now set in place a special e-mail whose references are in the Guidelines for Conduct and which lets anyone send a message directly to the Supervisory Body to report any relevant cases. This message must be read exclusively by the Supervisory Body thus guaranteeing that the operations of the body are carried out in compliance with Model 231/2001 of the Company. The Model pursuant to Italian Legislative Decree 231/2001 – widely distributed by e-mail to all Piaggio Group senior management, middle management and employees in Italy, as well as published on the Company intranet – is constantly monitored and periodically updated. Piaggio & C. has also established a "Fraud Policy" with information channels for receiving, analysing and processing reported fraud that may involve employees, directors and partners of Piaggio and Group Companies. The policy is another

instrument that the Piaggio Group has adopted to prevent infringement of the principles of lawfulness, transparency, fairness and loyalty which the Model pursuant to Legislative Decree no. 231/2001 takes inspiration from.
The Model is available on the corporate web site (www.piaggiogroup.com) in the section Governance/ Governance System.

Compliance with laws and regulations

During 2017, none of the Piaggio Group companies were affected by episodes concerning employee discrimination or the breach of employee rights. Moreover, no infringement procedures have been filed against the Piaggio Group for the breach of anti-competitive or anti-trust laws.
As of 31 December 2017, there were no sanctions in place concerning non-compliance with laws and regulations concerning environmental matters, marketing, advertising, promotions, sponsorships and the supply and use of products.
Finally, no cases regarding the breach of consumer privacy or loss of consumer data were reported in 2017.

The environmental dimension

Piaggio has organised its processes and activities based on a Quality, Environmental and Occupational Health and Safety management system to provide a model of sustainable development that guarantees long-lasting success and the expectations of stakeholders (investors, shareholders, staff, suppliers, local communities, the public administration sector).
Environmental sustainability - understood as the ability to protect and safeguard natural resources, combined with the capacity of the ecosystem to absorb the direct and indirect impacts generated by manufacturing activities - is among the key focal points of Group Policy, as expressed by the company's senior management team. This concept provides the basis for the environmental certification (ISO 14001) process that has already been launched (or is being continued) at the various production sites, and is an essential point of reference for every Group company, wherever they may operate.
Specifically, Piaggio seeks to minimise the environmental impact of its industrial activities by carefully defining the product design, the manufacturing technological cycle and by using the best technology and the most modern production methods. Pursuing these objectives generates continual improvement in environmental performance, not only in production but also throughout the product life cycle.
Quantitative data on the mitigation of the environmental impact resulting from the Group's operations are reported on in the sections below.
With these objectives in mind, initiatives and goals for the future focus on the following areas:

› maintaining environmental certification awarded to all production sites;
› reducing energy consumption;
› reducing emissions of CO_2 and other pollutants;
› conserving water resources;
› waste handling and recovering;
› absence of soil contamination;
› biodiversity;
› environmental spending and investments.

Environmental Management System

The Piaggio Group has defined a specific organisational structure to achieve the environmental sustainability objectives of its production sites.
The responsibilities and roles of the Environmental Management System (EMS) with Organisational Units / Functions involved are reported in the Quality, Environmental and Occupational Health and Safety Management Manuals, for sites in Italy.

Environmental organisational structure of Italian sites of the Piaggio Group

	Environmental Management System
Management Representative	Quality System Manager
Management System Manager	General Systems Manager
Coordination and control	Environmental Manager
Audits	Process Auditor (Internal Auditor)

The Head of the Environmental Management System reports to the Representative of the Processes Quality & Cost Engineering Department about the performance of the Management System and about any need for improvement. The Environmental Management System Manager, a position held by the General Plants Manager, has power of attorney to perform his duties and responsibilities, while Environmental Managers are appointed by the Environmental Management System Manager and appointed after obtaining approval of their affiliated Manager.
The subsidiaries in Vietnam and India (PVPL) have EHS (Environment Health and Safety) teams which work full-time on environmental, health and safety issues, with clearly defined roles and responsibilities. Piaggio Vietnam's EHS team is led by the Technology and Maintenance Manager who reports to the Director of Operations while a full-time employee is responsible for the management of environmental issues. The environmental team at PVPL, consisting of Senior management, engineers and operators, is part of the Maintenance Department and reports to the Director of Operations.

Environmental certifications

For several years now, the Piaggio Group has implemented an environmental management system in its facilities in compliance with the international standard UNI EN ISO 14001.
Following the publication in late 2015 of the new edition of the UNI EN ISO 14001, Piaggio decided, for the Italian facilities of the Group, to conform to the new standard already in 2016, despite a three-year adjustment period is permitted; this decision was driven by Piaggio awareness that the new requirements substantially coincide with its own objectives.
The Piaggio Group holds the ISO 14001 certificate for Environmental Management System also for the manufacturing plants of Baramati 2Wheeler, Engines and Commercial Vehicles (India) and Vinh Phuc (Vietnam).
Moreover, since 2015 the Indian subsidiary has ISO 50001 certification (for energy management systems) for its two-wheeler site.

Reduction of energy consumption

The aim of the Group is to optimise plant management and minimise energy waste. Energy is procured from leading energy companies whose production is mainly from renewable sources. In particular, the energy supplier in Italy had stated that around half its production is from renewable sources.
Although the structure of the Company's production sites has been designed to run on fossil fuels, Piaggio is engaged in optimising the management of existing sites to cut consumption. Specifically, when reconfiguring or renovating plants, the technology functions carry out evaluations and analysis to introduce machinery and methods that minimise the environmental impact.
Since 2016, Pontedera has adopted measures to reduce energy waste, with a smart metering system that can use, observe and compare in real time (with a delay of 3 hours) the consumption recorded by over 90 meters at the site. Activities have proved successful, with a reduction in energy use while production has increased (the increase in diesel fuel consumption, given the very low amounts, is not significant).
Changes in consumption at other Italian sites are due to decreases in production volumes and heating system management based on recorded outdoor temperatures.

Consumption was basically stable at Asian sites. However, energy consumption was down slightly, reflecting the considerable focus these sites have for this issue.
Finally, at Baramati, in addition to having considerably reduced the consumption of diesel fuel, the factory uses a product obtained from vegetable oils (bio-diesel) that does not contribute to the consumption of fossil resources.

Energy consumption of Piaggio Group production sites

		Pontedera	Noale and Scorzè	Mandello Del Lario	Baramati	Vinh Phuc	Total
Electricity (Thousand KWh)	2017	35,723	3,966	699	24,789	13,558	**78,735**
	2016	40,109	4,378	827	25,071	13,560	**83,945**
	Change 2017-2016	-10.9%	-9.4%	-15.5%	-1.1%	0.0%	**-6.2%**
Methane/ Natural Gas (Sm^3)	2017	5.583.383	321,669	165,087			**6.070.139**
	2016	6,173,722	270,863	153,337			**6,597,922**
	Change 2017-2016	-9.6%	18.8%	7.7%			**-8.0%**
GPL[15] (Ton.)	2017				534	18	**552**
	2016				377	21	**398**
	Change 2017-2016				41.6%	-14.3%	**38.7%**
Diesel[15] (Litres)	2017	2,516			1.629.341	610,442	**2,242,299**
	2016	1,633			1,675,129	617,033	**2,293,795**
	Change 2017-2016	54.1%			-2.7%	-1.1%	**-2.2%**

15) *Some values are based on estimates.*

Energy consumption of Piaggio Group production sites

		Electricity	Methane/ Natural gas	LPG	Diesel fuel	Total
Use in GJ[16]	2017	283,446	236,796	25,447	81,646	**627,335**
	2016	302,202	257,385	18,348	83,521	**661,456**

16) The figures are calculated using conversion standards defined by the GRI guidelines (1 gallon of diesel = 0.138 GJ; 1,000 m3 of natural gas = 39.01 GJ; 1 Kwh = 0.0036 GJ). For LPG, a standard conversion factor of one kilogram of LPG = 46.1 MJ was used.

The Group also operates through commercial companies (distributors and selling agencies) and research centres located on various reference markets. The energy use of these sites cannot always be recorded, as the sites are sometimes located on property which is not owned, where communal services are shared with other occupants. Nonetheless, Piaggio strives to monitor energy consumption at non-production sites; this is estimated to be less than 600 thousand kWh/year.

Reducing emissions of CO_2 and other pollutants

Greenhouse gases (mainly CO_2) and Volatile Organic Compounds (VOCs), released by solvents used in painting, are some of the most hazardous substances for air pollution generated by automotive operators.
The structural works (replacement of boilers and restructuring of distribution networks), carried out over time and already described in previous financial statements, show that the changes made were appropriate. Indeed, in 2017 emission levels were substantially in line with those already detected in previous years.

Direct and indirect CO_2 emissions of Piaggio Group production sites

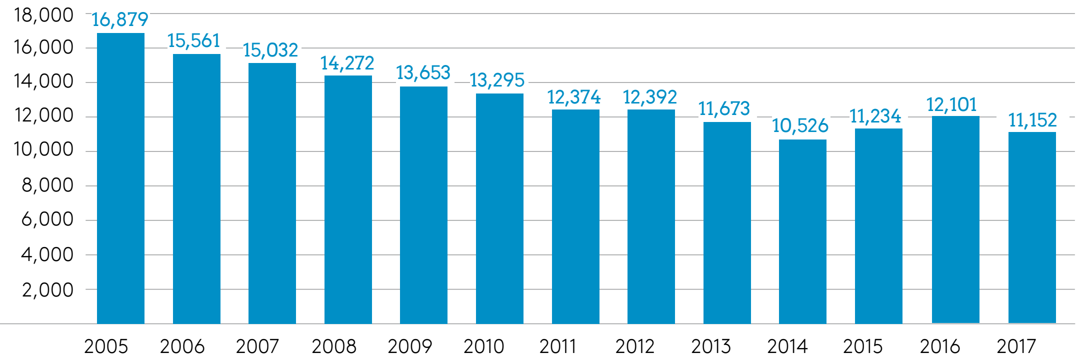
Ton		Pontedera	Noale and Scorzè	Mandello Del Lario	Baramati	Vinh Phuc	Total
2017	direct [17]	11,152	632	324	4,358	1,815	**18,281**
	indirect	11,810	1,311	231	20,327	8,963	**42,642**
2016	direct [18]	12,101	530	300	4,481	1,841	**19,253**
	indirect	13,107	1,431	271	18,452	8,966	**42,227**
Change 2017-2016	direct	-7.8%	19.2%	8.0%	-2.7%	-1.4%	**-5.0%**
	indirect	-9.9%	-8.4%	-14.8%	10.2%	0.0%	**1.0%**

17) CO_2 emissions deriving from the combustion of methane, natural gas, diesel fuel and LPG.
18) The figures differ from those reported in last year's publication, as they had been calculated using an erroneous domestic heating value indicated by the Ministry for the Environment.

The clear percentage increase in indirect emissions at the Baramati plant is due to the use of national conversion parameters, which, in 2017, were much less favourable than those provided for 2016. If national parameters had not changed, indirect CO_2 emissions would have decreased by 1.1%.

For the factories located in Italy, it should be noted that for the determination of gases with a greenhouse effect resulting from the use of diesel, fuel oil and methane, the conversion criteria of the "Emission Trading" Directive (Directive 2003/87/EC) were used.
With reference to CO_2 emissions, the industrial plant at Pontedera comes under the sensitivity area classification of the "Emission Trading" directive (Directive 2003/87/EC) which implements the Kyoto Protocol. The site is classed as a "Group A" site, relative to companies releasing the lowest amount of CO_2 indicated in the Directive.
CO_2 emissions are almost entirely due to the combustion of methane and only marginally to the combustion of diesel fuel in back-up power generators.
The monitoring and reporting of CO_2 emissions from the Pontedera plant are governed by a specific Group procedure, which is periodically audited in-company and annually audited by a certification body.
A chart summarising CO_2 emissions from Piaggio's plant at Pontedera for the year 2005 onwards is given below. The amounts shown have been certified by the verification body accredited by the National Competent Authority (ANC), except for the 2017 figure, the certification of which is planned for March 2018.

Direct CO_2 emissions of the Pontedera site (CO_2 Equivalent Tons)



Other significant emissions at the production sites of the Piaggio Group[19]

19) *Reported data are also based on processing using estimates.*

		Pontedera	Noale and Scorzè	Mandello Del Lario	Baramati	Vinh Phuc	Total
VOC (Ton.)	2017	46.1			433.0	4.4	**483.5**
	2016	111.2			336.0	3.8	**451.0**
	Change 2017-2016	-58.6%			28.9%	15.8%	**7.2%**

Thanks to the new scooter painting plant becoming fully operational in 2017, VOC emissions were drastically reduced (-58.6%). Assessments are in progress for the use of technologies with a lower impact on air and water pollution. The increase in VOC emissions from the Baramati site is due to the considerable increase in the number of scooters manufactured, while the figure for the Vinh Phuc site is considerable in percentage terms, but not in quantitative terms.

Conserving water resources

Piaggio has always recognised the immense value of the natural resources it uses and has developed production processes designed to reduce water consumption. At Pontedera site, water supply wells have inverters that can regulate system flow rates based on the amount of water required by the hydraulic loop.

Water procurement of Piaggio Group production sites

m^3		Pontedera	Noale and Scorzè	Mandello Del Lario	Baramati	Vinh Phuc	TOTAL
2017	Water from wells	252,809	17,628	7,703			**278,140**
	Water from the mains	56,641	11,294	556	277,070	117,465	**463,026**
	Total	309,450	28,922	8,259	277,070	117,465	**741,166**
2016	Water from wells	242,489	17,955	1,268			**261,712**
	Water from the mains	58,510	9,441	854	254,889	124,665	**448,359**
	Total	300,999	27,396	2,122	254,889	124,665	**710,071**
Change 2017-2016	Total	2.8%	5.6%	289.2%	8.7%	-5.8%	**4.4%**

At the Mandello site, where water from wells is used only for cooling systems, consumption went up considerably due to an increased use of these cooling systems.
Water consumption has increased slightly overall as a result of the increase in production volumes, but Piaggio will continue to engage in activities and will accelerate targeted checks in order to acheive further reductions, in the belief that minimising the use of this resource is an essential obligation.

As regards waste water, environmental respect is ensured with processes to treat and purify waste water. Below we report the destination of waste water produced, estimated to be equivalent to the amount of water supply used, for each production site:

- **Pontedera:** all industrial and most non-industrial waste water is conveyed to a chemical/physical purification plant outside the site. After biological treatment, the waste is discharged into an open channel. A small part of the waste-water coming from the toilets located in two areas of the factory, is directly discharged into the public sewer system;
- **Noale:** all buildings are connected to the public sewer system. The waste water is of a non-industrial origin only (from toilets and the site canteen);
- **Scorzè:** the plant is not served by the public sewer system, so waste water is biologically purified at the site and then conveyed to the local Rio Desolino canal;
- **Mandello del Lario:** the plant discharges a part of waste water directly into the public sewer system (non-industrial waste water, canteen waste water, etc.), while waters used in the cooling plants are discharged into the Torrente Valletta stream;
- **Baramati:** waste water is treated and used for irrigation purposes;
- **Vinh Phuc:** the site has a chemical/physical purification plant for waste from painting pre-treatment operations before it is conveyed to the public sewer systems, where all other site waste (non-industrial waste) is sent. The final destination is in the public sewer system.

In terms of recycled and reused water, only the sites of Baramati and Vinh Phuc reuse part of the drawn water. Specifically, approximately 143,342 m^3 of water were recycled and reused by the Indian site in 2017, equal to 51.7% of the total amount drawn by the site. At the Vietnamese factory, waste water recovery amounted to 12,985 m^3/y or approximately 11%.

As already stated, the Group also operates through commercial companies (distributors and selling agencies) and research centres located on various reference markets. The water use of these sites cannot always be recorded, as the sites are sometimes located on property which is not owned, where communal services are shared with other occupants. In any case, Piaggio is trying to monitor use of non-production sites, which is estimated to be approximately 1,000 m^3/year. The consumption of water, which are for the exclusive use of hygiene and come from civil aqueducts, coincide with the discharges.

Waste handling and recovering

Where possible, the Piaggio Group tries to recover rather than dispose of waste and reconditioning and reuse have been a common practice at all sites for several years now. The Group is also committed to using environmentally compatible processes and technologies that can reduce the production of waste. Moreover, it has a priority objective of further increasing its recovered waste/disposed of waste ratio. Sites with an environmental management system have specific procedures in place to facilitate waste disposal and recovery, thus avoiding operations that are harmful for the environment or that may affect activities. In all the other factories, the general indications were obtained from the above procedures and adjusted to reflect locally applicable regulations.

Ton		Pontedera	Noale and Scorzè	Mandello Del Lario	Baramati	Vinh Phuc	Total
2017	Total waste	5,928	975	196	1,639	1,017	9,754
	Hazardous	12.2%	1.6%	2.6%	18.1%	70.9%	18.0%
	For disposal	5.1%	1.9%	1.9%	17.1%	79.3%	14.4%
	For recycling	94.9%	98.1%	98.1%	82.9%	20.7%	85.6%
2016	Total waste	6,001	691	236	1,754	1,067	9,750
	Hazardous	11.6%	3.6%	3.0%	29.3%	70.7%	20.5%
	For disposal	5.5%	0.3%	2.3%	28.7%	78.8%	17.2%
	For recycling	94.5%	99.7%	97.7%	71.3%	21.2%	82.8%
Change 2017-2016	Total	-1.2%	41.0%	-17.1%	-6.6%	-4.7%	0.0%

Waste produced at Piaggio Group production sites

With a global amount of waste that was basically the same between 2016 and 2017, the amount of hazardous waste decreased and waste for sorted collection increased.

Avoiding soil contamination

In 2017, no spills or polluting events of significance occurred at any of Piaggio's production sites.
At the Mandello and Pontedera, decontamination initiatives are under way due to historic contaminations of the sites. These situations emerged during demolition work in Mandello and during environmental monitoring campaigns in Pontedera. In both cases, the pollutants found have not been used in the production sites for several decades, providing the historical nature of their origin. In accordance with legal obligations, the two situations have been reported to the relevant authorities and managed according to their instructions.

Biodiversity

Piaggio's production sites are not located in protected areas or areas with high levels of biodiversity. The sole exception is the Scorzè site, which although located in an industrial zone, conveys its waste water into the drainage basin of the Venetian Lagoon. As such the production site is subject to restrictions imposed by specific laws.

Environmental spending and investments

The Group's commitment to environmental sustainability is further proven by the €1.4 million invested in the environment by Italian production sites in 2017.

Environmental spending and investments in Italy

	2017	2016
Euro		
Waste disposal, waste treatment and environmental restoration costs	523,338	425,850
Costs for prevention and environmental management	828,334	882,053
Total	**1.351.672**	**1,307,903**

Logistics

The Group has consolidated its logistics model aimed at benefiting from the synergies among the various distribution centres in Europe and identifying opportunities for optimisation, paying particular attention to service quality aspects.
To optimise distribution the model calls for targeted management of departures and routes to travel.
The procedure also disciplines:
› the vehicles and equipment used by logistics operators certified by Piaggio, in accordance with the relevant quality standards;
› replacement of vehicles for internal shuttling with others equipped with systems to cut CO_2 emissions;
› the packaging collection service to manage the pick-up of packaging from dealers and its disposal according to local regulations in force;
› disposal and waste sorting of waste material (e.g., due to decontainerisation) and packaging substitution;
› printing of only the documents which are necessary.
To reduce transfer needs to a minimum the model requires that produced vehicles are stored in the distribution centre adjacent to the production site and that importing of overseas products is centralised.

Thanks to centralised management of all logistics centres (Pontedera, Quinto di Treviso, Mandello):
› the number of trips needed to transfer stock between centres has been reduced;
› the use of electronic archives for storing shipment documents has been consolidated and paper copies have been reduced;
› printing of shipping documents to be sent to end customers has been minimised, and electronic documents are used whenever possible.

As part of vehicle distribution activities (for the contract valid for 2017-2019), the strategy to improve operating activities already underway continued.
To optimise the saturation of vehicle transport and minimise transit between hubs for the transfer of vehicles in stock, the distribution warehouse for Moto Guzzi vehicles (manufactured at the Mandello factory) was combined with the warehouse for Aprilia vehicles (manufactured at the Scorzè factory). In January 2018, the distribution warehouse for Moto Guzzi and Aprilia vehicles will be moved from Quinto di Treviso to the Scorzè site, eliminating transit necessary to store vehicles produced at the Aprilia site.
In 2017, these activities enabled distribution operations to be reduced by 1.12% for the two-wheeler vehicle sector, and by 0.61% for the commercial vehicles sector with regard to the figures for 2016.
Activities have started to have paperless transport documents as far as possible so that hard copy documents can be nearly entirely phased out.
The production centres in India and Vietnam also set up procedures aimed at minimising the number of trips for shipping produced vehicles and consumption of packing materials.

The Social Dimension

Respecting human rights

The Piaggio Group supports and undertakes to support the UN Guiding Principles on Business and Human Rights and the fundamental labour standards established by the International Labor Organization. The Group acknowledges that it is responsible for taking a firm approach to human rights (including modern slavery and issues related to human trafficking), and is dedicated to supplementing and continuously improve the policies and controls it has in place to protect itself from any form of slavery, servitude, human trafficking and forced labour that may take place within the company or its supply chain.
Group companies must comply with local laws and regulations and must conduct their activities in line with the Code of Ethics and its core values of honesty, integrity and respect for people. The Code of Ethics underpins Piaggio's commitment to behave in a responsible and respectful manner, and helps staff and contractors to make informed, ethical and legal decisions. Suppliers all over the world who wish to do business with Piaggio must sign the Group's general supply conditions, which include the Code of Ethics.
In 2017, the Group added to the Code of Ethics with thorough, direct and unequivocal references to the issue of human rights (including modern slavery and issues related to human trafficking), and is committed to ensuring that its employees and partners behave in an ethical manner and with integrity and transparency in all business relationships. The updated Code of Ethics stipulates that Piaggio must respect fundamental human rights in its activities and in its supply chain.

In order to uphold the highest standards of ethical, moral and legal conduct, the Company encourages its employees to report suspected cases of misconduct without fear of unjust punishment or treatment. The whistleblowing policy, initially developed for the Group's Indian company, aims to provide a safe channel for employees and other interested parties to raise doubts about violations of legal or regulatory requirements. Over the next three years, the Group's priorities will include extending the scope of the whistleblowing policy to violations of human rights (including modern slavery and human trafficking) and its applicability to the entire Group.

Developing human resources

Human resources, with their skills, capacities and dedication, are a key factor in Piaggio's competitiveness and growth.
Everything we do as individuals or as a team is shaped by our strategic vision, result-driven approach, constant commitment to customer satisfaction, desire for innovation and awareness of the future needs of the market, to generate value for each and every stakeholder. People are the key element that enables us to meet challenges in an increasingly dynamic and competitive international scenario.
It is for these reasons that Piaggio places such central importance on people in the organisation, assuring them our respect and protection in all Group companies.

Staff

Over the years, the Group has always dedicated its attention to the continuous adjustment of its organisational structure with respect to international best practices, and as such, in 2017, Piaggio continued the process of rationalisation and organisational redesign. As of 31 December 2017, Group employees numbered 6,620, down by 86 (-1.3%) compared to 31 December 2016.

Company employees by geographic segment as of 31 December

Employee/staff numbers	2017	2016
EMEA and Americas	3,682	3,752
of which Italy	*3,444*	*3,518*
India	2,090	2,113
Asia Pacific 2W	848	841
Total	**6,620**	**6,706**

Average number of Company employees by professional category

Employee/staff numbers	2017	2016
Senior management	96	100
Middle management	593	581
White collars	1,728	1,783
Blue collars	4,251	4,518
Total	**6,668**	**6,982**

Company employees by educational qualifications as of 31 December 2017

Employee/staff numbers	Graduate	High School	Middle School	Primary School	Total
EMEA and Americas	709	1,831	1,077	65	3,682
of which Italy	*568*	*1,755*	*1,061*	*60*	*3,444*
India	568	1,522	0	0	2,090
Asia Pacific 2W	323	525	0	0	848
Total	**1,600**	**3,878**	**1,077**	**65**	**6,620**

An entry turnover rate of 2.56% and leaving turnover rate of 4.53% was recorded in Italy in 2017.

Company employee turnover in Italy as of 31 December 2017

Employee/ staff numbers	Staff as of 31 December 2017	Men	Women	< 31	31 - 40	41 - 50	> 50	Total	% Turnover
					Incoming				
Senior management	62	7	-	-	1	3	3	7	11.29%
Middle management	231	8	3	-	7	2	2	11	4.76%
White collars	914	37	26	43	14	6	-	63	6.89%
Blue collars	2,237	7	-	3	2	1	1	7	0.31%
Total	**3,444**	**59**	**29**	**46**	**24**	**12**	**6**	**88**	**2.56%**
					Leavers				
Senior management	62	10	-	-	2	3	5	10	16.13%
Middle management	231	13	2	-	5	6	4	15	6.49%
White collars	914	27	22	14	13	7	15	49	5.36%
Blue collars	2,237	67	15	1	1	6	74	82	3.67%
Total	**3,444**	**117**	**39**	**15**	**21**	**22**	**98**	**156**	**4.53%**

Personnel management policies

Piaggio adopts a system of recruitment, development and salary packages for personnel which recognises and rewards merit and performance. Any type of discrimination is explicitly forbidden by the Code of Ethics.
The primary focus on human resources and the development of core competencies for business development are the cornerstone of relationships with people and are reflected in the following corporate policies:

Competitive organisation

Organisational innovation is pursued as a means of sharpening the group's competitive advantage and supporting the creation of a multicultural, multinational, lean, customer-oriented organisation that generates value and works in an integrated way, based on a "network" logic, with all partners (e.g.: suppliers, dealers) that contribute to the company's value chain and are ready to seize the opportunities offered by the process of digital transformation that has begun in recent years.
In its relations with staff and regardless of the work they carry out, Piaggio respects the principles set forth by the Group's Code of Ethics in all circumstances, as well as the laws in force in the geographic areas where it operates.
Piaggio does not resort to child labour according to the age limits in force in the various countries or to forced labour and adheres to main international laws, such as the UN Convention on the Rights of the Child (UNCRC) and the 1998 Human Rights Act.

Recruitment and internal mobility

The selection process is based on the adoption of shared practices within the Group, supported by the use of IT tools that facilitate the dissemination of the evaluation models at global level.
With a view to ensuring that processes are shared on a global level, the scouting and research phase is widely digitalised, and is primarily focused on social networks. Similarly, the authorisation flow and the traceability of the evaluations carried out by both the HR departments and the line managers are supported by specific software integrated with the other HR processes.
The scouting activity is designed to enable proactive monitoring of profiles, in order to ensure that time to hire targets are met.

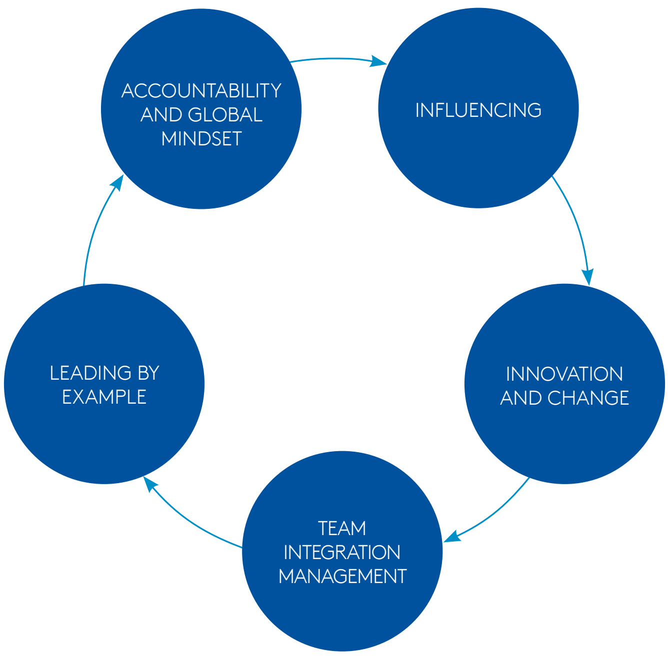
Career development

Development and career paths at Piaggio are mainly based on the assessment of managerial and technical skills, behaviour, performance and potential, with the aim of creating a pool of highly-motivated individuals to fill key positions.
The development of the core skills necessary to remain in step with evolving markets and business is a priority. For this reason, the Group's human resources development policies are focused on the establishment, maintenance and development of the key factors that enable it to compete within the international and constantly evolving contexts linked to the strategic business plan.

The Group's managerial and professional competencies model

In line with the provisions of the strategic plan and through its core values, Piaggio has identified a managerial skills model, which constitutes the set of behaviours to be put into practice each day, in order to ensure the success of the manager in question and the Group as a whole at global level.
At the same time, it has developed a benchmark model of professional competencies that reflect the company's pool of professional skills and know-how, which is the true foundation and the only real guarantee of the continuity and quality of results.
During 2017, the list of key managerial and technical/professional skills required by the company was also updated at Group level, and development and training plans were drawn up in order to overcome the gaps identified in 2016.
In addition, consistent with the organisational developments occurred in 2016, the managerial skills model was updated for the Indian subsidiary, in line with that already in force for the entire Group and with the introduction of new skills related to the local cultural context.

The Group's managerial competencies model



Development paths

The goal of the development tools is to continuously build and improve the managerial and professional skills required by the respective models, while bringing potential to fruition and assessing and rewarding excellent performance. The set of tools provided by Piaggio includes:
› development plans, which identify the actions to be taken for the growth of the employee;
› job rotation and participation in strategic or international projects;
› management and professional training (see "training" section);
› Piaggio Way - the young talent management programme (see "talent management" section).

During 2017, the development measures pursued by the company were consolidated, in order to reinforce Piaggio's international presence and to promote the internal growth of individuals who demonstrate potential. In this regard, we note the greater participation of Indian and Asian people in the talent management programme.

Career paths

For our highest value human assets, management and professional career paths are designed in order to cover key roles and ensure that the strategic and technological know-how of the Group is kept and developed at the international level. In line with market best practices, Piaggio has equipped itself with a number of tools for the supervision and management of succession plans with regard to key Group positions, and in 2017, the Group used the global IT platform to test the methodology implemented, which also takes into account the skills and performances recorded each year.

Evaluation

The Group places great importance on using transparent criteria and methods for reviewing employees with respect to:
› performance,
› managerial and professional competencies,
› international mobility,
› potential,
in relation to the employee's role, company needs and possible development paths.

Both the evaluator and the person being evaluated are given the opportunity to share the result of the performance and skills assessment, and to add to this with suggestions for the establishment of the development and training path, to be implemented in accordance with a clearly defînged timescale through the dedicated SAP SuccessFactors IT platform.

Employees are evaluated by comparing their competencies against the Company mode for their specific role, as evidenced by concrete and observable action in their everyday work. The review process is managed in an integrated way through a dedicated IT platform and provides the information necessary for the processes of succession planning, management reviews and a gap analysis of professional competencies, which are conducted across the Group.

Performance evaluation influences both development and career paths and rewarding. During 2017, the Evaluation Management System was consolidated at Group level. This standard evaluation system is for all white collar and managerial staff, assisted by computer tools for the real-time management of all evaluations, for human capital development purposes.

Geographic segment	EMEA&Americas	of which Italy	Asia Pacific 2W	India
Senior management	100%	100%	100%	100%
Middle management	100%	100%	100%	100%
White collars	100%	100%	100%	100%
Blue collars	N.A.	N.A.	100%	N.A.

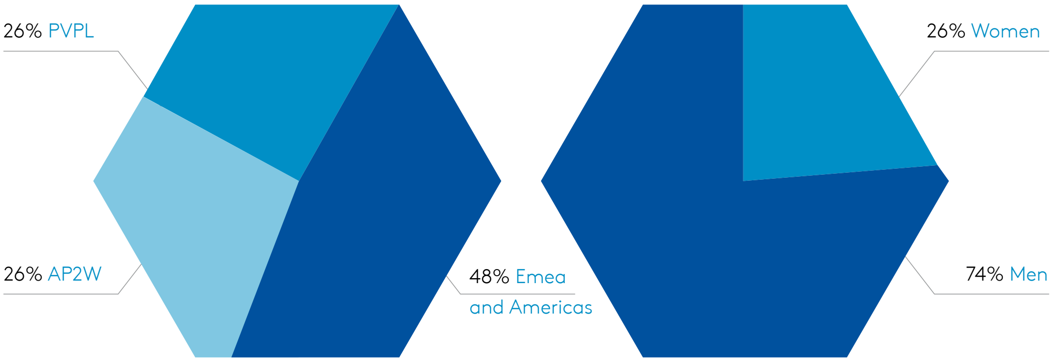
Percentage of employees who received performance and career development reviews in 2017[20]

20) The figures regard members of the company who have been employed for at least six months at the time of the evaluation.

Talent Management: the Piaggio Way programme

Launched in 2010, the Piaggio Way management programme for young talent is one of the various development, attraction and retention tools adopted by the Group. It is aimed at employees around the world who show a high potential, great enthusiasm for their work and the courage to undertake new paths, in order to identify and ensure a growth path for the most deserving resources.
Since the launch, four assessment sessions have been completed, involving a total of 248 employees across all geographical areas of the Group. A total of 27 employees are currently actively participating in the programme. The geographical breakdown is as follows: 48% EMEA, 26% India, 26% Asia Pacific. Piaggio Way boasts a community of 56 students who have completed their development plan and who still remain active in the programme.

Geographical distribution of talent and breakdown by gender as of 31 December 2017



The individual "talents" who join the programme are given personalised access to development, involving:
- job rotation;
- strategic and international projects;
- events involving top management;
- coaching and personalised training.

To remain on the programme participants undergo a structured annual Talent Review conducted with the involvement of Piaggio top management.
The PIAGGIO GLOBAL TRAINING platform has completed a full phase of use at global level.
The total number of training hours provided by the Group decreased slightly due to a reduction in the hours of technical and professional training provided in India, as a result of the conclusion of a number of specific projects started in the previous year.
The increase in the hours of training provided in the field of managerial training in Italy is of note, a result of the launch of specific programmes of a corporate nature, including the NEW APPOINTED MANAGER programme for newly-appointed managers.
Investment in health and safety training remains essentially stable.

Hours of training[21] by training area

Thematic area	2017				2016			
	Emea Americas	India	Asia Pacific 2w	Total	Emea Americas	India	Asia Pacific 2w	Total
Managerial training	6,059	14,098	742	20,899	3,452	11,056	1,108	15,616
Technical – professional training	10,944	6,762	408	18,114	11,950	13,224	1,086	26,260
Language training	5,245	216	640	6,101	4,353	1,400	6	5,759
Health and safety training	5,608	5,186	5,544	16,338	6,157	5,108	4,405	15,670
Total	**27,856**	**26,262**	**7,334**	**61,452**	**25,912**	**30,788**	**6,605**	**63,305**

21) *The figure does not include hours of on-the-job training.*

Total training hours by professional category

Professional category	2017	2016
Senior management	1,207	1,075
Middle management	10,727	10,345
White collars	33,662	28,765
Blue collars	11,953	19,507
Other workers	3,903	3,613
Total	**61,452**	**63,305**
Total per-capita[22]	**9.3**	**9.4**

22) *The calculation of the average per-capita hours is performed using the hours provided by the Group as the numerator (including those for non-salaried workers) and the total number of employees as of 31/12 as the denominator.*

Training hours by gender

Thematic area	2017			2016		
	Men	Women	Total	Men	Women	Total
Managerial training	18,670	2,229	20,899	14,260	1,356	15,616
Technical – professional training	16,047	2,067	18,114	23,588	2,672	26,260
Language training	4,054	2,047	6,101	4,127	1,632	5,759
Health and safety training	13,330	3,008	16,338	14,420	1,250	15,670
Total	**52,101**	**9,351**	**61,452**	**56,395**	**6,910**	**63,305**

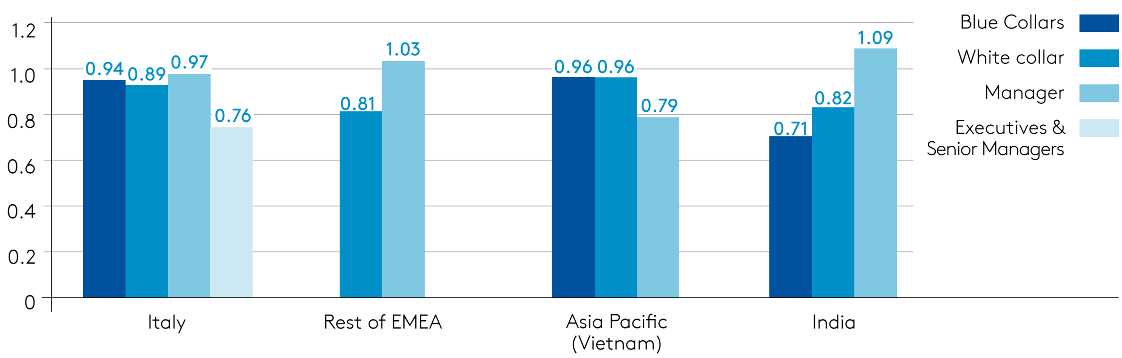
Rewards

Reward policies are designed to reward individuals and recognise their contribution to the company, according to the criteria of competitiveness, fairness and meritocracy, which are openly shared throughout the evaluation processes, in order to motivate and retain those individuals who make significant contributions to the achievement of business results.
The Group reward system is differentiated for the various professional groups in the Company, and consists of a fixed salary component and variable objective- and benefits-based incentive systems.

Salary packages

Piaggio offers to new recruits and all its employees a salary package in line with the best market practices. Accordingly, Piaggio has adopted a structured salary review process based on:
- comparing salaries with market benchmarks, considering the market positioning of the Company as a whole and the review of individual organisational roles, which is periodically revised. Comparisons are conducted using internationally-recognised methods, with the support of specialist consultants;
- setting out guidelines for the salary review process that take into account company results and focus on criteria of meritocracy, competitiveness, internal fairness and sustainability;
- specific identification of fixed and variable salary components, in accordance with guidelines, with meritocracy logics and retention needs relative to strategic resources for the business.

On the basis of internal analyses carried out in each country of activity, no significant differences were detected within the Piaggio Group between the basic salary and the remuneration of men compared to women with the same category, experience and assigned duties.
Indeed, the ratio between the minimum standard salary of new recruits and the minimum local salary in Italy in 2017 was 1.08 for male white collar workers and 1.06 for female, 1.32 for newly-hired male middle managers and 1.42 for female middle managers.
A similar comparison in Vietnam which exclusively looked at manual workers shows an index equal to 1.32 for men and for women respectively, while in India (once again for manual workers), the index was 1.00 for men and for women.



Ratio of average basic salaries for women to average basic salaries for men of the same professional category[23]

23) Categories not reported in individual geographic segments do not have any female employees.

Objective-based incentive systems

The achievement of excellent results in terms of objectives set by the company is rewarded through variable incentive systems, focused on business-related qualitative and quantitative objectives as well as on the internal efficiency of each area of responsibility.

The full process of setting objectives and reviewing results is conducted with employees, using objective criteria.

Benefits

Piaggio offers a benefits package in line with the best local market practices, which is structured on an organisational basis. Benefits include, by way of example:

› company car;
› private health insurance;
› company medical centre at various sites;
› agreements with local groups and facilities of interest for employees.

Benefits are provided to full-time as well as to part-time employees without differentiation;

Diversity and equal opportunities

The Group rejects any form of discrimination on the basis of gender, age, nationality, ethnic background, ideology or religion. It operates in strict compliance with law and with contractual requirements, and in keeping with the customs, practices and usages of each country in which Piaggio operates.

Piaggio operates globally with a diversity of employees, in terms of age and gender, in Europe, the Americas and Asia. For Piaggio, managing diversity means acknowledging and respecting differences as part of the shared substratum of company culture. Staff diversity represents various different ways of pursuing and achieving the highest levels of performance within a single, broader Group organisational design.

The Group's concrete commitment to embracing diversity is reflected by its adoption of a Code of Ethics, conformity to international laws on equal opportunities and use of policies that protect forms of diversity already found within the Company.

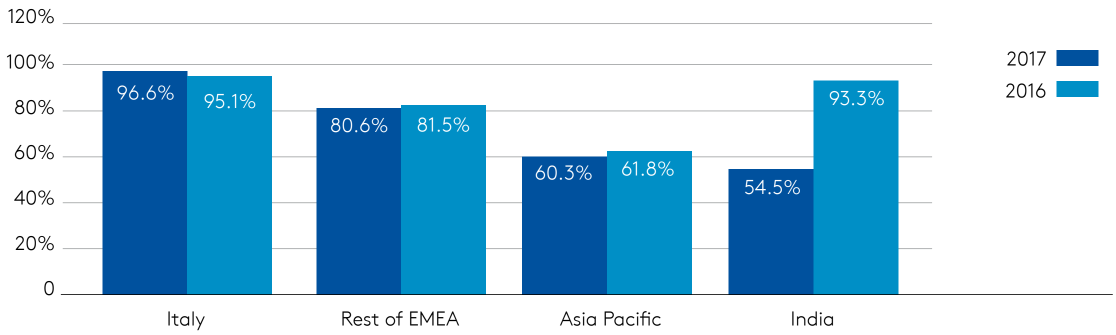
The Group seeks to spread its culture and values throughout the world, with a view to creating the conditions for promoting an international mindset and a building a truly multinational organisation, in which all employees can benefit from equal opportunities.

Human resources management processes are conducted applying the same principles of merit, fairness and transparency in all the countries in which the Group operates, with the accent placed on aspects of relevance for the local culture.

Piaggio selects and hires its staff based solely on the candidates' characteristics and experiences and the requirements of the position. As shown in the graph below[24], Piaggio promotes and supports the recruitment of candidates from many parts of the world, to contribute to the international mindset that is a key value for the Group.

24) Figures include senior managers, first- and second-level executives reporting to top management at Piaggio & C SpA, and the first- and second-level executives of subsidiaries. The term local refers to the national level and local senior managers means senior managers with nationality the same as the country where they work.

Percentage of senior managers of local nationality divided by geographic segment as of 31 December



In order to promote and sustain intercultural exchange and diversity management, the Group encourages the international mobility of its people, enabling the reciprocal secondment of employees between Group companies.

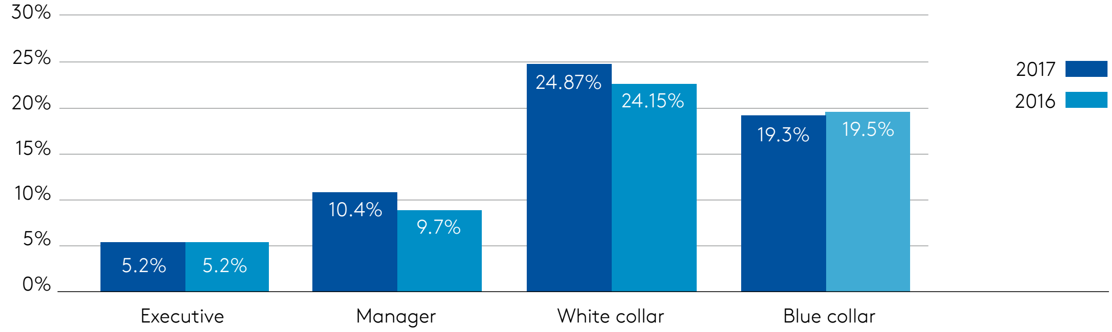
Female employment

Female employees at Piaggio play a fundamental role at all levels of the organisational structure. Their presence, which is equal to 19.8%, is in line with the previous year, with growth in white-collar and managerial positions.

Company employees by gender and geographical segment as of 31 December

	2017		2016	
Employee/staff numbers	**Men**	**Women**	**Men**	**Women**
EMEA and Americas	2,563	1,119	2,624	1,128
of which Italy	*2,378*	*1,066*	*2,441*	*1,077*
India	2,044	46	2,067	46
Asia Pacific	704	144	698	143
Total	**5,311**	**1,309**	**5,389**	**1,317**

Number of women employees as of 31 December



Company employees by contract type, gender and geographical segment as of 31 December 2017

	Fixed-term contract			Open-ended contract		
Employee/staff numbers	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
EMEA and Americas	8	9	17	2,555	1,110	3,665
of which Italy	*5*	*8*	*13*	*2,373*	*1,058*	*3,431*
India	761	21	782	1,283	25	1,308
Asia Pacific	256	38	294	448	106	554
Total	**1,025**	**68**	**1,093**	**4,286**	**1,241**	**5,527**

Equal opportunities are offered to employees of both genders, with concrete initiatives in place to help people strike a balance between work and domestic life. Such initiatives include alternatives to full time work.

Company employees by profession, gender and geographical segment as of 31 December 2017

	Full time			Part time		
Employee/staff numbers	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
EMEA and Americas	2,479	816	3,295	84	303	387
of which Italy	*2,295*	*767*	*3,062*	*83*	*299*	*382*
India	2,044	46	2,090	0	0	0
Asia Pacific	704	144	848	0	0	0
Total	**5,227**	**1,006**	**6,233**	**84**	**303**	**387**

Part-time employment in Italy as of 31 December 2017

Piaggio's aim is to consolidate its number of female employees and make their working conditions easier. To this end, alternatives to full time work have been in use for several years in Italy and are becoming increasingly popular with employees.
In 2017, 382 employees were working under a non full-time contract in Italy: specifically, 5.11% of the workforce was employed under a horizontal part-time contract, and 5.98% under a job-share contract.

Young employees

Within the Group, the company's largest population is in the 41-50 age group. The generational mix is a crucial precondition for the acquisition and spreading of knowledge among young people from the most experienced workers, who can stand up as an example and pass on the skills and abilities learned over time.

Company employees by professional category and age bracket as of 31 December

Employee/staff numbers		up to 30	31-40	41-50	> 50	Total
2017	Senior management	0	4	36	57	97
	Middle management	3	176	258	166	603
	White collars	252	611	523	347	1,733
	Blue collars	1,268	712	1,292	915	4,187
	Total	**1,523**	**1,503**	**2,109**	**1,485**	**6,620**
2016	Senior management	0	4	38	55	97
	Middle management	0	172	281	146	599
	White collars	228	648	531	324	1,731
	Blue collars	1,340	722	1,328	889	4,279
	Total	**1,568**	**1,546**	**2,178**	**1,414**	**6,706**

Company employees up to 30 years of age by geographical segment as of 31 December 2017

People with disabilities

Piaggio not only guarantees people with disabilities the chance to work, but also recognises the value of their diversity and importance of dialogue in any activity, from the simplest to the most complex. In agreement with trade union organisations and laws in force, which require companies to employ a certain number of people with disabilities, Piaggio in Italy has forged alliances with social cooperatives, convinced that work can contribute to personal development.
The insertion and integration of disabled people into the workforce is also made possible in practice by the accessibility of company facilities and the existence of a relative company procedure.

Employee/staff numbers	2017	2016
White collars	8	9
Blue collars	120	124
Total	**128**	**133**
Percentage out of total employees	**3.7%**	**3.8%**

In 2017, 128 people with disabilities and from legally-protected categories were employed at sites in Italy. The breakdown in the table above shows that people with disabilities account for 3.7% of the total work force.

Parental/maternity leave

Our companies apply the laws passed by pertinent national legislation.
The Group does not discriminate in any way against women who take maternity leave. Indeed, to support work-child care balance, a horizontal part-time contract has been granted to 174 employees in Italy. In addition, as further support to work-life balance, in Pontedera employees can benefit from an agreement for child support (see Industrial Relations section).
As proof of the above, the following information has been provided for the companies where the phenomenon is more numerically significant[25].

	Parental/maternity leaves								
	Italy			Vietnam			EMEA&Americas		
	M	W	Total	M	W	Total	M	W	Total
Employees on maternity leave during 2017	31	33	**64**	74	29	**103**	2	4	**6**
Employees returning in 2017 after maternity leave	30	13	**43**	74	23	**97**	2	1	**3**
Employees returning in 2016 after maternity leave	32	28	**60**	86	23	**109**	2	5	**7**
Employees returning to work and on the payroll 12 months after returning from maternity leave	31	28	**59**	81	23	**104**	1	4	**5**
Retention rate (%)	96.88%	100%	**98.33%**	94.19%	100.00%	**95.41%**	50.00%	80.00%	**71.43%**

25) *The figures refer only to parental leave requested up to the child's first birthday.*

Engagement and dialogue with staff to check

The Piaggio Group's internal communication guidelines are designed to keep employees informed with regard to business performance and prospects, bringing them closer to top management strategies.
The system is based on the conviction that sharing strategic objectives with every employee is a key factor to success.
Piaggio uses communication and information tools which respect and empower the social and cultural realities within the Group.
In particular, in Italy there is an active national intranet portal, "PiaggioNet", which provides information on the Group, with company news and the latest on the product ranges of the various brands, as well as a range of staff services (e.g. online coupons, transfer management, manuals/internal procedures, Piaggio Global Training platform and direct access to the online house organ Wide Piaggio Group Magazine, which is also published on the Group's websites. This magazine is subject to constant updates, and is also available in Italian and English versions). In 2017, the Piaggio Welfare section was further enhanced, to increase visibility of the related issues and initiatives that contribute to the well-being of employees and their families (sectors: supplementary healthcare, conventions, supplementary pensions, company catering, medical centres, Family space etc.)
Through specific intranet stations ("Piaggio InfoPoint"), located in the Italian factories of the Piaggio Group, also blue collars have access to the news (company news, new products) and to many services using their corporate badge.
Similar information is made available to the employees of foreign subsidiaries through the dedicated intranet portal "PiaggioNet International", whose contents are published in English.
Additional specific initiatives are provided for employees of premises in Asia and India, for example:

- Forum dedicated to employees in India (V-Speak);
- A quarterly meeting at Piaggio Vietnam with management to share quarterly results and targets for the next quarter;
- INDIA E-Care: this is an online platform where external consultants deal with various personal problems of employees and their families, guaranteeing confidentiality;
- Piaggio Vietnam Annual Safety training/Monthly Safety coordinator meeting/Safety Driving contest: these are activities that increase safety awareness.

Industrial relations

The Piaggio Group acknowledges the role of trade union organisations and workers' representatives and is committed to establishing relations with them focussed on attention, dialogue and a common understanding; in fact ongoing dialogue is considered as fundamental for finding the best solutions to specific company needs.

The Group's approach lies in involving workers and their representatives in the pursuit of company objectives, establishing a continuous dialogue with them. The solutions and conduct adopted in various countries where the Group operates are in line with the social and institutional context, but are always consistent with the fundamental principles and overall needs of the Group.

Italy

During 2017, dialogue and discussion continued with trade unions and workers' representatives, with the aim of seeking shared solutions, in order to respond to market situations and to manage the effect of these on employees. Collective bargaining has made it possible to identify shared management tools which are suitable for dealing with the consequences of the long-term crisis in the sector, safeguarding the skills present in the Company, encouraging their use and preventing them from being lost.
The National Collective Labor Contract (CCNL) is valid throughout the national territory. In the case of significant organizational changes, the provisions of the law and of the relevant collective bargaining are complied with.

With regard to the Pontedera site, which is now fully established as a centre of excellence in innovation, research and design and in the production of vehicles and engines, a new trade union agreement was signed in November 2016 for the use of the Solidarity Contract from November 2016 to April 2017.
Subsequently, after a residual recourse to the Cassa Integrazione Guadagni Ordinaria during the period between August and October 2017, the Solidarity Contract was reactivated from October 2017 to April 2018.
In February 2017, a mobility procedure was launched for 180 employees in order to downsize staff activities and structurally rebalance the production workforce.

With regard to the Noale office, following a trade union agreement signed at the end of April 2016, a new trade union agreement was signed for the use of the Solidarity Contract for the period from June 2016 to January 2017, extended until October 2017.
The streamlining of staff activities and the downsizing of the overall workforce continued through a new redundancy procedure for 7 employees.

With regard to the Scorzè plant, with the trade union agreement signed in January 2016, the Solidarity Contract was envisaged to run until January 2017; subsequent agreements signed in January 2017 and October 2017 have now extended the deadline until March 2018.
In January 2017, a mobility procedure was launched for 70 units, with the aim of structurally rebalancing the production workforce; this was renewed in October 2017 with a new trade union agreement.

As regards the Mandello del Lario production site, the increase in production during summer 2017 was addressed with temporary employment contracts and flexible weekly working hours. The ordinary redundancy fund was only residually used in the months of October and November 2017.

Membership of trade union organisations at Italian sites (2016 – 2017) is shown in the table below:

	2017			2016		
	Pontedera	Noale and Scorzè	Mandello Del Lario	Pontedera	Noale and Scorzè	Mandello Del Lario
FIOM	267	127	41	269	134	40
UILM	280	1	2	303	1	2
FIM	321	139	23	321	137	23
UGL	8			11		
USB	35			26		
CGIL/CISL/UIL	2			2		
Total number of employees who are members of a trade union	**913** **34.8%**	**267** **50.1%**	**66** **66.7%**	**932** **34.0%**	**272** **50.0%**	**65** **66.0%**

With regrad industrial action, the trend of strikes in 2017 showed an overall decrease in the hours lost for this reason; in particular, the number of hours lost due to causes related to general/specific category strikes has drastically decreased, while corporate micro-conflicts are essentially the same as the previous year.
All the micro-disputes within the company were at the Pontedera site.

The table below provides a summary of the hours lost due to strikes in 2016 and 2017 in the various company offices in Italy:

		2017	2016
No. of hours lost due to strikes	general/category	1,100	19,151
	company	9,877	9,913
	Total	**10,977**	**29,064**
% hours lost compared to hours worked	general/category	0.05%	1%
	company	0.50%	0.50%
	of which Pontedera compared to hours worked in Pontedera	*0.58%*	*0.61%*
	Total	**0.55%**	**1.50%**
No. of days lost due to strikes	general/category	138	2,394
	company	1,235	1,239
	Total	**1,373**	**3,633**

A structured company welfare system has been established in Italy, with services that aim to increase the well-being of employees and their families, in economic and social terms.

Specifically, the following schemes were also operational for Pontedera employees in 2017:
› a supplementary health scheme, with the chance for employees to extend insurance cover to their families by paying an additional contribution;
› an agreement on the provision of support for young children between the Company and the Union of Municipalities of the Valdera, to which a new agreement has been added with the Municipalities of the Parco Altavaldera.

A national trade union agreement at the end of 2011 established a private health insurance fund (Métasalute) for metal and steel processing workers in Italy; the company started paying its contributions to the fund in 2012. Membership of the plan, which was initially on a voluntary basis, has become automatic for all Group employees since October 2017.
The scheme also includes health benefits/services for employees:
› at Pontedera, the company medical centre for employees has specialists (an optician, an orthopaedic specialist, a lung specialist, a dermatologist and an ENT specialist) for consultations during working hours;
› at Noale/Scorzè and Mandello del Lario, all employees are entitled to paid time off for specialist consultations outside the company and for clinical analyses.

All sites also offer employees vaccinations free of charge.

<u>Vietnam</u>

In Vietnam, trade union representatives at a company level (selected by a Company Trade Union Committee) are tasked with protecting employees, helping them to understand aspects concerning labour regulations and company policies, and providing economic support for some company initiatives benefiting employees.
In particular, the current Trade Union Committee, elected in February 2014 and comprising 15 members who will remain in office for 6 years, made an excellent contribution in 2017, having sponsored and assisted the company in a number of initiatives to bolster employee motivation. The main events are outlined below, following on from those organised last year:
› "**Safety Riding Contest**", lasting half a day, which promoted employee awareness on the subject of safety. It was also presented to local authorities to emphasise the company's strong focus on safety issues;
› the "**Nutrition Day**" for employees' children: in June, paediatric doctors met with employees to provide advice on the nutrition and health of their children. The half-day event was attended by approximately 300 children, mainly the sons and daughters of blue-collar workers. In particular, the children, who were entertained with games, entertainers and small gifts, were examined by 12 national nutrition doctors;
› "**Piaggio Vietnam Summer Vacation**", a three-day event in August, during which employees with

families received a bonus to spend on 3 days off at a location jointly identified by the company and the trade unions.

In addition to the above, a one-day event was organised to celebrate the 10th anniversary of the establishment of Piaggio Vietnam.

No strikes were held in 2017.

India

The Indian subsidiary has always based trade union relations on cooperation, seeking to establish an ongoing dialogue and exchange of views. The company and the trade unions acknowledge that it is in the mutual interest of employees and the Piaggio Group to guarantee and pursue greater productivity and higher quality of products, as well as ensuring excellent factory operating process function, all of which enable the company to remain competitive in an environment like the automotive sector which, even in India, constantly demands innovation in its work processes.

In India, trade unions have a two-tier structure: one at company level and the other at local/area level; this structure is also replicated at the Indian subsidiary where the trade union system comprises a company trade union committee with Piaggio workers' representatives, and a central trade union committee, which is the highest hierarchical level, with members selected by the trade union. Currently, the company trade union committee (appointed in November 2017 and with an annual term of office) is made up of 8 members.

In the Indian subsidiary there is a collective company contract, which was signed in July 2013 and expired in June 2017. The negotiations for its renewal are still ongoing.

In 2017, main activities concerning industrial relations focussed on:

- maintaining and achieving productivity levels of blue-collar workers as established in the July 2013 agreement. The agreement establishes labour levels based on productivity indicators linked to various production levels;
- discussions and negotiations with the trade union committee, in turn supported by the national unions, of the main parameters and processes to be integrated into the contract subject to renewal;
- implementation of a flexible temporary labour model. The use of temporary blue-collar workers is related to production volumes based on pre-established ratios;
- maintaining and improving positive and cooperative relations with workers and trade unions;
- guaranteeing full compliance with labour laws, also in view of new government legislation (for example the Provident Fund Act, Minimum Wages Act, Apprentice Act, etc.);
- employee engagement to improve business climate and, accordingly, employee motivation. In line with this approach, Piaggio has rolled out numerous engagement activities for its employees, including sporting competitions, prizes for children who have particularly distinguished themselves at school and the purchase of books for the children of employees.

Occupational health and safety

Safeguarding and improving the health and safety of workers has always been integral to the Group's operations and is a strategic commitment which is positioned among the Group's more general objectives. This principle is valid and adopted in all countries where the Group operates. In particular, the Group has taken concrete actions for:
- continual developments towards a safer working environment, based on assessing all aspects of safety at work and the associated systems, beginning with planning new activities or when reviewing existing ones;
- safer conduct through education, information and awareness of all workers, to enable them to perform their duties safely and to become accountable with respect to Health and Safety at Work.

The department heads, managers and supervisors and all employees are committed to working in partnership to ensure the implementation and effective execution of the occupational health and safety programmes, in order to guarantee their own safety and that of their colleagues.
Prevention and protection activities to safeguard the health of workers in a complex industrial context like the Piaggio Group, both in Italy and abroad, can only be achieved through an adequately structured organisation which specifically aims to foster a "culture" of safety within the company. Therefore, the belief that safety must focus on behaviours and daily activities is today disseminated at all levels. This approach has led the Piaggio Group to adopt very similar safety management standards in all the countries in which it operates, regardless of the presence of less stringent regulatory constraints with respect to the Group's standards. In this framework, the sites in Italy, India and Vietnam have an Occupational Health and Safety Management System certified to OHSAS 18001 by an accredited certification body. The checks are carried out annually, and were once again concluded successfully in 2017.
In line with Health and Safety Management System requirements, the Group has identified safety training as the key driver for disseminating a culture and fostering a conduct focussed on safety leadership and for generating commitment and steering conduct.
Promoting health is another important aspect for Piaggio, and this is achieved based on two areas of action: free testing and information campaigns on healthy lifestyles. Each Group site has a health unit for prevention, surveillance and first aid, manned by specialist medical and paramedical staff.

Italy

The year saw the implementation of two important software programmes dedicated to Health and Safety issues, in collaboration with the IT department:

› archiving and continuous updating of the Safety Data Sheets for the products and chemical substances used at the various sites. Access to these will be available to the entire corporate safety organisation, in accordance with their access credentials. It also enables an assessment of the chemical risk of a given product to be carried out using the ILO method[26];
› management of all aspects of health and safety (risk assessment, event management, risk reporting and foreman logbook, legislative compliance, audit & inspections, BBS, survey management & tracking register, company emergency plan, management of PPE, management of contractors, health surveillance, occupational diseases) and consequent reporting at global level.

The objectives that will be pursued with these projects are:

› maintaining legislative compliance;
› standardising the management of Health and Safety aspects and applicable KPIs at international level;
› strengthening control over the scheduling of programmes in order to achieve the objectives set;
› streamlining of reporting operations;
› increasing access to information by all stakeholders.

As far as procedural aspects are concerned, the tasks and duties of the various offices of the company have been clearly defined and the various responsibilities have been identified for the different flows that enable health surveillance and personnel training to be supervised, so as to guarantee legislative compliance. With this in mind, the close relationship between the "Training" body and the "Safety, Hygiene and Occupational Health" body continues, enabling the design and development of courses that, in line with the deadlines and content envisaged by current legislation, correspond with the specific characteristics of the company whilst enabling learners to acquire greater awareness of health and safety issues.

26) ILO - International Labor Organization is an agency that is part of the UN. The methodology referred to is recognised around the world for the assessment of chemical risk.

Accident Frequency[27] Index in Italy

Production sites	2017	2016
Pontedera	1.4	1.5
Noale and Scorzè/Quinto	0.3	1.1
Mandello del Lario	0.0	0.5

The constant reduction of the injury frequency index in all the Italian offices of the Company continued in 2017, reaching the "zero accident" milestone in the Mandello del Lario office[28].

Accident Severity[29] Index in Italy

Production sites	2017	2016
Pontedera	72.5	82.1
Noale and Scorzè/Quinto	6.3	23.6
Mandello del Lario	32.2	9.4

In this case it is also possible to detect a positive trend; at the Mandello del Lario site, the Index tripled as a result of accidents not related to work activities (commuting accidents) that occurred involving some workers.

Vietnam

The main priority of the company is the compliance with local laws, international health and safety standards and Piaggio Group policies. In this framework, it guarantees that objectives to improve occupational health and safety are pursued through an Occupational Safety and Medicine unit.

In accordance with Group guidelines, suppliers and external companies that operate at the site are contractually bound to comply with occupational health and safety policies, respect Piaggio Vietnam procedures and programmes, and observe the instructions given to them. Any breach thereof is a breach of the contract and sufficient reason for the termination of the same; in the interests of improvement, the company organises specific safety courses for "contractors" in order to raise standards regarding these issues.

For this purpose, a Safety Committee was established involving all members of the various functions and chaired by the production manager. The Committee members are responsible for managing any safety-related issues within their functional area and for taking the required corrective actions. They also conduct periodic audits of the entire site and report to the committee on all relevant aspects regarding safety, so that corrective actions may be promptly taken.

In order to effectively implement general health and safety regulations, a programme of activities is defined each year, based on operating plans, that are updated on an ongoing basis.

In parallel with training and awareness-raising activities, we have implemented a number of initiatives aimed at building a culture of safety and at raising the awareness of employees and their families on this issue; among these we highlight "Safety Awareness", "Nutrition Day" and the health check-up for employees and family members.

The Piaggio Vietnam Team also won the first prize in the "Vinh Phuc Firefighting Competition".

Lastly, it is worth highlighting the improvement of the company security system through the installation of technological equipment (video cameras, gate metal detectors, etc.) around the site perimeter.

*27) The frequency index is calculated as If = (no. of accidents * 100,000) / Hours worked. The number of accidents is calculated considering only accidents in the workplace, excluding accidents reported pursuant to article 53 of Italian Presidential Decree no. 1124/65. Accidents as of article 53 include both commuting accidents and accidents not considered reliable (due to the lack of a specific, short-term external cause of the injury or the lack of a causal link).*

28) The severity index is greater than zero (in spite of the frequency index being zero), due to the fact that in the calculation of the frequency index, commuting accidents incidents are not counted, while they are taken into account in the calculation of the severity index.

29) The severity index is calculated as Ig = (working days lost / hours worked) x 100,000. In calculating the Index, working days lost because of all events that resulted in absence from work were calculated; so accidents reported pursuant to article 53 of Presidential Decree no. 1124/65 (commuting accidents and accidents not considered reliable due to the lack of a specific, short-term external cause of the injury or the lack of a causal link) were also considered.

Accident Frequency Index in Vietnam

	2017	2016
Vietnam	0.18	0.18

Frequency index in line with the previous year.

Accident Severity Index in Vietnam

	2017	2016
Vietnam	7.92	2.43

The increase in the severity index in 2017 has been affected by the nominal increase in the number of accidents, which went from 3 in 2016 to 5 in 2017.

India

In order to guarantee the highest occupational health and safety standards, the Indian subsidiary has an organisational structure that operatively involves the "Occupier" (employer), which is a single person for various production sites who has responsibility for the health, safety and well-being of all employees in the work place, Factory Managers and a Safety Committee comprising 20 members that include Executives, Managers and White Collars. The Safety Committee meets at regular intervals to plan, revise and discuss action plans necessary to establish and disseminate a safety culture in the work place among employees. The presence of a Health & Safety team guarantees that the entire system may operate effectively.
In line with the Group's approach, a great deal has been invested in training over the last few years as a key driver to increase employee accountability in relation to safety and, consequently, to promote a proactive approach to and engagement with safety issues.

In 2017, workplace safety training was provided to employees in order to increase individual awareness of safe behaviours to be applied, both in normal operating conditions and in emergency situations.

Alongside the training and awareness-raising activities, a number of initiatives were introduced to reward and reinforce exemplary behaviour. For example, this year once again, to mark the Safety Week held from 4-11 March 2017, prizes were awarded to the winners of various competitions (Best Area for Safety Deployment, Safety Posters, Safety Quiz Competition).
Safety culture dissemination programmes involving employees (such as Employee Medical Check-up) have also been implemented.

Accident Frequency Index in India

Plant	2017	2016
Engine & Commercial Vehicles	0.0	0.0
2W India	0.0	0.0
Spare Parts	0.02	0.0

It should be noted that where the injury index is indicated as zero, this indicates that no accidents at work occurred at this plant in the reference year.

Accident Severity Index in India

Plant	2017	2016
Engine & Commercial Vehicles	0.0	0.0
2W India	0.0	0.0
Spare Parts	4.10	0.0

Responsible management of the supply chain

Piaggio Group produces vehicles that are sold under its brand on the various markets around the world. The only exception regards vehicles purchased by the Chinese subsidiary Zongshen Piaggio Foshan (about 31,500 units in 2017, equivalent to 5.7% of vehicles sold).
Piaggio is a leader in engine technology and produces engines at its plans both for internal production and to meet the demand of other manufacturers.
All the other components that constitute a vehicle are purchased externally and assembled in-company.

Italian plants

In 2017, Italian plants purchased merchandise and spare parts for an overall value of €400 million (excluding complete vehicles) from around 750 suppliers.
The first ten suppliers made up 20% of the total purchases.

Geographic segment	2017	2016
EMEA	68%	70%
China+Taiwan	19%	19%
Vietnam	5%	3%
India	7%	7%
Japan	1%	1%
Others	-	-

Geographic localisation of the suppliers of Italian plants

In 2017 payments were made to suppliers for about €608 million.

Indian plants

In 2017, plants in India purchased raw materials, merchandise and spare parts for an overall value of €254 million from around 590 suppliers.
The first ten suppliers made up 37% of the total purchases.

Geographic segment	2017	2016
India	97%	98%
Other	3%	2%

Geographical location of the suppliers to Indian plants

In 2017 payments were made to suppliers for about €352 million.

Vietnamese plants

In 2017, plants in Vietnam purchased merchandise and spare parts for an overall value of €151 million from around 220 suppliers.
The first ten suppliers made up 42% of the total purchases.

Geographic segment	2017	2016
Vietnam	47%	47%
China+Taiwan	20%	22%
EMEA	27%	24%
India	2%	2%
Others	4%	5%

Geographic localisation of the suppliers of Vietnamese plants

In 2017 payments were made to suppliers for about €159 million.

Group relations with suppliers are based on loyalty, impartiality and respect of equal opportunities of all parties concerned.
The Piaggio Group is convinced that accountability is a commitment that should not be confined within the company but should positively involve all stakeholders in the company-supplier chain; this is why suppliers worldwide that wish to do business with Piaggio have to sign the general conditions of supply of the Piaggio Group which include the "Code of Ethics and Guidelines for doing business"; audits are regularly conducted on the Group's direct material suppliers to ensure their effective compliance.

In keeping with the Group's Policy, every year the Purchasing Unit tries to improve the procurement process by promoting the technical skills of buyers and focussing the process on management of the various goods' categories.

Over the last few years, Piaggio Group Management has started a process of common development with its suppliers by setting up a specific department called "Vendor Assessment" as well as assigning the "Finance" Function to define and monitor activities of possible risks areas involving financial and corporate issues, to protect and guarantee the complete independence between corporate areas involved in the procurement processes, as well as to place priority on meeting the needs of all stakeholders.

Vendor Assessment

The purpose of the Vendor Assessment department within the Piaggio Group is to forge a long-lasting, mutually satisfying relationship with a network of highly qualified partners. In addition to managing the Supplier Qualification Process, the function has the task of doing an evaluation of the purchasing performance through Vendor Rating Campaigns.
Supplier relations are defined by specific Company processes comprising two fundamental stages: new supplier qualification and supplier monitoring.
New supplier qualification is an inter-functional process based on specific standards that lead to a potential supplier being included in the Supplier List, for its chosen goods' category; after an initial documentary prequalification stage, a multidisciplinary, supplier qualification team is involved, with specific positions giving a technical, economic/financial and corporate rating on goods' categories.

Suppliers are monitored through at least two annual assessment sessions, called "Vendor Rating Campaign", during which we investigate the supplies for the period in question, on the basis of the quality of the business relationship, the technical-scientific cooperation, compliance with delivery schedules and the quality of the product supplied. This provides a reference framework for procurement strategies and actions concerning suppliers.
During the year the process had the following outcomes:

› assignment of a Vendor Rating Index, which measures the performance of the vendor using a weighted average of the assessments made by corporate functions (for direct materials, the relevant functions are R&D, Quality, Manufacturing and Spare Parts);
› assignment of a Criticality Rating that takes into account both the reliability of the supplier in economic and financial terms and the Quality function's assessment, to decide whether a supplier is "critical" for the purposes of granting them new supply agreements.

At present, Criticality Ratings have been assigned to most Group suppliers of European production sites only. In terms of "spending", the indicator for 2017 covered 98% of purchases of direct materials and 50% of services and works provided. The evaluation process was also carried out in Vietnam and India.

Supporting local communities

Piaggio Foundation

In 2017, the Piaggio Foundation continued to develop its cultural initiatives, which see the organisation of scientific and artistic events and the production of high-level scientific publications. The activities were carried out in close collaboration with the partners Piaggio & C. and the Municipality of Pontedera, and involved institutions, universities, schools and Vespa Clubs from an ever-larger territory. In particular, growing attention has been dedicated to activities related to training and engagement of young people. In particular, growing attention has been dedicated to activities related to training and engagement of young people. For the Piaggio Foundation, 2017 was a year full of commitments, with a particular focus on the design of a world-class motor vehicle museum. In relation to this, the Foundation is also engaged in a major project which will see the expansion of exhibition areas and the opening of a new wing of the museum in spring 2018, together with the inauguration of the great FuturPiaggio exhibition to celebrate 130 years of the Piaggio Group.

Piaggio Museum

The various events celebrating the 70th birthday of Vespa in 2016 served to increase visits to the Piaggio Museum, with numbers up by around 30% compared to the previous year.
After a year that closed with this exceptional result, the Piaggio Foundation looked to 2017 by setting itself the ambitious goal of keeping the number of visitors unaltered, even in the absence of any exceptional events. Thanks to the growing appeal of our collections and the increasing international reputation of the Museum, in 2017 the figure of 56,000 visitors was exceeded.
Particular efforts were made during the year with regard to restoration activities, which will allow the number of historic vehicles on display to double in 2018.
The programme to improve the usability of the Museum also continued with the design of a piece of software which enables visitors to receive information relating to the entire museum collection on display and to access new dedicated audiovisual media.

Piaggio Historical Archive

In 2017, as has been the case in recent years, the Piaggio Historical Archive contributed significantly to many of the activities of the Piaggio Foundation. It continued its valuable role in supporting research and in managing requests for meetings and consultations from scholars and researchers (with a significant increase in requests for advice regarding high-profile scientific research within the academic sector), as well as assisting with the Museum's teaching activities and the iconographic and documentary research for books and publications and for the preparation of exhibitions and internal and external events. The contribution of the archive to the creation of the official Museum App was particularly significant, with original textual and iconographic content related to the Vespa and Piaggio collection (released for the first time in four languages: Italian, English, French and German).
The Archive has also continued to grow and strengthen its partnership with the Piaggio internal offices, providing advice and information on historical matters and selecting and sending images, in particular for the execution of a number of licencing projects, beginning with the impressive file-based publication Build the legendary Vespa 150 GS (Hachette). The Archive is also contributing to a similar project dedicated to the Ape, currently in the testing phase.

Cultural Project

The activities and events organised or promoted by the Piaggio Foundation during the year are part of a wider cultural project designed to convey the historical and current values of the Piaggio Group to visitors, and to transform the Museum into a scientific and artistic meeting place which can be visited again and again. Activities and events are described in the section on "The social dimension" of the 2017 Corporate Governance Report.

Charity Activities and Sponsorships

2017 saw the consolidation of the collaboration between the Piaggio Group and (RED) - an association founded in 2006 by Bono and Bobby Shriver - which has contributed US$360 million to the Global Fund

for the fight against AIDS, Tuberculosis and Malaria. The aid provided by (RED) to the Global Fund had an impact on more than 70 million people through activities such as prevention, treatment, counselling, HIV testing and support services. As part of the partnership, a Vespa 946 (RED) was built, which is currently being marketed in Europe, Asia, the Pacific Area and the United States. For each Vespa 946 (RED) sold, US$150 will be donated to the Global Fund and the fight against AIDS. A concrete and valuable contribution, thanks to which (RED) will be able to guarantee more than 500 days of medical care to save lives threatened by HIV and help prevent the transmission of the virus from HIV-infected mothers to their unborn children.
In October 2017, the collaboration with (RED) was expanded further, with the launch of a new product, specifically for the Indian market - the new Vespa (RED), model VXL.
The Vespa VXL (RED) was launched at a major charity event in Mumbai. The spokesperson at the event was the famous Bollywood star, Fahran Akhtar, formerly a UN Women Goodwill Ambassador, who also bought the first Vespa VXL RED.
Charity events supporting the partnership have also been held in Europe and Asia, particularly in Japan, Taiwan, South Korea, Indonesia and Thailand.
In the US and Canada, Vespa (RED) products were the stars of the Shopathon charity marathon and were put on sale through Amazon.

Piaggio also continued the Vespa for Children project in 2017, a humanitarian charity initiative which, by involving the Group's companies, intends to create charitable projects aimed at promoting social solidarity in the fields of health and social care for children in developing countries.
Piaggio Vietnam in particular has been very active in the support of local associations that deal with families in need and education for children.
The Indian subsidiary has also supported a number of local initiatives for non-profit organisations that work in the fields of health and education.
In 2017 – also under the aegis of the Vespa for Children project – Piaggio participated in various events in Italy to help the community by donating vehicles for charity auctions.

The Group took part in some very important cultural events, like for example the Mantua Literature Festival, not to mention other events organised by the Vespa World Club.
Lastly, for some years now, for the end of the year holidays, together with the entire Immsi Group, Piaggio Group fosters educational and rehabilitative activities for disabled children affected by brain damage by making a donation to the "Casa del Sole Onlus" association, in the name of all the employees of the Immsi and Piaggio groups. In forty years of activities, the non-profit making organisation Casa del Sole Onlus has assisted over five thousand children affected by brain damage and been a valuable source of help for their families.

In 2017, the historic collaboration between Moto Guzzi and Canottieri Moto Guzzi was renewed, for the restoration of the Canottieri Rowing Headquarters on the shores of Lake Lecco.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Correlation Table D.Lgs. 254/2016 – Material Matters – GRI Standard

Topic as of Legislative Decree no. 254/2016	Topic	Risks identified	Policies adopted
ENVIRONMENTAL	Product innovation and sustainable mobility	Risk Management - Report on Operations	Policy adopted to monitor technological leadership in the sector
	Energy efficiency	Risk Management - Environment	Environmental policy - The Environmental Dimension
	Waste handling	Risk Management - Environment	Environmental policy - The Environmental Dimension
	Conserving water resources	Risk Management - Environment	Environmental policy - The Environmental Dimension
	Biodiversity	Risk Management - Environment	Environmental policy - The Environmental Dimension
	Broad-ranging	Risk Management - Environment	Environmental policy - The Environmental Dimension

Topic specific standard/ disclosure	Reference chapter/ paragraph	Reporting perimeter	Notes
G4.EN3: Energy consumption within the organization	The Environmental Dimension - Reducing energy consumption	Production sites and commercial companies	Data not reported for fuel consumption for vehicle testing, for company car fleets and for the Aprilia Racing Team. Data on the consumption of Rome and Milan offices are not considered relevant.
G4.EN15: Direct greenhouse gas (GHG) emissions (Scope 1)	The Environmental Dimension - Reducing emissions of CO_2 and other pollutants	Production sites	
G4.EN16: Energy indirect greenhouse gas (GHG) emissions (Scope 2)	The Environmental Dimension - Reducing emissions of CO_2 and other pollutants	Production sites	Emissions of commercial offices are not reported. Data on the emissions of Rome and Milan offices are not considered relevant.
G4.EN21: NOX, SOX, and other significant air emissions	The Environmental Dimension - Reducing emissions of CO_2 and other pollutants	Production sites	The indicator only considers VOC released by solvents used in painting.
G4.EN23: Total weight of waste by type and disposal method	The Environmental Dimension - Waste handling and recovering	Production sites	Waste production of commercial offices, research centres and Rome and Milan offices is considered as not relevant, as it is equivalent to municipal waste.
G4.EN24: Total number and volume of significant spills	The Environmental Dimension - Avoiding soil contamination	Production sites	
G4.EN8: Total water withdrawal by source	The Environmental Dimension - Conserving water resources	The entire Group	Data on use by Rome and Milan offices are not considered relevant.
G4.EN9: Water sources significantly affected by withdrawal of water	The Environmental Dimension - Conserving water resources	Production sites	
G4.EN10: Percentage and total volume of water recycled and reused	The Environmental Dimension - Conserving water resources	Baramati and Vinh Phuc	
G4.EN22: Total water discharge by quality and destination	The Environmental Dimension - Conserving water resources	Production sites and commercial companies	
G4.EN11: Operational sites owned, leased,managed in, or adjacent to protected areas and areas of high biodiversity value outside protected areas	The environmental dimension - Biodiversity	Production sites	Of the Group's facilities, only the Scorzè site is subject to particular limits of the Venice Lagoon.
G4.EN29: Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Corporate Governance - Compliance with laws and regulations	The entire Group	
G4.EN30: Significant environmental impacts of transporting products and other goods and materials for the organization's operations, and transporting members of the workforce	The environmental dimension - Logistics	Italy	
G4.EN31: Total environmental protection expenditures and investments by type	The environmental dimension - Environmental spending and investments	Italy	

Topic as of Legislative Decree no. 254/2016	Topic	Risks identified	Policies adopted
SOCIAL SPHERE	Safety and reliability	Risk Management - Social	Policy adopted to produce vehicles that guarantee a high level of active, passive and preventive safety
	Responsible management of the supply chain	Risk Management - Report on Operations	Policy adopted to qualify and periodically evaluate suppliers based on technical/professional/ financial criteria in line with i nternational standards
	Supporting local communities	Risk Management - Social	Policies adopted to establish roots in the area and increase value for the community
	Broad-ranging	Risk Management	
CONCERNING PERSONNEL	Developing human capital	Risk Management - Personnel	Policies adopted to manage personnel (e.g. recruitment and internal mobility, development and careers, training, industrial relations, diversity and equal opportunities)
	Health and safety	Risk Management - Personnel	Occupational health and safety (OHSAS18001)
RESPECTING HUMAN RIGHTS	Respecting human rights	Risk Management - Human rights	Code of Ethics, Policy to r eport violations of human rights
FIGHTING AGAINST CORRUPTION	Fighting against corruption	Risk Management - Fighting against corruption	Code of Ethics

Topic specific standard/ disclosure	Reference chapter/ paragraph	Reporting perimeter	Notes
G4.EC9: Proportion of spending on local suppliers at significant locations of operation	The social dimension - Responsible management of the supply chain	Production sites	The Group only provides data on the purchases of its production sites relative to the purchase of goods and spare parts. Purchases of commercial companies,Rome and Milan offices and research centres are not considered, as they are residual and not relevant.
G4.SO1: Percentage of operations with implemented local community engagement, impact assessments, and development programs	The social dimension - Supporting local communities	The entire Group	The Group provides information about charity activities promoted in the year, and initiatives taken by the Fondazione Piaggio and Museo Piaggio.
G4.SO8: Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	The fight against corruption - Compliance with laws and regulations	The entire Group	Possible tax sanctions are not included.
G4.LA1: Total number and rates of new employee hires and employee turnover by age group, gender, and region	The Social Dimension - Staff	Italy	The Group reports on total incoming and outgoing staff numbers in Italy, divided by gender and age. Total turnover (incoming and outgoing) is indicated.
G4.LA2: Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	The social dimension - Developing human resources - Reward policies	The entire Group	
G4.LA3: Return to work and retention rates after parental leave, by gender	The social dimension - Diversity and equal opportunity	Italy Vietnam EMEA & Americas	The Group reports on the retention rate.
G4.EC5: Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	The social dimension - Developing human resources - Rewards	The entire Group	
G4.EC6: Proportion of senior management hired from the local community at significant locations of operation	The social dimension - Developing human resources - Diversity and equal opportunity	The entire Group	
G4.LA9: Average hours of training per year per employee by gender, and by employee category	The social dimension - Training	The company PFF is excluded	The Group reports on the number of training hours' per area, professional category, gender and total average hours per capita. The calculation of the average per-capita hours is performed using the hours provided by the Group as the numerator (including those for non-salaried workers) and the total number of employees as of 31/12 as the denominator.
G4.LA10: Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	The social dimension - Personnel management policies - development and careers	The entire Group	
G4.LA11: Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	The social dimension - Personnel management policies - Evaluation	The companies PFF, PADC and PCSM are excluded.	
G4. LA12: Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	The social dimension - Diversity and equal opportunity	The entire Group	The Group reports employee data.
G4.LA13: Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	The social dimension - Developing human resources - Diversity and equal opportunity	Italy, EMEA, Vietnam, India	
G4.11: Report the percentage of total employees covered by collective bargaining agreements.	The social dimension - Industrial relations	Italy	
G4. LA4: Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	The social dimension - Industrial relations	Italy	
G4.LA6: Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of workrelated fatalities, by region and by gender	The social dimension - Occupational health and safety	Production sites	The Group reports on frequency and severity indexes (totals). The frequency index does not consider off-site accidents. The severity index considers days lost due to off-site accidents. The indexes consider accidents of outsourced staff.
G4.HR3: Total number of incidents of discrimination and corrective actions taken	The fight against corruption - Compliance with laws and regulations	The entire Group	
G4.SO5: Confirmed incidents of corruption and actions taken	The fight against corruption - Compliance with laws and regulations	The entire Group	

Report of the Independent Auditors on the Consolidated non-financial statement – Legislative Decree no. 254 del 30 December 2016

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED NON-FINANCIAL STATEMENT PURSUANT TO ART. 3, PARAGRAPH 10 OF LEGISLATIVE DECREE 254/2016 AND TO ART. 5 OF CONSOB REGULATION 20267

PIAGGIO & C. SPA

YEAR ENDED 31 DECEMBER 2017

pwc

Independent auditor's report on the consolidated non-financial statement

pursuant to art. 3, paragraph 10 of Legislative Decree 254/2016 and to art. 5 of Consob Regulation 20267

To the board of directors of Piaggio & C. SpA

Pursuant to article 3, paragraph 10 of the Legislative Decree 254 of 30 December 2016 (the Decree) and to article 5 of CONSOB Regulation 20267, we have performed a limited assurance engagement on the Consolidated non-financial statement of Piaggio & C. SpA and its subsidiaries (the Piaggio group) as of and for the year ended 31 December 2017, in accordance with article 4 of the Decree, approved by the board of directors of Piaggio & C. SpA on 28 February 2018 (the NFS).

Responsibility of the directors and of the board of statutory auditors for the NFS

The directors are responsible for the preparation of the NFS in accordance with article 3 and 4 of the Decree and with the G4 Sustainability Reporting Guidelines defined in 2013 by the GRI - Global Reporting Initiative (GRI G4 Guidelines). The directors are responsible, in accordance with the law, for the implementation of internal controls necessary to ensure that the NFS is free from material misstatement, whether due to fraud or unintentional errors.

The directors are responsible for identifying the content of the NFS, within the matters mentioned in article 3, paragraph 1, of the Decree, considering the activities and characteristics of the group and to the extent necessary to ensure the understanding of the group activities, its trends, its results and related impacts. The directors are responsible for defining the business and organisational model of the group and, with reference to the matters identified and reported in the NFS, for the policies adopted by the group and for the identification and management of risks generated or faced by the group.

The board of statutory auditors is responsible for overseeing, in accordance with the law, the compliance with the Decree.

Auditors' independence and quality control

We are independent in accordance with the principles of ethics and independence disclosed in the Code of Ethics for Professional Accountants published by the International Ethics Standards Board for Accountants, which are based on the fundamental principles of integrity, objectivity, competence and professional diligence, privacy and professional behaviour. Our audit firm adopts the International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains an overall quality control system which includes processes and procedures for the compliance with ethical and professional standards and with applicable laws and regulations.

Auditors' responsibility

We are responsible for expressing, on the basis of the work performed, a conclusion regarding the compliance of the NFS with the Decree, with the GRI G4 Guidelines. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000 Revised), issued by the International Auditing and Assurance Standards Board (IAASB), for limited assurance engagements. The standard requires that we plan and perform procedures to obtain a limited assurance that the NFS does not contain material errors. The procedures performed in a limited assurance engagement are less in scope than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised and, therefore, do not provide us with a sufficient level of assurance to become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.

The procedures performed on the NFS are based on our professional judgement and consisted of interviews, primarily with company personnel responsible for the preparation of the NFS, in the analysis of documents, recalculations and other procedures aimed at obtaining evidence as appropriate.

In particular, we have performed the following procedures:

1. analysis of the relevant matters reported in the NFS relating to the activities and characteristics of the group, in order to assess the reasonableness of the selection process used, in accordance with article 3 of the Decree, with the reporting standard adopted;
2. analysis and assessment of the criteria used to identify the consolidation area, to assess its compliance with the Decree;
3. comparing the financial information reported in the NFS with the information reported in the group consolidated financial statements;
4. understanding of the following matters:
    - business and organisational model of the group, with reference to the management of the matters specified by article 3 of the Decree;
    - policies adopted by the group with reference to the matters specified by article 3 of the Decree, actual results and related key performance indicators;
    - main risks, generated or faced by the group, with reference to the matters specified in article 3 of the Decree.

    With reference to such matters, we have carried out some validation procedures on the information presented in the NFS and some controls as described under point 5 below;
5. understanding of the processes underlying the preparation, collection and management of the qualitative and quantitative material information included in the NFS. In particular, we have held meetings and interviews with the management of Piaggio & C. SpA and with the management of Piaggio Vietnam Co. Ltd and we have performed limited analysis and validation procedures, to gather information about the processes and procedures for the

collection, consolidation, processing and submission of the non-financial information to the function responsible for the preparation of the NFS.

Moreover, for significant information, considering the activities and characteristics of the group:

- at a group level,
  - a) with reference to the qualitative information included in the NFS, and in particular to the business model, the policies adopted and the main risks, we carried out interviews and obtained supporting documentation to verify its consistency with available evidence;
  - b) with reference to quantitative information, we performed analytical procedures and limited tests, in order to assess, on a sample basis, the consolidation of the information;
- for the industrial sites of Mandello del Lario (Italy) and Vinh Phuc (Vietnam) which were selected on the basis of their activities, their contribution to the performance indicators at consolidated level and their location, we carried out testing procedures and gathered supporting documentation regarding the compliance with procedures and calculation methods used for the key performance indicators.

Conclusions

Based on the work performed, nothing has come to our attention that caused us to believe that the NFS of the Piaggio group as of 31 December 2017 has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree and with GRI G4 Guidelines, as described in the paragraph "General-Reporting Standards" of the Consolidated non-financial statement.

Other aspects

With respect to the year ended 31 December 2016, Piaggio group prepared a Sustainability report denominated Corporate Social Responsibility Report whose information has been included, for comparative purposes, in the NFS. That sustainability report was subject to voluntary limited assurance procedures in accordance with ISAEE 3000 by PricewaterhouseCoopers Advisory SpA, that expressed an unqualified conclusion.

Florence, 22 March 2018

Signed by	*Signed by*
Corrado G. Testori (Partner)	Paolo Bersani (Authorised signatory)

This report has been translated into English from the original version, which was issued in Italian, solely for the convenience of international readers.

PIAGGIO GROUP

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

Consolidated Income Statement

Notes	In thousands of euros	2017 Total	2017 of which related parties	2016 Total	2016 of which related parties
4	Net revenues	1.342.450	1,777	1,313,109	855
5	Cost for materials	791,068	23,508	784,404	23,289
6	Cost for services and leases and rentals	227,536	3,716	233,277	3,774
7	Employee costs	215,463		213,775	
8	Depreciation and impairment costs of property, plant and equipment	44,628		45,797	
8	Amortisation and impairment costs of intangible assets	75,370		64,041	
9	Other operating income	106,478	395	109,163	3,188
10	Other operating costs	22,534	16	20,073	24
	Operating income	**72,329**		**60,905**	
11	Income/(loss) from investments	825	716	588	564
12	Financial income	1,303	21	1,023	
12	Borrowing costs	35,102	134	36,952	134
12	Net exchange gains/(losses)	700		(61)	
	Profit before tax	**40,055**		**25,503**	
13	Taxes for the period	20,071	(1,195)	11,463	388
	Profit from continuing operations	**19,984**		**14,040**	
	Assets held for sale:				
14	Profits or losses arising from assets held for sale				
	Net Profit (loss) for the period	**19,984**		**14,040**	
	Attributable to:				
	Owners of the Parent	**19,984**		**14,040**	
	Non controlling interests	**0**		**0**	
15	**Earnings per share (figures in €)**	**0.056**		**0.039**	
15	**Diluted earnings per share (figures in €)**	**0.056**		**0.039**	

Consolidated Statement of Comprehensive Income

Notes	In thousands of euros	2017	2016
	Net Profit (Loss) for the period (A)	**19,984**	**14,040**
	Items that will not be reclassified in the income statement		
45	Remeasurements of defined benefit plans	1,274	(2,672)
	Total	**1,274**	**(2,672)**
	Items that may be reclassified in the income statement		
45	Profit (loss) deriving from the translation of financial statements of foreign companies denominated in foreign currency	(9,673)	1,758
45	Portion of components of the Statement of Comprehensive Income of subsidiaries/associates valued with the equity method	(609)	(329)
45	Total profits (losses) on cash flow hedges	68	198
	Total	**(10,214)**	**1,627**
	Other components of the Statement of Comprehensive Income (B)[30]	**(8,940)**	**(1,045)**
	Total Profit (loss) for the period (A + B)	**11,044**	**12,995**
	Attributable to:		
	Owners of the Parent	**10,975**	**13,058**
	Non controlling interests	**69**	**(63)**

30) Other Profits (and losses) take account of relative tax effects

Consolidated Statement of Financial Position

Notes	In thousands of euros	As of 31 December 2017 Total	of which related parties	As of 31 December 2016 Total	of which related parties
	Assets				
	Non-current assets				
16	Intangible assets	648,977		668,665	
17	Property, plant and equipment	273,013		301,079	
18	Investment Property	11,523		11,710	
37	Investments	7,553		7,445	
38	Other financial assets	7,364		19,209	
23	Long-term tax receivables	19,913		15,680	
19	Deferred tax assets	58,601		60,372	
21	Trade receivables				
22	Other receivables	12,157	115	13,170	133
	Total non-current assets	**1,039,101**		**1,097,330**	
27	**Assets held for sale**				
	Current assets				
21	Trade receivables	83,995	2,150	75,166	3,350
22	Other receivables	26,916	10,029	24,151	8,753
23	Short-term tax receivables	11,106		26,783	
20	Inventories	218,622		208,459	
39	Other financial assets	2,321		7,069	
40	Cash and cash equivalents	128,067		191,757	
	Total current assets	**471,027**		**533,385**	
	Total assets	**1,510,128**		**1,630,715**	
	Shareholders' Equity and Liabilities				
	Shareholders' equity				
44	Share capital and reserves attributable to the owners of the Parent	385,296		394,019	
44	Share capital and reserves attributable to non-controlling interests	(236)		(305)	
	Total shareholders' equity	**385,060**		**393,714**	
	Non-current liabilities				
41	Financial liabilities falling due after one year	446,483	2,900	535,105	2,900
28	Trade payables				
29	Other long-term provisions	9,096		10,566	
30	Deferred tax liabilities	3,170		3,880	
31	Retirement funds and employee benefits	44,457		48,924	
32	Tax payables				
33	Other long-term payables	5,621	12	5,485	162
	Total non-current liabilities	**508,827**		**603,960**	
	Current liabilities				
41	Financial liabilities falling due within one year	137,780		173,445	
28	Trade payables	411,775	9,375	395,649	9,935
32	Tax payables	10,185		8,128	
33	Other short-term payables	46,424	7,863	46,936	7,152
29	Current portion of other long-term provisions	10,077		8,883	
	Total current liabilities	**616,241**		**633,041**	
	Total Shareholders' Equity and Liabilities	**1,510,128**		**1,630,715**	

Consolidated Statement of Cash Flows

This statement shows the factors behind changes in cash and cash equivalents, net of short-term bank overdrafts, as required by IAS 7.

Notes	In thousands of euros	2017 Total	of which related parties	2016 Total	of which related parties
	Operating activities				
	Net Profit (loss) for the period	19,984		14,040	
	Allocation of profit to non-controlling interests	0		0	
13	Taxes for the period	20,071		11,463	
8	Depreciation of property, plant and equipment	44,628		44,797	
8	Amortisation of intangible assets	71,145		63,662	
	Provisions for risks and retirement funds and employee benefits	18,850		18,038	
	Write-downs/ (Reinstatements)	7,172		2,627	
	Losses/ (Gains) on the disposal of property, plants and equipment	(558)		(2,267)	
12	Financial income	(1,222)		(1,023)	
	Dividend income	(109)		(24)	
12	Borrowing costs	32,392		34,536	
	Income from public grants	(4,266)		(3,880)	
	Portion of earnings of affiliated companies	(716)		(564)	
	Change in working capital:				
21	(Increase)/Decrease in trade receivables	(10,900)	1,200	6,658	(2,200)
22	(Increase)/Decrease in other receivables	(2,441)	(1,258)	6,004	146
20	(Increase)/Decrease in inventories	(10,163)		4,353	
28	Increase/(Decrease) in trade payables	16,126	(560)	15,286	(173)
33	Increase/(Decrease) in other payables	(376)	561	1,281	182
29	Increase/(Decrease) in provisions for risks	(10,730)		(9,914)	
31	Increase/(Decrease) in retirement funds and employee benefits	(12,442)		(8,688)	
	Other changes	24,205		(11,936)	
	Cash generated from operating activities	**200,650**		**184,449**	
	Interest paid	(31,474)		(32,355)	
	Taxes paid	(19,058)		(25,114)	
	Cash flow from operating activities (A)	**150,118**		**126,980**	
	Investment activities				
17	Investment in property, plant and equipment	(28,775)		(38,247)	
	Sale price, or repayment value, of property, plant and equipment	3,277		2,552	
16	Investment in intangible assets	(57,931)		(58,426)	
	Sale price, or repayment value, of intangible assets	62			
	Dividends from investments	109			
	Sale price of financial assets			3	
	Collected interests	977		581	
	Cash flow from investment activities (B)	**(82,281)**		**(93,537)**	
	Financing activities				
44	Purchase of treasury shares			(5,612)	
44	Outflow for dividends paid	(19,698)		(17,962)	
41	Loans received	73,925		133,674	
41	Outflow for repayment of loans	(174,823)		(66,194)	
41	Financing received for financial leases	0		12,839	
41	Repayment of finance leases	(1,124)		(1,601)	
	Cash flow from funding activities (C)	**(121,720)**		**55,144**	
	Increase/ (Decrease) in cash and cash equivalents (A+B+C)	(53,883)		88,587	
	Opening balance	**191,400**		**101,302**	
	Exchange differences	(9,623)		1,511	
	Closing balance	**127,894**		**191,400**	

Changes in Consolidated Shareholders' Equity

Movements from 1 January 2017 / 31 December 2017

Notes	In thousands of euros	Share capital	Share premium reserve	Legal reserve	Reserve for measurement of financial instruments	IAS transition reserve
	As of 1 January 2017	**207,614**	**7,171**	**18,395**	**(388)**	**(5,859)**
	Profit for the period					
45	Other components of the Statement of Comprehensive Income				68	
	Total profit (loss) for the period	**0**	**0**	**0**	**68**	**0**
	Transactions with shareholders:					
44	Allocation of profits			700		
44	Distribution of dividends					
44	Cancellation of treasury shares					(5,646)
	As of 31 December 2017	**207,614**	**7,171**	**19,095**	**(320)**	**(11,505)**

Movements from 1 January 2016 / 31 December 2016

Notes	In thousands of euros	Share capital	Share premium reserve	Legal reserve	Reserve for measurement of financial instruments	IAS transition reserve
	As of 1 January 2016	**207,614**	**7,171**	**17,643**	**(586)**	**(5,859)**
	Profit for the period					
45	Other components of the Statement of Comprehensive Income				198	
	Total profit (loss) for the period	**0**	**0**	**0**	**198**	**0**
	Transactions with shareholders:					
44	Allocation of profits			752		
44	Distribution of dividends					
44	Purchase of treasury shares					
	As of 31 December 2016	**207,614**	**7,171**	**18,395**	**(388)**	**(5,859)**

Group translation reserve	Treasury shares	Earnings reserve	Consolidated Group shareholders' equity	Share capital and reserves attributable to non-controlling interests	Total shareholders' equity
(14,116)	**(5,646)**	**186,848**	**394,019**	**(305)**	**393,714**
		19,984	19,984		19,984
(10,351)		1,274	(9,009)	69	(8,940)
(10,351)	**0**	**21,258**	**10,975**	**69**	**11,044**
		(700)	0		0
		(19,698)	(19,698)		(19,698)
	5,646		0		0
(24,467)	**0**	**187,708**	**385,296**	**(236)**	**385,060**

Group translation reserve	Treasury shares	Earnings reserve	Consolidated Group shareholders' equity	Share capital and reserves attributable to non-controlling interests	Total Shareholders' Equity
(15,608)	**(34)**	**194,194**	**404,535**	**(242)**	**404,293**
		14,040	14,040		14,040
1,492		(2,672)	(982)	(63)	(1,045)
1,492	**0**	**11,368**	**13,058**	**(63)**	**12,995**
		(752)	0		0
		(17,962)	(17,962)		(17,962)
	(5,612)		(5,612)		(5,612)
(14,116)	**(5,646)**	**186,848**	**394,019**	**(305)**	**393,714**

Notes to the Consolidated Financial Statements

A) General Aspects

Piaggio & C. S.p.A. (the Company) is a joint-stock company established in Italy at the Register of Companies of Pisa. Its registered office is located in Viale Rinaldo Piaggio 25 – Pontedera (Pisa). The main activities of the company and its subsidiaries are described in the Report on Operations.
These Consolidated Financial Statements are expressed in euros (€) since this is the currency in which most of the Group's transactions take place. Foreign operations are included in the consolidated financial statements according to the standards indicated in the notes below.

Scope of consolidation

As of 31 December 2017, the structure of the Piaggio Group was as indicated in the Report on Operations and is the structure referred to herein.
The scope of consolidation has not changed compared to the Consolidated Financial Statements as of 31 December 2016.

Compliance with international accounting standards

The Consolidated Financial Statements of the Piaggio Group as of 31 December 2017 have been drafted in compliance with the International Accounting Standards (IAS/IFRS) in force at that date, issued by the International Accounting Standards Board and approved by the European Commission, as well as in compliance with the provisions established in Article 9 of Legislative Decree no. 38/2005 (Consob Resolution no. 15519 dated July 27/7/06 containing the "Provisions for the presentation of financial statements", Consob Resolution no. 15520 dated July 27/7/06 containing the "Changes and additions to the Regulation on Issuers adopted by Resolution no. 11971/99", Consob communication no. 6064293 dated 28/7/06 July containing the "Corporate reporting required in accordance with Article 114, paragraph 5 of Legislative Decree no. 58/98"). The interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously the Standing Interpretations Committee ("SIC"), were also taken into account.
Moreover, international accounting standards have been uniformly adopted for all Group companies. The financial statements of subsidiaries, used for consolidation and for the joint venture consolidated using the equity method, have been appropriately modified and reclassified, where necessary, to bring them in line with the international accounting standards and classification criteria used by the Group on a consistent basis.

The Financial Statements have been prepared on a historical cost basis, amended as required for the measurement of investment property and some financial instruments, and on a going-concern basis. The Group did not identify any significant uncertainties (as of paragraph 25 of IAS 1) about its operations as a going concern, also in view of actions already established to meet changed levels of demand, and the Group's industrial and financial flexibility.
These Consolidated Financial Statements were audited by PricewaterhouseCoopers S.p.A..

Other information

A specific paragraph in this Report provides information on any significant events occurring after the end of the period and on the operating outlook.

1. Form and content of the financial statements

Form of the consolidated financial statements
The Group has chosen to highlight all changes generated by transactions with non-shareholders within two statements reporting trends of the period, respectively named the "Consolidated Income Statement" and "Consolidated Statement of Comprehensive Income". The Financial Statements are therefore composed of the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows and the Statement of Changes in Consolidated Shareholders' Equity, and these notes.

Consolidated Income Statement
The Consolidated Income Statement is presented with the items classified by nature. The overall Operating Income is shown, which includes all income and cost items, irrespective of their repetition or fact of falling outside normal operations, except for the items of financial operations included under Operating Income and Profit before tax. In addition, the income and cost items arising from assets that are held for sale or to be discontinued, including any capital gains or losses net of the tax element, are recorded in a specific item preceding profit attributable to the owners of the parent and to non-controlling interests.

Consolidated Statement of Comprehensive Income
The Consolidated Statement of Comprehensive Income is presented in accordance with the provisions of IAS 1 amended. Items presented in "Other comprehensive income(expense)" are grouped based on whether they are potentially reclassifiable to profit or loss.

Consolidated Statement of Financial Position
The Consolidated Statement of Financial Position is presented in opposite sections with separate indication of assets, liabilities and shareholders' equity.
In turn, assets and liabilities are reported in the Consolidated Financial Statements on the basis of their classification as current and non-current.

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

Statement of Changes in Consolidated Shareholders' Equity
The Statement of Changes in Consolidated Shareholders' Equity is presented as provided for in IAS 1 revised.
It includes the total statement of comprehensive income while separately reporting the amounts attributable to owners of the Parent company as well as the quota pertaining to non-controlling interests, the amounts of operations with shareholders acting in this capacity and potential effects of retrospective application or of the retroactive calculation pursuant to IAS 8. Reconciliation between the opening and closing balance of each item for the period is presented.

Contents of the Consolidated Financial Statements

The Consolidated Financial Statements of the Group Piaggio & C. include the Financial Statements of the Parent Company Piaggio & C. S.p.A. and Italian and foreign companies in which it has direct or indirect control, which are listed in the attachments.
As of 31 December 2017 subsidiaries and associates of Piaggio & C. S.p.A. were as follows:

	Subsidiaries			Associates			Total
	Italy	Abroad	Total	Italy	Abroad	Total	
Companies:							
- consolidated on a line-by-line basis	3	21	24				24
- consolidated with the equity method				2	3	5	5
Total companies	**3**	**21**	**24**	**2**	**3**	**5**	**29**

2. Consolidation principles and evaluation criteria

2.1 Principles of consolidation

Assets and liabilities, and income and costs, of consolidated companies are recognised on a global integration basis, eliminating the carrying amount of consolidated investments in relation to the relative shareholders' equity at the time of purchase or underwriting. The carrying amount of investments has been eliminated against the shareholders' equity of subsidiaries/associates, assigning to non-controlling interests under specific items the relative portion of shareholders' equity and relative net profit due for the period, in the case of subsidiaries consolidated on a line-by-line basis.

Subsidiaries

Subsidiaries are companies in which the Group exercises control. This control exists when the Group is exposed, or is entitled to receive variable returns from its involvement in the company and has the capacity to influence such variable returns through its power over the controlled company. The acquisition of subsidiaries is recognised according to the acquisition method. The cost of acquisition is determined by the sum of present values at the date control of the given assets was obtained, liabilities borne or undertaken and financial instruments issued by the Group in exchange for control of the acquired company.
In the case of acquisitions of companies, acquired and identifiable assets, liabilities and potential liabilities are recognised at the present value at the date of acquisition. The positive difference between the acquisition cost and the share of the Group at the present value of said assets and liabilities is classified as goodwill and recognised in the financial statements as an intangible asset. Any negative difference ("negative goodwill") is recognised instead in profit and loss at the date of acquisition.
The financial statements of subsidiaries are included in the Consolidated Financial Statements starting from the date when control is acquired until control ceases.
The portions of shareholders' equity and income attributable to non-controlling interests are separately indicated in the Consolidated Statement of Financial Position and Consolidated Income Statement respectively.

Associates and joint arrangements

Associates are companies in which the Group has considerable influence but not control of financial and operational policies.
The Group adopts IFRS 11 for all joint arrangements. According to IFRS 11, investments in joint arrangements are classified as joint operations or joint ventures depending on the contractual obligations and rights of each investor. The Group has classified the only joint arrangement agreement in place as being a joint venture.
In adopting the equity method, the investment in an associate or joint venture is initially recognised at cost and the carrying amount is increased or decreased to recognise the portion attributable to the Group of profit or loss of the investee realised after the date of acquisition. The portion of profit (loss) for the period of the investee attributable to the Group is recognised separately in consolidated profit or loss. Dividends received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount of the investment are also due to changes in items of other comprehensive income of the investee (e.g. changes arising from translation differences of items in foreign currency). The portion of these changes, attributable to the Group, is recognised under other components of consolidated comprehensive income. If the portion of losses of an

entity in a associate or joint venture is equal to or exceeds its interest in the associate or joint venture, the Group discontinues recognising its share of further losses. After the interest is reduced to zero, additional losses are recognised by a provision (liability) only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate, or joint venture. If the associate or joint venture subsequently reports profits, the Group resumes recognising its portion of those profits only after its portion of the profits equals the share of losses not recognised. Profits and losses arising from "upwards" or "downwards" transactions between a Group and an associate or joint venture are recognised in the consolidated financial statements only as regards the portion attributable to minority interest in the associate or joint venture. The portion of profit or loss of the associate or joint venture arising from these transactions, attributable to the Group, is eliminated in the consolidated income statement under "earnings from investments", with a counter entry of the asset's value, in "upwards" transactions, and of the value of the investment, in "downwards" transactions.

Transactions eliminated during the consolidation process

In preparing the Consolidated Financial Statements, all balances and significant transactions between Group companies have been eliminated, as well as unrealised profits and losses arising from intergroup transactions. Unrealised profits and losses generated from transactions with associates or jointly controlled companies are eliminated based on the value of the investment of the Group in the companies.

Transactions in foreign currency

Transactions in foreign currency are recorded at the exchange rate in effect on the date of the transaction. Monetary assets and liabilities in foreign currency are translated at the exchange rate in effect at the reporting date.

Consolidation of foreign companies

The separate financial statements of each company belonging to the Group are prepared in the currency of the primary economic environment in which they operate (the functional currency). For the purposes of the Consolidated Financial Statements, the financial statements of each foreign entity are in euro, which is the functional currency of the Group and the presentation currency of the Consolidated Financial Statements.

All assets and liabilities of foreign companies in a currency other than the euro which come under the scope of consolidation are translated, using exchange rates in effect at the reporting date (currency exchange rates method). Income and costs are translated at the average exchange rate of the period. Translation differences arising from the application of this method, as well as translation differences arising from a comparison of initial shareholders' equity translated at current exchange rates and the same equity translated at historical rates, are recognised in the statement of comprehensive income and allocated to a specific reserve in shareholders' equity until disposal of the investment. Average exchange rates for translating the cash flows of foreign subsidiaries are used in preparing the Consolidated Statement of Cash Flows.

The exchange rates used to translate the financial statements of companies included in the scope of consolidation into euros are shown in the table below.

Currency	Spot exchange rate 29 December 2017	Average exchange rate 2017	Spot exchange rate 31 December 2016	Average exchange rate 2016
US Dollar	1.1993	1.12968	1.0541	1.10690
Pounds Sterling	0.88723	0.876674	0.85618	0.819483
Indian Rupee	76.6055	73.53242	71.5935	74.3717
Singapore Dollars	1.6024	1.55882	1.5234	1.52754
Chinese yuan	7.8044	7.62900	7.3202	7.35222
Croatian Kuna	7.4400	7.46370	7.5597	7.53329
Japanese Yen	135.01	126.71118	123.40	120.19700
Vietnamese Dong	26,934.34	25,472.91202	23,894.71	24,566.34911
Canadian Dollars	1.5039	1.46472	1.4188	1.46588
Indonesian Rupiah	16,260.11	15,119.53357	14,167.10	14,721.43381
Brazilian Real	3.9729	3.60543	3.4305	3.85614

2.2 Accounting policies

The most significant accounting policies adopted to prepare the Consolidated Financial Statements as of 31 December 2017 are outlined below.

Intangible assets

As provided for in IAS 38 - Intangible Assets, an intangible asset which is purchased or internally generated, is recognised as an asset only if it is identifiable, controllable and future economic benefits are expected and its cost may be measured reliably.
Intangible assets with a definite useful life are measured at acquisition cost or production cost net of amortisation and accumulated impairment losses. Borrowing costs related to the acquisition, construction or production of certain assets that require a significant period of time before they are ready for use or sale (qualifying assets), are capitalised along with the asset.
Amortisation is referred to the expected useful life and commences when the asset is available for use.

Goodwill

In the case of acquisitions of companies, acquired and identifiable assets, liabilities and potential liabilities are recognised at their fair value at the date of acquisition. The positive difference between the acquisition cost and the share of the Group at the fair value of said assets and liabilities is classified as goodwill and recognised in the financial statements as an intangible asset. Any negative difference ("negative goodwill") is recognised instead in profit and loss at the date of acquisition.
Goodwill is not amortised but tested annually for impairment, or more frequently if specific events or changed circumstances indicate that an asset may be impaired, as provided for in IAS 36 - Impairment of Assets.
After initial recognition, goodwill is recognised at cost net of any accumulated impairment losses.
At the disposal of part of or an entire company previously acquired from whose acquisition goodwill arose, the corresponding residual value of goodwill is considered when measuring the capital gain or loss of the disposal.

Development costs

Development costs of projects for the manufacture of vehicles and engines are recognised as assets only if all of the following conditions are met: the costs can be reliably measured and the technical feasibility of the product, the volumes and expected prices indicate that costs incurred during development will generate future economic benefits. Capitalised development costs include only costs incurred that may be directly attributed to the development process.
Capitalised development costs are amortised on a systematic criterion basis, starting from the beginning of production through the estimated life of the product.
All other development costs are recognised in profit or loss when they are incurred.

Other intangible assets

As provided for in IAS 38 – Intangible Assets, other intangible assets which are purchased or internally generated are recognised as assets if it is probable that use of the asset will generate future economic benefits and the cost of the asset can be reliably measured.
These assets are recognised at acquisition or production cost and are amortised on a straight line basis over their estimated useful life, if they have a definite useful life.
Other intangible assets recognised following the acquisition of a company are accounted for separately from goodwill, if their fair value may be reliably measured.
The amortisation period for an intangible asset with a useful life is revised at least at the end of each reporting period. If the expected useful life of the asset differs from estimates previously made, the amortisation period is changed accordingly.

The amortisation periods of intangible assets are shown below:

Development costs	3-5 years
Industrial Patent and Intellectual Property Rights	3-5 years
Other	5 years
Trademarks	15 years

Property, plant and equipment

The Piaggio Group has decided to adopt the cost method on first-time application of the IAS/IFRS, as allowed by IFRS 1. For the measurement of property, plant and equipment, therefore, the preference was not to use the fair value method. Property, plant and equipment were booked at the purchase or production cost and were not revalued. Borrowing costs related to the acquisition, construction or production of certain assets that require a significant period of time before they are ready for use or sale (qualifying assets), are capitalised along with the asset.
Costs incurred after acquisition are capitalised only if they increase the future economic benefits of the asset they refer to. All other costs are recognised in profit or loss when they are incurred. Property, plant and equipment under construction are measured at cost and depreciated starting from the period in which they are put into operation.
Depreciation is determined, on a straight line basis, on the cost of the assets net of their relative residual values, based on their estimated useful life.
The depreciation periods of Plant, property and equipment are summarised below:

Land	Land is not depreciated
Buildings	33-60 years
Plant and machinery	5 -15 years
Equipment	4-20 years
Other assets	3-10 years

Profits and losses arising from the sale or disposal of assets are measured as the difference between the sale revenue and net carrying amount of the asset and are recognised in profit or loss for the period.

Lease contracts

Lease contracts for property, plant and machinery where the Group, as lessee, basically undertakes all risks and benefits of the property, are classified as finance leases. Finance leases are capitalised when the lease is established, at the fair value of the leased asset or, if less, at the current value of minimum payments due. The corresponding amount due to the lessor, net of borrowing costs, is recognised as a financial payable. The borrowing cost is recognised in profit or loss over the lease period, so as to produce an interest rate that is constant for the remaining amount due for each period. Property, plant and machinery of finance leases are depreciated during the useful life of the asset or the shorter of the useful life of the asset or the duration of the lease agreement, if there is no reasonably certainty that the Group will obtain the property at the end of the lease period.
Leases in which a significant part of the risks and benefits of ownership are not transferred to the Group as the lessor, are classified as operating leases. Payments made for operating leases (net of any incentives received from the lessee), are recognised in profit or loss on a straight-line basis for the duration of the lease agreement.
The Group has its own production plants even in countries where ownership rights are not allowed. In 2007, on the basis of clarification from IFRIC, the Group reclassified as receivables the rentals paid in advance to obtain the availability of land where its production sites are situated.

Impairment losses

At the end of the reporting period, the Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that these assets may be impaired (impairment test). If there is an indication that an asset may be impaired, the asset's recoverable amount is estimated to determine the amount of the write-down. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the asset's cash generating unit.

The recoverable amount is the higher of an asset's fair value less costs to sell (if available) and its value in use. In measuring the value in use, estimated future cash flows are discounted at their fair value, using a rate which reflects current market changes in the fair value of money and specific risks of the asset.

If the recoverable amount of an asset (or of a cash generating unit) is estimated to be lower than the relative carrying amount, the carrying amount of the asset is reduced to the lower recoverable value. An impairment loss is immediately recognised in profit or loss, unless the asset concerns land or property other than investment property recognised at revalued values. In said case, the loss is recorded in the relative revaluation reserve.

When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset (or of a cash generating unit), except for goodwill, is increased to the new value arising from an estimate of its recoverable amount, up to the net carrying amount applicable to the asset if no impairment loss had been recognised. The reversal of the impairment loss is immediately recognised in profit or loss.

An intangible asset with an indefinite useful life is tested annually for impairment, or more frequently if there is an indication that an asset may be impaired.

Investment Property

As permitted by IAS 40, non instrumental property and buildings held for rental and/or asset appreciation purposes are measured at fair value. Investment properties are eliminated from the financial statements when they are disposed of or when they may not be used over time and future economic benefits from their sales are not expected.

Transactions with affiliates and related parties

Transactions with affiliates and related parties are indicated in specific sections of the Report on Operations and Notes, referred to herein.

Non-current assets held for sale

Non-current assets (or disposal groups) that are classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell.

Non-current assets (and disposal groups) are classified as held for sale when it is expected that their carrying amount will be recovered through a sale rather than through their use in company operations. This condition is only met when the sale is highly probable, the asset (or disposal group) is available for immediate sale and management is committed to a plan to sell, which should take place within 12 months from the date in which this item was classified as held for sale.

Financial assets

Financial assets are recognised and deleted from the financial statements based on the negotiation date and are initially measured at fair value, represented by the initial increased amount, with the exception of assets held for negotiation, of costs relative to the transaction.

At subsequent end of reporting periods, the financial assets the Group intends and can retain up until maturity (securities held until maturity) are recognised at amortised cost based on the effective interest rate method, net of reversals for impairment losses.

Financial assets other than those held to maturity are classified as held for trading or for sale, and are measured at fair value at the end of each period. When financial assets are held for trading, profits and losses arising from changes in fair value are recognised in profit or loss for the period; in the case of financial assets held for sale, profits and losses arising from changes in fair value are recognised in the statement of comprehensive income and allocated to a specific reserve of shareholders' equity until sold, recovered or disposed of.

Inventories

Inventories are recognised as the lower of the purchase or production cost, determined by assigning to products the costs directly incurred in addition to the portion of indirect costs reasonably attributable to the performance of production activities in normal production capacity conditions and the market value at the end of the reporting period.
The purchase or production cost is determined based on the weighted average cost method.
As regards raw materials and work in progress, the market value is represented by the estimated net realisable value of corresponding finished products minus completion costs. As regards finished products, the market value is represented by the estimated net realisable value (price lists minus the costs to sell and distribution costs).
The lower measurement based on market trends is eliminated in subsequent years, if the trends no longer exist.
Obsolete, slow moving and/or excess inventories are impaired in relation to their possible use or future realisation, in a provision for the write-down of inventories.

Receivables

Trade receivables and other receivables are initially recognised at fair value and subsequently recognised based on the amortised cost method, net of the provisions for write-downs. Losses on receivables are recognised when there is objective evidence that the Group is not able to recover the amount due from the other party on the basis of contractual terms.
When payment of amounts due exceeds standard terms of payment granted to clients, the receivable is discounted.

Factoring

The Group sells a significant part of its trade receivables through factoring and in particular, sells trade receivables without recourse. Following these sales with the total and unconditional transfer to the transferee of the risks and benefits transferred, the receivables are eliminated from the financial statements.
In the case of transfers in which the risks and benefits are not transferred, the relative receivables remain in the statement of financial position until the transferred sum has been paid. In this case any advance payments collected by the factor are recognised under payables as amounts due to other lenders.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, current bank accounts, deposits payable on demand and other high liquidity short term financial investments, which are readily convertible into cash and not affected by any major risk of a change in value. This item does not include bank overdrafts payable on demand.

Treasury shares

Treasury shares are recognised as a reduction of shareholders' equity. The original cost of treasury shares and revenues arising from subsequent sales are recognised as movements of shareholders' equity.

Financial liabilities

Financial liabilities are recognised based on amounts cashed net of relative transaction costs. After initial recognition, loans are measured at amortised cost and calculated using the effective interest rate. Financial liabilities hedged by derivatives are measured at market value, according to procedures established for hedge accounting applicable to the fair value hedge and cash flow hedge.
On initial recognition, a liability may also be designated at fair value recognised in profit or loss

when this eliminates or considerably reduces a lack of uniformity in the measurement or recognition (sometimes defined as "asymmetric accounting") that would otherwise arise from the measurement of an asset or liability or recognition of relative profit and loss on different bases. This fair value designation is exclusively applied to some financial liabilities in currency subject to exchange risk hedging.

Derivatives and measurement of hedging transactions

Group assets are primarily exposed to financial risks from changes in exchange and interest rates, and commodity prices. The Group also uses derivatives to manage these risks, according to procedures in line with the Group's risk management policies.
Derivatives are initially measured at fair value represented by the initial amount.
Financial derivatives are only used for hedging purposes, against exchange rate and interest rate fluctuations. In line with IAS 39, financial derivatives may qualify for hedge accounting, only when the hedging instrument is formally designated and documented, is expected to be highly effective and this effectiveness can be reliably measured and is highly effective throughout the reporting periods for which it is designated.
When financial instruments may be measured by hedge accounting, the following accounting treatment is adopted:

- Fair value hedge: if a financial derivative is designated as a hedge of the exposure to changes in present value of a recognised asset or liability, attributable to a particular risk and could affect profit or loss, the gain or loss from the subsequent change in present value of the hedging instrument is recognised in profit or loss. The gain or loss on the hedged item, attributable to the hedged risk, changes the carrying amount of the hedged item and is recognised in profit or loss.
- Cash flow hedge: if an instrument is designated as a hedge of the exposure to variability in cash flows of a recognised asset or liability or of a highly probable forecast transaction which could affect profit or loss, the effective portion of the gain or loss on the financial instrument is recognised in the Statement of Comprehensive Income. Accumulated gain or loss is reversed from other shareholders' equity and recognised in profit or loss in the same period as the hedging transaction. The gain or loss associated with hedging or the part of hedging which is ineffective, is immediately recognised in profit or loss. If the hedging instrument or hedging ceases, but the transaction covered by hedging is not yet realised, profits and losses, recognised in equity, are instead recognised in profit or loss when the transaction takes place. If the transaction to be hedged is deemed no longer probable, gains and losses not yet realised accumulated in shareholders' equity are recognised immediately in profit or loss.

If hedge accounting cannot be applied, gains and losses from measurement at present value of the financial derivative are immediately recognised in profit or loss.

Long-term provisions

The Group recognises provisions for risks and charges when it has a legal or implicit obligation to third parties and it is likely that Group resources will have to be used to meet the obligation and when the amount of the obligation itself can be reliably estimated.
Changes in estimates are recognised in profit or loss when the change takes place.
If the effect is considerable, provisions are calculated discounting future cash flows estimated at a discount rate gross of taxes, to reflect current market changes in the fair value of money and specifics risks of the liability.

Retirement funds and employee benefits

Liabilities relative to employee benefits paid on or after termination of employment for defined benefit plans are determined separately for each plan, based on actuarial hypotheses estimating the amount of future benefits that employees will accrue at the reporting date (the "projected unit credit method"). Liabilities, recognised in the financial statements net of any assets serving the plan, are entered for the period when the right accrues. Liabilities are measured by independent actuaries.

The cost components of defined benefits are recognised as follows:

- the costs relative to services are recognised in the Income Statement under employee costs;
- net borrowing costs of liabilities or assets with defined benefits are recognised in the Income Statement as financial income/(borrowing costs), and are determined by multiplying the value of the net liability/(asset) by the rate used to discount the obligations, taking account of the payment of contributions and benefits during the period;
- the remeasurement components of net liabilities, which include actual gains and losses, the return on assets (excluding interest income recognised in the Income Statement) and any change in the limit of the assets, are immediately recognised as "Other comprehensive income (expense)". These components must not be reclassified to the Income Statement in a subsequent period.

Termination benefits

Termination benefits are recognised at the closest of the following dates: i) when the Group can no longer withdraw the offer of such benefits and ii) when the Group recognises the costs of restructuring.

Tax assets and liabilities

Deferred taxes are determined based on the temporary differences between the value of the asset and liability and their tax value. Deferred tax assets are measured only to the extent to which it is likely that adequate future taxable sums exist against which the deferred taxes can be used. The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent to which it is no longer likely that sufficient taxable income exists allowing for all or a portion of said assets to be recovered.
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, considering the rates in effect or which are known to come into effect. Deferred taxes are directly recognised in profit or loss, except for items directly recognised in the statement of comprehensive income, in which case relative deferred taxes are also recognised in the statement of comprehensive income.
In the case of reserves of undistributed profits of subsidiaries and since the Group is able to control distribution times, deferred taxes are allocated for the reserves when distribution is expected in the future.
Deferred tax assets and liabilities are recognised at their net value when applied by the tax authorities and when they may be lawfully offset in the same tax jurisdiction.

Payables

Payables are recognised at fair value and then measured based on the amortised cost method.

Reverse factoring

To guarantee suppliers easier credit conditions, the Group has established factoring agreements, and typically supply chain financing or reverse factoring agreements. Based on the agreements, suppliers may, at their discretion, transfer receivables due from the Group to a lender and collect amounts before the due date.
In some cases, payment terms are extended further in agreements between the supplier and the Group; these extensions may be interest or non-interest bearing.
The Group has established a specific policy to assess the nature of reverse factoring operations. Based on the content of agreements, which differs by area of origin, the Finance function, at a central level, analyses the clauses of agreements in qualitative terms, as well as legal aspects in order to assess regulatory references and the type of transaction assignment (as provided for by IAS 39 AG57 b). In some cases, as payment terms have been extended, quantitative analysis is carried out to verify the materiality of changes in contract terms, based on quantitative tests as required by IAS 39 AG 62.
In this context, relations, for which a primary obligation with the supplier is maintained and any deferment, if granted, does not significantly change payment terms, are still classified as trade liabilities.

Recognition of revenues

Revenues for the sale of vehicles and spare parts are recognised to the extent that it is likely the Group will receive the economic benefits and their amount may be measured reliably. Revenues are recognised when the risks and benefits connected with ownership are transferred to the purchaser, the sale price is agreed or may be determined and payment is reasonably certain.
Revenues are represented net of discounts, including, among others, sales incentive programmes and bonuses to customers, as well as taxes directly connected with the sale of the goods.
Revenues from the provision of services are recognised when the services are provided based on their progress.
Revenues also include lease payments recognised on a straight line basis over the duration of the contract.

Public grants

Set-up grants are recognised in the financial statements when their payment is certain and are recognised in profit or loss based on the useful life of the asset for which the grants have been provided.
Operating grants are recognised in the financial statements, when their payment is certain and are recognised in profit or loss in relation to costs for which the grants have been provided.

Financial income

Financial income is recognised on an accrual basis and includes interest payable on invested funds, exchange differences receivable and income from financial instruments, when not offset in hedging transactions. Interest receivable is recognised in profit or loss when it matures, considering the actual return.

Borrowing costs

Borrowing costs are recognised on an accrual basis and include interest payable on financial payables calculated using the effective interest rate method, exchange differences payable and losses on derivative financial instruments. The rate of interest payable of finance lease payments is recognised in profit or loss, using the effective interest rate method.

Dividends

Dividends recognised in profit or loss, from non-controlling interests, are recognised on an accrual basis, and therefore at the time when, following the resolution to distribute dividends by the subsidiary, the relative right to payment arises.

Income tax

Taxes represent the sum of current and deferred tax assets and liabilities.
Taxes allocated under accounting circumstances of individual companies included in the scope of consolidation are recognised in the consolidated financial statements, based on taxable income estimated in compliance with national laws in force at the end of the reporting period, considering applicable exemptions and tax receivables owing. Income taxes are recognised in the income statement, with the exception of those taxes relative to items directly deducted from or charged to the statement of comprehensive income.
Taxes are recorded under "Tax payables" net of advances and withheld taxes. Taxes due in the event of the distribution of untaxed reserves recognised in the financial statements of individual Group companies are not allocated, as their distribution is not planned.
In 2016, for a further three years, the Parent Company signed up to the National Consolidated Tax Convention pursuant to articles 117 to 129 of the Consolidated Income Tax Act (T.U.I.R.) of which IMMSI S.p.A. is the consolidating company, and to whom other IMMSI Group companies report to. The consolidating company determines a single global income equal to the algebraic sum of taxable amounts (income or loss) realised by individual companies that opt for this type of group taxation. The consolidating company recognises a receivable from the consolidated company which is equal to the corporate tax to be paid on the taxable income transferred by the latter. Whereas, in the

case of companies reporting tax losses, the consolidating company recognises a payable related to corporate tax on the portion of loss actually used to determine global overall income, or calculated as a decrease of overall income for subsequent tax periods, according to procedures in article 84, based on the criterion established by the consolidation agreement.

Earnings per share

Basic earnings per share are calculated dividing the profit or loss attributable to shareholders of the Parent Company by the weighted average of ordinary shares in circulation during the period. Diluted earnings per share are calculated dividing the profit or loss attributable to shareholders of the Parent Company by the weighted average of ordinary shares in circulation adjusted to take account of the effects of all potential ordinary shares with a dilutive effect. Any shares related to the stock option plan are considered as shares that may be potentially issued. The adjustment to make to the number of stock options to calculate the number of adjusted shares is determined by multiplying the number of stock options by the subscription cost and dividing it by the share market price.

Use of estimates

The preparation of the financial statements and notes in compliance with IFRS requires management to make estimates and assumptions which have an impact on the values of assets and liabilities and on disclosure regarding contingent assets and liabilities at the end of the reporting period. Actual results could differ from estimates. Estimates are used to measure intangible assets tested for impairment (see § Impairment losses) and to identify provisions for bad debts, for obsolete inventories, amortisation and depreciation, impairment of assets, employee benefits, taxes, restructuring provisions and other allocations and funds. Estimates and assumptions are periodically revised and the effects of any change are immediately recognised in profit or loss.
In the current world economic and financial crisis, assumptions made as to future trends are marked by a considerable degree of uncertainty. Therefore the possibility in the next reporting period of results that differ from estimates cannot be ruled out, and these could require even significant adjustments which at present cannot be predicted or estimated.

The critical measurement processes and key assumptions used by the Group in adopting IFRS and that may have a significant impact on figures in the Consolidated Financial Statements or for which a risk exists that significant differences in value may arise in relation to the carrying amount of assets and liabilities in the future are summarised below.

<u>Recoverable value of non-current assets</u>

Non-current assets include Property, Plant and Equipment, Goodwill, Other Intangible Assets, Investment Property, Investments and Other Financial Assets. The Group periodically revises the carrying amount of non-current assets held and used and of assets held for sale, when facts and circumstances make this necessary. This analysis is carried out at least annually for Goodwill, and whenever facts and circumstances make it necessary. Analysis of the recoverability of the carrying amount of Goodwill is generally based on estimates of expected cash flows from the use or sale of the asset and adequate discount rates to calculate the fair value. For investment property, the Group appoints an independent expert at the end of each reporting period (six-monthly or annually) to measure the "Fair value less cost of disposal" based on a market approach. When the carrying amount of a non-current asset is impaired, the Group recognises a write-down equal to the excess between the carrying amount of the asset and its recoverable value through use or sale, determined with reference to cash flows of the most recent company plans.

<u>Recoverability of deferred tax assets</u>

The Group has deferred tax assets from deductible temporary differences and theoretical tax benefits from losses to be carried forward. In estimating recoverable value, the Group considered the results of the company plan in line with the results used for impairment testing. Net deferred tax assets allocated on this basis refer to temporary differences and tax losses which, to a significant extent, may be recovered over an indefinite period, and are therefore compatible with a context in which an end to current difficulties and uncertainties and an upswing in the economy could take longer than the time frame of the above-mentioned estimates. As regards Piaggio & C. SpA, which is part of the National Consolidated Tax Convention of the IMMSI Group, the recovery of deferred tax assets is related to company forecasts and to taxable amounts of companies that are part of the above convention.

Pension schemes and other post-employment benefits
Provisions for employee benefits and net borrowing costs are measured using an actuarial method that requires the use of estimates and assumptions to determine the net value of the obligation. The actuarial method considers financial parameters such as the discount rate and growth rates of salaries and considers the likelihood of potential future events occurring on the basis of demographic parameters such as relative mortality rates and employee resignations or retirements. The assumptions used for the measurement are explained in section 31 "Retirement funds and employee benefits".

Provisions for write-down
The provision for bad debts reflects management's estimate of expected losses related to receivables. Based on past experience, provisions are made for expected losses on receivables. Management carefully monitors the quality of receivables and current and forward-looking conditions of the economy and reference markets. Estimates and assumptions are periodically revised and the effects of any change are recognised in profit or loss.

Provision for obsolete inventories
The provision for obsolete inventories reflects management's estimate of impairment losses expected by the Group, determined based on past experience. Anomalous market price trends could have an effect on future inventory write-downs.

Provision for product warranties
At the time of a product's sale, the Group makes provisions relative to estimated costs for the product warranty. This provision is estimated based on historical information about the nature, frequency and average cost of warranty servicing.

Potential liabilities
The Group recognises a liability for ongoing legal disputes when it considers a financial outflow likely and when the amount of the losses arising therefrom may be reasonably estimated. If a financial outflow is possible, but the amount cannot be determined, it is recorded in the notes to the Financial Statements. The Group is subject to legal and tax proceedings concerning complex and difficult legal issues, of varying degrees of uncertainty, including facts and circumstances relative to each case, jurisdiction and different applicable laws. Given the uncertainties concerning these issues, it is hard to predict with certainty the outflow arising from these disputes and it is therefore possible that the value of provisions for legal proceedings and disputes of the Group may vary as a result of future developments in proceedings underway.
The Group monitors the status of ongoing proceedings and consults its legal and tax advisers.

Amortisation/Depreciation
The cost of assets is amortised/depreciated on a straight line basis over their estimated useful life. The economic useful life of Group assets is determined by Directors at the time of purchase; the calculation is based on historical experience gained in years of operations and on knowledge of technological innovations that may make the asset obsolete and no longer economical.
The Group periodically evaluates technological and segment changes, in order to update the remaining useful life. This periodic updating could change the amortisation/depreciation period and therefore amortisation/depreciation charges of future years.

Income tax

The Group is subject to different income tax laws in various jurisdictions. Group tax liabilities are determined based on management valuations referred to transactions of which the tax effect is not certain at the end of the reporting period. The Group recognises the liabilities that could arise from future inspections of tax authorities based on an estimate of taxes that will be due. If the outcome of inspections differs from management's estimates, significant effects on current and deferred taxes could arise.

Rounding off

All amounts in the tables and in these notes have been rounded off to thousands of euros.

New accounting standards, amendments and interpretations applied as from 1 January 2017

As from 1 January 2017, some changes have been made to national and international accounting standards and interpretations, without any significant effect on the Group's Financial Statements. The main changes are outlined below:

› In January 2016, the IASB issued an amendment to IAS 12 "Income Taxes". These amendments clarify how to recognise deferred taxes related to debt instruments calculated at fair value.
› In January 2016, the IASB issued an amendment to IAS 7 "Statement of Cash Flows". These amendments to IAS 7 introduce additional information that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.
› In December 2016, the IASB issued an amendment to IFRS 2014–2016. The amendment concerns IFRS 12 - Disclosure of Interests in Other Entities (effective date of 1 January 2017); The amendment clarifies that required reporting must be provided for investments classified as available for sale, with the exception of point B12.

Accounting standards amendments and interpretations not yet adopted

At the date of these Financial Statements, competent bodies of the European Union had completed the approval process necessary for the adoption of the following accounting standards and amendments:

› In May 2014, the IASB and FASB jointly published IFRS 15 "Revenue from Contracts with Customers". The new standard is applicable in a retrospective manner for years commencing from or after 1 January 2018. Early adoption is possible. IFRS 15 sets out the requirements for recognising revenues, introducing an approach whereby revenue is only recognised if contractual obligations have been met in full. According to the standard, revenue is recognised based on the following five steps:
  - identify the contract;
  - identify individual obligations;
  - determine the transaction price;
  - allocate the transaction price to individual obligations based on their "market prices" ("stand-alone selling price");
  - recognise revenue allocated to the individual obligation when it is regulated, i.e. when the customer acquires control of the goods and/or services.

  The Group has carried out in-depth analysis of the different types of contracts relative to the sale of two-/three- and four-wheeler vehicles, spare parts, accessories and components to dealers, importers or direct customers that represent the most significant component, as well as types of contract with less economic impact (for example royalties). Following this analysis, the Group concluded that there is no significant impact arising from the adoption of the new standard, as the most significant component of revenue will continue to be recognised in line with previous accounting guidelines.

  One exception concerns some scheduled maintenance programmes and extended warranty plans after the legal warranty period (sold together with the vehicle) which, according to the new standard, comprise separate performance obligations and, as such, shall be identified and recognised separately from vehicle revenue. As of 31 December 2017, these scheduled maintenance / extended warranty plans were limited in any case and mainly concerned the Vietnamese market. Other differences in approach refer to different ways of representing revenues, without however impacting results, and refer to a different approach to classifying some types of bonuses paid to dealers, consumer financing plans, procedures for representing provisions for returned goods from customers (only applicable for the US market in which there is a legal obligation to buy back the vehicle from dealers on the occurrence of certain conditions). The cumulative impact of these effects reduced revenues as of 31 December 2017 by an amount equal to approximately €10m. The effect on results is however negligible, given the current contractual structure.

› On 24 July 2014, the IASB finalised its project to revise the accounting standard for financial instruments, with the issue of the complete version of IFRS 9 "Financial Instruments". In particular, the new provisions of IFRS 9: (i) amend the model that classifies and measures financial assets; (ii) introduce a new method for writing down financial assets, that takes account of expected credit losses; (iii) amend hedge accounting provisions and (iv) establish new criteria for the recognition of transactions amending financial liabilities. The provisions of IFRS 9 will be applicable for years commencing on or after 1 January 2018. Early adoption is possible.
The Group completed analysis of the quantitative impact arising from the adoption of the standard. The only significant impact will concern the determination of the amortised cost of financial liabilities subject to renegotiation. With the introduction of IFRS 9, in the case of the renegotiation of a financial liability that does not qualify as "settlement of the original debt", the difference between i) the carrying amount of the liability before the change and ii) the present value of cash flows of the changed liability, discounted to the original rate (IRR), is recognised in profit or loss.
The Group reviewed liability management operations of previous years, and concluded that adoption of IFRS 9 as of 31 December 2017 had resulted in higher financial liabilities for an amount equal to approximately €5.3 million with a counter entry in shareholders' equity (net of the relative tax effect equal to approximately €1.2 million).
› In September 2016, the IASB issued an amendment to IFRS 4 "Insurance Contracts", as regards the application of IFRS 9, 'Financial instruments'.
These amendments will enable companies that issue insurance contracts to recognise the volatility that may arise when IFRS 9 is adopted before the new standard on insurance contracts is issued in the statement of comprehensive income rather than in the income statement. It will also allow companies whose main activity is related to insurance contracts to temporarily defer the adoption of IFRS 9 until 2021. Entities that defer the adoption of IFRS 9 will continue to adopt IAS 39. These amendments will apply from 1 January 2018.
› In the month of January 2016, the IASB published IFRS 16 "Leases". This new standard will replace the current IAS 17. The main change concerns the accounting by lessees that, according to IAS 17, were required to make a distinction between a finance lease (on balance sheet treatment) and an operating leases (off balance sheet treatment). With IFRS 16, operating leases will be treated for accounting purposes as finance leases. The IASB has provided for the optional exemption for certain leasing contracts and low value and short-term leases.
This standard will apply from 1 January 2019. Early application will be possible if IFRS 15 "Revenue from contracts with customers" is jointly adopted.
The Group is setting up a work team to assess potential impacts.

Accounting standards, amendments and interpretations not yet applicable

At the date of these Financial Statements, competent bodies of the European Union had not completed the approval process necessary for the application of the following accounting standards and amendments:

› In June 2016, the IASB issued an amendment to IFRS 2 "Share-based Payment". These amendments clarify how some share-based payments are recognised. These amendments will apply from 1 January 2018.

› In December 2016, the IASB issued an amendment to IAS 40 "Investment Property". These amendments clarify change in use, which is a necessary condition for transfer from/to Investment Property. These amendments will apply from 1 January 2018.
› In December 2016, the IASB issued Annual Improvements to IFRS Standards 2014–2016 Cycle The amendments concern:
  - IFRS 1- First-time Adoption of International Financial Reporting Standards (applicable from 1 January 2018);
  - IAS 28 - Investments in Associates and Joint Ventures (applicable from 1 January, 2018).
  The amendments clarify, correct or remove redundant wording in the related IFRS Standard and are not expected to have a material impact on our Consolidated Financial Statements or disclosures upon their adoption.
› In December 2016, the IASB issued IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration, which addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. The amendment will be effective from 1 January 2018.
› In May 2017, IASB issued the new standard IFRS 17 – Insurance Contracts. The new standard will replace IFRS 4 and will be effective from 1 January 2021.
› In June 2017 the IASB published interpretation IFRIC 23 "Uncertainty over Income Tax Treatments" which provides information on how to account for uncertainties over the tax treatment of a given phenomenon in the recognition of income taxes. IFRIC 23 will be effective from 1 January 2019.

The Group will adopt these new standards, amendments and interpretations, based on the application date indicated, and will evaluate potential impacts, when the standards, amendments and interpretations are endorsed by the European Union.

B) Segment Reporting

3. Operating segment reporting

The organisational structure of the Group is based on 3 Geographical Segments, involved in the production and sale of vehicles, relative spare parts and assistance in areas under their responsibility: EMEA and the Americas, India and Asia Pacific 2W. Operating segments are identified by management, in line with the management and control model used.
In particular, the structure of disclosure corresponds to the structure of periodic reporting analysed by the Chairman and Chief Executive Officer for business management purposes.
Each Geographical Segment has production sites and a sales network dedicated to customers in the relative segment. Specifically:

- Emea and the Americas have production sites and deal with the distribution and sale of two-wheeler and commercial vehicles;
- India has production sites and deals with the distribution and sale of two-wheeler and commercial vehicles;
- Asia Pacific 2W has production sites and deals with the distribution and sale of two-wheeler vehicles.

Central structures and development activities currently dealt with by EMEA and the Americas, are handled by individual segments.

Income statement/ Net capital employed by operating segment

		EMEA and Americas	India	Asia Pacific 2W	Total
Sales volumes (unit/000)	2017	245.9	228.7	78.2	**552.8**
	2016	237.5	212.9	81.6	**532.0**
	Change	8.4	15.8	(3.5)	**20.7**
	Change %	3.5%	7.4%	-4.2%	**3.9%**
Turnover (in millions of euros)	2017	810.7	355.9	175.8	**1.342,4**
	2016	788.2	339.1	185.8	**1,313.1**
	Change	22.5	16.8	(10.0)	**29.3**
	Change %	2.9%	5.0%	-5.4%	**2.2%**
Gross margin (millions of euros)	2017	250.2	95.3	65.8	**411.3**
	2016	226.2	94.3	68.7	**389.2**
	Change	24.0	1.1	(2.9)	**22.2**
	Change %	10.6%	1.1%	-4.3%	**5.7%**
EBITDA (millions of euros)	2017				**192.3**
	2016				**170.7**
	Change				**21.6**
	Change %				**12.6%**
EBIT (millions of euros)	2017				**72.3**
	2016				**60.9**
	Change				**11.4**
	Change %				**18.8%**
Net profit (millions of euros)	2017				**20.0**
	2016				**14.0**
	Change				**5.9**
	Change %				**42.3%**
Capital employed (millions of euros)	2017	562.3	129.7	139.7	**831.8**
	2016	575.4	152.3	156.9	**884.7**
	Change	(13.1)	(22.6)	(17.2)	**(52.9)**
	Change %	-2.3%	-14.9%	-11.0%	**-6.0%**
Of which receivable (millions of euros)	2017	926.8	257.8	185.5	**1.370,1**
	2016	944.0	265.7	200.8	**1,410.6**
	Change	(17.2)	(7.9)	(15.3)	**(40.4)**
	Change %	-1.8%	-3.0%	-7.6%	**-2.9%**
Of which payable (millions of euros)	2017	364.5	128.1	45.8	**538.4**
	2016	368.6	113.4	43.9	**525.9**
	Change	(4.1)	14.7	1.9	**12.5**
	Change %	-1.1%	13.0%	4.3%	**2.4%**

C) Information on the consolidated income statement

4. Net revenues — €/000 1.342.450

Revenues are shown net of premiums recognised to customers (dealers).
This item does not include transport costs, which are recharged to customers (€/000 24,828) and invoiced advertising cost recoveries (€/000 3,373), which are posted under other operating income.
The revenues for disposals of Group core business assets essentially refer to the marketing of vehicles and spare parts on European and non-European markets.

Revenues by geographic segment

The breakdown of revenues by geographical segment is shown in the following table:

	2017		2016		Changes	
	Amount	%	Amount	%	Amount	%
In thousands of euros						
EMEA and Americas	810,669	60.4	788,164	60.0	22,505	2.9
India	355,945	26.5	339,147	25.8	16,798	5.0
Asia Pacific 2W	175,836	13.1	185,798	14.1	(9,962)	-5.4
Total	**1.342.450**	**100.0**	**1,313,109**	**100.0**	**29,341**	**2.2**

In 2017, net sales revenues went up by 2.2% compared to the previous year. For a more detailed analysis of trends in individual geographic segments, see comments in the Report on Operations.

5. Costs for materials — €/000 791,068

The percentage of costs accounting for net sales went up, from 59.7% in 2016 to 58.9% in the current period. The item includes €/000 23,508 (€/000 23,289 in 2016) for purchases of scooters from the Chinese subsidiary Zongshen Piaggio Foshan Motorcycle Co. Ltd., that are sold on European and Asian markets.

The following table details the content of this item:

	2017	2016	Change
In thousands of euros			
Raw, ancillary materials, consumables and goods	806,820	778,963	27,857
Change in inventories of raw, ancillary materials, consumables and goods	(7,517)	1,741	(9,258)
Change in work in progress of semifinished and finished products	(8,235)	3,700	(11,935)
Total	**791,068**	**784,404**	**6,664**

6. Costs for services and leases and rental costs *€/000 227,536*

Below is a breakdown of this item:

In thousands of euros	2017	2016	Change
Employee costs	15,899	16,702	(803)
External maintenance and cleaning costs	8,110	8,186	(76)
Energy, telephone and telex costs	14,196	15,521	(1,325)
Postal expenses	710	947	(237)
Commissions payable	527	702	(175)
Advertising and promotion	34,929	34,176	753
Technical, legal and tax consultancy and services	16,820	17,347	(527)
Company boards operating costs	2,546	2,117	429
Insurance	3,780	3,863	(83)
Insurance from related parties	35	49	(14)
Outsourced manufacturing	20,700	18,456	2,244
Outsourced services	14,141	13,577	564
Transport costs (vehicles and spare parts)	34,297	34,406	(109)
Internal shuttle services	528	675	(147)
Sundry commercial expenses	10,132	10,743	(611)
Expenses for public relations	2,640	2,464	176
Product warranty costs	8,042	7,568	474
Quality-related events	3,165	5,688	(2,523)
Bank costs and factoring charges	5,516	5,724	(208)
Misc services provided in the business year	4,929	8,333	(3,404)
Other services	6,440	7,150	(710)
Services from related parties	2,070	2,185	(115)
Lease and rental costs	15,773	15,158	615
Costs for leases and rentals of related parties	1,611	1,540	71
Total costs for services, leases and rental costs	**227,536**	**233,277**	**(5,741)**

In 2017, the Group reduced costs for services, leases and rentals by €/000 5,741.
Costs for leases and rentals include lease rentals for business properties of €/000 7,379, as well as lease payments for car hire, computers and photocopiers.
The item "Other" includes costs for temporary work of €/000 2,006.

7. Employee costs *€/000 215,463*

Employee costs include €/000 4,916 relating to costs for redundancy plans mainly for the Pontedera and Noale production sites.

In thousands of euros	2017	2016	Change
Salaries and wages	158,270	157,709	561
Social security contributions	43,282	42,870	412
Termination benefits	7,975	8,134	(159)
Other costs	5,936	5,062	874
Total	**215,463**	**213,775**	**1,688**

Below is a breakdown of the headcount by actual number and average number:

Level	Average number	2017	2016	Change
Senior management		96	100	(4)
Middle management		593	581	12
White collars		1,728	1,783	(55)
Blue collars		4,251	4,518	(267)
Total		**6,668**	**6,982**	**(314)**

Level	Number as of	31 December 2017	31 December 2016	Change
Senior management		97	97	0
Middle management		603	599	4
White collars		1,733	1,731	2
Blue collars		4,187	4,279	(92)
Total		**6,620**	**6,706**	**(86)**

Average employee numbers were affected by seasonal workers in the summer (on fixed-term employment contracts).
In fact the Group uses fixed-term employment contracts to handle typical peaks in demand in the summer months.

In 2017, the Group reduced employee numbers, continuing its restructuring, streamlining and organisational cutbacks. As of 31 December 2017, Group employees totalled 6,620, down by 86 (-1.3%) compared to 31 December 2016.

Changes in employee numbers in the two periods are compared below:

Level	As of 31.12.2016	Incoming	Leavers	Relocations	As of 31.12.17
Senior management	97	15	(20)	5	97
Middle management	599	63	(87)	28	603
White collars	1,731	213	(188)	(23)	1,733
Blue collars	4,279	2,253	(2,335)	(10)	4,187
Total (*)	**6,706**	**2,544**	**(2,630)**	**0**	**6,620**
(*) of which fixed-term contracts	*811*	*2,354*	*(2,067)*		*1,098*

Distribution of the workforce by geographic segment as of 31 December 2017

8. Amortisation/depreciation and impairment costs *€/000 119,998*

Amortisation and depreciation for the period, divided by category, is shown below:

Property, plant and equipment	2017	2016	Change
In thousands of euros			
Buildings	5,094	5,064	30
Plant and machinery	23,736	23,490	246
Industrial and commercial equipment	11,167	12,399	(1,232)
Other assets	4,631	3,844	787
Total depreciation of tangible fixed assets	**44,628**	**44,797**	**(169)**
Write-down of property, plant and equipment		1,000	(1,000)
Total depreciation of property, plant and equipment and impairment costs	**44,628**	**45,797**	**(1,169)**

Intangible assets	2017	2016	Change
In thousands of euros			
Development costs	34,655	31,604	3,051
Industrial Patent and Intellectual Property Rights	31,492	26,955	4,537
Concessions, licences, trademarks and similar rights	4,823	4,823	0
Other	175	280	(105)
Total amortisation of intangible fixed assets	**71,145**	**63,662**	**7,483**
Write-down of intangible assets	4,225	379	3,846
Total amortisation of intangible assets and impairment costs	**75,370**	**64,041**	**11,329**

As set out in more detail in the paragraph on intangible assets, as of 1 January 2004, goodwill is no longer amortised, but tested annually for impairment.
The impairment test carried out as of 31 December 2017 confirmed the full recoverability of the amounts recorded in the financial statements.
The impairment of intangible assets refers to development projects for which production plans are no longer applicable.

9. Other operating income *€/000 106,478*

This item consists of:

	2017	2016	Change
In thousands of euros			
Operating grants	4,266	3,880	386
Increases in fixed assets from internal work	41,884	44,247	(2,363)
Other revenue and income:			
- Rent receipts	4,599	3,702	897
- Capital gains on the disposal of assets	957	2,309	(1,352)
- Sale of miscellaneous materials	1,185	830	355
- Recovery of transport costs	24,828	23,873	955
- Recovery of advertising costs	3,373	3,564	(191)
- Recovery of sundry costs	4,150	3,745	405
- Compensation	677	1,247	(570)
- Compensation for quality-related events	1,951	1,161	790
- Licence rights and know-how	2,534	7,838	(5,304)
- Sponsorship	3,949	2,419	1,530
- Other income	12,125	10,348	1,777
Total	**106,478**	**109,163**	**(2,685)**

The item contributions includes €/000 3,020 for state and EU contributions for research projects. The grants are recognised in profit or loss, with reference to the amortisation and depreciation of capitalised costs for which the grants were received. This item also includes contributions for exports (€/000 1,246) received from the Indian subsidiary.
Capital gains from disposal mainly refer to the sale of property no longer used at the Noale site, which generated capital gains for a total of €/000 839 (€/000 218 land; €/000 621 building).

10. Other operating costs *€/000 22,534*

This item consists of:

	2017	2016	Change
In thousands of euros			
Provision for future risks	10	612	(602)
Provisions for product warranties	10,865	9,292	1,573
Duties and taxes not on income	4,531	4,176	355
Various subscriptions	1,180	1,042	138
Capital losses from disposal of assets	399	42	357
Losses from changes in the fair value of investment property	187	251	(64)
Miscellaneous expenses	2,531	3,285	(754)
Losses on receivables	71	125	(54)
Total sundry operating costs	**8,899**	**8,921**	**(22)**
Write-down of current receivables	2,760	1,248	1,512
Total	**22,534**	**20,073**	**2,461**

The item Losses from changes in the fair value of investment property relates to the depreciation noted in the expert appraisal of the Spanish site of Martorelles. For more details on how fair value is determined, reference is made to note 41.

11. Income/(loss) from investments *€/000 825*

Net income from investments comprise the following:
› €/000 730 relative to the portion of income attributable to the Group from the Zongshen Piaggio Foshan Motorcycle Co. Ltd. joint venture, valued at equity;
› €/000 (14) relative to the portion of income attributable to the Group from the minority investment in Pontech;
› €/000 97 relative to the minority investment in IVM;
› €/000 12 dividends received from the minority interest in Ecofor Service Pontedera.

12. Net financial income (borrowing costs) *€/000 (33,099)*

Below is the breakdown of borrowing costs and income:

	2017	2016	Change
In thousands of euros			
Income:			
- Interest receivable from Parent Companies	21		21
- Interest receivable from clients	28	54	(26)
- Bank and post office interest payable	242	280	(38)
- Interest payable on financial receivables	838	435	403
- Income from fair value measurements	81	0	81
- Other	93	254	(161)
Total financial income	**1,303**	**1,023**	**280**
Expenses:			
- Interest payable on bank accounts	4,562	5,159	(597)
- Interest payable on debenture loans	16,403	16,020	383
- Interest payable on bank loans	8,307	10,331	(2,024)
- Interest payable to other lenders	2,331	2,230	101
- Interest to suppliers	450	570	(120)
- Cash discounts to clients	695	633	62
- Bank charges on loans	1,369	1,258	111
- Income from fair value measurements	359	533	(174)
- Borrowing costs from discounting back termination and termination benefits	655	659	(4)
- Interest payable on lease agreements	188	83	105
- Other	151	143	8
Total borrowing costs	**35,470**	**37,619**	**(2,149)**
Costs capitalised on property, plant and equipment	175	401	(226)
Costs capitalised on intangible assets	193	266	(73)
Total Capitalised Costs	**368**	**667**	**(299)**
Total net borrowing costs	**35,102**	**36,952**	**(1,850)**
Exchange gains	15,598	12,495	3,103
Exchange losses	14,898	12,556	2,342
Total net exchange gains/(losses)	**700**	**(61)**	**761**
Net financial income (borrowing costs)	**(33,099)**	**(35,990)**	**2,891**

The balance of financial income (charges) in 2017 was negative (- €/000 33,099), less than the previous year (- €/000 35,990). The positive trend in currency operations and reduction in average debt and relative costs are factors that contributed most to this improvement, only partially offset by a lower capitalisation of borrowing costs compared to the previous year.
During 2017, borrowing costs for €/000 368 were capitalised (in the previous year, borrowing costs for €/000 667 had been capitalised).
The average rate used during 2017 for the capitalisation of borrowing costs (because of general loans), was equal to 11.36% (6.72% in 2016) and mainly refers to the Vietnamese company in local currency.
Interest on the debenture loan refers to €/000 134 (€/000 134 in 2016) to the parent company Omniaholding.
Interest payable to other lenders mainly refers to interest payable to factoring companies and banks for the sale of trade receivables.

13. Taxes *€/000 20,071*

The item "Income taxes" is detailed below:

	2017	2016	Change
In thousands of euros			
Current taxes	20,398	15,591	4,807
Deferred tax assets/liabilities	(327)	(4,128)	3,801
Total	**20,071**	**11,463**	**8,608**

In 2017 the impact of taxes on profit before tax was estimated as equal to 50.1% (44.9% in 2016). The increase is mainly due to the effects of the US Tax Reform applicable from 22 December 2017. In particular, the Group measured deferred tax assets and liabilities allocated by the subsidiary Piaggio Group Americas based on the reduction in the Federal tax rate (which fell from 35% of the previous year to 21%). The effect of this change is equal to approximately €3.1 million. Based on analyses conducted with the assistance of independent external advisors, no additional significant effects arising from this tax reform are expected for the Group. The only other important aspect concerns the introduction of limits on the deduction of interest expense incurred.
Another reason concerns the tax rate in Vietnam, which increased as a result of the decrease in the tax subsidy applicable to the Group in the past.

The item current taxes includes net income from the Consolidated Tax Convention of €/000 1,195.

Reconciliation in relation to the theoretical rate is shown below:

	2017	2016
In thousands of euros		
Profit before tax	40,055	25,503
Theoretical rate	24.00%	27.50%
Theoretical income taxes	9,613	7,013
Effect arising from tax differences and the difference between foreign tax rates and the theoretical rate.	2,258	6,885
Tax effect arising from losses for the year not offset	8,083	5,994
Tax effect arising from deferred taxes	(327)	(4,114)
Taxes on income generated abroad	24	1,658
Expenses (income) from the Consolidated Tax Convention	(1,195)	388
Indian tax on the distribution of dividends	2,006	
IRAP (regional production tax) and other local taxes	640	87
Other differences	(1,031)	(6,448)
Income taxes recognised in the financial statements	**20,071**	**11,463**

Theoretical tax rates were determined applying the IRES (corporate tax) in effect in Italy (24.0%) to profit before tax. The effect arising from the rate of regional production tax and other taxes paid abroad was determined separately, as these taxes are not calculated on the basis of profit before tax.

14. Gain/(loss) from assets held for disposal or sale *€/000 0*

At the end of the reporting period, there were no gains or losses from assets held for disposal or sale.

15. Earnings per share

Earnings per share are calculated as follows:

		2017	2016
Net profit	€/000	19,984	14,040
Earnings attributable to ordinary shares	€/000	19,984	14,040
Average number of ordinary shares in circulation		358,153,644	358,785,236
Earnings per ordinary share	€	0.056	0.039
Adjusted average number of ordinary shares		358,153,644	358,785,236
Diluted earnings per ordinary share	€	0.056	0.039

D) Information on operating assets and liabilities

16. Intangible assets — *€/000 648,977*

The table below shows the breakdown of intangible assets as of 31 December 2017 and 31 December 2016, as well as movements during the year.

In thousands of euros	Development costs	Patent rights	Concessions, licences and trademarks	Goodwill	Other	Assets under development and advances	Total
As of 1 January 2016							
Historical cost	171,056	303,888	149,074	557,322	7,304	29,676	1,218,320
Provision for write-down							
Accumulated amortisation	(103,682)	(227,373)	(96,031)	(110,382)	(6,866)		(544,334)
Net carrying amount	**67,374**	**76,515**	**53,043**	**446,940**	**438**	**29,676**	**673,986**
2016							
Investments	19,176	24,515			82	14,653	58,426
Transitions in the period	15,815	2,491			15	(18,321)	
Amortisation	(31,604)	(26,955)	(4,823)		(280)		(63,662)
Disposals							
Write-downs	(379)						(379)
Exchange differences	215	13			4	71	303
Other changes	(9)						(9)
Total movements for the year	**3,214**	**64**	**(4,823)**	**0**	**(179)**	**(3,597)**	**(5,321)**
As of 31 December 2016							
Historical cost	207,024	331,054	149,074	557,322	7,568	26,079	1,278,121
Provision for write-down	(379)						(379)
Accumulated amortisation	(136,057)	(254,475)	(100,854)	(110,382)	(7,309)		(609,077)
Net carrying amount	**70,588**	**76,579**	**48,220**	**446,940**	**259**	**26,079**	**668,665**
2017							
Investments	19,395	29,754			71	8,711	57,931
Transitions in the period	13,804	2,068			26	(15,898)	0
Amortisation	(34,655)	(31,492)	(4,823)		(175)		(71,145)
Disposals	(33)	(6)			(4)	(19)	(62)
Write-downs	(1,007)	(2,157)				(1,061)	(4,225)
Exchange differences	(1,729)	(83)			(22)	(343)	(2,177)
Other changes	(144)	134					(10)
Total movements for the year	**(4,369)**	**(1,782)**	**(4,823)**	**0**	**(104)**	**(8,610)**	**(19,688)**
As of 31 December 2017							
Historical cost	232,890	361,842	155,074	557,322	6,809	18,487	1.332.424
Provision for write-down	(1,007)	(2,157)				(1,018)	(4,182)
Accumulated amortisation	(165,664)	(284,888)	(111,677)	(110,382)	(6,654)		(679,265)
Net carrying amount	**66,219**	**74,797**	**43,397**	**446,940**	**155**	**17,469**	**648,977**

The breakdown of intangible assets for the period in operation and under development is as follows:

	Value as of 31 December 2017			Value as of 31 December 2016			Change		
	In operation	Under development and advances	Total	In operation	Under development and advances	Total	In operation	Under development and advances	Total
In thousands of euros									
Development costs	66,219	14,036	80,255	70,588	23,185	93,773	(4,369)	(9,149)	(13,518)
Patent rights	74,797	3,431	78,228	76,579	2,890	79,469	(1,782)	541	(1,241)
Concessions, licences and trademarks	43,397		43,397	48,220		48,220	(4,823)	0	(4,823)
Goodwill	446,940		446,940	446,940		446,940	0	0	0
Other	155	2	157	259	4	263	(104)	(2)	(106)
Total	**631,508**	**17,469**	**648,977**	**642,586**	**26,079**	**668,665**	**(11,078)**	**(8,610)**	**(19,688)**

Intangible assets went down overall by €/000 19,688 mainly due to amortisation for the year which was only partially balanced by investments for the year.
Increases mainly refer to the capitalisation of development costs for new products and new engines, as well as the purchase of software.
During 2017, borrowing costs for €/000 193 were capitalised.

Development costs €/000 80,255

Development costs include costs for products and engines referable to projects for which, as regards the period of the useful life of the asset, revenues are expected that allow for at least the costs incurred to be recovered. This item also includes assets under development for €/000 14,036 that represent costs for which the conditions for capitalisation exist, but in relation to products that will go into production in future years.
Development expenditure for new projects capitalised in 2017 refers to the study of new vehicles and new engines (two-/three-/four-wheeler) which will feature as the top products in the 2017-2019 range.
Borrowing costs attributable to the development of products which require a considerable period of time to be realised are capitalised as a part of the cost of the actual assets. Development costs included under this item are amortised on a straight line basis over a period of 3 to 5 years, in consideration of their remaining useful life.
During 2017, development costs amounting to €/000 18,400 were directly recognised in profit or loss.

Industrial Patent and Intellectual Property Rights €/000 78,228

This item includes assets under development for €/000 3,431.
Patents and know-how mainly refer to Vespa, MP3, RSV4 and Aprilia SR 150 vehicles. Increases for the period mainly refer to new calculation, design and production techniques and methodologies developed by the Group, referring to main new products in the 2017-2019 range.
Costs for industrial patent and intellectual property rights are amortised on a straight line basis over a period of 3 to 5 years, in consideration of their remaining useful life.

Trademarks, concessions and licences €/000 43,397

The item Concessions, Licences, Trademarks and similar rights, is broken down as follows:

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Guzzi trademark	14,625	16,250	(1,625)
Aprilia trademark	28,737	31,930	(3,193)
Minor trademarks	35	40	(5)
Total	**43,397**	**48,220**	**(4,823)**

The Aprilia and Guzzi trademarks are amortised over a period of 15 years, expiring in 2026.

Goodwill €/000 446,940

Goodwill derives from the greater value paid compared to the corresponding portion of the subsidiaries shareholders' equity at the time of purchase, less the related accumulated amortisation until 31 December 2003.
Goodwill was attributed to cash generating units.

	EMEA and Americas	India	Asia Pacific 2W	Total
In thousands of euros				
31 12 2017	305,311	109,695	31,934	446,940
31 12 2016	305,311	109,695	31,934	446,940

The organisational structure of the Group is based on 3 Geographic Areas (CGUs), involved in the production and sale of vehicles, relative spare parts and assistance in areas under their responsibility: EMEA and the Americas, India and Asia Pacific 2W. Each Geographical Area has production sites and a sales network dedicated to customers in the relative area. Central structures and development activities currently dealt with by EMEA and the Americas, are handled by individual CGUs.
As specified in the section on accounting standards, from 1 January 2004 goodwill is no longer amortised, but is tested annually for impairment or more frequently if specific events or changed circumstances indicate the possibility of it having been impaired, in accordance with the provisions of IAS 36 Impairment of Assets (impairment test).
The possibility of reinstating booked values is verified by comparing the net carrying amount of individual cash generating units with the recoverable value (value in use). This recoverable value is represented by the present value of future cash flows which, it is estimated, will be derived from the continual use of goods referring to cash generating units and by the terminal value attributable to these goods.
The recoverability of goodwill is verified at least once per year (as of 31 December), even in the absence of indicators of impairment losses.
The main assumptions used by the Group to determine future financial flows, relative to a four-year period, and the consequent recoverable value (value in use) refer to:

a. a hypothesis of estimated financial flows over a four-year period, inferred from budget data for 2018 supplemented by forecast data for 2019-2021, approved by the Board of Directors of the Company, along with an impairment test performed on 26 February 2018;
b. the WACC discount rate.
c. in addition to the period, a growth rate (g rate) has been estimated.

In particular, for discounting cash flows, the Group has adopted a discount rate (WACC) which differs based on different cash generating units. This reflects current market valuations of the fair value of money and takes account of specific risks of activities and the geographic segment in which the cash generating unit operates.
In the future cash flows discounting model, a terminal value is entered at the end of the cash flow projection period, to reflect the residual value each cash-generating unit should produce. The terminal value represents the current value, at the last year of the projection, of all subsequent cash flows calculated as perpetual income, and was determined using a growth rate (g rate) which differed by CGU, to reflect the different growth potentials of each CGU.

2017	EMEA and Americas	Asia Pacific 2W	India
WACC	5.89%	8.39%	10.26%
G	1.0%	2.0%	2.0%
Growth rate during the Plan period	6.9%	8.3%	6.8%

2016	EMEA and Americas	Asia Pacific 2W	India
WACC	5.60%	8.61%	9.83%
G	1.0%	2.0%	2.0%
Growth rate during the Plan period	7.7%	11.9%	11.5%

The terminal value growth rate (g rate) is specific for CGUs, considering the area's growth potential. The medium-/long-term growth rate (g-rate) for determining the Terminal Value of each CGU was considered as reasonable and prudent, in the light of:

› analysts' expectations for the Piaggio Group (source: Analyst Reports 2017);
› the long-term real GDP growth trend expected for main countries where the Group operates (source: Economist Intelligence Unit – EIU);
› forecasts for the reference sector (source: Freedonia, «World Motorcycle», October 2016).

The WACC was determined based on the previous year.
The growth rate during the period of the Plan was determined using the trend expected for the reference sector as the benchmark (source: Freedonia, «World Motorcycle», October 2016).

Analyses did not identify any impairment losses. Therefore no write-down was recognised in consolidated data as of 31 December 2017.
In addition, and on the basis of information in the document produced jointly by the Bank of Italy, Consob and Isvap no. 2 of 6 February 2009, the Group conducted sensitivity analysis of test results in relation to changes in basic assumptions (use of the growth rate in producing the terminal value and discount rate) which affect the value in use of cash generating units. In the case of a positive or negative change of 0.5% of the WACC and G used, analyses would not identify impairment losses.
In all cases, the value in use of the Group was higher than the net carrying amount tested.

Given that the recoverable value was determined based on estimates, the Group cannot ensure that there will be no impairment losses of goodwill in future financial periods.
Given the current market weakness, the various factors used in processing estimates could require revision; the Piaggio Group will constantly monitor these factors as well as the existence of impairment losses.

Other intangible assets €/000 157

This item mainly refers to costs incurred by Piaggio Vietnam.

17. Property, plant and equipment €/000 273,013

The table below shows the breakdown of plant, property and equipment as of 31 December 2017 and 31 December 2016, as well as movements during the period.

In thousands of euros	Land	Buildings	Plant and machinery	Equipment	Other assets	Assets under construction and advances	Total
As of 1 January 2016							
Historical cost	28,083	166,102	444,581	512,246	47,967	33,737	1,232,716
Provision for write-down			(483)	(1,521)	(93)		(2,097)
Accumulated depreciation		(64,798)	(330,302)	(486,602)	(41,309)		(923,011)
Net carrying amount	**28,083**	**101,304**	**113,796**	**24,123**	**6,565**	**33,737**	**307,608**
2016							
Investments		1,190	10,548	7,570	5,061	13,878	38,247
Transitions in the period		1,802	24,991	3,279	470	(30,542)	0
Depreciation		(5,064)	(23,490)	(12,399)	(3,844)		(44,797)
Disposals			(53)	(78)	(154)		(285)
Write-downs				(1,000)			(1,000)
Exchange differences		293	865		62	96	1,316
Other changes		2	(2)	(20)	10		(10)
Total movements for the year		**(1,777)**	**12,859**	**(2,648)**	**1,605**	**(16,568)**	**(6,529)**
As of 31 December 2016							
Historical cost	28,083	169,539	478,775	509,102	50,630	17,169	1,253,298
Provision for write-down			(483)	(2,526)	(64)		(3,073)
Accumulated depreciation		(70,012)	(351,637)	(485,101)	(42,396)		(949,146)
Net carrying amount	**28,083**	**99,527**	**126,655**	**21,475**	**8,170**	**17,169**	**301,079**
2017							
Investments		1,124	4,871	5,146	3,326	14,308	28,775
Transitions in the period		608	12,014	1,618	84	(14,324)	0
Depreciation		(5,094)	(23,736)	(11,167)	(4,631)		(44,628)
Disposals	(443)	(152)	(172)	(64)	(66)	(1,822)	(2,719)
Write-downs							0
Exchange differences		(2,129)	(6,429)		(363)	(583)	(9,504)
Other changes		13	(76)		73		10
Total movements for the year	**(443)**	**(5,630)**	**(13,528)**	**(4,467)**	**(1,577)**	**(2,421)**	**(28,066)**
As of 31 December 2017							
Historical cost	27,640	167,730	475,729	508,427	52,353	14,748	1.246.627
Provision for write-down			(483)	(2,408)	(64)		(2,955)
Accumulated depreciation		(73,833)	(362,119)	(489,011)	(45,696)		(970,659)
Net carrying amount	**27,640**	**93,897**	**113,127**	**17,008**	**6,593**	**14,748**	**273,013**

The breakdown of property, plant and equipment in operation and under construction is as follows:

	Value as of 31 December 2017			Value as of 31 December 2016			Change		
In thousands of euros	In operation	Under construction and advances	Total	In operation	Under construction and advances	Total	In operation	Under construction and advances	Total
Land	27,640		27,640	28,083		28,083	(443)	0	(443)
Buildings	93,897	1,969	95,866	99,527	2,035	101,562	(5,630)	(66)	(5,696)
Plant and machinery	113,127	8,025	121,152	126,655	9,800	136,455	(13,528)	(1,775)	(15,303)
Equipment	17,008	3,467	20,475	21,475	5,229	26,704	(4,467)	(1,762)	(6,229)
Other assets	6,593	1,287	7,880	8,170	105	8,275	(1,577)	1,182	(395)
Total	**258,265**	**14,748**	**273,013**	**283,910**	**17,169**	**301,079**	**(25,645)**	**(2,421)**	**(28,066)**

Property, plant and equipment mainly refer to Group production facilities in Pontedera (Pisa), Noale and Scorzè (Venice), Mandello del Lario (Lecco), Baramati (India) and Vinh Phuc (Vietnam).
The increases mainly relate to the construction of moulds for new vehicles launched during the period. Borrowing costs attributable to the construction of assets which require a considerable period of time to be ready for use are capitalised as a part of the cost of the actual assets. During 2017, borrowing costs for €/000 175 were capitalised.

Land €/000 27,640

Land is not depreciated.
Land mainly refers to Group production facilities in Pontedera (Pisa), Noale and Scorzè (Venice) and Mandello del Lario (Lecco). The item also includes land in Pisa, with a warehouse. During 2017, the sale of land at the Noale site, with a building no longer used, generated a decrease of €/000 443.

Buildings €/000 95,866

The item Buildings, net of accumulated depreciation, comprises:

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Industrial buildings	92,981	98,636	(5,655)
Ancillary buildings	442	461	(19)
Light constructions	474	430	44
Assets under construction	1,969	2,035	(66)
Total	**95,866**	**101,562**	**(5,696)**

Industrial buildings refer to Group production facilities in Pontedera (Pisa), Noale and Scorzè (Venice), Mandello del Lario (Lecco), Baramati (India) and Vinh Phuc (Vietnam). The item also includes a building at Pisa used as a warehouse.
Buildings are depreciated on a straight-line basis using rates considered suitable to represent their useful life.

Plant and machinery €/000 121,152

The item Plant and machinery, net of accumulated depreciation, consists of:

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
General plants	79,511	90,515	(11,004)
Automatic machinery	14,687	15,589	(902)
Furnaces and sundry equipment	292	361	(69)
Other	18,637	20,190	(1,553)
Assets under construction	8,025	9,800	(1,775)
Total	**121,152**	**136,455**	**(15,303)**

Plant and machinery refer to Group production facilities in Pontedera (Pisa), Noale and Scorzè (Venice), Mandello del Lario (Lecco), Baramati (India) and Vinh Phuc (Vietnam).
The “Other” item mainly includes non-automatic machinery and robotic centres.

Equipment €/000 20,475

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Industrial equipment	16,992	21,443	(4,451)
Commercial equipment	16	32	(16)
Assets under construction	3,467	5,229	(1,762)
Total	**20,475**	**26,704**	**(6,229)**

The item Equipment mainly refers to production equipment at Pontedera (Pisa), Noale and Scorzè (Venice), Mandello del Lario (Lecco), Baramati (India) and Vinh Phuc (Vietnam).
Main investments in equipment concerned moulds for new vehicles launched during the year or scheduled to be launched in the first half of next year, moulds for new engines and specific equipment for assembly lines.
The decrease in assets under construction refers to the disposal of moulds of prototypes that will not go into production.

Other plant, property and equipment €/000 7,880

The item Other assets comprises:

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
EDP systems	2,858	2,184	674
Office furniture and equipment	2,586	3,362	(776)
Vehicles	694	769	(75)
Others	455	1,855	(1,400)
Assets under construction	1,287	105	1,182
Total	**7,880**	**8,275**	**(395)**

As of 31 December 2017, the net value of assets held through lease agreements was equal to €/000 11,616, and refers to the Pontedera painting plant for the Vespa and to the vehicles used by the Aprilia Racing Team.

	As of 31 December 2017
In thousands of euros	
Vespa painting plant	11,555
Vehicles	61
Total	**11,616**

Future lease rental commitments are detailed in note 41.

Warranties

As of 31 December 2017, the Group had no buildings with mortgages.

18. Investment Property *€/000 11,523*

Investment property refers to the Spanish site of Martorelles, where production was stopped in March 2013 and relocated to Italian sites.

In thousands of euros	
Opening balance as of 1 January 2017	**11,710**
Fair value adjustment	(187)
Closing balance as of 31 December 2017	**11,523**

The net carrying amount as of 31 December 2017 was determined by a specific appraisal conducted by an independent expert who measured the "Fair Value less cost of disposal" based on a market approach (as provided for in IFRS 13). This analysis identified the total value of the investment as €/000 11,523. In this regard, the valuation took account of the current status of the property, the project to convert the area, for the development of a retail centre prepared by the Group, together with comparable transactions. Following the site redevelopment project, an agency management contract was given to a Spanish property company, to seek investors interested in the property.
The Group uses the "fair value model" as provided for in IAS 40, thus the measurement updated during 2017 resulted in cost adjusted to fair value, equal to €/000 187 being recognised under other costs in the income statement for the period.
If the cost criterion had still been used instead of fair value, the value of the Martorelles site would have been equal to €/000 6,330.
During 2017, costs incurred for management of the site amounted to €/000 600.

19. Deferred tax assets *€/000 58,601*

Deferred tax assets and liabilities are recognised at their net value when they may be offset in the same tax jurisdiction.
Their breakdown was as follows:

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Deferred tax assets	75,371	75,251	120
Deferred tax liabilities	(16,770)	(14,879)	(1,891)
Total	**58,601**	**60,372**	**(1,771)**

The main effects identified during the year are attributable to the following:

› introduction of the US Tax Reform applicable as from 22 December 2017. Due to this reform, the Group remeasured deferred tax assets and liabilities allocated by the subsidiary Piaggio Group Americas based on the reduction in the Federal tax rate (which fell from 35% of the previous year to 21%);
› the increase in the tax rate applicable in Vietnam, due to the decrease in the tax subsidy applicable to the Group in the past, with the consequent remeasurement of deferred tax assets and liabilities;
› changes in temporary differences and benefits recognised as tax losses.

As part of measurements to define deferred tax assets, the Group mainly considered the following:

› tax regulations of countries where it operates, the impact of regulations in terms of temporary differences and any tax benefits arising from the use of previous tax losses;
› taxable income expected in the medium-long term for each single company and the economic and tax impact. In this framework, the plans from the reprocessing of the Group plan were approved by the Board of Directors on 26 February 2018. As regards Piaggio & C. SpA, which is part of the National Consolidated Tax Convention of the IMMSI Group, the recovery of deferred tax assets is related to and confirmed by company forecasts and by taxable amounts of companies that are part of the above convention, as indicated in the long-term plans approved by their respective Boards of Directors;
› the tax rate in effect in the year when temporary differences occur.

Based on a prudential approach, it was decided not to wholly recognise the tax benefits arising from losses that can be carried over and from temporary differences.

	Amount of temporary differences	Tax rate	Tax effect
In thousands of euros			
	4,263	27.90%	1,190
	4,178	24%/27.9%	1,161
	153	24.26%	37
Provisions for risks	8,594		2,388
	10,065	27.90%	2,808
	682	24.26%	166
	517	29.00%	150
	194	30.82%	60
	86	25.00%	21
	29	25.00%	7
Provision for product warranties	11,573		3,212
	15,375	24.00%	3,690
	1,576	29.00%	457
	1,320	24.00%	317
	110	24.26%	27
	15	30.82%	5
Provisions for bad debts	18,396		4,496
	28,777	27.90%	8,029
	1,193	24.26%	289
	882	16.42%	145
	117	30.82%	36
	68	25.00%	17
	60	29.00%	17
	33	25.00%	8
	40	18.00%	7
Provisions for obsolete stock	31,170		8,548
	37,151	24%/27.9%	10,224
	11,124	24%/27.9%	2,674
	6,827	34.61%	2,350
	5,965	10%/19.3%	998
	4,117	24.26%	999
	1,261	25%/30%	343
	539	25.00%	135
	388	24.00%	93
	246	29.00%	71
	189	30.82%	58
	159	33.33%	53
	134	25.00%	33
	91	17.00%	15
	68	31.16%	21
	35	17.00%	6
	21	30.00%	6
	5	18.00%	1
	3	25.00%	1
Offsetting of Deferred Tax Liabilities	(55,392)	24%/34.61%	(15,705)
Other changes	12,931		2,376
Total for provisions and other changes	**82,664**		**21,020**
Deferred tax assets already recognised			**20,431**
Deferred tax assets not booked			**589**
Piaggio & C. S.p.A.	135,549	24.00%	32,532
Nacional Motor S.A.	33,010	25.00%	8,253
Piaggio Group Americas Inc.	18,480	24.26%	4,484
Piaggio Fast Forward Inc.	11,601	27.32%	3,169
Piaggio Group Japan	4,424	30.82%	1,363
Piaggio Concept Store Mantova S.r.l.	3,533	24.00%	848
PT Piaggio Indonesia	1,225	25.00%	306
Piaggio Advanced Design Center Corporation	15	27.98%	4
Offsetting of Deferred Tax Liabilities	(4,262)		(1,065)
Total out of tax losses	**203,575**		**49,894**
Deferred tax assets already recognised			**38,170**
Deferred tax assets not booked			**11,724**

20. Inventories *€/000 218,622*

This item comprises:

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Raw materials and consumables	104,450	99,137	5,313
Provision for write-down	(13,941)	(14,464)	523
Net value	***90,509***	***84,673***	***5,836***
Work in progress and semifinished products	18,241	16,624	1,617
Provision for write-down	(852)	(852)	0
Net value	***17,389***	***15,772***	***1,617***
Finished products and goods	134,055	129,930	4,125
Provision for write-down	(23,526)	(22,065)	(1,461)
Net value	***110,529***	***107,865***	***2,664***
Advances	195	149	46
Total	**218,622**	**208,459**	**10,163**

As of 31 December 2017, inventories had increased by €/000 10,163.

21. Current and non-current trade receivables *€/000 83,995*

As of 31 December, no non-current trade payables were recorded for the periods compared.
Current trade receivables are broken down as follows:

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Trade receivables due from customers	81,845	71,816	10,029
Trade receivables due from JV	2,148	3,349	(1,201)
Trade receivables due from parent companies	2	1	1
Total	**83,995**	**75,166**	**8,829**

Receivables due from joint ventures refer to amounts due from Zongshen Piaggio Foshan Motorcycles Co. Ltd. Receivables due from parent companies regard amounts due from Immsi.
The item Trade receivables comprises receivables referring to normal sale transactions, recorded net of a provision for bad debts of €/000 28,966.

Movements of provisions were as follows:

In thousands of euros	
Opening balance as of 1 January 2017	**27,616**
Increases for allocations	2,071
Decreases for use	(278)
Other changes	(443)
Closing balance as of 31 December 2017	**28,966**

The Group sells, on a rotating basis, a large part of its trade receivables with and without recourse. Piaggio has signed contracts with some of the most important Italian and foreign factoring companies as a move to optimise the monitoring and the management of its trade receivables, besides offering its customers an instrument for funding their own inventories, for factoring classified as without the substantial transfer of risks and benefits. On the contrary, for factoring without recourse, contracts have been formalised for the substantial transfer of risks and benefits. As of 31 December 2017 trade receivables that have not come due, sold without recourse totalled €/000 89,458. Of these amounts, Piaggio received payment prior to natural expiry of €/000 88,933.
As of 31 December 2017, advance payments received from factoring companies and banks for trade receivables sold with recourse totalled €/000 14,613 with a counter entry recorded in current liabilities.

22. Other current and non-current receivables *€/000 39,073*

They consist of:

Other non-current receivables:	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Sundry receivables due from associates	115	133	(18)
Prepaid expenses	9,312	10,904	(1,592)
Advances to employees	50	61	(11)
Security deposits	1,112	927	185
Receivables due from others	1,568	1,145	423
Total non-current portion	**12,157**	**13,170**	**(1,013)**

Receivables due from associates regard amounts due from the Fondazione Piaggio.

Other current receivables:	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Sundry receivables due from parent companies	9,080	7,705	1,375
Sundry receivables due from JV	904	957	(53)
Sundry receivables due from associates	45	91	(46)
Accrued income	737	513	224
Prepaid expenses	3,516	3,790	(274)
Advance payments to suppliers	3,860	736	3,124
Advances to employees	1,638	2,214	(576)
Fair value of derivatives	102	401	(299)
Security deposits	331	221	110
Receivables due from others	6,703	7,523	(820)
Total current portion	**26,916**	**24,151**	**2,765**

Receivables due from parent companies refer to the recognition of accounting effects relating to the transfer of taxable bases pursuant to the Group Consolidated Tax Convention.
Receivables due from joint ventures refer to amounts due from Zongshen Piaggio Foshan Motorcycle Co. Ltd.
Receivables due from associates are amounts due from Immsi Audit and the Fondazione Piaggio.
The item Fair Value of hedging derivatives comprises the fair value of hedging transactions on the exchange risk on forecast transactions recognised on a cash flow hedge basis (€/000 102 current portion).
Other receivables are recognised net of a write-down provision of €/000 5,738.

Movements of provisions were as follows:

In thousands of euros	
Opening balance as of 1 January 2017	**5,331**
Increases for allocations	689
Decreases for use	(282)
Other changes	
Closing balance as of 31 December 2017	**5,738**

23. Current and non-current tax receivables *€/000 31,019*

Receivables due from tax authorities consist of:

In thousands of euros	As of 31 December 2017	As of 31 December 2016	Change
VAT receivables	12,083	25,956	(13,873)
Income tax receivables	13,590	11,869	1,721
Other tax receivables	5,346	4,638	708
Total tax receivables	**31,019**	**42,463**	**(11,444)**

Non-current tax receivables totalled €/000 19,913, compared to €/000 15,680 as of 31 December 2016, while current tax receivables totalled €/000 11,106 compared to €/000 26,783 as of 31 December 2016. The reduction is mainly due to the decrease in VAT receivables of the Indian subsidiary.

24. Breakdown of operating receivables by measurement method

The table below shows the breakdown of operating receivables by measurement method:

As of 31 December 2017	Assets measured at FVPL	Assets measured at FVOCI	Financial derivatives	Assets at amortised cost	Total
In thousands of euros					
Non-current					
Tax receivables				19,913	19,913
Other receivables				12,157	12,157
Total non-current operating receivables	**-**	**-**	**-**	**32,070**	**32,070**
Current					
Trade receivables				83,995	83,995
Tax receivables				11,106	11,106
Other receivables			102	26,814	26,916
Total current operating receivables	**-**	**-**	**102**	**121,915**	**122,017**
Total operating receivables	**-**	**-**	**102**	**153,985**	**154,087**

As of 31 December 2016	Assets measured at FVPL	Assets measured at FVOCI	Financial derivatives	Assets at amortised cost	Total
In thousands of euros					
Non-current					
Tax receivables				15,680	15,680
Other receivables				13,170	13,170
Total non-current operating receivables	**-**	**-**	**-**	**28,850**	**28,850**
Current					
Trade receivables				75,166	75,166
Tax receivables				26,783	26,783
Other receivables			401	23,750	24,151
Total current operating receivables	**-**	**-**	**401**	**125,699**	**126,100**
Total operating receivables	**-**	**-**	**401**	**154,549**	**154,950**

25. Receivables due after 5 years *€/000 0*

As of 31 December 2017, there were no receivables due after 5 years.

26. Breakdown of assets by geographic segment

As regards the breakdown of assets by geographic segment, reference is made to the section on segment reporting.

27. Assets held for sale *€/000 0*

As of 31 December 2017, there were no assets held for sale.

28. Current and non-current trade payables *€/000 411,775*

As of 31 December 2017 and as of 31 December 2016, no trade payables were recorded under non-current liabilities. Trade payables recorded as current liabilities are broken down as follows:

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Amounts due to suppliers	402,400	385,714	16,686
Trade payables to JV	8,811	9,777	(966)
Trade payables due to other related parties	34	26	8
Amounts due to parent companies	530	132	398
Total	**411,775**	**395,649**	**16,126**
of which reverse factoring	*183,758*	*173,058*	*10,700*

To facilitate credit conditions for its suppliers, the Group has used factoring agreements since 2012, mainly supply chain financing and reverse factoring agreements, as described in more detail in "Accounting policies and measurement criteria applied by the Group", to which reference is made. These operations did not change the primary obligation, nor substantially changed payment terms, so their nature is the same and they are still classified as trade liabilities.
As of 31 December 2017, the value of trade payables covered by reverse factoring or supply chain financing agreements was equal to €/000 183,758 (€/000 173,058 as of 31 December 2016).

29. Provisions (current and non-current portion) *€/000 19,173*

The breakdown and changes in provisions for risks during the period were as follows:

	Balance as of 31 December 2016	Allocations	Uses	Reclassifications	Exchange differences	Balance as of 31 December 2017
In thousands of euros						
Provision for product warranties	11,700	10,865	(8,708)	87	(325)	13,619
Provision for contractual risks	4,546	10	(1,805)		(19)	2,732
Risk provision for legal disputes	2,082				(69)	2,013
Provisions for risk on guarantee	58					58
Other provisions for risks	1,063		(304)		(8)	751
Total	**19,449**	**10,875**	**(10,817)**	**87**	**(421)**	**19,173**

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

Non-current portion:	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Provision for product warranties	4,294	3,939	355
Provision for contractual risks	2,607	4,349	(1,742)
Risk provision for legal disputes	1,512	1,512	0
Other provisions for risks and charges	683	766	(83)
Total	**9,096**	**10,566**	**(1,470)**

Current portion:	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Provision for product warranties	9,325	7,761	1,564
Provisions for contractual risks	125	197	(72)
Risk provision for legal disputes	501	570	(69)
Provisions for risk on guarantee	58	58	0
Other provisions for risks and charges	68	297	(229)
Total	**10,077**	**8,883**	**1,194**

The product warranty provision relates to allocations for technical assistance on products covered by customer service which are estimated to be provided over the contractually envisaged warranty period. This period varies according to the type of goods sold and the sales market, and is also determined by customer take-up to commit to a scheduled maintenance plan.
The provision increased during the period by €/000 10,865 and €/000 8,708 was used in relation to costs incurred during the period.
Use of the provision for contractual risks refers to the scrapping of some assets related to a supply agreement.
The provision for litigation concerns labour litigation and other legal proceedings.

30. Deferred tax liabilities *€/000 3,170*

Deferred tax liabilities amount to €/000 3,170 compared to €/000 3,880 as of 31 December 2016.

31. Retirement funds and employee benefits *€/000 44,457*

In thousands of euros	As of 31 December 2017	As of 31 December 2016	Change
Retirement funds	727	755	(28)
Post-employment benefits provision	43,730	48,169	(4,439)
Total	**44,457**	**48,924**	**(4,467)**

Retirement funds comprise provisions for employees allocated by foreign companies and additional customer indemnity provisions, which represent the compensation due to agents in the case of the agency contract being terminated for reasons beyond their control. Uses refer to the payment of benefits already accrued in previous years, while allocations refer to benefits accrued in the period.
The item "Termination benefits provision", comprising severance pay of employees of Italian companies, includes termination benefits indicated in defined benefit plans.
Their breakdown was as follows:

In thousands of euros	
Opening balance as of 1 January 2017	**48,169**
Cost for the period	7,975
Actuarial gains recognised in Equity	(1,103)
Interest cost	655
Uses and transfers of retirement funds	(11,966)
Closing balance as of 31 December 2017	**43,730**

The economic/technical assumptions used by Group companies operating in Italy to discount the value are shown in the table below:

Technical annual discount rate	1.30%
Annual rate of inflation	1.50% as from 2018
Annual rate of increase in termination benefits	2.625% as from 2018

As regards the discount rate, the Group uses the iBoxx Corporates AA rating with a 10+ duration as the valuation reference. If instead an iBoxx Corporates A rating with a 10+ duration were used, the value of actuarial losses and the provision as of 31 December 2017 would have been lower by €1,182 thousand.

The table below shows the effects, in absolute terms, as of 31 December 2017, which would have occurred following changes in reasonably possible actuarial assumptions:

	Provision for termination benefits
In thousands of euros	
Turnover rate +2%	43,285
Turnover rate -2%	44,251
Inflation rate + 0.25%	44,328
Inflation rate - 0.25%	43,115
Discount rate + 0.50%	41,837
Discount rate - 0.50%	45,743

The average financial duration of the bond ranges from 10 to 27 years.
Estimated future amounts are equal to:

Year	Future amounts
In thousands of euros	
1	4,808
2	1,143
3	3,307
4	4,740
5	4,498

The subsidiaries operating in Germany and Indonesia have provisions for employees identified as defined benefit plans. As of 31 December 2017, these provisions amounted to €/000 123 and €/000 97 respectively. The amount of profits/(losses) recognised in the statement of comprehensive income related to foreign companies amounted to €/000 436.

32. Current and non-current tax payables *€/000 10,185*

As of 31 December 2017 and as of 31 December 2016, no tax payables were recorded under non-current liabilities.
Their breakdown was as follows:

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Due for income taxes	4,628	1,184	3,444
Due for non-income tax	31	38	(7)
Tax payables for:			
- VAT	568	1,958	(1,390)
- Tax withheld at source	4,260	4,186	74
- other	698	762	(64)
Total	5,526	6,906	(1,380)
Total	**10,185**	**8,128**	**2,057**

The item includes tax payables recorded in the financial statements of individual consolidated companies, set aside in relation to tax charges for the individual companies on the basis of applicable national laws. Payables for withheld taxes made refer mainly to withheld taxes on employees' earnings, on employment termination payments and on self-employed earnings.

33. Other payables (current and non-current) *€/000 52,045*

This item comprises:

Non-current portion:	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Guarantee deposits	2,731	2,553	178
Deferred income	2,764	2,597	167
Miscellaneous payables to JV	12	162	(150)
Other payables	114	173	(59)
Total non-current portion	**5,621**	**5,485**	**136**

Current portion:	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Payables to employees	14,474	14,881	(407)
Accrued expenses	5,007	5,664	(657)
Deferred income	1,016	1,227	(211)
Amounts due to social security institutions	8,124	8,821	(697)
Fair value of derivatives	6	237	(231)
Miscellaneous payables to JV	190	181	9
Sundry payables due to affiliated companies	24	34	(10)
Sundry payables due to parent companies	7,649	6,937	712
Other payables	9,934	8,954	980
Total current portion	**46,424**	**46,936**	**(512)**

Amounts due to employees include the amount for holidays accrued but not taken of €/000 7,971 and other payments to be made for €/000 6,503.
Payables due to associates refer to various amounts due to the Fondazione Piaggio and Immsi Audit.
Payables to parent companies consist of payables to Immsi referring to expenses relative to the consolidated tax convention.
The item Fair Value of hedging derivatives comprises the fair value of hedging transactions on the exchange risk on forecast transactions recognised on a cash flow hedge basis (€/000 6 current portion).
The item Accrued liabilities includes €/000 871 for interest on hedging derivatives and relative hedged items measured at fair value.

34. Breakdown of operating payables by measurement method

The table below shows the breakdown of operating payables by measurement method:

As of 31 December 2017	Liabilities measured at FVPL	Financial derivatives	Liabilities at amortised cost	Total
In thousands of euros				
Non-current				
Tax payables				
Other payables			5,621	5,621
Total non-current operating payables	**-**	**-**	**5,621**	**5,621**
Current				
Trade payables			411,775	411,775
Tax payables			10,185	10,185
Other payables		6	46,418	46,424
Total current operating payables	**-**	**6**	**468,378**	**468,384**
Total operating payables	**-**	**6**	**473,999**	**474,005**

As of 31 December 2016	Liabilities measured at FVPL	Financial derivatives	Liabilities at amortised cost	Total
In thousands of euros				
Non-current				
Tax payables				-
Other payables			5,485	5,485
Total non-current operating payables	**-**	**-**	**5,485**	**5,485**
Current				
Trade payables			395,649	395,649
Tax payables			8,128	8,128
Other payables		237	46,699	46,936
Total current operating payables	**-**	**237**	**450,476**	**450,713**
Total operating payables	**-**	**237**	**455,961**	**456,198**

35. Payables due after 5 years

The Group has loans due after 5 years, which are referred to in detail in Note 41 Financial Liabilities. With the exception of the above payables, no other long-term payables due after five years exist.

36. Breakdown of liabilities by geographic segment

As regards the breakdown of liabilities by geographic segment, reference is made to the section on segment reporting.

E) Information on financial assets and liabilities

This section provides information on the carrying amount of financial assets and liabilities held, and in particular:
› specifically describes the type of financial assets and liabilities;
› the accounting standards adopted;
› describes how fair value is determined, how measurements and estimates are made, and the uncertainties involved.

The Group holds the following financial assets and liabilities:

Financial assets as of 31 December 2017

In thousands of euros	Assets measured at FVPL	Assets measured at FVOCI	Financial derivatives	Assets at amortised cost	Total
Non-current					
Other financial assets			7,328	36	7,364
Total non-current financial assets	**-**	**-**	**7,328**	**36**	**7,364**
Current					
Other financial assets			2,321		2,321
Cash and cash equivalents				88,743	88,743
Securities				39,324	39,324
Total current financial assets	**-**	**-**	**2,321**	**128,067**	**130,388**
Total financial assets	**-**	**-**	**9,649**	**128,103**	**137,752**

Financial assets as of 31 December 2016

In thousands of euros	Assets measured at FVPL	Assets measured at FVOCI	Financial derivatives	Assets at amortised cost	Total
Non-current					
Other financial assets			19,173	36	19,209
Total non-current financial assets	**-**	**-**	**19,173**	**36**	**19,209**
Current					
Other financial assets			7,069		7,069
Cash and cash equivalents				166,163	166,163
Securities				25,594	25,594
Total current financial assets	**-**	**-**	**7,069**	**191,757**	**198,826**
Total financial assets	**-**	**-**	**26,242**	**191,793**	**218,035**

Financial liabilities as of 31 December 2017

In thousands of euros	Liabilities measured at FVPL	Fair value adjustment	Financial derivatives	Liabilities at amortised cost	Total
Non-current					
Bank financing				125,259	125,259
Bonds		7,120		304,592	311,712
Other loans				344	344
Leases				9,168	9,168
Hedging derivatives					-
Total non-current financial liabilities	**-**	**7,120**	**-**	**439,363**	**446,483**
Current					
Bank financing	3,410	260		106,277	109,947
Bonds		2,120		9,625	11,745
Other loans				14,944	14,944
Leases				1,144	1,144
Total current financial liabilities	**3,410**	**2,380**	**-**	**131,990**	**137,780**
Total financial liabilities	**3,410**	**9,500**	**-**	**571,353**	**584,263**

Financial liabilities as of 31 December 2016

In thousands of euros	Liabilities measured at FVPL	Fair value adjustment	Financial derivatives	Liabilities at amortised cost	Total
Non-current					
Bank financing	9,941	1,842		212,971	224,754
Bonds		16,921		282,442	299,363
Other loans				677	677
Leases				10,311	10,311
Hedging derivatives					-
Total non-current financial liabilities	**9,941**	**18,763**	**-**	**506,401**	**535,105**
Current					
Bank financing	10,828	3,190		133,454	147,472
Bonds		3,884		9,617	13,501
Other loans				11,358	11,358
Leases				1,114	1,114
Hedging derivatives					-
Total current financial liabilities	**10,828**	**7,074**	**-**	**155,543**	**173,445**
Total financial liabilities	**20,769**	**25,837**	**-**	**661,944**	**708,550**

37. Investments *€/000 7,553*

The investments heading comprises:

In thousands of euros	As of 31 December 2017	As of 31 December 2016	Change
Interests in joint ventures	7,415	7,294	121
Investments in affiliated companies	138	151	(13)
Total	**7,553**	**7,445**	**108**

The increase in the item Interests in joint ventures refers to the equity valuation of the investment in the Zongshen Piaggio Foshan Motorcycles Co. Ltd. joint venture.
The decrease in the item Investments in affiliated companies mainly refers to the equity valuation of the investment in Pont-Tech, Pontedera & Tecnologia S.p.A..

Investments in Joint Ventures €/000 7,415

Joint venture	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Accounted for using the equity method:			
Zongshen Piaggio Foshan Motorcycles Co. Ltd – China	7,415	7,294	121
Total joint ventures	**7,415**	**7,294**	**121**

The investment in Zongshen Piaggio Foshan Motorcycles Co. Ltd was classified under the item "joint ventures" in relation to agreements made in the contract signed on 15 April 2004 between Piaggio & C. S.p.A. and its historical partner Foshan Motorcycle Plant, and the Chinese company Zongshen Industrial Group Company Limited.
Piaggio & C. S.p.A. has a 45% interest in Zongshen Piaggio Foshan Motorcycles Co. Ltd. of which 12.5% via the direct subsidiary Piaggio China Company Ltd. The carrying amount of the investment is equal to €/000 7,415 and refers to shareholders' equity pro-quota adjusted to take into account the measurement criteria adopted by the Group.

The table below summarises main financial data of the joint ventures:

Zongshen Piaggio Foshan Motorcycle Co. Ltd	Accounts as of 31 December 2017		Accounts as of 31 December 2016	
In thousands of euros				
		45% [31]		45% [31]
Working capital	8,464	3,809	10,794	4,857
Consolidated debt	1,033	465		
Total assets	12,030	5,413	12,993	5,847
Net capital employed	**21,527**	**9,687**	**23,787**	**10,704**
Provisions	189	85	132	59
Consolidated debt	0	0	2,302	1,036
Shareholders' equity	21,338	9,602	21,353	9,609
Total sources of financing	**21,527**	**9,687**	**23,787**	**10,704**
Shareholders' equity attributable to the Group		9,602		9,609
Elimination of margins on internal transactions		(2,187)		(2,315)
Value of the investment		**7,415**		**7,294**

31) *Group ownership*

Reconciliation of Shareholders' Equity	
In thousands of euros	
Opening balance as of 1 January 2017	**7,294**
Profit (Loss) for the period	602
Other comprehensive income	(609)
Elimination of margins on internal transactions	128
Closing balance as of 31 December 2017	**7,415**

Investments in Associates €/000 138

This item comprises:

Associates	Carrying amount as of 31 December 2016	Adjustment	Carrying amount as of 31 December 2017
In thousands of euros			
Immsi Audit S.c.a.r.l.	10		10
S.A.T. S.A. – Tunisia	-		-
Depuradora D'Aigues de Martorelles	31	1	32
Pontech Soc. Cons. a.r.l. – Pontedera	110	(14)	96
Total associates	**151**	**(13)**	**138**

The value of investments in associates was adjusted during the year to the corresponding value of shareholders' equity.

38. Other non-current financial assets *€/000 7,364*

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Fair value of derivatives	7,328	19,173	(11,845)
Investments in other companies	36	36	0
Total	**7,364**	**19,209**	**(11,845)**

The item Fair value of derivatives refers to the long-term portion of the fair value of the cross currency swap on a private debenture loan. For more details see section 43 "Financial risks" of the Notes.

The breakdown of the item "Investments in other companies" is shown in the table below:

Other companies:	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
A.N.C.M.A. – Rome	2	2	-
ECOFOR SERVICE S.p.A. – Pontedera	2	2	-
Consorzio Fiat Media Center – Turin	3	3	-
S.C.P.S.T.V.	21	21	-
IVM	8	8	-
Total other companies	**36**	**36**	**-**

39. Other current financial assets *€/000 2,321*

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Fair value of derivatives	2,321	7,069	(4,748)
Total	**2,321**	**7,069**	**(4,748)**

This item refers to €/000 2,183 relative to the short-term portion of the fair value of the cross currency swap on a private debenture loan and to €/000 138 for the short-term portion of the cross currency swap on a medium-term loan of the Vietnamese subsidiary. For more details see section 43 "Financial risks" of the Notes.

40. Cash and cash equivalents *€/000 128,067*

The item, which mainly includes short-term and on demand bank deposits, is broken down as follows:

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Bank and postal deposits	88,697	166,114	(77,417)
Cheques		1	(1)
Cash on hand	46	48	(2)
Securities	39,324	25,594	13,730
Total	**128,067**	**191,757**	**(63,690)**

The value of deposits was affected at the end of the previous year by some medium term loans granted in December 2016.
The item Securities refers to deposit agreements entered into by the Indian subsidiary to effectively use temporary liquidity.

Reconciliation of cash and cash equivalents recognised in the statement of financial position as assets with cash and cash equivalents recognised in the Statement of Cash Flows

The table below reconciles the amount of cash and cash equivalents above with cash and cash equivalents recognised in the Statement of Cash Flows.

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Liquidity	128,067	191,757	(63,690)
Current account overdrafts	(173)	(357)	184
Closing balance	**127,894**	**191,400**	**(63,506)**

41. Current and non-current financial liabilities *€/000 584,263*

During 2017, the Group's total debt decreased by €/000 124,287. Net of the fair value measurement of financial derivatives to hedge the exchange risk and interest rate risk, and the adjustment of relative hedged items, as of 31 December 2017 the total financial debt of the Group had decreased by €/000 107,950.

	Financial liabilities as of 31 December 2017			Financial liabilities as of 31 December 2016			Change		
	Current	Non-current	Total	Current	Non-current	Total	Current	Non-current	Total
In thousands of euros									
Gross financial debt	135,400	439,363	574,763	166,371	516,342	682,713	(30,971)	(76,979)	(107,950)
Fair value adjustment	2,380	7,120	9,500	7,074	18,763	25,837	(4,694)	(11,643)	(16,337)
Total	**137,780**	**446,483**	**584,263**	**173,445**	**535,105**	**708,550**	**(35,665)**	**(88,622)**	**(124,287)**

This decrease is attributable to the reduction in medium term debt, only partially offset by new loans. Net financial debt of the Group amounted to €/000 446,696 as of 31 December 2017 compared to €/000 490,956 as of 31 December 2016.

In thousands of euros	As of 31 December 2017	As of 31 December 2016	Change
Liquidity	**128,067**	**191,757**	**(63,690)**
Securities			0
Current financial receivables	**0**	**0**	**0**
Payables due to banks	(59,693)	(64,150)	4,457
Current portion of bank loans	(49,994)	(80,132)	30,138
Debenture loan	(9,625)	(9,617)	(8)
Amounts due to factoring companies	(14,613)	(11,030)	(3,583)
Amounts due under leases	(1,144)	(1,114)	(30)
Current portion of payables due to other lenders	(331)	(328)	(3)
Current financial debt	**(135,400)**	**(166,371)**	**30,971**
Net current financial debt	**(7,333)**	**25,386**	**(32,719)**
Payables due to banks and lenders	(125,259)	(222,912)	97,653
Debenture loan	(304,592)	(282,442)	(22,150)
Amounts due under leases	(9,168)	(10,311)	1,143
Amounts due to other lenders	(344)	(677)	333
Non-current financial debt	**(439,363)**	**(516,342)**	**76,979**
Net Financial Debt[32]	**(446,696)**	**(490,956)**	**44,260**

32) Pursuant to Consob Communication of 28 July 2006 and in compliance with the recommendation of the CESR of 10 February 2005 "Recommendation for the consistent implementation of the European Commission's Regulation on Prospectuses". The indicator does not include financial assets and liabilities arising from the fair value measurement of financial derivatives for hedging and otherwise, the fair value adjustment of relative hedged items equal to €/000 9,500 and relative accruals.

Non-current financial liabilities totalled €/000 439,363 against €/000 516,342 as of 31 December 2016, whereas current financial liabilities totalled €/000 135,400 compared to €/000 166,371 as of 31 December 2016.

The tables below analyse the composition and changes in the net financial position as of 31 December 2017 and 31 December 2016.

In thousands of euros	Book value as of 31.12.2017	Book value as of 31.12.2016	Change
Cash and cash equivalents	128,067	191,757	(63,690)
Current financial debt	(135,400)	(166,371)	30,971
Non-current financial debt	(439,363)	(516,342)	76,979
Net Financial debt	**(446,696)**	**(490,956)**	**44,260**
Cash and cash equivalents and financial receivables	128,067	191,757	(63,690)
Gross debt, fixed rate	(357,916)	(360,218)	2,302
Gross debt, variable rate	(216,847)	(322,495)	105,648
Net Financial debt	**(446,696)**	**(490,956)**	**44,260**

		Cash flows						
	Balance as of 31.12.2015	*Changes*	*Re-payments*	*New issues*	*Reclassifica-tions*	*Exchange delta*	*Other changes*	*Balan-ce as of 31.12.2016*
In thousands of euros								
Liquidity	**101,428**	**88,818**				**1,511**		**191,757**
Securities								
Current financial receivables	**0**							**0**
Current account overdrafts	(126)			(231)				(357)
Current account payables	(47,852)		2,231	(16,805)		(1,367)		(63,793)
Current portion of medium-/long-term bank loans	(39,211)		59,348		(100,360)	(119)	210	(80,132)
Total current bank loans	**(87,189)**	**0**	**61,579**	**(17,036)**	**(100,360)**	**(1,486)**	**210**	**(144,282)**
Debenture loan					(9,669)		52	(9,617)
Amounts due to factoring companies	(15,321)		4,291					(11,030)
Amounts due under leases	(31)		1,601		(2,692)		8	(1,114)
Current portion of payables due to other lenders	(324)		324		(328)			(328)
Current financial debt	**(102,865)**	**0**	**67,795**	**(17,036)**	**(113,049)**	**(1,486)**	**270**	**(166,371)**
Net current financial debt	**(1,437)**	**88,818**	**67,795**	**(17,036)**	**(113,049)**	**25**	**270**	**25,386**
Medium-/long-term bank loans	(205,363)			(116,869)	100,360	(248)	(792)	(222,912)
Debenture loan	(290,139)				9,669		(1,972)	(282,442)
Amounts due under leases	(179)			(12,839)	2,692		15	(10,311)
Amounts due to other lenders	(1,005)				328			(677)
Non-current financial debt	**(496,686)**	**0**	**0**	**(129,708)**	**113,049**	**(248)**	**(2,749)**	**(516,342)**
NET FINANCIAL DEBT	**(498,123)**	**88,818**	**67,795**	**(146,744)**	**0**	**(223)**	**(2,479)**	**(490,956)**

		Cash flows						
	Balance as of 31.12.2016	*Changes*	*Re-payments*	*New issues*	*Reclassifica-tions*	*Exchange delta*	*Other changes*	*Balan-ce as of 31.12.2017*
In thousands of euros								
Liquidity	**191,757**	**(54,067)**				**(9,623)**		**128,067**
Securities	0							0
Current financial receivables	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Current account overdrafts	(357)		355	(171)				(173)
Current account payables	(63,793)		19,161	(19,794)		4,906		(59,520)
Current portion of medium-/long-term bank loans	(80,132)		145,667	(500)	(115,363)	891	(557)	(49,994)
Total current bank loans	**(144,282)**		**165,183**	**(20,465)**	**(115,363)**	**5,797**	**(557)**	**(109,687)**
Debenture loan	(9,617)		9,669		(9,669)		(8)	(9,625)
Amounts due to factoring companies	(11,030)			(3,583)				(14,613)
Amounts due under leases	(1,114)		1,124		(1,145)		(9)	(1,144)
Current portion of payables due to other lenders	(328)		326		(330)	1		(331)
Current financial debt	**(166,371)**	**0**	**176,302**	**(24,048)**	**(126,507)**	**5,798**	**(574)**	**(135,400)**
Net current financial debt	**25,386**	**(54,067)**	**176,302**	**(24,048)**	**(126,507)**	**(3,825)**	**(574)**	**(7,333)**
Medium-/long-term bank loans	(222,912)			(20,048)	115,363	2,454	(116)	(125,259)
Debenture loan	(282,442)			(30,000)	9,669		(1,819)	(304,592)
Amounts due under leases	(10,311)				1,145		(2)	(9,168)
Amounts due to other lenders	(677)				330	3		(344)
Non-current financial debt	**(516,342)**	**0**	**0**	**(50,048)**	**126,507**	**2,457**	**(1,937)**	**(439,363)**
NET FINANCIAL DEBT	**(490,956)**	**(54,067)**	**176,302**	**(74,096)**	**0**	**(1,368)**	**(2,511)**	**(446,696)**

The breakdown of the debt is as follows:

	Accounting balance As of 31.12.2017	**Accounting balance As of 31.12.2016**	**Nominal value As of 31.12.2017**	**Nominal value As of 31.12.2016**
In thousands of euros				
Bank financing	234,946	367,194	235,481	368,402
Bonds	314,217	292,059	322,130	301,799
Other medium-/long-term loans:				
of which leases	*10,312*	*11,425*	*10,325*	*11,440*
of which amounts due to other lenders	*15,288*	*12,035*	*15,288*	*12,035*
Total other loans	25,600	23,460	25,613	23,475
Total	**574,763**	**682,713**	**583,224**	**693,676**

The table below shows the debt servicing schedule as of 31 December 2017:

	Nominal value as of 31.12.2017	Amounts falling due within 12 months	Amounts falling due after 12 months	Amounts falling due in				
				2019	2020	2021	2022	Beyond
In thousands of euros								
Bank financing	235,481	110,052	125,429	60,218	20,154	18,228	15,806	11,023
- including opening of credit lines and bank overdrafts	*59,693*	*59,693*						
of which medium/long-term bank loans	*175,788*	*50,359*	*125,429*	*60,218*	*20,154*	*18,228*	*15,806*	*11,023*
Bonds	322,130	9,669	312,461	10,360	11,050	261,051	30,000	
Other medium-/long-term loans:								
of which leases	*10,325*	*1,144*	*9,181*	*1,240*	*1,148*	*1,167*	*1,187*	*4,439*
of which amounts due to other lenders	*15,288*	*14,944*	*344*	*334*	*10*			
Total other loans	25,613	16,088	9,525	1,574	1,158	1,167	1,187	4,439
Total	**583,224**	**135,809**	**447,415**	**72,152**	**32,362**	**280,446**	**46,993**	**15,462**

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

	Accounting balance	Accounting balance	Nominal value	Applicable interest rate
	As of 31.12.2016	As of 31.12.2017		
In thousands of euros				
Euro	583,469	513,497	521,958	3.44%
Indian Rupee	13,393	39	39	9.25%
Indonesian Rupiah	2,824	2,459	2,459	8.38%
US Dollar	26,090	19,597	19,597	3.58%
Vietnamese Dong	53,668	36,623	36,623	7.05%
Japanese Yen	3,269	2,548	2,548	2.75%
Total currencies other than euro	*99,244*	*61,265*	*61,265*	
Total	**682,713**	**574,763**	**583,224**	**3.67%**

Medium and long-term bank debt amounts to €/000 175,253 (of which €/000 125,259 non-current and €/000 49,994 current) and consists of the following loans:

- a €/000 21,818 medium-term loan from the European Investment Bank to finance Research & Development investments planned for the 2013-2015 period. The loan will mature in December 2019 and has a repayment schedule of 11 six-monthly instalments at a fixed rate of 2.723%. Contract terms require covenants (described below);
- a €/000 59,908 medium-term loan (nominal value of €/000 60,000) from the European Investment Bank to finance Research & Development investments planned for the 2016-2018 period. The loan will mature in December 2023 and has a repayment schedule of 7 fixed-rate annual instalments. Contract terms require covenants (described below);
- a €/000 29,639 loan (nominal value of €/000 30,000), a syndicate loan for a total of €/000 250,000 comprising a €/000 175,000 four-year tranche as a revolving credit line (of which a nominal value of €/000 5,000 used as of 31 December 2017) and a tranche of €/000 75,000 as a five-year amortisation loan (€/000 25,000 as of 31 December 2017). Contract terms require covenants (described below);
- a €/000 3,330 three-year loan (nominal value of €/000 3,333) with amortisation granted by Banco BPM for an original amount of €/000 10,000 maturing in December 2018;

- a €/000 12,483 medium-term loan (nominal value of €/000 12,505) granted by Banca Popolare Emilia Romagna. The loan will fall due on 5 June 2019 and has an amortisation schedule of six-monthly instalments;
- a €/000 11,364 loan granted by Banco BPM, comprising a tranche of €/000 12,500 granted as a revolving credit line (unused as of 31 December 2017), maturing in January 2021 and a tranche of €/000 12,500 (€/000 11,364 as of 31 December 2017), maturing in July 2022, which has been wholly disbursed;
- a €/000 3,410 medium-term loan for USD/000 4,369 granted by International Finance Corporation to the subsidiary Piaggio Vietnam with interest accruing at a variable rate. The loan will fall due on 15 July 2018 and has an amortisation schedule of six-monthly instalments from July 2014. Contract terms include a guarantee of the Parent Company and some covenants (described below). Cross currency swaps have been taken out on this loan to hedge the exchange risk and interest rate risk;
- a €/000 13,295 medium-term loan for VND/000 358,104,752 granted by VietinBank to the subsidiary Piaggio Vietnam to finance the R&D investments plan. The loan matures in June 2021, with a repayment schedule in 7 six-monthly instalments, starting from June 2018, with a fixed rate for the first year, followed by a variable rate;
- a €/000 9,451 medium-term loan (nominal value of €/000 9,500) granted by Interbanca-Banca IFIS. The loan will fall due on 30 September 2022 and has an amortisation schedule of quarterly instalments. Contract terms require covenants (described below);
- a €/000 9,992 medium-term loan (nominal value of €/000 10,000) granted by Banca del Mezzogiorno. The loan will fall due on 2 January 2023 and has an amortisation schedule of six-monthly instalments. Contract terms require covenants (described below);
- €/000 563 of loans from various banks granted pursuant to Italian Law no. 346/88 on subsidised applied research.

All the above financial liabilities are unsecured.

The item Bonds for €/000 314,217 (nominal value of €/000 322,130) refers to:
- a €/000 42,010 private debenture loan (nominal value of €/000 42,130), (US Private Placement) issued on 25 July 2011 for $/000 75,000 wholly subscribed by an American institutional investor, payable in 5 annual portions from July 2017, with a semi-annual coupon. As of 31 December 2017, the fair value measurement of the debenture loan was equal to €/000 51,371 (the fair value is determined based on IFRS related to fair value hedging). A Cross Currency Swap has been taken out on this debenture loan to hedge the exchange risk and interest rate risk;
- €/000 242,361 (nominal value of €/000 250,000) related to a high-yield debenture loan issued on 24 April 2014 for a nominal amount of €/000 250,000, maturing on 30 April 2021 and with a semi-annual coupon with fixed annual nominal rate of 4.625%. Standard & Poor's and Moody's assigned a B+ rating with a stable outlook and a B1 rating with a stable outlook respectively for the issue;
- €/000 29,846 (nominal value of €/000 30,000) for a five-year private debenture loan issued on 28 June 2017 and wholly subscribed by Fondo Sviluppo Export, the fund set up by SACE and managed by Amundi SGR. The issue has no specific rating or listing on a regulated market.

The company may repay in advance:
- all or part of the amount of the high yield debenture loan issued on 24 April 2014, according to the conditions indicated in the indenture. The value of these prepayment options was not deducted from the original contract, as these are considered as being closely related to the host instrument (as provided for by IAS 39 AG30 g);
- all or part of the amount of the private placement issued on 28 June 2017, according to the conditions indicated in the contract. The value of prepayment options was not deducted from the original contract, as these are considered as being closely related to the host instrument (as provided for by IAS 39 AG30 g).

Medium-/long-term payables due to other lenders equal to €/000 10,987 (nominal value of €/000 11,000) of which €/000 9,512 due after the year and €/000 1,475 as the current portion, are detailed as follows:

› a finance lease for €/000 10,165 (nominal value of €/000 10,179) granted by Albaleasing as a Sale&Lease back agreement on a production plant of the Parent Company. The agreement is for ten years, with quarterly repayments (non-current portion equal to €/000 9,057);
› a finance lease for €/000 147 granted by VFS Servizi Finanziari for the use of vehicles (non-current portion equal to €/000 111);
› a loan of €/000 39 from BMW Finance for the purchase of cars (non-current portion equal to €/000 25);
› subsidised loans for a total of €/000 636 provided by the Italian Ministry of Economic Development and Italian Ministry of Education, University and Research using regulations to encourage exports and investments in research and development (non-current portion of €/000 319).

Payables to factoring companies totalled €/000 14,613.

Covenants

In line with market practices for borrowers with a similar credit rating, main loan contracts require compliance with:

1. financial covenants, on the basis of which the company undertakes to comply with certain levels of contractually defined financial indices, with the most significant comprising the ratio of net financial debt/gross operating margin (EBITDA), measured on the consolidated perimeter of the Group, according to definitions agreed on with lenders;
2. negative pledges according to which the company may not establish collaterals or other constraints on company assets;
3. "pari passu" clauses, on the basis of which the loans will have the same repayment priority as other financial liabilities, and change of control clauses, which are effective if the majority shareholder loses control of the company;
4. limitations on the extraordinary operations the company may carry out.

The measurement of financial covenants and other contract commitments is monitored by the Group on an ongoing basis. According to results as of 31 December 2017, all covenants had been fully met.
The high-yield debenture loan issued by the company in April 2014 requires compliance with typical covenants of international high-yield market practices. In particular, the company must observe the EBITDA/Net borrowing costs index, based on the threshold established in the Prospectus, to increase financial debt defined during issue. In addition, the Prospectus includes some obligations for the issuer, which limit, inter alia, the capacity to:

1. pay dividends or distribute capital;
2. make some payments;
3. grant collaterals for loans;
4. merge with or establish some companies;
5. sell or transfer own assets.

Failure to comply with the covenants and other contract commitments of the loan and debenture loan, if not remedied in agreed times, may give rise to an obligation for the early repayment of the outstanding amount of the loan.

Amortised Cost and Fair Value Measurement

All financial liabilities are measured in accordance with accounting standards and based on the amortised cost method (except for liabilities with hedging derivatives measured at Fair Value Through Profit & Loss, for which the same measurement criteria used for the derivative are applied). According to this method, the nominal amount of the liability is decreased by the amount of relative costs of issue and/or stipulation, in addition to any costs relating to refinancing of previous liabilities. The amortisation of these costs is determined on an effective interest rate basis, and namely the rate which discounts the future flows of interest payable and reimbursements of principle at the net carrying amount of the financial liability.

IFRS 13 – Fair Value Measurement defines fair value on the basis of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In the absence of an active market or market that does not operate regularly, fair value is measured by valuation techniques. The standard defines a fair value hierarchy:

- level 1 – quoted prices in active markets for assets or liabilities measured;
- level 2 – inputs other than quoted prices included within Level 1 that are observable directly (prices) or indirectly (derived from prices) on the market;
- level 3 – inputs not based on observable market data.

The valuation techniques referred to levels 2 and 3 must take into account adjustment factors that measure the risk of insolvency of both parties. To this end, the standard introduces the concepts of Credit Value Adjustment (CVA) and Debit Value Adjustment (DVA): CVA makes it possible to include the counterparty credit risk in the fair value measurement; DVA reflects the risk of insolvency of the Group.

The table below shows the fair value of payables measured using the amortised cost method as of 31 December 2017:

In thousands of euros	Nominal value	Carrying amount	Fair Value [33]
High yield debenture loan	250,000	242,361	256,473
Private debenture loan in USD	42,130	42,010	55,506
Private debenture loan in EUR	30,000	29,846	28,268
EIB (R&D loan 2013-2015)	21,818	21,818	22,025
EIB (R&D loan 2016-2018)	60,000	59,908	56,573
Credit line from B. Pop. Emilia Romagna	12,505	12,483	12,539
Loan from Banco BPM	11,364	11,364	11,525
Loan from B. del Mezzogiorno	10,000	9,992	9,410
Loan from Interbanca-Banca IFIS	9,500	9,451	9,559
Revolving syndicated loan	5,000	4,756	5,026
Syndicated loan maturing in July 2019	25,000	24,883	25,227
VietinBank medium-term loan	13,295	13,295	13,629

33) The value deducts DVA related to the issuer, i.e. it includes the risk of insolvency of Piaggio.

For liabilities due within 18 months, the carrying amount is basically considered the same as the fair value.

Fair value hierarchy

The table below shows the assets and liabilities measured and recognised at fair value as of 31 December 2017, by hierarchical level of fair value measurement.

	Level 1	Level 2	Level 3
In thousands of euros			
Assets measured at fair value			
Investment Property			11,523
Financial derivatives:			
- of which financial assets		*9,511*	*138*
- of which other receivables		*102*	
Investments in other companies			36
Total assets		**9,613**	**11,697**
Liabilities measured at fair value			
Financial derivatives			
- of which financial liabilities			
- of which other payables		*(6)*	
Financial liabilities at fair value recognised through profit or loss		(55.041)	
Total liabilities		**(55.047)**	
General total		**(45.434)**	**11.697**

Investment property relative to the Martorelles site was measured as hierarchical level 3. This value was confirmed by a specific valuation of an independent expert, who measured the "Fair value less cost of disposal" based on a market approach (as provided for by IFRS 13). The valuation took account of comparable transactions on the local market, and the project to convert the area (from an industrial to a commercial site, as approved by the local authorities on 18 February 2014), referring however the value of the investment to its current status. Consequently, an accompanying 10% increase or decrease in all the variables based on the valuation of the investment would have generated a higher value of around €/000 2,900 and a lower value of €/000 2,900, with an equivalent greater or lesser impact on the income statement for the period.

The valuation of the cross currency swap relative to the Vietnamese subsidiary was also assigned the same hierarchy level. This classification reflects the illiquidity of the local market, which does now allow for a valuation based on conventional criteria. If valuation techniques typical of liquid markets had been adopted, which is not the case for the Vietnamese financial market, derivatives would have had a fair value totalling €/000 165, rather than €/000 138 (included under financial hedging instruments - level 3) and accrued expenses on financial derivatives for hedging equal to €/000 203.

The following tables show Level 2 and Level 3 changes during 2017:

	Level 2
In thousands of euros	
Balance as of 31 December 2016	(72,471)
Gain (loss) recognised in profit or loss	38
Gain (loss) recognised in the statement of comprehensive income	(68)
(Increases)/Decreases	27,067
Balance as of 31 December 2017	**(45,434)**

	Level 3
In thousands of euros	
Balance as of 31 December 2016	12,218
Gain (loss) recognised in profit or loss	(521)
Increases/(Decreases)	0
Balance as of 31 December 2017	**11,697**

F) Management of financial risk

This section describes all financial risks to which the Group is exposed and how these risks could affect future results.

42. Credit risk

The Group considers that its exposure to credit risk is as follows:

In thousands of euros	As of 31 December 2017	As of 31 December 2016
Liquid assets	88,697	166,114
Securities	39,324	25,594
Financial receivables	9,685	26,278
Other receivables	39,073	37,321
Tax receivables	31,019	42,463
Trade receivables	83,995	75,166
Total	**291,793**	**372,936**

The Group monitors or manages credit centrally by using established policies and guidelines. The portfolio of trade receivables shows no signs of concentrated credit risk in light of the broad distribution of our licensee or distributor network. In addition, most trade receivables are short-term. In order to optimise credit management, the Group has established revolving programmes with some primary factoring companies for selling its trade receivables without recourse in Europe and the United States.

43. Financial risks

The financial risks the Group is exposed to are liquidity risk, exchange risk, interest rate risk and credit risk.
The management of these risks, in order to reduce management costs and dedicated resources, is centralised and treasury operations take place in accordance with formal policies and guidelines which are applicable to all Group companies.

Liquidity risk and capitals management

The liquidity risk arises from the possibility that available financial resources are not sufficient to cover, in due times and procedures, future payments arising from financial and/or commercial obligations. To deal with these risks, cash flows and the Group's credit line needs are monitored or managed centrally under the control of the Group's Treasury in order to guarantee an effective and efficient management of the financial resources as well as optimise the debt's maturity standpoint.
In addition, the Parent Company finances the temporary cash requirements of Group companies by providing direct short-term loans regulated in market conditions or guarantees. A cash pooling zero balance system is used between the Parent Company and European companies to reset the receivable and payable balances of subsidiaries on a daily basis, for a more effective and efficient management of liquidity in the Eurozone.

As of 31 December 2017 the most important sources of financing irrevocable until maturity granted to the Parent Company were as follows:

› a debenture loan of €/000 250,000 maturing in April 2021;
› a debenture loan of $/000 61,000 maturing in July 2021;
› a debenture loan of €/000 30,000 maturing in June 2022;
› a credit line of €/000 200,000 comprising a Revolving Credit Facility of €/000 175,000 maturing in July 2018 and a loan of €/000 25,000 maturing in July 2019;
› Revolving credit facilities for a total of €/000 32,500, with final settlement in July 2022;
› loans for a total of €/000 128,520, with final settlement in December 2023.

Other Group companies also have irrevocable loans totalling €/000 16,705, with final settlement in June 2021.

As of 31 December 2017, the Group had a liquidity of €/000 128,067, €/000 202,500 of undrawn credit lines irrevocable to maturity and €/000 136,378 of revocable credit lines, as detailed below:

	As of 31 December 2017	As of 31 December 2016
In thousands of euros		
Variable rate with maturity within one year - irrevocable until maturity	170,000	
Variable rate with maturity beyond one year - irrevocable until maturity	32,500	170,457
Variable rate with maturity within one year - cash revocable	117,378	104,290
Variable rate with maturity within one year - with revocation for self-liquidating typologies	19,000	19,000
Total undrawn credit lines	**338,878**	**293,747**

The table below shows the timing of future payments in relation to trade payables:

	Within 30 days	Between 31 and 60 days	Between 61 and 90 days	Over 90 days	Total as of 31 December 2017
In thousands of euros					
Trade payables	257,642	97,877	43,068	13,188	**411,775**

Management considers that currently available funds, as well as funds that will be generated from operations and loans, will enable the Group to meets its requirements relative to investments, the management of working capital and repayment of loans on expiry and will ensure an adequate level of operating and strategic flexibility.

Exchange Risk

The Group operates in an international context where transactions are conducted in currencies different from the euro. This exposes the Group to risks arising from exchange rates fluctuations. For this purpose, the Group has an exchange rate risk management policy which aims to neutralise the possible negative effects of the changes in exchange rates on company cash-flows.
This policy analyses:

› ***the transaction exchange risk:*** the policy wholly covers this risk which arises from differences between the recognition exchange rate of receivables or payables in foreign currency in the financial statements and the recognition exchange rate of actual collection or payment. To cover this type of exchange risk, the exposure is naturally offset in the first place (netting between sales and purchases in the same currency) and if necessary, by signing currency future derivatives, as well as advances of receivables denominated in currency;
› ***the translation exchange risk:*** arises from the translation into euro of the financial statements of subsidiaries prepared in currencies other than the euro during consolidation. The policy adopted by the Group does not require this type of exposure to be covered;

› ***the economic exchange risk:*** arises from changes in company profitability in relation to annual figures planned in the economic budget on the basis of a reference change (the "budget change") and is covered by derivatives. The items of these hedging operations are therefore represented by foreign costs and revenues forecast by the sales and purchases budget. The total of forecast costs and revenues is processed monthly and relative hedging is positioned exactly on the average weighted date of the economic event, recalculated based on historical criteria. The economic occurrence of future receivables and payables will occur during the budget year.

Cash flow hedging

As of 31 December 2017, the Group had undertaken the following futures transactions (recognised based on the regulation date) relative to payables and receivables already recognised to hedge the transaction exchange risk:

Company	Operation	Currency	Amount in currency	Value in local currency (forward exchange rate)	Average maturity
			In thousands	In thousands	
Piaggio & C.	Purchase	CAD	400	264	31/01/2018
Piaggio & C.	Purchase	CNY	73,000	9,283	08/02/2018
Piaggio & C.	Purchase	GBP	630	708	29/03/2018
Piaggio & C.	Purchase	JPY	410,000	3,079	17/01/2018
Piaggio & C.	Purchase	SEK	6,700	676	31/01/2018
Piaggio & C.	Purchase	USD	17,100	14,398	25/01/2018
Piaggio & C.	Sale	CAD	680	450	31/01/2018
Piaggio & C.	Sale	INR	500,000	6,514	09/01/2018
Piaggio & C.	Sale	SEK	4,500	453	31/01/2018
Piaggio & C.	Sale	SGD	100	63	31/01/2018
Piaggio & C.	Sale	USD	16,700	14,007	15/02/2018
Piaggio Group Americas	Purchase	CAD	1,650	1,306	05/02/2018
Piaggio Group Americas	Sale	€	175	209	22/02/2018
Piaggio Vietnam	Purchase	€	1,000	26.691.500	13/01/2018
Piaggio Vietnam	Sale	USD	10,000	227.690.000	21/01/2018
Piaggio Indonesia	Purchase	USD	3,441	46.993.426	22/01/2018
Piaggio Vehicles Private Limited	Sale	USD	1,747	112,506	06/02/2018
Piaggio Vehicles Private Limited	Sale	€	3,075	237,635	11/03/2018
Piaggio Vespa BV	Sale	USD	6,000	5,006	27/04/2018
Piaggio Vespa BV	Sale	SGD	1,250	779	29/01/2018

As of 31 December 2017, the Group had undertaken the following transactions to hedge the business exchange risk:

Company	Operation	Currency	Amount in currency	Value in local currency (forward exchange rate)	Average maturity
			In thousands	In thousands	
Piaggio & C.	Purchase	CNY	182,000	22,811	15/06/2018
Piaggio & C.	Sale	GBP	8,175	9,205	02/07/2018

To hedge the economic exchange risk alone, cash flow hedging is adopted with the effective portion of profits and losses recognised in a specific shareholders' equity reserve. Fair value is determined based on market quotations provided by main traders.
As of 31 December 2017 the total fair value of hedging instruments for the economic exchange risk recognised on a hedge accounting basis was positive by €/000 97. During 2017, gains under other components of the Statement of Comprehensive Income were recognised amounting to €/000 97 and losses from other components of the Statement of Comprehensive Income were reclassified under profit/loss for the year amounting to €/000 163.
The net balance of cash flows during 2017 is shown below, divided by main currency:

Cash Flow	2017
In millions of euros	
Canadian Dollar	7.6
Pound Sterling	19.4
Japanese Yen	(8.3)
US Dollar	40.3
Indian Rupee	50.0
Croatian Kuna	3.3
Chinese Yuan[34]	(57.0)
Vietnamese Dong	(25.8)
Indonesian Rupiah	16.9
Singapore dollar	(2.2)
Total cash flow in foreign currency	**44.2**

34) cash flow partially in euros

In view of the above, an assumed appreciation/depreciation of 3% of the Euro would have generated potential losses for €/000 1,290 and potential profits for €/000 1,370 respectively.

Interest rate risk

This risk arises from fluctuating interest rates and the impact this may have on future cash flows arising from variable rate financial assets and liabilities. The Group regularly measures and controls its exposure to the risk of interest rate changes, as established by its management policies, in order to reduce fluctuating borrowing costs, and limit the risk of a potential increase in interest rates. This objective is achieved through an adequate mix of fixed and variable rate exposure, and the use of derivatives, mainly interest rate swaps and cross currency swaps.

As of 31 December 2017, the following hedging derivatives were in use:

Fair value hedging derivatives (fair value hedging and fair value options)

- a Cross Currency Swap to hedge the private debenture loan issued by the Parent Company for a nominal amount of $/000 61,000. The purpose of the instrument is to hedge both the exchange risk and interest rate risk, turning the loan from US dollars to euro, and from a fixed rate to a variable rate; the instrument is accounted for on a fair value hedge basis, with effects arising from the measurement recognised in profit or loss. As of 31 December 2017, the fair value of the instrument was equal to €/000 9,511. The net economic effect arising from the measurement of the instrument and underlying private debenture loan was equal to €/000 -359; sensitivity analysis of the instrument and its underlying, assuming a 1% increase and decrease in the shift of the variable rates curve, showed a potential impact on the Income Statement, net of the related tax effect, of €/000 8 and €/000 -10 respectively, assuming constant exchange rates; whereas assuming a 1% reversal and write-down of exchange rates, sensitivity analysis identified a potential impact on the Income Statement, net of the relative tax effect, of €/000 -20 and €/000 20 respectively;
- a Cross Currency Swap to hedge a loan relative to the Vietnamese subsidiary for $/000 4,369 (as of 31 December €/000 3,410) granted by International Finance Corporation. The purpose of the instruments is to hedge the exchange risk and partially hedge the interest rate risk, turning the loan from US dollars at a variable rate into Vietnamese Dong at a fixed rate, except for a minor

portion (24%) at a variable rate. As of 31 December 2017 the fair value of the instruments was negative by €/000 138. Sensitivity analysis of the instrument and its underlying, assuming a 1% increase and decrease in the shift of the variable rates curve, showed a potential impact on the Income Statement, net of the relative tax effect, of €/000 5 and €/000 -5 respectively, assuming constant exchange rates. Assuming a 1% reversal and write-down of the exchange rate of the Vietnamese Dong, sensitivity analysis of the instrument and its underlying identified a potential impact on the Income Statement, net of the relative tax effect, which was basically negligible.

	Fair Value
In thousands of euros	
Piaggio & C. S.p.A.	
Cross Currency Swap	9,511
Piaggio Vietnam	
Cross Currency Swap	138

G) Information on shareholders' equity

44. Share capital and reserves — €/000 385,060

Share capital — €/000 207,614

During the period, the nominal share capital of Piaggio & C. did not change.
On 19 April 2017 the new composition of share capital of Piaggio & C. S.p.A (fully subscribed and paid up) was registered at the relative Companies Register, following the cancellation of 3,054,736 treasury shares without any change to the share capital, resolved by the Extraordinary Shareholders' Meeting of 12 April 2017.
Therefore, as of 31 December 2017, the nominal share capital of Piaggio & C., fully subscribed and paid up, was equal to €207,613,944.37 divided into 358,153,644 ordinary shares.

Treasury shares — €/000 0

On 12 April 2017, the Extraordinary Shareholders' Meeting resolved to cancel 3,054,736 treasury shares. Therefore, as of 31 December 2017, Piaggio & C. did not hold any treasury shares.

Shares in circulation and treasury shares	2017	2016
no. of shares		
Situation as of 1 January		
Shares issued	361,208,380	361,208,380
Treasury portfolio shares	3,054,736	16,000
Shares in circulation	358,153,644	361,192,380
Movements for the period		
Cancellation of treasury shares	(3,054,736)	
Purchase of treasury shares		3,038,736
Situation as of 31 December		
Shares issued	358,153,644	361,208,380
Treasury portfolio shares		3,054,736
Shares in circulation	358,153,644	358,153,644

Share premium reserve — €/000 7,171

The share premium reserve as of 31 December 2017 was unchanged compared to 31 December 2016.

Legal reserve — €/000 19,095

The legal reserve as of 31 December 2017 had increased by €/000 700 as a result of the allocation of earnings for the previous year.

Financial instruments' fair value reserve — €/000 (320)

The financial instruments fair value reserve is negative and refers to the effects of cash flow hedge accounting in foreign currencies, interest and specific business transactions. These transactions are described in full in the note on financial instruments.

Dividends — €/000 19,698

The Shareholders Meeting of Piaggio & C. S.p.A. of 12 April 2017 resolved to distribute a dividend of 5.5 eurocents per ordinary share. During April this year, therefore, dividends were distributed to a total value of €/000 19,698. During 2016, dividends totalling €/000 17,962 were paid.

	Total amount		Dividend per share	
	2017 €/000	2016 €/000	2017 €	2016 €
Authorised and paid	19,698	17,962	0.055	0.05

Earnings reserve €/000 187,708

Capital and reserves of non-controlling interest €/000 (236)

The end of period figures refer to non-controlling interests in Aprilia Brasil Industria de Motociclos S.A.

45. Other components of the Statement of Comprehensive Income *€/000 (8,940)*

The figure is broken down as follows:

	Reserve for measurement of financial instruments	Group translation reserve	Earnings reserve	Group total	Share capital and reserves attributable to non-controlling interests	Total Other components of the Statement of Comprehensive Income
In thousands of euros						
As of 31 December 2017						
Items that will not be reclassified in the income statement						
Remeasurements of defined benefit plans			1,274	1,274		1,274
Total	**0**	**0**	**1,274**	**1,274**	**0**	**1,274**
Items that may be reclassified in the income statement						
Total translation gains (losses)		(9,742)		(9,742)	69	(9,673)
Portion of components of the Statement of Comprehensive Income of subsidiaries/associates valued with the equity method		(609)		(609)		(609)
Total profits (losses) on cash flow hedges	68			68		68
Total	**68**	**(10,351)**	**0**	**(10,283)**	**69**	**(10,214)**
Other components of the Statement of Comprehensive Income	**68**	**(10,351)**	**1,274**	**(9,009)**	**69**	**(8,940)**
As of 31 December 2016						
Items that will not be reclassified in the income statement						
Remeasurements of defined benefit plans			(2,672)	(2,672)		(2,672)
Total	**0**	**0**	**(2,672)**	**(2,672)**	**0**	**(2,672)**
Items that may be reclassified in the income statement						
Total translation gains (losses)		1,821		1,821	(63)	1,758
Portion of components of the Statement of Comprehensive Income of subsidiaries/associates valued with the equity method		(329)		(329)		(329)
Total profits (losses) on cash flow hedges	198			198		198
Total	**198**	**1,492**	**0**	**1,690**	**(63)**	**1,627**
Other components of the Statement of Comprehensive Income	**198**	**1,492**	**(2,672)**	**(982)**	**(63)**	**(1,045)**

The tax effect relative to other components of the Statement of Comprehensive Income is broken down as follows:

	As of 31 December 2017			As of 31 December 2016		
	Gross value	*Tax (expense) / benefit*	*Net value*	*Gross value*	*Tax (expense) / benefit*	*Net value*
In thousands of euros						
Remeasurements of defined benefit plans	1,539	(265)	1,274	(3,445)	773	(2,672)
Total translation gains (losses)	(9,673)		(9,673)	1,758		1,758
Portion of components of the Statement of Comprehensive Income of subsidiaries/ associates measured with the equity method	(609)		(609)	(329)		(329)
Total profits (losses) on cash flow hedges	89	(21)	68	92	106	198
Other components of the Statement of Comprehensive Income	**(8,654)**	**(286)**	**(8,940)**	**(1,924)**	**879**	**(1,045)**

H) Other information

46. Share-based incentive plans

As of 31 December 2017, there were no incentive plans based on financial instruments.

47. Fees for Directors, Statutory Auditors and Key Managers

For a complete description and analysis of fees of Directors, Statutory Auditors and Key Managers, reference is made to the remuneration report available from the registered office, and on the Company's website in the section "Governance".

	2017
In thousands of euros	
Directors	2,115
Statutory auditors	155
Key Managers	260
Total fees	**2,530**

48. Information on related parties

Revenues, costs, payables and receivables as of 31 December 2017 involving parent companies, subsidiaries and affiliated companies refer to the sale of goods or services which are a part of normal operations of the Group.
Transactions are carried out at normal market values, depending on the characteristics of the goods and services provided.
Information on transactions with related parties, including information required by Consob in its communication of 28 July 2006 n. DEM/6064293, is reported below.
The procedure for transactions with related parties, pursuant to article 4 of Consob Regulation no. 17221 of 12 March 2010 as amended, approved by the Board on 30 September 2010, is published on the institutional site of the Issuer www.piaggiogroup.com, under Governance.

Relations with Parent Companies

Piaggio & C. S.p.A. is controlled by the following companies:

Designation	Registered office	Type	% of ownership	
			As of 31 December 2017	As of 31 December 2016
IMMSI S.p.A.	Mantua - Italy	Direct parent company	50.0703	50.0621
Omniaholding S.p.A.	Mantua - Italy	Final parent company	0.1370	0.0858

Piaggio & C. S.p.A. is subject to the management and coordination of IMMSI S.p.A. pursuant to article 2497 et seq. of the Italian Civil Code. During the period, management and coordination comprised the following activities:

- as regards mandatory financial disclosure, and in particular the financial statements and reports on operations of the Group, IMMSI has produced a group manual containing the accounting standards adopted and options chosen for implementation, in order to give a consistent and fair view of the consolidated financial statements.
- IMMSI has defined procedures and times for preparing the budget and in general the business plan of Group companies, as well as final management analysis to support management control activities.
- IMMSI has also provided services for the development and management of Company assets, with a view to optimising resources within the Group, and provided property consultancy services and other administrative services.
- IMMSI has provided consultancy services and assistance for the Company and subsidiaries concerning extraordinary financing operations, organisation, strategy and coordination, as well as services intended to optimise the financial structure of the Group.

In 2016, for a further three years, the Parent Company signed up to the National Consolidated Tax Mechanism pursuant to articles 117 to 129 of the Consolidated Income Tax Act (T.U.I.R.) of which IMMSI S.p.A. is the consolidating company, and to whom other IMMSI Group companies report to. The consolidating company determines a single global income equal to the algebraic sum of taxable amounts (income or loss) realised by individual companies that opt for this type of group taxation.
The consolidating company recognises a receivable from the consolidated company which is equal to the corporate tax to be paid on the taxable income transferred by the latter. Whereas, in the case of companies reporting tax losses, the consolidating company recognises a payable related to corporate tax on the portion of loss actually used to determine global overall income, or calculated as a decrease of overall income for subsequent tax periods, according to the procedures in article 84, based on the criterion established by the consolidation agreement.
Under the National Consolidated Tax Mechanism, companies may, pursuant to article 96 of Presidential Decree no. 917/86, allocate the excess of interest payable which is not deductible to one of the companies so that, up to the excess of Gross Operating Income produced in the same tax period by other subjects party to the consolidation, the amount may be used to reduce the total income of the Group.

Piaggio & C. S.p.A. has undertaken a rental agreement for offices owned by Omniaholding S.p.A.. This agreement, signed in normal market conditions, was previously approved by the Related Parties Transactions Committee, as provided for by the procedure for transactions with related parties adopted by the Company.
Piaggio Concept Store Mantova Srl has a lease contract for its sales premises and workshop with Omniaholding S.p.A.. This agreement was signed in normal market conditions.
Omniaholding S.p.A. has undersigned Piaggio & C. bonds for a value of €2.9 million on the financial market, and collected related interest.

Pursuant to article 2.6.2, section 13 of the Regulation of Stock Markets organised and managed by Borsa Italiana S.p.A., the conditions as of article 37 of Consob regulation no. 16191/2007 exist.

Transactions with Piaggio Group companies

The main relations with subsidiaries, eliminated in the consolidation process, refer to the following transactions:

Piaggio & C. S.p.A.

› sells vehicles, spare parts and accessories to sell on respective markets, to:
  · Piaggio Hrvatska
  · Piaggio Hellas
  · Piaggio Group Americas
  · Piaggio Vehicles Private Limited
  · Piaggio Vietnam
  · Piaggio Concept Store Mantova
› sells components to:
  · Piaggio Vehicles Private Limited
  · Piaggio Vietnam
› grants licences for rights to use the brand and technological know how to:
  · Piaggio Vehicles Private Limited
  · Piaggio Vietnam
› provides support services for scooter and engine industrialisation to:
  · Piaggio Vehicles Private Limited
  · Piaggio Vietnam
› provides support services for staff functions to other Group companies;
› issues guarantees for the Group's subsidiaries, for medium-term loans.

Piaggio Vietnam sells vehicles, spare parts and accessories, which it has manufactured in some cases, for sale on respective markets, to:
› Piaggio Indonesia
› Piaggio Group Japan
› Piaggio & C. S.p.A.
› Foshan Piaggio Vehicles Tecnologies R&D

Piaggio Vehicles Private Limited sells vehicles, spare parts and accessories, for sale on respective markets, and components and engines to use in manufacturing, to Piaggio & C. S.p.A..

Piaggio Hrvatska, Piaggio Hellas, Piaggio Group Americas and Piaggio Vietnam

› distribute vehicles, spare parts and accessories purchased by Piaggio & C. on their respective markets.

Piaggio Indonesia and Piaggio Group Japan

› provide a vehicle, spare part and accessory distribution service to Piaggio Vietnam for their respective markets.

Piaggio France, Piaggio Deutschland, Piaggio Limited, Piaggio España and Piaggio Vespa

› provide a sales promotion service and after-sales services to Piaggio & C. S.p.A. for their respective markets.

Piaggio Asia Pacific

› provides a sales promotion service and after-sales services to Piaggio Vietnam in the Asia Pacific region.

Piaggio Group Canada
› provides a sales promotion service and after-sales services to Piaggio Group Americas in Canada.

Foshan Piaggio Vehicles Tecnologies R&D provides to:
› Piaggio & C. S.p.A.:
  • component and vehicle design/development service;
  • scouting of local suppliers;
› Piaggio Vietnam:
  • scouting of local suppliers;
  • a distribution service for vehicles, spare parts and accessories on its own market.

Piaggio Advanced Design Center:
› provides a vehicle and component research/design/development service to Piaggio & C. S.p.A.

Aprilia Racing:
› a racing team management service;
› vehicle design service to Piaggio & C..

Atlantic 12
› rents a property to Piaggio & C. S.p.a.

Relations between Piaggio Group companies and JV Zongshen Piaggio Foshan Motorcycle Co. Ltd.
Main intercompany relations between Piaggio Group companies and JV Zongshen Piaggio Foshan Motorcycle Co. Ltd, refer to the following transactions:

Piaggio & C. S.p.A.
› grants licences for rights to use the brand and technological know how to Zongshen Piaggio Foshan Motorcycle Co. Ltd..

Foshan Piaggio Vehicles Tecnologies R&D
› sells vehicles to Zongshen Piaggio Foshan Motorcycle Co. Ltd. for sale on the Chinese market.

Zongshen Piaggio Foshan Motorcycle Co. Ltd
› sells vehicles, spare parts and accessories, which it has manufactured in some cases, to the following companies for sale on their respective markets:
  • Piaggio Vietnam
  • Piaggio & C. S.p.A.

The table below summarises relations described above and financial relations with parent companies, subsidiaries and affiliated companies as of 31 December 2017 and relations during the year, as well as their overall impact on financial statement items.

As of 31 December 2017	Fondazione Piaggio	Zongshen Piaggio Foshan	IMMSI Audit	Pontech - Pontedera & Tecnologia	Is Molas	Studio Girelli	Trevi	Omnia-holding	IMMSI	Total	% of accounting item
In thousands of euros											
Income statement											
Revenues from sales		1,777								1,777	0.13%
Costs for materials		23,508								23,508	2.97%
Costs for services	24		733		9	34	19		1,251	2,070	1.00%
Insurance									35	35	0.92%
Leases and rentals								222	1,389	1,611	9.27%
Other operating income		254	54						87	395	0.37%
Other operating costs		4							12	16	0.07%
Write-down/ Impairment of investments		730		(14)						716	86.79%
Financial income									21	21	1.61%
Borrowing costs								134		134	0.38%
Taxes									(1,195)	(1,195)	5.95%
Assets											
Other non-current receivables	115									115	0.95%
Current trade receivables		2,148							2	2,150	2.56%
Other current receivables		904	45						9,080	10,029	37.26%
Liabilities											
Financial liabilities falling due after one year								2,900		2,900	0.65%
Other non-current payables		12								12	0.21%
Current trade payables		8,811			10	16	8	39	491	9,375	2.28%
Other current payables	24	190							7,649	7,863	16.94%

49. Contract commitments and guarantees

Contract commitments of the Piaggio Group are summarised based on their expiry.

	In 1 year	Between 2 and 5 years	After 5 years	Total
In thousands of euros				
Operating leases	3,741	4,432	2,089	**10,262**
Other commitments	15,279	315	-	**15,594**
Total	**19,020**	**4,748**	**2,089**	**25,857**

The main guarantees issued by banks on behalf of Piaggio & C. S.p.A in favour of third parties are listed below:

Type	Amount €/000
BNL guarantee in favour of FOTON International Trade, for the signing of the FOTON – PIAGGIO contract	1,000
A guarantee of BCC-Fornacette issued to Pisa Customs Authorities for handling Piaggio goods at the Pisana docks and at Livorno Port	200
A BNL guarantee in favour of Aldi Immobiliare for the sale of the property located in the municipality of Noale	300
A Banca di Pisa guarantee in favour of Motoride The Second to reimburse VAT following the deductible tax surplus	298
Guarantee of BCC-Fornacette issued for the Group to Poste Italiane – Rome to guarantee contract obligations for the supply of vehicles	1,321
Guarantee of Banco di Brescia issued to the local authorities of Scorzè, to guarantee payment of urbanisation and construction charges relative to the Scorzè site	166
Guarantee of Banca Intesa San Paolo issued to the Ministry of the Interior of Algeria, to guarantee contract obligations for the supply of vehicles	140
Guarantee of Banca Intesa San Paolo issued to the Ministry of the Defense of Algeria, to guarantee contract obligations for the supply of vehicles	158

50. Disputes

Piaggio opposed the proceedings undertaken by the consumer association Altroconsumo, in accordance with article 140 of the Consumer Code, opposing, also with the filing of a specific technical report written by an independent expert, the alleged existence of a design defect and hazardous nature of the Gilera Runner first series, which was manufactured and sold by Piaggio from 1997 to 2005. In the case put forward by Altroconsumo, the erroneous design would make the vehicle in question more hazardous in the event of an accident with frontal impact, referring, as an example to two accidents occurring in 1999 and 2009 to Mr Gastaldi and Mr Stella respectively, following which the Gilera Runner burst into flames. The trial Court rejected the claim, ordering Altroconsumo to pay Piaggio's legal fees. Following the appeal made by Altroconsumo, the Board ordered a technical appraisal by a Court-appointed expert to ascertain the existence of the design defect claimed by Altroconsumo. Following the results of the appraisal and hearing held on 18 December 2012, the Board informed the parties on 29 January 2013 that Altroconsumo's appeal had been upheld, ruling Piaggio to (i) inform owners of the hazardous nature of the product, (ii) publish the ruling of the Board in some newspapers and specialised magazines (iii) recall the product. The effects of the ruling were subsequently suspended by the Court of Pontedera with a ruling ("inaudita altera parte") of 28 March 2013, concerning the appeal made by Piaggio, in accordance with article 700 of the Italian Code of Civil Proceedings. Following the cross examination with Altroconsumo, the suspension ruling was confirmed by the Court of Pontedera on 3 June 2013. Altroconsumo appealed against the suspension ruling before the Board at the Court of Pisa. The Board therefore ordered a new Court-appointed expert's report, having noted contradictions between i) the report of the Court-appointed expert Professor Cantore in proceedings brought by Altroconsumo and ii) the report of the Court-appointed expert Professor Cantore in proceedings brought by Mr Stella in a separate lawsuit for the compensation for damages. Activities of the Court-appointed expert were completed and the related report was filed in December 2014. The results of the Court-appointed expert's report were discussed at the hearing of 19 January 2015, at the end of which the Court of Pisa upheld the Court order issued on 29 January 2013. Piaggio complied with the order by publishing a notice in the daily newspapers and launching a recall campaign for its vehicles pending the outcome of the proceedings, as described below.
Piaggio took action before the Court of Pontedera (now the Court of Pisa) for a final dismissal of the ruling of the Court of Pisa of 29 January 2013. Upholding Piaggio's appeal, the Court ordered a new expert report on the product, appointing Professor Belingardi of Turin Polytechnic as the Court-appointed expert, who was sworn in during the hearing of 14 July 2015. On 10 March 2017, the Court-appointed

expert filed his report. The hearing for discussion was held on 6 April 2017. The Court adjourned the case to 3 October 2017 for specifying the conclusions. The proceedings ended with a settlement agreement signed by the parties on 8 September 2017, under which each of the parties withdrew their claims.

Canadian Scooter Corp. (CSC), sole distributor of Piaggio for Canada, summoned Piaggio & C. S.p.A., Piaggio Group Americas Inc. and Nacional Motor S.A to appear before the Court of Toronto (Canada) in August 2009 to obtain compensation for damages sustained due to the alleged infringement of regulations established by Canadian law on franchising (the Arthur Wishart Act). The proceedings have been suspended at present, as attempts at settlement are still pending, due to no action being taken by the opposing party.

In 2010, Piaggio took action to establish an arbitration board through the Arbitration Chamber of Milan, for a ruling against some companies of the Case New Holland Group (Italy, Netherlands and the USA), to recover damages under contractual and non-contractual liability relating to the execution of a supply and development contract of a new family of utility vehicles (NUV). In the award notified to the parties on 3 August 2012, the Board rejected the claims made by the Company. The Company appealed against this award before the Appeal Court of Milan, which established the first hearing for 4 June 2013. The hearing for the admission of the facts scheduled for 12 January 2016 was adjourned to 26 January 2016. With the ruling of 8 June 2016, the Court of Appeal of Milan rejected Piaggio's appeal. The Company filed an appeal with the Court of Cassation.

Da Lio S.p.A., by writ of summons served on 15 April 2009, summoned the Parent Company before the Court of Pisa in order to claim compensation for the alleged damages sustained for various reasons as a result of the termination of supply relationships. The Company appeared before the Court requesting the rejection of all opposing requests. Da Lio requested a joinder with the opposition concerning the injunction obtained by Piaggio to return the moulds retained by the supplier at the end of the supply agreement. Rulings were joined and with a ruling issued pursuant to article 186-ter of the Italian Code of Civil Proceedings, on 7 June 2011, Piaggio was ordered to pay the sum of Euro 109,586.60, plus interest related to sums which were not disputed. During 2012, testimonial evidence was challenged. After reaching a decision at the end of the examination of witnesses, the Court admitted a technical/accounting court-appointed expert requested by Da Lio to quantify the amount of interest claimed by Da Lio and the value of stock. The expert appraisal was completed at the end of 2014. At the hearing of 12 February, the Court arranged for a mediation hearing for 23 April 2015. Following the hearing and since no conciliation was reached, the case was adjourned to 23 September 2016 for admission of the facts and therefore was not ruled on. Subsequently, the Court of Pisa re-assigned the case, which will be examined by a new Judge.

In June 2011 Elma srl, a Piaggio dealer since 1995, started two separate proceedings against the Parent Company, claiming the payment of approximately €2 million for alleged breach of the sole agency ensured by Piaggio for the Rome area and an additional €5 million for damages suffered for alleged breach and abuse of economic dependence by the Company. Piaggio appeared before the Court in the proceedings undertaken by Elma, fully disputing the claims of the latter and requesting that Elma be ordered to settle the outstanding amounts due of approximately €966,000.
During the case, Piaggio requested the enforcement of bank guarantees that ensured against the risk of default by the dealer issued in its favour by three banks. Elma attempted to stop enforcement of the guarantees with preventive proceedings before the Court of Pisa (Pontedera section): the proceedings ended in favour of Piaggio that collected the amounts of the guarantees (over €400,000). Trial proceedings were joined and a hearing was set for 24 April 2013 to examine evidence. After reaching a decision at the aforesaid hearing, the Court rejected requests for preliminary examination of Elma and set the hearing for 17 December 2015 for admission of the facts, which was adjourned to 3 March 2016 but was then not held as the judge was transferred. The case was re-assigned to a new judge, who set the hearing for oral discussion for 19 July 2018. We note that, as regards these facts, Elma has also brought a case against a former senior manager of the Company before the Court of Rome, claiming compensation for the alleged damages suffered: Piaggio appeared before the Court, requesting, among

other things, the joinder of the outstanding proceedings before the Court of Pisa. At the hearing of 27 January 2014, the Court tookthe preliminary exceptions under advisement and did not admit preliminary briefs. The hearing admission of the facts set for 21 December 2015 and subsequently adjourned, was not held as the Court, on petition of Elma, re-opened the preliminary investigation, admitting testimonial evidence and setting the hearing for 25 May 2016. On this date, examination of the witnesses began and the hearing was adjourned to 24 October 2016 to continue the preliminary investigation. The Court set the hearing for 11 April 2017 to reach a settlement between the parties, which was not successful. The Court therefore admitted an expert accounting appraisal requested by Elma, albeit with a subject matter that was far more limited than the petition of the opposing party. The appraisal is underway.

By writ of summons served on 29 May 2007, Gammamoto S.r.l. in liquidation, an Aprilia licensee in Rome, started a legal action against the Parent Company before the Court of Rome for contractual and non-contractual liability. The Company appeared before the Court fully challenging the validity of Gammamoto's claims and raising the lack of jurisdiction of the Judge in charge. The Court, accepting the petition filed by the Company, declared its lack of jurisdiction with regards to the dispute. Gammamoto has continued proceedings through the Court of Venice. The Court admitted testimonial evidence and evidence for examination requested by the parties, establishing the hearing for the preliminary investigation on 12 November 2012. After defining the closing arguments of the hearing of 26 June 2013, the terms for final statements and relative replies were granted, and the case was not ruled on. The Court of Venice issued a ruling in favour of Piaggio, filed on 17 February 2014. Gammamoto appealed against such ruling and at the first hearing on 23 October 2014 the Court took the decision under advisement without proceeding with the preliminary investigation requested by the opposing party, and in particular without ordering a technical appraisal by an expert. The hearing for the admission of the facts has been set for 1 April 2019.

The company TAIZHOU ZHONGNENG summoned Piaggio before the Court of Turin, requesting the annulment of the Italian part of the 3D trademark registered in Italy protecting the form of the Vespa, as well as a ruling denying the offence of the counterfeiting of the 3D trademark in relation to scooter models seized by the Italian tax police (Guardia di Finanza) at the 2013 EICMA (Esposizione Internazionale Ciclo e Motociclo, the International Motorcycle show) trade show, based on the petition filed by Piaggio, in addition to compensation for damages. At the first hearing for appearance of the parties, set for 4 February 2015 and adjourned to 5 February 2015, the Court lifted reservations, arranging for a Court-appointed expert's report to establish the validity of the Vespa 3D trademark and the infringement or otherwise of such trademark by Znen scooter models, setting the hearing for the Court-appointed expert to be sworn in on 18 March 2015, which was adjourned to 29 May 2015. At that hearing, the Court set the deadline for filing the final expert's report for 10 January 2016, and scheduled the discussion hearing for 3 February 2016. During this hearing, the Court, considering the preliminary investigation as completed, set the hearing for admission of the facts for 26 October 2016. By a ruling of 6 April 2017, the Court of Turin upheld in full the validity of the 3D Vespa trademark of Piaggio, and the counterfeiting of said trademark by the Znen "VES" scooter.
The Court of Turin also recognised the protection of Vespa in accordance with copyright, confirming the creative nature and artistic value of its form, declaring that the scooter "VES" by Znen infringes Piaggio copyright. The opposing party appealed against this ruling before the Appeal Court of Turin, where the first hearing took place on 24 January 2018. The case has been adjourned to 13 June 2018 for the admission of the facts.

By writ of summons of 27 October 2014 Piaggio summoned the companies PEUGEOT MOTOCYCLES ITALIA s.p.a., MOTORKIT s.a.s. di Turcato Bruno e C., GI.PI. MOTOR di Bastianello Attilio and GMR MOTOR s.r.l. before the Court of Milan to obtain the recall of Peugeot "Metropolis" motorcycles from the market, and to establish the infringement of some European patents and designs owned by Piaggio, as well as a ruling for the compensation for damages for unfair competition, and the publication of the ruling in some newspapers.
In the hearing for the first appearance of 4 March 2015, the Court set the deadline for brief statements pursuant to article 183.6 of the Italian Code of Civil Procedure and appointed an expert. The hearing for

swearing in the expert took place on 6 October 2015. On 23 December 2016, the expert submitted his provisional report to the parties and the final report was filed on 2 May 2017. The Court adjourned the case to the hearing of 28 February 2018 for the admission of the facts. During the hearing of 28 February 2018, the Court ordered an addition to the technical appraisal, arranging for a new hearing for 20 March 2018.

Moreover, Piaggio started a similar legal action against Peugeot Motocycles SAS before the Tribunal de Grande Instance in Paris. As a result of the Piaggio action ("Saisie Contrefaçon"), several documents were obtained by a bailiff and tests carried out to prove the infringement of the MP3 motorcycle by the Peugeot "Metropolis" motorcycle. The hearing for the appointment of the expert took place on 8 October 2015 for the examination of the findings of the Saisie Contrefaçon. On 3 February 2016 the hearing took place to discuss the preliminary briefs exchanged between the parties. The hearing to assess preliminary findings, set for 29 September 2016, was adjourned to 9 February 2017 and then to 6 September 2017. In February 2018, an expert appraisal was filed defining documents based on which a ruling will be made on the counterfeiting alleged by Piaggio.

PEUGEOT MOTOCYCLES SAS summoned Piaggio to appear before the Court of Milan, claiming that the patent based on which Piaggio motociclo filed a claim for counterfeiting would have been voidable, due to a previously existing Japanese patent. Piaggio appeared in court, claiming that the action taken by Peugeot could not proceed further and that the patent application referred to by Peugeot was irrelevant. During the hearing of 20 February 2018, the Court established the deadlines for filing preliminary briefs and the case was adjourned to the hearing of 22 May 2018 for discussion.

In November 2017, the Company filed two petitions with the Court of Beijing (People's Republic of China) on the infringement and counterfeiting of some trademarks and designs relative to the "Scarabeo" vehicle by Chinese companies which are part of Jincheng Group Co., Ltd. The petitions were served to the oppositing parties and the preliminary investigation is underway.

The amounts allocated by the Company for the potential risks deriving from the current dispute appear to be consistent with the predictable outcome of the disputes.

As regards tax disputes involving the Parent Company Piaggio & C. S.p.A., two appeals are ongoing against two tax assessments notified to the Company and related to the 2002 and 2003 tax years respectively. These assessments originate from the Italian Revenue Agency accessing the Parent Company's offices in 2007, following information filed in the final report of findings issued in 2002 following a general assessment.
The Parent Company obtained a favourable ruling concerning these assessments, in both the first and second instance, and with reference to both tax periods. The Italian Revenue Agency filed an appeal with the Court of Cassation and the Company filed related appeals against it on 27 May 2013, with reference to the tax litigation made related to the 2002 tax period, and on 10 March 2014, for the tax litigation made related to the 2003 tax period. The dates for the hearings still have to be set.
The Company won the appeals before the Income Tax Appellate Tribunal which were filed against assessment orders received on completion of the assessment of income generated by Piaggio & C. S.p.A. in India during the 2009-2010 and 2010-2011 Indian tax periods, involving sums for approximately €1.3 million and €1.1 million respectively, including interest; at present, the Company is waiting for the local tax authorities to challenge the ruling or to drop the case. As regards the appeal filed with the Income Tax Appellate Tribunal against the assessment order received on completion of the assessment related to the 2011-2012 Indian tax period, concerning the same matter and involving sums of approximately €1 million, including interest, the Company is waiting for the date of the hearing to be set. As regards the appeal before with the Income Tax Appellate Tribunal against the assessment order received on completion of the assessment related to the 2012-2013 Indian tax period, concerning the same matter and involving sums of approximately €0.9 million, including interest, the Company is waiting for the date of the hearing to be set.
In compliance with local laws, the Parent Company has already paid part of the amounts related to the appeals to the Indian tax authorities, for a total of €0.7 million; these amounts will be paid back to the

Company if the rulings on the appeals are in its favour.

The Company has not considered allocating provisions for these disputes, in view of the positive opinions expressed by consultants appointed as counsel. Furthermore, based on the above mentioned opinions, the Company considers as probable the favourable outcome of the rulings and the subsequent reimbursement of amounts paid with reference to the Indian disputes.

The main tax disputes of other Group companies concern Piaggio Vehicles PVT Ltd, Piaggio France S.A. and Piaggio Hellas S.A..

With reference to the Indian subsidiary, some disputes concerning different tax years from 1998 to 2015 are ongoing related assessments on direct and indirect taxes and for a part of which, considering positive opinions expressed by consultants appointed as counsel, no provisions was recognised in the financial statements. The Indian company has already paid part of the amounts challenged, as required by local laws, that will be paid back to it when proceedings are successfully concluded in its favour.

In December 2012, a ruling in favour of the French company by the Commission Nationale des Impots directes et des taxes sur le chiffre d'affaires, a consulting body consulted during the pre-litigation procedure in relation to the disputes with the French tax authorities arising after a general assessment on the 2006 and 2007 periods. However, the French tax authorities upheld their claims against the Company, requesting the latter to pay the amounts assessed and issued the related formal notices (one as regard withholding tax and the other concerning corporate income taxes and VAT). The amount concerned, equal to approximately €3.7 million, including interest, was paid in full to the French tax authorities.
The Company appealed against the notices and appeals were filed against the findings on withholding tax and corporate income tax, before the Tribunal Administratif. Appeals were lodged against decisions taken against the Company on 7 September 2015 and 8 July 2016 before the Cour Administrative d'Appel de Versailles; the hearing was set for 23 January 2018.
The Company has not considered allocating provisions, based on the positive opinions expressed by consultants appointed as counsel, as well as the opinion of the above Commission. Furthermore, based on the above mentioned opinions, the Company considers as likely a favourable outcome of the rulings and subsequent reimbursement of amounts paid.

On 8 April 2015, Piaggio Hellas S.A. received a Tax Report following a general assessment for the 2008 tax period, with findings for approximately €0.5 million, including sanctions. On 12 June 2015, the Company appealed against the report with the Tax Center – Dispute Resolution Department. Following the unfavourable outcome of this appeal, the Company appealed before the Administrative Court of Appeal, which ruled in favour of the local tax authorities in a ruling of 27 April 2017. The Company therefore appealed against such ruling before the Supreme Court. The amount in question was paid in full to the Greek tax authorities; based on positive opinions from professionals appointed as counsel, the Company considers as likely a favourable outcome and the subsequent reimbursement of amounts paid.

Finally, we note that on 22 December 2017, Piaggio & C. S.p.A. received a notice of assessment issued by the Revenue Agency - Regional Department of Tuscany - Major Taxpayers Section - related to the 2012 tax period and concerning transfer pricing for corporate income tax and regional production tax purposes. The company is assessing actions to take, with specifically appointed consultants, convinced that it has always operated in full compliance with the law and with the OECD guidelines, and without any tax manipulation.

51. Significant non-recurring events and operations

For 2017 and 2016, no significant non-recurrent transactions were recorded.

52. Transactions arising from atypical and/or unusual transactions

During 2017 and 2016, the Group did not record any significant atypical and/or unusual transactions, as defined by CONSOB Communication DEM/6037577 of 28 April 2006 and DEM/6064293 of 28 July 2006.

53. Events occurring after the end of the period

No events to be reported occurred after the end of the period.

54. Authorisation for publication

This document was published on 23 March 2018 authorised by the Chairman and Chief Executive Officer.

Milan, 28 February 2018

for the Board of Directors

Chairman and Chief Executive Officer
Roberto Colaninno

Attachments

Piaggio Group companies

Companies and material investments of the Group are listed below.
The list presents the companies divided by type of control and method of consolidation.
The following are also shown for each company: the company name, the registered office, the country of origin and the share capital in the original currency, in addition to the percentage held by Piaggio & C. S.p.A. or by other subsidiaries. It should be noted that the percentage share of ownership corresponds to the percentage share of the voting rights exercised at Ordinary General Meetings of Shareholders.

List of companies included in the scope of consolidation on a line-by-line basis as of 31 December 2017

Company name	Registered office	Country	Share capital	Currency	% of the holding			% total interest
					Direct	Indirect	Means	
Parent company								
Piaggio & C. S.p.A.	Pontedera (Pisa)	Italy	207,613,944.37	Euro				
Subsidiaries								
Aprilia Brasil Industria de Motociclos S.A.	Manaus	Brazil	2,020,000.00	R$		51%	Aprilia World Service Holding do Brasil Ltda	51%
Aprilia Racing S.r.l.	Pontedera (Pisa)	Italy	250,000.00	Euro	100%			100%
Aprilia World Service Holding do Brasil Ltda.	São Paulo	Brazil	2,028,780.00	R$		99.999950709%	Piaggio Group Americas Inc	99.999950709%
Atlantic 12- Property Investment Fund	Rome	Italy	6.060.563,49	Euro	100%			100%
Foshan Piaggio Vehicles Technology Research and Development Co Ltd	Foshan City	China	10,500,000.00	RMB		100%	Piaggio Vespa B.V.	100%
Nacional Motor S.A.	Barcelona	Spain	60,000.00	Euro	100%			100%
Piaggio Advanced Design Center Corp.	California	USA	100,000.00	USD	100%			100%
Piaggio Asia Pacific PTE Ltd.	Singapore	Singapore	100,000.00	sin$		100%	Piaggio Vespa B.V.	100%
Piaggio China Co. LTD	Hong Kong	China	12,500,000 auth. capital (12,120,000 subscribed and paid up))	USD	99.999990%			99.999990%
Piaggio Concept Store Mantova S.r.l.	Mantua	Italy	100,000.00	Euro	100%			100%
Piaggio Deutschland GmbH	Düsseldorf	Germany	250,000.00	Euro		100%	Piaggio Vespa B.V.	100%
Piaggio Espana S.L.U.	Alcobendas	Spain	426,642.00	Euro	100%			100%
Piaggio Fast Forward Inc.	Boston	USA	12,442	USD	86%			86%
Piaggio France S.A.S.	Clichy Cedex	France	250,000.00	Euro		100%	Piaggio Vespa B.V.	100%
Piaggio Group Americas Inc	New York	USA	2,000.00	USD		100%	Piaggio Vespa B.V.	100%
Piaggio Group Canada Inc	Toronto	Canada	10,000.00	CAD$		100%	Piaggio Group Americas Inc	100%
Piaggio Group Japan	Tokyo	Japan	99,000,000.00	Yen		100%	Piaggio Vespa B.V.	100%
Piaggio Hellas S.A.	Athens	Greece	1,004,040.00	Euro		100%	Piaggio Vespa B.V.	100%
Piaggio Hrvatska D.o.o.	Split	Croatia	400,000.00	HKD		100%	Piaggio Vespa B.V.	100%
Piaggio Limited	Bromley Kent	United Kingdom	250,000.00	GBP	0.0004%	99.9996%	Piaggio Vespa B.V.	100%
Piaggio Vehicles Private Limited	Maha-rashtra	India	341.153.300,00	INR	99.9999971%	0.0000029%	Piaggio Vespa B.V.	100%
Piaggio Vespa B.V.	Breda	Holland	91,000.00	Euro	100%			100%
Piaggio Vietnam Co Ltd	Hanoi	Vietnam	64,751,000,000.00	VND	63.5%	36.5%	Piaggio Vespa B.V.	100%
PT Piaggio Indonesia	Jakarta	Indonesia	4,458,500,000.00	Rupiah	1%	99%	Piaggio Vespa B.V.	100%

List of companies included in the scope of consolidation with the equity method as of 31 December 2017

Company name	Registered office	Country	Share capital	Currency	% of the holding			% total interest
					Direct	Indirect	Means	
Zongshen Piaggio Foshan Motorcycle Co. Ltd	Foshan City	Cina	29,800,000.00	USD	32.50%			45%
						12.50%	Piaggio China Co. LTD	

List of investments in affiliated companies as of 31 December 2017

Company name	Registered office	Country	Share capital	Currency	% of the holding			% total interest
					Direct	Indirect	Means	
Depuradora D'Aigues de Martorelles Soc. Coop. Catalana Limitada	Barcelona	Spain	60,101.21	Euro		22%	Nacional Motor S.A.	22%
Immsi Audit S.c.a.r.l.	Mantua	Italy	40,000.00	Euro	25%			25%
Pont - Tech, Pontedera & Tecnologia S.c.r.l.	Pontedera (Pisa)	Italy	884,160.00	Euro	20.45%			20.45%
S.A.T. Societé d'Automobiles et Triporteurs S.A.	Tunis	Tunisia	210,000.00	TND		20%	Piaggio Vespa B.V.	20%

Information pursuant to article 149 duodecies of the Consob Regulation on Issuers

The following statement was prepared pursuant to article 149 duodecies of the Consob Regulation on Issuers and indicates the fees for 2017 for auditing services and other services provided by the same independent auditors and entities belonging to the auditing firm's network.

Type of service	Subject providing the service	Recipient	Fees for 2017
In euro			
Auditing services	PWC	Parent Company Piaggio & C	363,870
	PWC	Subsidiaries	111,934
	PWC network	Subsidiaries	369,874
Auditing services DNF/CSR	PWC	Parent Company Piaggio & C	54,000
Certification services	PWC	Parent Company Piaggio & C	10,000
	PWC network	Subsidiaries	45,520
Other services	PWC	Parent Company Piaggio & C	192,000
	PWC	Subsidiaries	14,000
Total			**1,161,198**

N.B. Sums of subsidiaries operating in currencies other than the euro and agreed on in a local currency have been converted to the average exchange rate of 2017.


TUONO

Certification of the Consolidated Financial Statements pursuant to article 154-bis of Italian Legislative Decree no. 58/98

1. The undersigned Roberto Colaninno (Chairman and Chief Executive Officer) and Alessandra Simonotto (Appointed Executive) of Piaggio & C. S.p.A. hereby certify, also in consideration of article 154-bis, sections 3 and 4, of Legislative Decree no. 58 of 24 February 1998:
   › the appropriateness with regard to the company's characteristics and
   › the actual application of administrative and accounting procedures for the formation of the Consolidated Financial Statements as of 31 December 2017.

2. With regard to the above, no relevant aspects are to be reported.

3. Moreover
   3.1 the Consolidated Financial Statements:

   a. have been prepared in compliance with the international accounting standards endorsed by the European Community pursuant to regulation (EC) no. 1606/2002 of the European Parliament and Council of 19 July 2002;

   b. correspond to accounting records;

   c. give a true and fair view of the consolidated statement of financial position and results of operations of the Issuer and of all companies included in the scope of consolidation;

   3.2 The Report on Operations includes reliable analysis of the trend of operations and operating results, as well as the situation of the Issuer and companies included in the scope of consolidation, as well as a description of main risks and uncertainties to which they are exposed.

Date: 28 February 2017

Chairman and Chief Executive Officer | **Executive in charge**

Report of the Independent Auditors on the Consolidated Financial Statements

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Piaggio & C. SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Piaggio Group (the Group), which comprise the consolidated statement of financial position as of 31 December 2017, the consolidated income statement, consolidated statement of comprehensive income, changes in consolidated shareholders' equity, consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Piaggio & C. SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key audit matters	***Auditing procedures performed in response to key audit matters***
Investments in development costs, industrial patent and intellectual property rights	
"Note D16) to the consolidated financial statements Intangible assets" During the financial year 2017, the Group made investments amounting to Euro 57.9 million, mainly in relation to the study of new vehicles and new engines which will feature as the future products in the 2017-2019 range. The net book value as of 31 December 2017 of development costs and industrial patent rights amounted to Euro 158.5 million, equal to approximately 10 per cent of total assets. Given the size of the annual investments and the high degree of professional judgement required to verify the compliance with the requirements of international accounting standard "IAS 38 – Intangible Assets" adopted by the European Union, we considered it necessary to focus on this specific financial statement area. Management's main estimates relate to the technical feasibility to complete the product being developed, the intention to complete the product for sale, as well as the existence of the future cash flows from the sale of the product that are adequate to support the future recoverability of the costs capitalised and recorded in the financial statements.	We obtained an understanding of and evaluated the procedure adopted by the Piaggio Group for capitalising development costs, industrial patent and intellectual property rights. We then obtained details of the costs capitalised by project, and analysed, on a sample basis, the increases and decreases during the year with particular attention to compliance with the requirements of international accounting standard "IAS 38 – Intangible Assets" adopted by the European Union for the capitalisation of internally generated intangible assets. Our procedures included discussions with management aimed at understanding the characteristics of the various projects. We also verified, on a sample basis, the estimated future cash flows and management's subsequent monitoring of the estimated future cash flows, which occurs at least once a year.
Goodwill	
"Note D16) to the consolidated financial statements Intangible assets" Goodwill, which amounted to Euro 447 million as of 31 December 2017, is considered a significant item. Given the complex valuation processes in respect of a number of variables and the high degree of professional judgement required for this financial statement area, we paid special attention to	We obtained an understanding of and evaluated the allocation process of goodwill to the three cash generating units on the basis of the current organisational structure, which did not change compared with the previous years. We also obtained an understanding of and evaluated the estimates made by management with regard to the expected cash flows over a four-year period, inferred from budget data for 2018 and

management's estimates relating to the recoverability of the goodwill recognised in the financial statements in accordance with international accounting standard "IAS 36 – Impairment of Assets" adopted by the European Union. The main activities carried out by management were related to the confirmation of the allocation of goodwill to the three cash generating units considering the current organisational structure consisting of three geographic areas, the estimate of the expected future cash flows, the methods used to calculate the discount rate and the steady growth rate of the financial cash flows beyond the reference time period.

supplemented by forecast data for 2019-2021. As part of this process we examined sector studies and reviews.
Furthermore, with the support of PwC network experts, we retraced the methods used to calculate the discount rate and of the steady growth rate of financial cash flows beyond the time period of the plan approved by management. The analysis was specifically focused on the three cash generating units identified by management, represented by the areas "EMEA and Americas", "India" and "Asia Pacific 2W". Finally, with the support of PwC network experts, we conducted sensitivity analyses in relation to the significant assumptions adopted by management in order to determine whether there was any impairment of goodwill.

Assessment of the recoverability of deferred tax assets

"Note D19) to the consolidated financial statements Deferred tax assets"

Deferred tax assets in the consolidated financial statements of the Piaggio Group as of 31 December 2017 amounted to Euro 58.6 million and primarily related to temporary differences mainly due to provisions, as well as prior years tax losses.
The parent company Piaggio & C. SpA joined the National Consolidated Tax Convention of the IMMSI Group, whose consolidating entity is IMMSI SpA.
In addition to the future results expected by the Piaggio Group, the recoverability of deferred tax assets also depends on the results of all companies that are part of the National Consolidated Tax Convention of the IMMSI Group.
Assessing the recoverability of deferred tax assets is a key audit matter given the significance of the amounts and the complexity of the valuation process which requires significant accounting estimates to be made by the management of the Piaggio Group and

Our audit procedures consisted of assessing the reasonableness of the estimates made by management in forecasting the future taxable profit of the Piaggio Group companies, included in the plan approved by the Board of Directors on 26 February 2018.
These activities were carried out with the involvement of PwC network experts.
We also obtained the findings of the work performed by the Group auditor on the parent company IMMSI SpA in respect of the recoverability of deferred tax assets of all companies included in the National Consolidated Tax Convention of the IMMSI Group.

of the IMMSI Group, with the objective of forecasting the future taxable results of all companies that are part of the National Consolidated Tax Convention of the IMMSI Group.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the parent company Piaggio & C. SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

On 13 April 2012, the shareholders of Piaggio & C. SpA in general meeting engaged us to perform the statutory audit of the Company's and consolidated financial statements for the years ending 31 December 2012 to 31 December 2020.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/1998

Management of Piaggio & C. SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Piaggio Group as of 31 December 2017, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/1998, with the consolidated financial statements of the Piaggio Group as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Piaggio Group as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

Management of Piaggio & C. SpA is responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016.

We have verified that management approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Florence, 22 March 2018

PricewaterhouseCoopers SpA

Signed by

Corrado Testori
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers.


MOTO
PLEX

PIAGGIO & C. SPA
SEPARATE FINANCIAL STATEMENTS OF THE PARENT COMPANY AS OF 31 DECEMBER 2017

Income Statement

Notes	In thousands of euros	2017 Total	of which related parties	2016 Total	of which related parties
3	Net revenues	817,764	103,991	788,397	94,910
4	Cost for materials	483,186	93,193	478,185	88,039
5	Cost for services and leases and rentals	170,663	38,710	180,531	41,965
6	Employee costs	159,303		159,871	52
7	Depreciation and impairment costs of property, plant and equipment	24,931		26,752	
7	Amortisation and impairment costs of intangible assets	65,027		54,469	
8	Other operating income	108,506	34,694	117,694	43,187
9	Other operating costs	17,678	1,113	15,244	746
	Operating income	**5,482**		**(8,961)**	
10	Income/(loss) from investments	38,103	37,994	43,523	43,499
11	Financial income	370	338	530	287
11	Borrowing costs	26,805	134	27,112	135
46	of which non-recurrent				
11	Net exchange gains/(losses)	(101)		(574)	
	Profit before tax	**17,049**		**7,406**	
12	Taxes for the period	(3,544)	(1,144)	(6,597)	497
46	of which non-recurrent				
	Profit from continuing operations	**20,593**		**14,003**	
	Assets held for sale:				
13	Profits or losses arising from assets held for sale				
	Net Profit (loss) for the period	**20,593**		**14,003**	

Statement of comprehensive income

Notes	In thousands of euros	2017	2016
	Net Profit (Loss) for the period (A)	**20,593**	**14,003**
	Items that will not be reclassified in the income statement		
40	Remeasurements of defined benefit plans	828	(2,377)
40	Portion of components of the Statement of Comprehensive Income of subsidiaries/associates measured with the equity method	451	(285)
	Total	**1,279**	**(2,662)**
	Items that may be reclassified in the income statement		
40	Total profits (losses) on cash flow hedges	68	198
40	Portion of components of the Statement of Comprehensive Income of subsidiaries/associates measured with the equity method	(10,547)	1,469
	Total	**(10,479)**	**1,667**
	Other components of the Statement of Comprehensive Income (B)[35]	**(9,200)**	**(995)**
	Total Profit (loss) for the period (A + B)	**11,393**	**13,008**

35) Other Profits (and losses) take account of relative tax effects

Statement of Financial Position

Notes	In thousands of euros	As of 31 December 2017 Total	of which related parties	As of 31 December 2016 Total	of which related parties
	Assets				
	Non-current assets				
14	Intangible assets	549,140		562,760	
15	Property, plant and equipment	170,565		183,904	
16	Investment Property				
32	Investments	127,442		123,983	
33	Other financial assets	7,365		17,469	
21	Long-term tax receivables	9,351		6,176	
17	Deferred tax assets	42,447		39,872	
20	Other receivables	2,555	115	3,000	133
	Total non-current assets	**908,865**		**937,164**	
24	**Assets held for sale**				
	Current assets				
19	Trade receivables	46,878	18,351	52,937	25,819
20	Other receivables	57,261	46,868	49,839	38,851
21	Short-term tax receivables	3,759		4,817	
18	Inventories	160,889		152,541	
34	Other financial assets	16,355	14,171	13,715	9,714
35	Cash and cash equivalents	10,239		90,882	
	Total current assets	**295,381**		**364,731**	
	Total assets	**1,204,246**		**1,301,895**	
	Shareholders' equity and liabilities				
	Shareholders' equity				
39	Capital	207,614		207,614	
39	Share premium reserve	7,171		7,171	
39	Legal reserve	19,095		18,395	
39	Other reserves	(20,895)		(4,770)	
39	Retained earnings (losses)	77,035		76,505	
39	Net Profit (loss) for the period	20,593		14,003	
	Total shareholders' equity	**310,613**		**318,918**	
	Non-current liabilities				
36	Financial liabilities falling due after one year	436,851	2,900	508,766	2,900
26	Other long-term provisions	7,197		8,384	
27	Retirement funds and employee benefits	42,868		47,241	
28	Tax payables				
29	Other long-term payables	1,678	13	1,408	163
	Total non-current liabilities	**488,594**		**565,799**	
	Current liabilities				
36	Financial liabilities falling due within one year	85,742		97,137	
25	Trade payables	263,762	19,021	269,770	24,562
28	Tax payables	3,847		4,185	
29	Other short-term payables	42,296	11,845	39,142	9,062
26	Current portion of other long-term provisions	9,392		6,944	
	Total current liabilities	**405,039**		**417,178**	
	Total shareholders' equity and liabilities	**1,204,246**		**1,301,895**	

Statement of Cash Flows

This statement shows the factors behind changes in cash and cash equivalents, net of short-term bank overdrafts, as required by IAS 7.

Notes	In thousands of euros	2017	2016
	Operating activities		
	Net Profit (loss) for the period	20,593	14,003
12	Taxes for the period	(3,544)	(6,597)
7	Depreciation of property, plant and equipment	24,931	25,752
7	Amortisation of intangible assets	61,864	54,090
	Provisions for risks and retirement funds and employee benefits	19,237	15,580
	Write-downs/ (Reinstatements)	(33,031)	(41,088)
	Losses/ (Gains) on the disposal of property, plants and equipment	1,093	(3,934)
11	Financial income	(370)	(530)
	Dividend income	(109)	(24)
11	**Borrowing costs**	26,265	27,041
	Change in working capital:		
19	(Increase)/Decrease in trade receivables	(2,519)	11,034
20	(Increase)/Decrease in other receivables	(4,368)	(6,125)
18	(Increase)/Decrease in inventories	(8,348)	4,692
25	Increase/(Decrease) in trade payables	(467)	18,069
29	Increase/(Decrease) in other payables	(2,117)	2,558
26	Increase/(Decrease) in provisions for risks	(9,600)	(6,455)
27	Increase/(Decrease) in retirement funds and employee benefits	(12,749)	(9,183)
	Other changes	22,301	513
	Cash generated from operating activities	**99,062**	**99,396**
	Interest paid	(23,155)	(23,816)
	Taxes paid	(3,354)	(3,810)
	Cash flow from operating activities (A)	**72,553**	**71,770**
	Investment activities		
15	Investment in property, plant and equipment	(14,140)	(22,330)
	Sale price, or repayment value, of property, plant and equipment	1,456	4,042
14	Investment in intangible assets	(51,447)	(50,891)
	Sale price, or repayment value, of intangible assets	38	0
	Investment in non-current financial assets	(8,434)	(3,494)
	Loans provided	(4,457)	0
	Repayment of loans provided	0	3,689
	Collected interests	335	505
	Dividends from investments	18,550	41,427
	Cash flow from investment activities (B)	**(58,099)**	**(27,052)**
	Financing activities		
39	Purchase of treasury shares	0	(5,612)
39	Outflow for dividends paid	(19,698)	(17,962)
36	Loans received	56,687	84,397
36	Outflow for repayment of loans	(131,050)	(38,640)
36	Financial leases	0	12,839
36	Repayment of finance leases	(1,081)	(1,570)
	Cash flow from funding activities (C)	**(95,142)**	**33,452**
	Increase/ (Decrease) in cash and cash equivalents (A+B+C)	(80,688)	78,170
	Opening balance	**90,872**	**12,692**
	Exchange differences	(118)	10
	Closing balance	**10,066**	**90,872**

Changes in Shareholders' Equity

Movements from 1 January 2017/31 December 2017

Notes	In thousands of euros	Share capital	Share premium reserve	Legal reserve
	As of 1 January 2017	**207,614**	**7,171**	**18,395**
	Profit for the period			
	Other components of the Statement of Comprehensive Income			
	Total profit (loss) for the period	**0**	**0**	**0**
	Distribution of profit for 2016 as resolved by the ordinary meeting of shareholders			
	- To shareholders			
	- To shareholders' equity			700
	Cancellation of treasury shares			
	Net capital gain from contribution			
	As of 31 December 2017	**207,614**	**7,171**	**19,095**

Movements from 1 January 2016/31 December 2016

Notes	In thousands of euros	Share capital	Share premium reserve	Legal reserve
	As of 1 January 2016	**207,614**	**7,171**	**17,643**
	Profit for the period			
40	Other components of the Statement of Comprehensive Income			
	Total profit (loss) for the period	**0**	**0**	**0**
	Distribution of profit for 2015 as resolved by the ordinary meeting of shareholders			
39	- To shareholders			
39	- To shareholders' equity			752
39	Purchase of treasury shares			
	As of 31 December 2016	**207,614**	**7,171**	**18,395**

Net capital gain from contribution	Reserve for measurement of financial instruments	IAS transition reserve	Treasury shares	Translation reserve	Earnings reserve	Total shareholders' equity
152	**(388)**	**11,435**	**(5,646)**	**(15,969)**	**96,154**	**318,918**
					20,593	**20,593**
	68			(10,547)	1,279	**(9,200)**
0	**68**	**0**	**0**	**(10,547)**	**21,872**	**11,393**
					(19,698)	**(19,698)**
					(700)	**0**
		(5,646)	5,646			**0**
						0
152	**(320)**	**5,789**	**0**	**(26,516)**	**97,628**	**310,613**

Net capital gain from contribution	Reserve for measurement of financial instruments	IAS transition reserve	Treasury shares	Translation reserve	Earnings reserve	Total shareholders' equity
152	**(586)**	**11,435**	**(34)**	**(17,438)**	**103,527**	**329,484**
					14,003	**14,003**
	198			1,469	(2,662)	**(995)**
0	**198**	**0**	**0**	**1,469**	**11,341**	**13,008**
					(17,962)	**(17,962)**
					(752)	**0**
			(5,612)			**(5,612)**
152	**(388)**	**11,435**	**(5,646)**	**(15,969)**	**96,154**	**318,918**

Notes to the Financial Statements

A) General aspects

Piaggio & C. S.p.A. (the Company) is a joint-stock company established in Italy at the Register of Companies of Pisa. Its registered office is located in Viale Rinaldo Piaggio 25 – Pontedera (Pisa). The main activities of the company and its subsidiaries are described in the Report on Operations accompanying the Consolidated Financial Statements.
These Financial Statements are expressed in Euros (€) since this is the currency in which most of the Company's transactions take place.

Compliance with international accounting standards

The Financial Statements as of 31 December 2017 have been drafted in compliance with the International Accounting Standards (IAS/IFRS) in force at that date, issued by the International Accounting Standards Board and approved by the European Commission, as well as in compliance with the provisions established in Article 9 of Italian Legislative Decree no. 38/2005 (Consob Resolution no. 15519 dated July 27/7/06 containing "Provisions for the presentation of financial statements", Consob Resolution no. 15520 dated 27/7/06 containing "Changes and additions to the Regulation on Issuers adopted by Resolution no. 11971/99", Consob communication no. 6064293 dated 28/7/06 July containing "Corporate reporting required in accordance with Article 114, paragraph 5 of Italian Legislative Decree no. 58/98"). The interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously the Standing Interpretations Committee ("SIC"), were also taken into account.
The Financial Statements have been prepared on a historical cost basis, amended as required for the measurement of some financial instruments, and on a going-concern basis. In fact, despite the difficult economic and financial context, the Company has evaluated that there are no significant doubts about its continuing as a going concern (as defined in section 25 of IAS 1), also in relation to actions already identified to adapt to changing levels in demand, as well as the industrial and financial flexibility of the Company.

These Financial Statements are audited by PricewaterhouseCoopers S.p.A..

1. Form and content of the financial statements

Form of the financial statements

The Company has chosen to highlight all changes generated by transactions with non-shareholders in two statements reporting trends of the period, the "Income Statement" and "Statement of Comprehensive Income". The Financial Statements are therefore composed of the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Shareholders' Equity and these notes.

Income Statement

The Income Statement is presented with items classified by nature. The overall Operating Income is shown, which includes all income and cost items, irrespective of their repetition or fact of falling outside normal operations, except for the items of financial operations included under Operating Income and profit before tax. In addition, income and cost items arising from assets held for sale or to be discontinued, including any capital gains or losses net of the tax element, are recognised in a specific item of the Financial Statements which precede financial performance.

Statement of Comprehensive Income

The Statement of Comprehensive Income is presented in accordance with the provisions of IAS 1 amended. Items presented in "Other comprehensive income(expense)" are grouped based on whether they are potentially reclassifiable to profit or loss.

Statement of Financial Position

The Statement of Financial Position is presented in opposite sections with separate indication of assets, liabilities and shareholders' equity.
In turn, assets and liabilities are reported in the Financial Statements on the basis of their classification as current and non-current.

Statement of Cash Flows

The Statement of Cash Flows is divided into cash-flow generating areas. The Statement of Cash Flows model adopted by Piaggio & C. S.p.A. has been prepared using the indirect method. The cash and cash equivalents recorded in the Consolidated Statement of Cash Flows include the Consolidated Statement of Financial Position balances for this item at the reporting date. Financial flows in foreign currency were converted at the spot rate in force at the end of the reporting period. Income and costs related to interest, dividends received and income taxes are included in the cash flow generated from operations.

Statement of Changes in Shareholders' Equity

The Statement of Changes in Shareholders' Equity is presented as provided for in IAS 1 revised.
The Statement includes overall profit (loss) for the period. Reconciliation between the opening and closing balance of each item for the period is presented.

2. Accounting policies adopted by the Company

The most significant accounting policies adopted to prepare the Financial Statements as of 31 December 2017 are outlined below.

Intangible assets

As provided for in IAS 38 - Intangible Assets, an intangible asset which is purchased or internally generated is recognised as an asset only if it is identifiable, controllable and future economic benefits are expected and its cost may be measured reliably. Borrowing costs related to the acquisition, construction or production of certain assets that require a significant period of time before they are ready for use or sale (qualifying assets), are capitalised along with the asset.
Intangible assets with a definite useful life are measured at acquisition cost or production cost net of amortisation and accumulated impairment losses. Amortisation is referred to the expected useful life and commences when the asset is available for use.

Goodwill

In the case of acquisitions of companies, acquired and identifiable assets, liabilities and potential liabilities are recognised at their fair value at the date of acquisition. The positive difference between the acquisition cost and share of the Company at the fair value of said assets and liabilities is classified as goodwill and recognised in the financial statements as an intangible asset. Any negative difference ("negative goodwill") is recognised instead in profit and loss at the date of acquisition.
Goodwill is not amortised but tested annually for impairment, or more frequently if specific events or changed circumstances indicate that an asset may be impaired, as provided for in IAS 36 - Impairment of Assets. After initial recognition, goodwill is recognised at cost net of any accumulated impairment losses.
At the disposal of part of or an entire company previously acquired from whose acquisition goodwill arose, the corresponding residual value of goodwill is considered when measuring the capital gain or loss of the disposal.

Development costs

Development costs of projects for the manufacture of vehicles and engines are recognised as assets only if all of the following conditions are met: the costs can be reliably measured and the technical feasibility of the product, the volumes and expected prices indicate that costs incurred during development will generate future economic benefits. Capitalised development costs include only costs incurred that may

be directly attributed to the development process.
Capitalised development costs are amortised on a systematic criterion basis, starting from the beginning of production through the estimated life of the product.
All other development costs are recognised in profit or loss when they are incurred.

Other intangible assets

As provided for in IAS 38 – Intangible Assets, other intangible assets which are purchased or internally generated are recognised as assets if it is probable that use of the asset will generate future economic benefits and the cost of the asset can be reliably measured.
These assets are recognised at acquisition or production cost and are amortised on a straight line basis over their estimated useful life, if they have a definite useful life.
Other intangible assets recognised following the acquisition of a company are accounted for separately from goodwill, if their fair value may be reliably measured.
The amortisation period for an intangible asset with a useful life is revised at least at the end of each reporting period. If the expected useful life of the asset differs from estimates previously made, the amortisation period is changed accordingly.
The amortisation periods of intangible assets are shown below:

Development costs	3-5 years
Industrial Patent and Intellectual Property Rights	3-5 years
Other	5 years
Trademarks	15 years

Property, plant and equipment

The Company has decided to adopt the cost method on first-time application of the IAS/IFRS, as allowed by IFRS 1. For the measurement of property, plant and equipment, therefore, the preference was not to use the fair value method. Property, plant and equipment were booked at the purchase or production cost and were not revalued. Borrowing costs related to the acquisition, construction or production of certain assets that require a significant period of time before they are ready for use or sale (qualifying assets), are capitalised along with the asset.
Costs incurred after acquisition are capitalised only if they increase the future economic benefits of the asset they refer to. All other costs are recognised in profit or loss when they are incurred. Property, plant and equipment under construction are measured at cost and depreciated starting from the period in which they are put into operation.
Depreciation is determined, on a straight line basis, on the cost of the assets net of their relative residual values, based on their estimated useful life.
The depreciation periods of Plant, property and equipment are summarised below:

Land	Land is not depreciated
Buildings	33 years
Plant and machinery	From 5 to 15 years
Equipment	From 4 to 5 years
Other assets	From 5 to 10 years

Profits and losses arising from the sale or disposal of assets are measured as the difference between the sale revenue and net carrying amount of the asset and are recognised in profit or loss for the period.

Lease contracts

Lease contracts for property, plant and machinery where the Company, as lessee, basically undertakes all risks and benefits of the property, are classified as finance leases. Finance leases are capitalised when the lease is established, at the fair value of the leased asset or, if less, at the current value of minimum payments due. The corresponding amount due to the lessor, net of borrowing costs, is recognised as a financial payable. The borrowing cost is recognised in profit or loss over the lease period, so as to produce an interest rate that is constant for the remaining amount due for each period. Property, plant and machinery of finance leases are depreciated during the useful life of the asset or the shorter of the useful life of the asset and the duration of the lease agreement, if there is no reasonably certainty that the Company will obtain the property at the end of the lease period.
Leases in which a significant part of the risks and benefits of ownership are not transferred to the Company as the lessor, are classified as operating leases. Payments made for operating leases (net of any incentives received from the lessee), are recognised in profit or loss on a straight-line basis for the duration of the lease agreement.

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures are recognised in the financial statements according to the equity method, as allowed by IAS 27 and as provided for by IAS 28 (Investments in Associates and Joint Ventures).
Subsidiaries, associates and joint venture are included in the financial statements from when control, significant influence or joint control commences until it ceases.
The financial statements of subsidiaries, associates and joint ventures, are appropriately modified and reclassified, where necessary, to bring them in line with the international accounting standards and uniform classification criteria used by the Group.
In adopting the equity method, the investment in a subsidiary, associate or joint venture is initially recognised at cost and the carrying amount is increased or decreased to recognise the portion attributable to the investor of profit or loss of the investee realised after the date of acquisition. The portion of profit (loss) for the period of the investee attributable to the investor is recognised separately in profit or loss. Dividends received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount of the investment are also due to changes in items of other comprehensive income of the investee (e.g. changes arising from translation differences of items in foreign currency). The portion of these changes, attributable to the investor, is recognised under other components of comprehensive income. If the portion of losses of an entity in a subsidiary, associate or joint venture is equal to or exceeds its interest in the subsidiary, associate or joint venture, the entity discontinues recognising its share of further losses. After the interest is reduced to zero, additional losses are recognised by a provision (liability) only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the associate, subsidiary or joint venture. If the subsidiary, associate or joint venture subsequently reports profits, the entity resumes recognising its portion of those profits only after its portion of the profits equals the share of losses not recognised. Profit and losses arising from "upwards" or "downwards" transactions between an entity and a subsidiary, associate or joint venture are recognised in the entity's financial statements only as regards the portion attributable to minority interest in the subsidiary, associate or joint venture. The portion of profit or loss of the subsidiary, associate or joint venture arising from these transactions, attributable to the investor, is eliminated in the income statement under "earnings from investments", with a counter entry of the asset's value, in "upwards" transactions, and of the value of the investment, in "downwards transactions".
If there is objective evidence of an impairment loss, the investment is tested for impairment, as described in the relative section, to which reference is made.
Separate financial statements are prepared in the currency of the primary economic sector in which the subsidiary, associate or joint venture operates (functional currency). For the purposes of adopting the equity method, the financial statements of each foreign entity are in euro, which is the functional currency of Piaggio & C. SpA and the presentation currency of the separate Financial Statements.
All assets and liabilities of foreign companies in a currency other than the euro are translated, using exchange rates in effect at the reporting date (currency exchange rates method). Income and costs are

translated at the average exchange rate of the period. Translation differences arising from the application of this method, as well as translation differences arising from a comparison of initial shareholders' equity translated at current exchange rates and the same equity translated at historical rates, are recognised in the statement of comprehensive income and allocated to a specific reserve in shareholders' equity until disposal of the investment.
The exchange rates used to translate the financial statements of subsidiaries, associates and joint ventures into euro are shown in the table below.

Currency	Spot exchange rate 29 December 2017	Average exchange rate 2017	Spot exchange rate 31 December 2016	Average exchange rate 2016
US Dollar	1.1993	1.12968	1.0541	1.10690
Pounds Sterling	0.88723	0.876674	0.85618	0.819483
Indian Rupee	76.6055	73.53242	71.5935	74.3717
Singapore Dollars	1.6024	1.55882	1.5234	1.52754
Chinese yuan	7.8044	7.62900	7.3202	7.35222
Croatian Kuna	7.4400	7.46370	7.5597	7.53329
Japanese Yen	135.01	126.71118	123.40	120.19700
Vietnamese Dong	26,934.34	25,472.91202	23,894.71	24,566.34911
Canadian Dollars	1.5039	1.46472	1.4188	1.46588
Indonesian Rupiah	16,260.11	15,119.53357	14,167.10	14,721.43381
Brazilian Real	3.9729	3.60543	3.4305	3.85614

Impairment losses

At the end of the reporting period, the Company reviews the book value of its plant, property and equipment, intangible assets and investments, to determine whether there is any indication that these assets may be impaired (impairment test). If there is an indication that an asset may be impaired, the asset's recoverable amount is estimated to determine the amount of the write-down. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the asset's cash generating unit.
The recoverable amount is the greater of the net sale price and value in use. In measuring the value in use, estimated future cash flows are discounted at their fair value, using a rate gross of taxes, which reflects current market changes in the fair value of money and specific risks of the asset.
If the recoverable amount of an asset (or of a cash generating unit) is estimated to be lower than the relative carrying amount, the carrying amount of the asset is reduced to the lower recoverable value. An impairment loss is immediately recognised in profit or loss, unless the asset concerns land or property other than investment property recognised at revalued values. In said case, the loss is recorded in the relative revaluation reserve.
When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset (or of a cash generating unit), except for goodwill, is increased to the new value arising from an estimate of its recoverable amount, up to the net carrying amount applicable to the asset if no impairment loss had been recognised. The reversal of the impairment loss is immediately recognised in profit or loss.
An intangible asset with an indefinite useful life is tested annually for impairment, or more frequently if there is an indication that an asset may be impaired.

Investment Property

The Company has no investment property. As permitted by IAS 40, non instrumental property and buildings held for rental and/or asset appreciation purposes are measured at fair value. Investment properties are eliminated from the financial statements when they are disposed of or when they may not be used over time and future economic benefits from their sales are not expected.

Transactions with affiliates and related parties

Relations with subsidiaries and related parties are indicated in the specific section of the Notes, to which reference is made.

Non-current assets held for sale

Non-current assets (or disposal groups) that are classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell.
Non-current assets (and disposal groups) are classified as held for sale when it is expected that their carrying amount will be recovered through a sale rather than through their use in company operations. This condition is only met when the sale is highly probable, the asset (or disposal group) is available for immediate sale and management is committed to a plan to sell, which should take place within 12 months from the date in which this item was classified as held for sale.

Financial assets

Financial assets are recognised and deleted from the financial statements based on the negotiation date and are initially measured at fair value, represented by the initial increased amount, with the exception of assets held for negotiation, of costs relative to the transaction.
At subsequent end of reporting periods, the financial assets the Company intends and can retain up until maturity (securities held until maturity) are recognised at amortised cost based on the effective interest rate method, net of reversals for impairment losses.
Financial assets other than those held to maturity are classified as held for trading or for sale, and are measured at fair value at the end of each period. When financial assets are held for trading, profits and losses arising from changes in fair value are recognised in profit or loss for the period; in the case of financial assets held for sale, profits and losses arising from changes in fair value are recognised in the statement of comprehensive income and allocated to a specific reserve of shareholders' equity until sold, recovered or disposed of.

Inventories

Inventories are recognised as the lower of the purchase or production cost, determined by assigning to products the costs directly incurred in addition to the portion of indirect costs reasonably attributable to the performance of production activities in normal production capacity conditions and the market value at the end of the reporting period.
The purchase or production cost is determined based on the weighted average cost method.
As regards raw materials and work in progress, the market value is represented by the estimated net realisable value of corresponding finished products minus completion costs. As regards finished products, the market value is represented by the estimated net realisable value (price lists minus the costs to sell and distribution costs).
The lower measurement based on market trends is eliminated in subsequent years, if the trends no longer exist.
Obsolete, slow moving and/or excess inventories are impaired in relation to their possible use or future realisation, in a provision for the write-down of inventories.

Receivables

Trade receivables and other receivables are initially recognised at fair value and subsequently recognised based on the amortised cost method, net of the provisions for write-downs. Losses on receivables are recognised when there is objective evidence that the Company is not able to recover the amount due from the other party on the basis of contractual terms.
When payment of amounts due exceeds standard terms of payment granted to clients, the receivable is discounted.

Factoring

The Company sells a significant part of its trade receivables through factoring and in particular, sells trade receivables without recourse. Following these sales with the total and unconditional transfer to the transferee of the risks and benefits transferred, the receivables are eliminated from the financial statements.
In the case of transfers in which the risks and benefits are not transferred, the relative receivables remain in the statement of financial position until the transferred sum has been paid. In this case any advance payments collected by the factor are recognised under payables as amounts due to other lenders.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, current bank accounts, deposits payable on demand and other high liquidity short term financial investments, which are readily convertible into cash and not affected by any major risk of a change in value. This item does not include bank overdrafts payable on demand.

Treasury shares

Treasury shares are recognised as a reduction of shareholders' equity. The original cost of treasury shares and revenues arising from subsequent sales are recognised as movements of shareholders' equity.

Financial liabilities

Financial liabilities are recognised based on amounts cashed net of relative transaction costs. After initial recognition, loans are measured at amortised cost and calculated using the effective interest rate. Financial liabilities hedged by derivatives are measured at market value, according to procedures established for hedge accounting applicable to the fair value hedge and cash flow hedge.
On initial recognition, a liability may also be designated at fair value recognised in profit or loss when this eliminates or considerably reduces a lack of uniformity in the measurement or recognition (sometimes defined as "asymmetric accounting") that would otherwise arise from the measurement of an asset or liability or recognition of relative profit and loss on different bases. This fair value designation is exclusively applied to some financial liabilities in currency subject to exchange risk hedging.

Derivatives and measurement of hedging transactions

Company assets are primarily exposed to financial risks arising from changes in exchange and interest rates, and commodity prices. The Company uses derivatives to hedge risks arising from changes in foreign currency and interest rates in particular irrevocable commitments and planned future transactions. The use of these instruments is regulated by written procedures on the use of derivatives, in line with the Company's risk management policies.
Derivatives are initially measured at fair value represented by the initial amount.
Financial derivatives are only used for hedging purposes, against exchange rate and interest rate fluctuations. In line with IAS 39, financial derivatives may qualify for hedge accounting, only when the hedging instrument is formally designated and documented, is expected to be highly effective and this effectiveness can be reliably measured and is highly effective throughout the reporting periods for which it is designated.

When financial instruments may be measured by hedge accounting, the following accounting treatment is adopted:

› ***Fair value hedge:*** if a financial derivative is designated as a hedge of the exposure to changes in present value of a recognised asset or liability, attributable to a particular risk and could affect profit or loss, the gain or loss from the subsequent change in present value of the hedging instrument is recognised in profit or loss. The gain or loss on the hedged item, attributable to the hedged risk, changes the carrying amount of the hedged item and is recognised in profit or loss.

› ***Cash flow hedge:*** if an instrument is designated as a hedge of the exposure to variability in cash flows of a recognised asset or liability or of a highly probable forecast transaction which could affect profit or loss, the effective portion of the gain or loss on the financial instrument is recognised in the Statement of Comprehensive Income. Accumulated gain or loss is reversed from other shareholders' equity and recognised in profit or loss in the same period as the hedging transaction. The gain or loss associated with hedging or the part of hedging which is ineffective, is immediately recognised in profit or loss. If the hedging instrument or hedging ceases, but the transaction covered by hedging is not yet realised, profits and losses, recognised in equity, are instead recognised in profit or loss when the transaction takes place. If the transaction to be hedged is deemed no longer probable, gains and losses not yet realised accumulated in shareholders' equity are recognised immediately in profit or loss.

If hedge accounting cannot be applied, gains and losses from measurement at present value of the financial derivative are immediately recognised in profit or loss.

Long-term provisions

The Company recognises provisions for risks and charges when it has a legal or implicit obligation to third parties and it is likely that Company resources will have to be used to meet the obligation and when the amount of the obligation itself can be reliably estimated.
Changes in estimates are recognised in profit or loss when the change takes place.
If the effect is considerable, provisions are calculated discounting future cash flows estimated at a discount rate gross of taxes, to reflect current market changes in the fair value of money and specifics risks of the liability.

Retirement funds and employee benefits

Liabilities relative to employee benefits paid on or after termination of employment for defined benefit plans are determined separately for each plan, based on actuarial hypotheses estimating the amount of future benefits that employees will accrue at the reporting date (the "projected unit credit method"). Liabilities, recognised in the financial statements net of any assets serving the plan, are entered for the period when the right accrues. Liabilities are measured by independent actuaries.
The cost components of defined benefits are recognised as follows:

› the costs relative to services are recognised in the Income Statement under employee costs;

› net borrowing costs of liabilities or assets with defined benefits are recognised in the Income Statement as financial income/(borrowing costs), and are determined by multiplying the value of the net liability/(asset) by the rate used to discount the obligations, taking account of the payment of contributions and benefits during the period;

› the remeasurement components of net liabilities, which include actual gains and losses, the return on assets (excluding interest income recognised in the Income Statement) and any change in the limit of the assets, are immediately recognised as "Other comprehensive income (expense)". These components must not be reclassified to the Income Statement in a subsequent period.

Termination benefits

Termination benefits are recognised at the closest of the following dates: i) when the Company can no longer withdraw the offer of such benefits and ii) when the Company recognises the costs of restructuring.

Tax assets and liabilities

Deferred taxes are determined based on the temporary taxable differences between the value of the asset and liability and their tax value. Deferred tax assets are measured only to the extent to which it is likely that adequate future taxable sums exist against which the deferred taxes can be used. The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent to which it is no longer likely that sufficient taxable income exists allowing for all or a portion of said assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, considering the rates in effect or which are known to come into effect. Deferred taxes are directly recognised in profit or loss, except for items directly recognised in the statement of comprehensive income, in which case relative deferred taxes are also recognised in the statement of comprehensive income.

Deferred tax assets and liabilities are recognised at their net value when applied by the tax authorities and when they may be lawfully offset in the same tax jurisdiction.

Payables

Payables are recognised at fair value and then measured based on the amortised cost method.

Reverse factoring

To guarantee suppliers easier credit conditions, the Company has established factoring agreements, and typically supply chain financing or reverse factoring agreements. Based on the agreements, suppliers may, at their discretion, transfer receivables due from the Company to a lender and collect amounts before the due date.

In some cases, payment terms are extended further in agreements between the supplier and the company; these extensions may be interest or non-interest bearing.

The Company has established a specific policy to assess the nature of reverse factoring operations. Based on the content of agreements, which differs by area of origin, the Finance function, at a central level, analyses the clauses of agreements in qualitative terms, as well as legal aspects in order to assess regulatory references and the type of transaction assignment (as provided for by IAS 39 AG57 b). In some cases, as payment terms have been extended, quantitative analysis is carried out to verify the materiality of changes in contract terms, based on quantitative tests as required by IAS 39 AG 62.

In this context, relations, for which a primary obligation with the supplier is maintained and any deferment, if granted, does not significantly change payment terms, are still classified as trade liabilities.

Recognition of revenues

Revenues for the sale of vehicles and spare parts are recognised to the extent that it is likely the Company will receive the economic benefits and their amount may be measured reliably.

Revenues are recognised when the risks and benefits connected with ownership are transferred to the purchaser, the sale price is agreed or may be determined and payment is reasonably certain.

Revenues are represented net of discounts, including, among others, sales incentive programmes and bonuses to customers, as well as taxes directly connected with the sale of the goods.

Revenues from the provision of services are recognised when the services are provided based on their progress.

Revenues also include lease payments recognised on a straight line basis over the duration of the contract.

Public grants

Set-up grants are recognised in the financial statements when their payment is certain and are recognised in profit or loss based on the useful life of the asset for which the grants have been provided. Operating grants are recognised in the financial statements, when their payment is certain and are recognised in profit or loss in relation to costs for which the grants have been provided.

Financial income

Financial income is recognised on time accrual basis. includes interest payable on invested funds, exchange differences receivable and income from financial instruments, when not offset in hedging transactions. Interest receivable is recognised in profit or loss when it matures, considering the actual return.

Borrowing costs

Borrowing costs are recognised on an accrual basis and include interest payable on financial payables calculated using the effective interest rate method, exchange differences payable and losses on derivative financial instruments. The rate of interest payable of finance lease payments is recognised in profit or loss, using the effective interest rate method.

Dividends

Dividends are recognised on an accrual basis, and therefore at the time when, following the resolution to distribute dividends by the subsidiary, the relative right to payment arises. In compliance with IAS 27 Revised "Separate Financial Statements", dividends distributed by subsidiaries, associates and joint ventures are recognised minus their investment value.

Income tax

Taxes represent the sum of current and deferred tax assets and liabilities.
Taxes allocated on the basis of estimated taxable income determined in compliance with national laws in force at the year end are recorded, taking account of applicable exemptions and tax credits due. Income tax is recognised in profit or loss, with the exception of items directly charged or credited to shareholders' equity, in which case the tax effect is directly recognised in shareholders' equity.
Taxes are recorded under "Tax payables" net of advances and withheld taxes.
As from the 2007 reporting period, the Company has been party to the National Consolidated Tax Convention pursuant to articles 117 to 129 of the Consolidated Income Tax Act (T.U.I.R) of which IMMSI S.p.A. is the consolidating company, and to whom other IMMSI Group companies report to. This arrangement was renewed with effects starting from 2016 and will be operative up until 2018.
Based on the procedure, the consolidating company determines one taxable base for the group of companies that are party to the National Consolidated Tax Convention, and may therefore offset taxable income against tax losses in one tax return. Each company which is party to the National Consolidated Tax Convention transfers taxable income (taxable income or loss) to the consolidating company. The latter recognises a receivable from the consolidated company which is equal to the corporate tax to be paid. Whereas, in the case of companies reporting tax losses, the consolidating company recognises a payable related to corporate tax on the portion of loss actually offset at a Group level.

Use of estimates

The preparation of the financial statements and notes in compliance with IFRS requires management to make estimates and assumptions which have an impact on the values of assets and liabilities and on disclosure regarding contingent assets and liabilities at the end of the reporting period. Actual results could differ from estimates. Estimates are used to measure intangible assets tested for impairment (see § Impairment losses) and to identify provisions for bad debts, for obsolete inventories, amortisation and depreciation, impairment of assets, employee benefits, taxes, restructuring provisions and other allocations and funds. Estimates and assumptions are periodically revised and the effects of any change are immediately recognised in profit or loss.
In the current world economic and financial crisis, assumptions made as to future trends are marked by

a considerable degree of uncertainty. Therefore the possibility in the next reporting period of results that differ from estimates cannot be ruled out and these could require even significant adjustments which at present cannot be predicted or estimated.
The critical measurement processes and key assumptions used by the Company in adopting IFRS and that may have a significant impact on figures in the Financial Statements or for which a risk exists that significant differences in value may arise in relation to the carrying amount of assets and liabilities in the future are summarised below.

Recoverable value of non-current assets
Non-current assets include Property, Plant and Equipment, Goodwill, Other Intangible Assets, Investment Property, Investments and Other Financial Assets. The Company periodically revises the carrying amount of non-current assets held and used and of assets held for sale, when facts and circumstances make this necessary. This analysis is carried out at least annually for Goodwill, and whenever facts and circumstances make it necessary. Analysis of the recoverability of the carrying amount of Goodwill is generally based on estimates of expected cash flows from the use or sale of the asset and adequate discount rates to calculate the fair value. When the carrying amount of a non-current asset is impaired, the Company recognises a write-down equal to the excess between the carrying amount of the asset and its recoverable value through use or sale, determined with reference to cash flows of the most recent company plans.

Recoverability of deferred tax assets
The Company has deferred tax assets from deductible temporary differences and theoretical tax benefits from losses to be carried forward. In estimating recoverable value, the Company considered the results of the company plan in line with the results used for impairment testing. Net deferred tax assets allocated on this basis refer to temporary differences and tax losses which, to a significant extent, may be recovered over an indefinite period, and are therefore compatible with a context in which an end to current difficulties and uncertainties and an upswing in the economy could take longer than the time frame of the above-mentioned estimates. As regards Piaggio & C. SpA, which is part of the National Consolidated Tax Convention of the IMMSI Group, the recovery of deferred tax assets is related to company forecasts and to taxable amounts of companies that are part of the above convention.

Pension schemes and other post-employment benefits
Provisions for employee benefits and net borrowing costs are measured using an actuarial method that requires the use of estimates and assumptions to determine the net value of the obligation. The actuarial method considers financial parameters such as the discount rate and growth rates of salaries and considers the likelihood of potential future events occurring on the basis of demographic parameters such as relative mortality rates and employee resignations or retirements.
The assumptions used for the measurement are explained in section 27 "Retirement funds and employee benefits".

Provisions for write-down
The provision for bad debts reflects management's estimate of expected losses related to receivables. Based on past experience, provisions are made for expected losses on receivables. Management carefully monitors the quality of receivables and current and forward-looking conditions of the economy and reference markets. Estimates and assumptions are periodically revised and the effects of any change are recognised in profit or loss.

Provision for obsolete inventories
The provision for obsolete inventories reflects management's estimate of impairment losses expected by the Company, determined based on past experience. Anomalous market price trends could have an effect on future inventory write-downs.

Provision for product warranties

At the time of a product's sale, the Company makes provisions relative to estimated costs for the product warranty. This provision is estimated based on historical information about the nature, frequency and average cost of warranty servicing.

Potential liabilities

The Company recognises a liability for ongoing legal disputes when it considers a financial outflow likely and when the amount of the losses arising therefrom may be reasonably estimated. If a financial outflow is possible, but the amount cannot be determined, it is recorded in the notes to the Financial Statements. The Company is subject to legal and tax proceedings concerning complex and difficult legal issues, of varying degrees of uncertainty, including facts and circumstances relative to each case, jurisdiction and different applicable laws. Given the uncertainties concerning these issues, it is hard to predict with certainty the outflow arising from these disputes and it is therefore possible that the value of provisions for legal proceedings and disputes of the Company may vary as a result of future developments in proceedings underway.
The Company monitors the status of ongoing proceedings and consults its legal and tax advisers.

Amortisation/Depreciation

The cost of assets is amortised/depreciated on a straight line basis over their estimated useful life. The economic useful life of Company assets is determined by Directors at the time of purchase; the calculation is based on historical experience gained in years of operations and on knowledge of technological innovations that may make the asset obsolete and no longer economical.
The Company periodically evaluates technological and segment changes, in order to update the remaining useful life. This periodic updating could change the amortisation/depreciation period and therefore amortisation/depreciation charges of future years.

Income tax

The Company is subject to Italian income tax laws. Tax liabilities are determined based on management valuations referred to transactions of which the tax effect is not certain at the end of the reporting period. The Company recognises the liabilities that could arise from future inspections of tax authorities based on an estimate of taxes that will be due. If the outcome of inspections differs from management's estimates, significant effects on current and deferred taxes could arise.

Rounding off

All amounts in the tables and in these notes have been rounded off to thousands of euros.

New accounting standards, amendments and interpretations applied as from 1 January 2017

As from 1 January 2017, several changes introduced by international accounting standards and interpretations have been applied, none of which have had a significant impact on the Company's financial statements. The main changes are outlined below:

- In January 2016, the IASB issued an amendment to IAS 12 "Income Taxes". These amendments clarify how to recognise deferred taxes related to debt instruments calculated at fair value.
- In January 2016, the IASB issued an amendment to IAS 7 "Statement of Cash Flows". These amendments to IAS 7 introduce additional information that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.
- In December 2016, the IASB issued an amendment to IFRS 2014–2016. The amendment concerns IFRS 12 - Disclosure of Interests in Other Entities (effective date of 1 January 2017); The amendment clarifies that required reporting must be provided for investments classified as available for sale, with the exception of point B12.

Accounting standards amendments and interpretations not yet adopted

At the date of these Financial Statements, competent bodies of the European Union had completed the approval process necessary for the adoption of the following accounting standards and amendments:

- In May 2014, the IASB and FASB jointly published IFRS 15 "Revenue from Contracts with Customers". The new standard is applicable in a retrospective manner for years commencing from or after 1 January 2018. Early adoption is possible. IFRS 15 sets out the requirements for recognising revenues, introducing an approach whereby revenue is only recognised if contractual obligations have been met in full. According to the standard, revenue is recognised based on the following five steps:
  - *identify the contract;*
  - *identify individual obligations;*
  - *determine the transaction price;*
  - *allocate the transaction price to individual obligations based on their "market prices" ("stand-alone selling price");*
  - *recognise revenue allocated to the individual obligation when it is regulated, i.e. when the customer acquires control of the goods and/or services.*

  The Company has carried out in-depth analysis of the different types of contracts relative to the sale of two-/three- and four-wheeler vehicles, spare parts, accessories and components to dealers, importers or direct customers that represent the most significant component, as well as types of contract with less economic impact (for example royalties). Following this analysis, the Company concluded that there is no significant impact arising from the adoption of the new standard, as the most significant component of revenue will continue to be recognised in line with previous accounting guidelines.

  One exception concerns some scheduled maintenance programmes and extended warranty plans after the legal warranty period (sold together with the vehicle) which, according to the new standard, comprise separate performance obligations and, as such, shall be identified and recognised separately from vehicle revenue. As of 31 December 2017, these scheduled maintenance plans programmes / extended warranty plans were limited in any case and mainly concern the Vietnamese market.

  Other differences in approach refer to different ways of representing revenues, without however impacting results, and refer to a different approach to classifying some types of bonuses paid to dealers, consumer financing plans, procedures for representing funds for returned goods from customers (only applicable for the US market in which there is a legal obligation to buy back the vehicle from dealers on the occurrence of certain conditions). The cumulative impact of these effects reduced revenues as of 31 December 2017 by an amount equal to approximately €4.5m. The effect on results is however negligible, given the current contractual structure.
- On 24 July 2014, the IASB finalised its project to revise the accounting standard for financial instruments, with the issue of the complete version of IFRS 9 "Financial Instruments". In particular, the new provisions of IFRS 9: (i) amend the model that classifies and measures financial assets; (ii) introduce a new method for writing down financial assets, that takes account of expected credit losses; (iii) amend hedge accounting provisions and (iv) establish new criteria for the recognition of transactions amending financial liabilities. The provisions of IFRS 9 will be applicable for years commencing on or after 1 January 2018. Early adoption is possible.

  The Company completed analysis of the quantitative impact arising from the adoption of the standard. The only significant impact will concern the determination of the amortised cost of financial liabilities subject to renegotiation. With the introduction of IFRS 9, in the case of the renegotiation of a financial liability that does not qualify as "settlement of the original debt", the difference between i) the carrying amount of the liability before the change and ii) the present value of cash flows of the changed liability, discounted to the original rate (IRR), is recognised in profit or loss.

  The Company reviewed liability management operations of previous years, and concluded that adoption of IFRS 9 as of 31 December 2017 had resulted in higher financial liabilities for an amount equal to approximately €5.3 million with a counter entry in shareholders' equity (net of the relative tax effect equal to approximately €1.2 million).
- In September 2016, the IASB issued an amendment to IFRS 4 "Insurance Contracts", as regards the application of IFRS 9, 'Financial instruments'.

These amendments will enable companies that issue insurance contracts to recognise the volatility that may arise when IFRS 9 is adopted before the new standard on insurance contracts is issued in the statement of comprehensive income rather than in the income statement. It will also allow companies whose main activity is related to insurance contracts to temporarily defer the adoption of IFRS 9 until 2021. Entities that defer the adoption of IFRS 9 will continue to adopt IAS 39. These amendments will apply from 1 January 2018.

› In the month of January 2016, the IASB published IFRS 16 "Leases". This new standard will replace the current IAS 17. The main change concerns the accounting by lessees that, according to IAS 17, were required to make a distinction between a finance lease (on balance sheet treatment) and an operating leases (off balance sheet treatment). With IFRS 16, operating leases will be treated for accounting purposes as finance leases. The IASB has provided for the optional exemption for certain leasing contracts and low value and short-term leases.

This standard will apply from 1 January 2019. Early application will be possible if IFRS 15 "Revenue from contracts with customers" is jointly adopted.

The Company is setting up a work team to assess potential impacts.

Accounting standards, amendments and interpretations not yet applicable

At the date of these Financial Statements, competent bodies of the European Union had not completed the approval process necessary for the application of the following accounting standards and amendments:

› In June 2016, the IASB issued an amendment to IFRS 2 "Share-based Payment". These amendments clarify how some share-based payments are recognised. These amendments will apply from 1 January 2018.

› In December 2016, the IASB issued an amendment to IAS 40 "Investment Property". These amendments clarify change in use, which is a necessary condition for transfer from/to Investment Property. These amendments will apply from 1 January 2018.

› In December 2016, the IASB issued Annual Improvements to IFRS Standards 2014–2016 Cycle The amendments concern:
  - *IFRS 1- First-time Adoption of International Financial Reporting Standards (applicable from 1 January, 2018);*
  - *IAS 28 - Investments in Associates and Joint Ventures (applicable from 1 January, 2018).*

  The amendments clarify, correct or remove redundant wording in the related IFRS Standard and are not expected to have a material impact on our Financial Statements or disclosures upon their adoption.

› In December 2016, the IASB issued IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration, which addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. The amendment will be effective from 1 January, 2018.

› In May 2017, IASB issued the new IFRS 17 – Insurance Contracts. The new standard will replace IFRS 4 and will be effective from 1 January 2021.

› In June 2017 the IASB published interpretation IFRIC 23 "Uncertainty over Income Tax Treatments" which provides information on how to account for uncertainties over the tax treatment of a given phenomenon in the recognition of income taxes. IFRIC 23 will be effective from 1 January 2019.

The Company will adopt these new standards, amendments and interpretations, based on the application date indicated, and will evaluate potential impacts, when the standards, amendments and interpretations are endorsed by the European Union.

Other information

Departures pursuant to article 2423, section 4 of the Italian Civil Code

No exceptional circumstances occurred requiring departures from legal provisions concerning Financial Statements pursuant to article 2423, section 4 of the Italian Civil Code.

Article 2428 of the Italian Civil Code

The information required as of article 2428 paragraphs 1, 2, 3 and 6 is given in the Report on Operations. Information on financial instruments, objectives and financial risk management policies is given in Section E of these notes. The registered office of the Company is in Viale R. Piaggio 25 56025 Pontedera (Pisa). Other offices of the Company are in Via G. Galilei 1 Noale (Venice) and in via E.V. Parodi 57 Mandello del Lario (Lecco).

B) Information on the income statement

3. Net revenues €/000 817,764

Revenues for disposals of company core business assets essentially refer to the marketing of vehicles and spare parts on European and non-European markets. They are recognised net of premiums paid to customers and include sales to Group companies amounting to €/000 103,991.

Revenues by geographic segment

The breakdown of revenues by geographical segment is shown in the following table:

	2017		2016		Variazioni	
	Amount	%	Amount	%	Amount	%
In thousands of euros						
EMEA and Americas	785,218	96.02	756,890	96.00	28,328	3.74
Asia Pacific	31,707	3.88	30,862	3.91	845	2.74
India	839	0.10	645	0.08	194	30.08
Total	**817,764**	**100.00**	**788,397**	**100.00**	**29,367**	**3.72**

Revenues by type of product

The breakdown of revenues by type of product is shown in the following table:

	2017		2016		Variazioni	
	Amount	%	Amount	%	Amount	%
In thousands of euros						
Two-wheeler	727,980	89.02	699,264	88.69	28,715	4.11
Commercial Vehicles	89,784	10.98	89,133	11.31	652	0.73
Total	**817,764**	**100.00**	**788,397**	**100.00**	**29,367**	**3.72**

In 2017, net sales revenues increased by €/000 29,367.

4. Costs for materials *€/000 483,186*

This item totalled €/000 483,186 compared to €/000 478,185 as of 31 December 2016, with an increase of 1% and includes costs for purchases from Group companies amounting to €/000 93,193.
The percentage of costs for materials accounting for net sales went down, from 60.6% in 2016 to 59% in 2017.
Costs for materials include costs for transport and outsourcing services relative to purchased assets.
The following table details the content of this item:

In thousands of euros	2017	2016	Change
Raw, ancillary materials, consumables and goods	491,530	473,493	18,037
Change in inventories of raw, ancillary materials, consumables and goods	(1,052)	3,120	(4,172)
Change in work in progress of semifinished and finished products	(7,292)	1,572	(8,864)
Total costs for purchases	**483,186**	**478,185**	**5,001**

5. Costs for services and leases and rental costs *€/000 170,663*

This item totalled €/000 170,663 compared to €/000 180,531 as of 31 December 2016 and includes costs from Group companies and other related parties amounting to €/000 38,710.
Below is a breakdown of this item:

In thousands of euros	2017	2016	Change
Employee costs	6,805	7,093	(288)
External maintenance and cleaning costs	5,626	5,419	207
Energy, telephone and telex costs	8,492	10,027	(1,535)
Postal expenses	395	604	(209)
Commissions payable	19,872	19,834	38
Advertising and promotion	11,967	11,806	161
Technical, legal and tax consultancy and services	9,478	11,094	(1,616)
Company boards operating costs	2,345	1,972	373
Insurance	2,521	2,570	(49)
Outsourced manufacturing	18,910	16,739	2,171
Outsourced services	8,197	7,404	793
Transport costs (vehicles and spare parts)	25,599	26,627	(1,028)
Internal shuttle services	481	675	(194)
Sundry commercial expenses	4,844	5,679	(835)
Public relations	1,102	1,462	(360)
Product warranty costs	6,919	6,784	135
Costs for quality-related events	3,338	5,505	(2,167)
Bank costs and factoring charges	4,017	4,201	(184)
Misc services provided in the business year	2,856	5,334	(2,478)
Other services	15,636	19,143	(3,507)
Lease and rental costs	11,263	10,559	704
Total costs for services	**170,663**	**180,531**	**(9,868)**

Costs for quality-related events were partially offset by compensation received, recognised under "Other operating income" and amounting to €/000 1,951.
Lease and rental costs refer to €/000 3,590 for rental payments for buildings and €/000 7,673 for car, software and photocopier hire payments.
Third party work of €/000 18,910 refers to the processing of production components by outsourced suppliers.
Expenses for company boards are shown in the table below:

In thousands of euros	2017
Directors	2,047
Statutory auditors	161
Supervisory Body	62
Internal Control Committee	41
Remuneration Committee	30
Reimbursement of expenses	4
Total fees	**2,345**

Business services include services for the disposal of waste and water treatment amounting to €/000 1,393.
Other services include €/000 11,152 for technical, sports and promotional services for Group brands supplied by the subsidiary Aprilia Racing, €/000 1,299 for technical services supplied by the subsidiaries Foshan Piaggio Vehicles Technology Research and Development Co and Piaggio Advanced Design Co and €/000 1,000 for management services supplied by the parent company IMMSI S.p.A.
Insurance costs include €/000 35 paid with related parties. Lease and rental costs include €2,100 paid with related parties.

6. Employee costs *€/000 159,303*

Employee costs are broken down as follows:

In thousands of euros	2017	2016	Change
Salaries and wages	109,695	110,992	(1,297)
Social security contributions	36,608	36,548	60
Termination benefits	7,726	7,887	(161)
Other costs	5,274	4,444	830
Total	**159,303**	**159,871**	**(568)**

The workforce as of 31 December 2017 totalled 3,389 members of staff.

Below is a breakdown of the headcount by actual number and average number:

Level	Average number 2017	2016	Change
Senior management	59	61	(2)
Middle management	224	222	2
White collars	872	886	(14)
Blue collars	2,259	2,345	(86)
Total	**3,414**	**3,514**	**(100)**

Level	Number as of	31-Dec-17	31-Dec-16	Change
Senior management		73	73	0
Middle management		232	237	(5)
White collars		876	865	11
Blue collars		2,208	2,288	(80)
Total		**3,389**	**3,463**	**(74)**

Changes in employee numbers in the two periods are compared below:

Level	As of 31.12.2016	Incoming	Leavers	Relocations	As of 31.12.17
Senior management	73	7	(10)	3	73
Middle management	237	12	(21)	4	232
White collars	865	63	(50)	(2)	876
Blue collars	2,288	6	(81)	(5)	2,208
Total (*)	**3,463**	**88**	**(162)**	**0**	**3,389**
(*) of which fixed-term contracts	*6*	*10*	*(5)*		*11*

7. Amortisation/depreciation and impairment costs — *€/000 89,958*

Amortisation and depreciation for the period, divided by category, is shown below:

Property, plant and equipment	2017	2016	Change
In thousands of euros			
Buildings	4,148	4,107	41
Plant and equipment	9,206	8,812	394
Industrial and commercial equipment	11,070	12,330	(1,260)
Other assets	507	503	4
Total depreciation of tangible fixed assets	**24,931**	**25,752**	**(821)**
Write-down of property, plant and equipment		1,000	(1,000)
Total depreciation of property, plant and equipment and impairment costs	**24,931**	**26,752**	**(1,821)**

Intangible assets	2017	2016	Change
In thousands of euros			
Development costs	26,334	23,425	2,909
Industrial Patent and Intellectual Property Rights	30,983	26,119	4,864
Concessions, licences, trademarks and similar rights	4,546	4,546	0
Total amortisation of intangible fixed assets	**61,863**	**54,090**	**7,773**
Write-down of intangible assets	3,164	379	2,785
Total amortisation of intangible assets and impairment costs	**65,027**	**54,469**	**10,558**

As set out in more detail in the paragraph on intangible assets, as from 1 January 2005, goodwill is no longer amortised, but tested annually for impairment.
The impairment test carried out as of 31 December 2017 confirmed the full recoverability of the amounts recorded in the financial statements.

The impairment of intangible assets refers to development projects for which production plans are no longer applicable.

Amortisation of the item "Concessions, licences, trademarks and similar rights" refers to amortisation of the Aprilia brand for €/000 2,916, of the Guzzi brand for €/000 1,625 and of other brands from the merged company Aprilia for €/000 5.
The item "Industrial Patent and Intellectual Property Rights" includes amortisation relative to software equal to €/000 5,983.

8. Other operating income *€/000 108,506*

This item consists of:

In thousands of euros	2017	2016	Change
Operating grants	1,909	945	964
Increases in fixed assets from internal work	34,707	33,457	1,250
Other revenue and income:			
- Expenses recovered in invoices	21,743	21,092	651
- Rent receipts	426	365	61
- Capital gains on the disposal of assets	867	3,937	(3,070)
- Recovery of transport costs	260	268	(8)
- Recovery of business costs	2,706	2,513	193
- Recovery of registration costs	31	16	15
- Recovery of advertising costs	0	11	(11)
- Recovery of stamp duty	839	815	24
- Recovery of labour costs	4,537	5,332	(795)
- Recovery of duty on exported products	0	7	(7)
- Recovery of supplier costs	663	866	(203)
- Recovery of warranty costs	56	39	17
- Recovery of taxes from customers	851	710	141
- Recovery of sundry costs	2,401	2,369	32
- Provision of services to group companies	11,369	15,852	(4,483)
- Licence rights and know-how	17,142	22,469	(5,327)
- Commission receivable	1,879	1,771	108
- Compensation from damage to third parties	638	1,118	(480)
- Compensation from third parties for quality-related events	1,951	1,337	614
- Sponsorship	129	20	109
- Other income	3,402	2,385	1,017
Total other operating income	**108,506**	**117,694**	**(9,188)**

The decrease totals €/000 9,188.
This item includes income from Group companies for a total of €/000 34,694.
Operating grants refer to:
- €/000 1,380 refers to other public grants concerning research projects;
- €/000 483 for funding for professional training provided by trade associations;
- €/000 46 for the portion relative to the year, of sums received from a customer for product development.

During the period, internal costs for development projects and know how of €/000 33,920 were capitalised, in addition to internal costs for the development of software for €/000 582 and internal costs for the construction of property, plant and equipment, amounting to €/000 205.
Expenses recovered in invoices refer to costs for preparation, advertising, insurance, transport and packaging charged to clients directly in product sales invoices.
Capital gains from disposal mainly refer to the sale of property no longer used at the Noale site, which generated capital gains for a total of €/000 839 (€/000 218 land; €/000 621 building).
This item also includes charges made to other Group companies amounting to €/681 and to third parties for €/1,720 for the recovery of sundry costs.
Licence rights were obtained from the subsidiaries Piaggio Vehicles (€/000 9,324) and Piaggio Vietnam (€/000 6,247), as well as from the associate Zongshen Piaggio Foshan Motorcycle Co. Ltd. (€/000 209). Income (€/000 138) was also generated from the associate Zongshen Piaggio Foshan Motorcycle Co. Ltd. for technical assistance concerning the sale of know-how.
Income from the recovery of labour costs mainly refers to amounts charged to Group companies for the use of personnel.

The recovery of costs from suppliers refers to amounts charged for the reprocessing of materials and final inspections, and for failure to supply assembly lines with material.
The recovery of tax duties mainly refers to dealers being charged stamp duty on vehicle conformity certificates.

9. Other operating costs *€/000 17,678*

This item consists of:

	2017	2016	Change
In thousands of euros			
Allocation for litigation		4	(4)
Provision for future risks		450	(450)
Total provisions for risks	**0**	**454**	**(454)**
Provisions for product warranties	8,521	6,534	1,987
Provision for financial services expenses		2	(2)
Total other provisions	**8,521**	**6,536**	**1,985**
Stamp duty	954	935	19
Duties and taxes not on income	1,823	1,500	323
Local tax, formerly council tax	1,202	1,224	(22)
Various subscriptions	934	840	94
Social charges	438	343	95
Capital losses from disposal of assets	219	3	216
Miscellaneous expenses	1,721	2,356	(635)
Losses on receivables	67	21	46
Total sundry operating costs	**7,358**	**7,222**	**136**
Write-down of current receivables	1,799	1,032	767
Total impairment	**1,799**	**1,032**	**767**
Total other operating costs	**17,678**	**15,244**	**2,434**

In total, other operating costs, which include costs from Group companies of €/000 1,113, increased by €/000 2,434.
Stamp duty of €/000 954 mainly refers to the tax due on vehicle conformity certificates. This cost is charged to Dealers and the recovered amount is entered under "Other operating income".

10. Income/(loss) from investments *€/000 38,103*

This item consists of:

In thousands of euros	2017	2016	Change
Positive differences from the equity method valuation in subsidiaries	45,952	48,121	(2,169)
Positive differences from the equity method valuation in associates	545	0	545
Negative differences from the equity method valuation in subsidiaries	(8,488)	(4,162)	(4,326)
Negative differences from the equity method valuation in associates	(15)	(460)	445
Dividends from the investments of non-controlling interests	109	24	85
Total	**38,103**	**43,523**	**(5,420)**

The tables below show the positive and negative differences for investments in subsidiaries and associates, valued using the Equity Method.

Positive differences from the equity method valuation in subsidiaries	2017	2016	Change
In thousands of euros			
Piaggio Vespa B.V.	6,972	8,618	(1,646)
Piaggio China	210	0	210
Piaggio Vehicles Pvt.	27,125	28,010	(885)
Piaggio Vietnam	11,197	10,123	1,074
Aprilia Racing	0	748	(748)
Piaggio España	332	349	(17)
Piaggio Advanced Design Center Corporation	16	28	(12)
Atlantic 12 FCIIC	100	245	(145)
Total	**45,952**	**48,121**	**(2,169)**

Positive differences from the equity method valuation in associates	2017	2016	Change
In thousands of euros			
Zongshen Piaggio Foshan Motorcycle	545	0	545
Total	**545**	**0**	**545**

Negative differences from the equity method valuation in subsidiaries	2017	2016	Change
In thousands of euros			
Piaggio China	0	(168)	168
Aprilia Racing	(1,205)	0	(1,205)
Piaggio Indonesia	(3)	(1)	(2)
Piaggio Fast Forward	(6,629)	(3,113)	(3,516)
Piaggio Concept Store	(651)	(880)	229
Total	**(8,488)**	**(4,162)**	**(4,326)**

Negative differences from the equity method valuation in associates	2017	2016	Change
In thousands of euros			
Pontedera & Tecnologia	(15)	(24)	9
Zongshen Piaggio Foshan Motorcycle	0	(436)	436
Total	**(15)**	**(460)**	**445**

11. Net financial proceeds/(charges) *€/000 (26,536)*

This item consists of:

In thousands of euros	2017	2016	Change
Total financial income	370	530	(160)
Total borrowing costs	(26,805)	(27,112)	307
Total net exchange gains/(losses)	(101)	(574)	473
Net financial income (borrowing costs)	**(26,536)**	**(27,156)**	**620**

Details are given below:

In thousands of euros	2017	2016	Change
Financial income			
- From subsidiaries	317	287	30
- From the Parent company	21	-	21
Financial income from third parties:			
- Interest receivable from clients	18	48	(30)
- Bank and post office interest payable	9	7	2
- Other	5	188	(183)
Total financial income from third parties:	32	243	(211)
Total financial income	**370**	**530**	**(160)**

The amount of €/000 317 recognised as financial income from subsidiaries refers to interest from financing activities relative to the subsidiaries Nacional Motor (€/000 61), Piaggio Concept Store Mantova (€/000 40), Piaggio Fast Forward (€/000 182) and Aprilia Racing (€/000 30). It also includes interest accrued for cash pooling (€/000 4) undertaken with the subsidiaries Piaggio España, Piaggio Deutschland, Piaggio Benelux and Piaggio France.

In thousands of euros	2017	2016	Change
Borrowing Costs			
- Interest payable on a debenture loan	16,403	16,020	383
- Interest payable on bank accounts	93	238	(145)
- Interest payable on bank loans	5,377	6,281	(904)
- Interest to suppliers	450	567	(117)
- Interest payable to other lenders	499	753	(254)
- Interest payable on subdiscount factor operations	793	793	0
- Cash discounts to clients	683	631	52
- Costs for derivatives	359	206	153
- Bank charges on loans	1,365	1,254	111
- Interest payable on lease agreements	179	71	108
- Borrowing costs from discounting back termination and termination benefits	640	645	(5)
- Other	29	36	(7)
Total borrowing costs	**26,870**	**27,495**	**(625)**
Costs capitalised on Property, Plant and Equipment	5	222	(217)
Costs capitalised on Intangible Assets	60	161	(101)
Total Capitalised Costs	**65**	**383**	**(318)**
Total borrowing costs	**26,805**	**27,112**	**(307)**

During 2017, borrowing costs for €/000 65 were capitalised (383 in 2016). The average rate used for the capitalisation of borrowing costs (because of general loans), was equal to 4.40% (4.58% in 2016).
Of the interest on the debenture loan, €/000 134 (€/000 134 in 2016) refers to the parent company Omniaholding.
Interest payable to other lenders mainly refers to interest payable to factoring companies and banks for the sale of trade receivables.

	2017	2016	Change
In thousands of euros			
Exchange differences from sale			
- Exchange gains	8,070	6,590	1,480
- Exchange losses	(8,397)	(6,979)	(1,418)
Total exchange gains (losses)	**(327)**	**(389)**	**62**
Exchange differences from measurement			
- Exchange gains	885	336	549
- Exchange losses	(659)	(521)	(138)
Total valuation exchange gains (losses)	**226**	**(185)**	**411**
Net exchange gains/(losses)	**(101)**	**(574)**	**473**

12. Taxes *€/000 (3,544)*

The item "Income taxes" is detailed below:

	2017	2016	Change
In thousands of euros			
Current taxes	(562)	(1,909)	1,347
Deferred tax assets/liabilities	(2,858)	(3,438)	580
Taxes of previous years	(124)	(1,250)	1,126
Total taxes	**(3,544)**	**(6,597)**	**3,053**

In 2017, taxes generated an income equal to €/000 3,544.
Current taxes comprise:
› €/000 2 for taxation abroad;
› €/000 (32) relative to foreign taxes recoverable in the future from national corporate income tax related to dividends from the subsidiary Piaggio Asia Pacific;
› €/000 612 from regional production tax on income for the year;
› €/000 (1,144) from net costs arising from transfers within the framework of the Consolidated Tax Convention.
Deferred tax represents the effects on income generated by the deferred tax assets and liabilities.
As regards deferred tax liabilities, during the year new provisions were made for €/000 528, and provisions from previous years were released for €/000 (950).
As regards deferred tax assets, on the other hand, new provisions amounted to €/000 (6,476), while the release of amounts allocated in previous years came to €/000 4,040.
The negative balance of taxes for previous years of €/000 (124) arises from the assessment of refunds and new additional tax returns which reduced taxes allocated in previous years.

Reconciliation in relation to the theoretical rate is shown below:

	2017	2016
In thousands of euros		
REVENUE TAXES ON INCOME		
Profit before tax	17,049	7,406
Theoretical rate	24.00%	27.50%
Theoretical tax	4,092	2,037
Tax effect arising from permanent changes	(7,779)	1,507
Tax effect arising from temporary changes	(1,290)	(6,997)
Effect arising from the future reduction of the tax rate on the tax loss not offset as part of tax consolidation		439
Reversal of deferred corporate tax liabilities allocated in previous years for temporary changes	(825)	(1,593)
Reversal of deferred corporate tax assets allocated in previous years for temporary changes	1,774	4,232
Reversal of deferred tax assets allocated in previous years for tax losses	2,098	
Taxes on income generated abroad	(30)	(2,419)
Taxes relative to previous years	(168)	(1,123)
Expenses (income) from the Consolidated Tax Convention	(1,144)	497
Tax affect arising from deferred corporate tax liabilities for temporary changes	501	218
Tax affect arising from deferred corporate tax assets for temporary changes	(907)	(1,390)
Tax effect arising from the adjustment of deferred corporate income tax assets allocated for the tax loss of previous years	(458)	(1,512)
Tax affect arising from deferred corporate tax assets on interest payable deducted within the framework of the Consolidated Tax Convention		(219)
REGIONAL PRODUCTION TAX (IRAP)		
IRAP (regional production tax)on net revenues for the year	612	13
IRAP (regional production tax)referred to previous years	44	(127)
Reversal of deferred IRAP (regional production tax)liabilities allocated in previous years for temporary changes	(125)	(125)
Reversal of deferred IRAP (regional production tax)assets allocated in previous years for temporary changes	168	105
Tax affect arising from deferred IRAP (regional production tax) liabilities for temporary changes	27	27
Tax affect arising from deferred IRAP (regional production tax) assets for temporary changes	(134)	(167)
Income taxes recognised in the financial statements	**(3,544)**	**(6,597)**

Theoretical tax rates were determined applying the IRES (corporate tax) rate in effect in Italy (24%) to profit before tax. The impact arising from the regional production tax rate was determined separately, as this tax is not calculated on the basis of profit before tax.

13. Gain/(loss) on assets held for disposal or sale — *€/000 0*

At the end of the reporting period, there were no gains or losses from assets held for disposal or sale.

C) information on operating assets and liabilities

14. Intangible assets — €/000 549,140

The table below shows the breakdown of intangible assets as of 31 December 2017 and 31 December 2016, as well as movements during the year.

In thousands of euros	Development costs	Patent rights	Trademarks, concessions and licences	Goodwill	Other	Assets under development and advances	Total
As of 1 January 2016							
Historical cost	115,095	292,661	209,105	463,926	-	22,131	1,102,918
Provision for write-down	-	-	-	-	-	-	-
Accumulated amortisation	(64,675)	(217,418)	(159,112)	(95,375)	-	-	(536,580)
Net carrying amount	**50,420**	**75,243**	**49,993**	**368,551**	**-**	**22,131**	**566,338**
2016							
Investments	18,916	24,431	-	-	-	7,544	50,891
Transitions in the period	6,436	1,835	-	-	-	(8,271)	-
Amortisation	(23,425)	(26,119)	(4,546)	-	-	-	(54,090)
Disposals	(379)	-	-	-	-	-	(379)
Other changes	-	-	-	-	-	-	-
Total movements for the year	**1,548**	**147**	**(4,546)**	**-**	**-**	**(727)**	**(3,578)**
As of 31 December 2016							
Historical cost	140,447	318,927	209,105	463,926	-	21,404	1,153,809
Provision for write-down	(379)	-	-	-	-	-	(379)
Accumulated amortisation	(88,100)	(243,537)	(163,658)	(95,375)	-	-	(590,670)
Net carrying amount	**51,968**	**75,390**	**45,447**	**368,551**	**-**	**21,404**	**562,760**
2017							
Investments	19,395	29,600	-	-	-	2,452	51,447
Transitions in the period	7,557	1,549	-	-	-	(9,106)	-
Amortisation	(26,334)	(30,983)	(4,546)	-	-	-	(61,863)
Write-downs	(1,007)	(2,157)	-	-	-	-	(3,164)
Disposals	(33)	(7)	-	-	-	-	(40)
Other changes	1	(1)	-	-	-	-	0
Total movements for the year	**(421)**	**(1,199)**	**(4,546)**	**-**	**-**	**(6,654)**	**(13,620)**
As of 31 December 2017							
Historical cost	166,893	350,069	209,105	463,926	-	14,750	1.204.743
Provision for write-down	(1,007)	(2,157)	-	-	-		(3,164)
Accumulated amortisation	(114,339)	(274,521)	(168,204)	(95,375)	-		(652,439)
Net carrying amount	**51,547**	**73,391**	**40,901**	**368,551**	**-**	**14,750**	**549,140**

The breakdown of intangible assets for the period in operation and under development is as follows:

	Value as of 31 December 2017			Value as of 31 December 2016			Change		
	In operation	Under development and advances	Total	In operation	Under development and advances	Total	In operation	Under development and advances	Total
In thousands of euros									
R&D costs	51,547	11,454	63,001	51,968	18,706	70,674	(421)	(7,252)	(7,673)
Patent rights	73,391	3,296	76,687	75,390	2,698	78,088	(1,999)	598	(1,401)
Trademarks, concessions, licences	40,901	-	40,901	45,447	-	45,447	(4,546)	-	(4,546)
Goodwill	368,551	-	368,551	368,551	-	368,551	-	-	0
Total	**534,390**	**14,750**	**549,140**	**541,356**	**21,404**	**562,760**	**(6,966)**	**(6,654)**	**(13,620)**

Intangible assets decreased overall by €/000 13,620 following investments net of disposals and amortisation for the year.
Increases mainly refer to the capitalisation of development costs for new products and new engines, as well as the purchase of software.
During 2017 borrowing costs for €/000 60 were capitalised, applying an average interest rate of 4.40%.

Development costs €/000 63,001

Development costs include costs for products and engines related to projects for which revenues are expected, for the period of the useful life of the asset, at such a level to allow the recovery of the costs incurred.
Development expenditure for new projects capitalised in 2017 refers to the study of new vehicles and new engines (two-/three-/four-wheeler) which will feature as the top products in the 2017-2019 range.
Borrowing costs attributable to the development of products which require a considerable period of time to be realised are capitalised as a part of the cost of the actual assets. Development costs included under this item are amortised on a straight line basis over a period of 3 to 5 years, in consideration of their remaining useful life.
During 2017, development costs amounting to €/000 15,472 were directly recognised in profit or loss.
Pursuant to article 2426, section 5 of the Italian Civil Code, the value of research and development costs still to be amortised equal to €/000 63,001 is unavailable in shareholders' equity.

Industrial Patent and Intellectual Property Rights €/000 76,687

This item comprises patents for €/000 2,752, know-how for €/000 58,135 and software for €/000 15,800.
As regards software, the increase for the year amounted to €/000 6,035 and mainly refers to the purchase of various licences, as well as the implementation of commercial, production, personnel and administration projects.
Investments in know how amount to €/000 24,150 and mainly refer to new calculation, design and production techniques and methodologies developed by the Company, principally for new products in the 2017-2019 range.
As regards patent rights, costs for €/000 1,561 were capitalised.
Costs for industrial patent and intellectual property rights are amortised on a straight line basis over a period of 3 to 5 years, in consideration of their remaining useful life.

Trademarks, concessions and licences €/000 40,901

The item Trademarks, concessions and licences, equal to €/000 40,901, consists of:

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Guzzi trademark	14,625	16,250	(1,625)
Aprilia trademark	26,241	29,157	(2,916)
Minor trademarks	35	40	(5)
Total Trademark	**40,901**	**45,447**	**(4,546)**

The Guzzi and Aprilia trademarks are amortised over a period of 15 years, expiring in 2026.
The value of other brands acquired with the Aprilia merger decreased during the year by €/000 5 following amortisation calculated on the basis of the estimated useful life.

Goodwill €/000 368,551

As specified in information on accounting standards, as from 1 January 2005 goodwill is no longer amortised, but is tested for impairment annually, or more frequently if specific events or changed circumstances indicate the possibility of impairment, in accordance with IAS 36 Impairment of Assets (impairment test).
In compliance with IAS 36 the methodology adopted is based on the unlevered version of discounted cash flows.
The main assumptions used by the Company to determine future financial flows, related to a four-year period, and the consequent recoverable value (value in use) refer to:

a. a hypothesis of estimated financial flows over a four-year period, inferred from budget data for 2018 supplemented by forecast data for 2019-2021, approved by the Board of Directors of the Company, along with an impairment test performed on 26 February 2018;
b. the WACC discount rate.
c. in addition to the period, a growth rate (g rate) has been estimated.

In particular, for discount cash flows, the Company has adopted a discount rate (WACC) which differs based on different cash generating units. This reflects market valuations of the fair value of money and takes account of specific risks of activities and the geographic area in which the cash generating unit operates.
In the future cash flows discounting model, a terminal value is entered at the end of the cash flow projection period, to reflect the residual value each cash-generating unit should produce. The terminal value represents the current value, at the last year of the projection, of all subsequent cash flows calculated as perpetual income, and was determined using a growth rate (g rate) which differed by CGU, to reflect the different growth potentials of each CGU.

2017	EMEA and Americas	Asia Pacific 2W	India
WACC	5.89%	8.39%	10.26%
G	1.0%	2.0%	2.0%
Growth rate during the Plan period	6.9%	8.3%	6.8%

2016	EMEA and Americas	Asia Pacific 2W	India
WACC	5.60%	8.61%	9.83%
G	1.0%	2.0%	2.0%
Growth rate during the Plan period	7.7%	11.9%	11.5%

The terminal value growth rate (g rate) is specific for CGUs, considering the area's growth potential.
The medium-/long-term growth rate (g-rate) for determining the Terminal Value of each CGU was considered as reasonable and prudent, in the light of:

› analysts' expectations for the Company (source: Analyst Reports 2017);
› the long-term real GDP growth trend expected for main countries where the Group operates (source: Economist Intelligence Unit – EIU);
› forecasts for the reference sector (source: Freedonia, «World Motorcycle», October 2016).

This rate was determined based on the previous year.
The growth rate during the period of the Plan was determined using the trend expected for the reference sector as the benchmark (source: Freedonia, "World Motorcycle", October 2016).
Analyses did not identify any impairment losses. Therefore no write-down was recognised in the separate financial statements as of 31 December 2017.
In addition, and on the basis of information in the document produced jointly by the Bank of Italy, Consob and Isvap no. 2 of 6 February 2009, the Company conducted sensitivity analysis of test results in relation to changes in basic assumptions (use of the growth rate in producing the terminal value and discount rate) which affect the value in use of cash generating units. In the case of a positive or negative change of 0.5% of the WACC and G used, analyses would not identify impairment losses.
In all cases, the value in use of the Company was higher than the net carrying amount tested.
Given that the recoverable value was estimated, the Company cannot guarantee the absence of goodwill impairment in future financial periods.
Given the current market weakness, the various factors used in processing estimates could require revision; the Company will constantly monitor these factors as well as the existence of impairment losses.

15. Property, plant and equipment *€/000 170,565*

The table below shows the breakdown of plant, property and equipment as of 31 December 2017 and 31 December 2016, as well as movements during the period.

In thousands of euros	Land	Buildings	Plant and machinery	Equipment	Other assets	Assets under construction and advances	Total
As of 1 January 2016							
Historical cost	28,010	132,279	284,538	482,703	23,987	21,946	973,463
Reversals	-	4,816	2,368	6,253	199	-	13,636
Provision for write-down	-	-	-	(1,319)	-	-	(1,319)
Accumulated depreciation	-	(58,358)	(252,897)	(463,715)	(22,377)	-	(797,347)
Net carrying amount	**28,010**	**78,737**	**34,009**	**23,922**	**1,809**	**21,946**	**188,433**
2016							
Investments	-	1,190	10,456	7,460	237	2,987	22,330
Transitions in the period	-	1,734	10,552	3,268	366	(15,920)	0
Depreciation	-	(4,107)	(8,812)	(12,330)	(503)	-	(25,752)
Write-downs	-	-	-	(1,000)	-	-	(1,000)
Disposals	-	-	(29)	(79)	-	-	(108)
Other changes	-	-	-	1	-	-	1
Total movements for the year	**-**	**(1,183)**	**12,167**	**(2,680)**	**100**	**(12,933)**	**(4,529)**
As of 31 December 2016							
Historical cost	28,010	135,203	302,098	479,512	24,432	9,013	978,268
Reversals	-	4,816	2,368	6,253	199	-	13,636
Provision for write-down	-	-	-	(2,318)	-	-	(2,318)
Accumulated depreciation	-	(62,465)	(258,290)	(462,205)	(22,722)	-	(805,682)
Net carrying amount	**28,010**	**77,554**	**46,176**	**21,242**	**1,909**	**9,013**	**183,904**
2017							
Investments	-	1,124	4,855	5,113	407	2,642	14,141
Transitions in the period	-	129	1,287	1,619	15	(3,050)	0
Depreciation	-	(4,148)	(9,206)	(11,070)	(507)	-	(24,931)
Write-downs	-	-	-		-	-	0
Disposals	(442)	(153)	(149)	(63)	-	(1,741)	(2,548)
Other changes	-	-	-	-	0	(1)	(1)
Total movements for the year	**(442)**	**(3,048)**	**(3,213)**	**(4,401)**	**(85)**	**(2,150)**	**(13,339)**
As of 31 December 2017							
Historical cost	27,568	135,931	303,372	478,925	24,841	6,863	977,500
Reversals	-	4,816	2,368	6,253	199	-	13,636
Provision for write-down	-	-	-	(2,318)	-	-	(2,318)
Accumulated depreciation		(66,241)	(262,777)	(466,019)	(23,216)	-	(818,253)
Net carrying amount	**27,568**	**74,506**	**42,963**	**16,841**	**1,824**	**6,863**	**170,565**

The breakdown of property, plant and equipment in operation and under construction is as follows:

	Value as of 31 December 2017			Value as of 31 December 2016			Change		
	In operation	Under construction and advances	Total	In operation	Under construction and advances	Total	In operation	Under construction and advances	Total
In thousands of euros									
Land	27,568	-	27,568	28,010		28,010	(442)	-	(442)
Buildings	74,506	1,823	76,329	77,554	1,736	79,290	(3,048)	87	(2,961)
Plant and machinery	42,963	1,537	44,500	46,176	2,032	48,208	(3,213)	(495)	(3,708)
Equipment	16,841	3,467	20,308	21,242	5,229	26,471	(4,401)	(1,762)	(6,163)
Other assets	1,824	36	1,860	1,909	16	1,925	(85)	20	(65)
Total	**163,702**	**6,863**	**170,565**	**174,891**	**9,013**	**183,904**	**(11,189)**	**(2,150)**	**(13,339)**

Property, plant and equipment decreased overall by €/000 13,339. Investments for the period amount to €/000 14,141 and mainly refer to moulds for new vehicles and engines that will be launched in the subsequent year, to drive shaft processing lines, engine test benches and the experimental workshop at Pontedera.
Borrowing costs attributable to the construction of assets which require a considerable period of time to be ready for use are capitalised as a part of the cost of the actual assets.
During 2017 borrowing costs for €/000 5 were capitalised, applying an average interest rate of 4.40%.

Land — €/000 27,568

The value of land decreased by €/000 442 compared to the previous year, following the sale of land at the Noale site, where a building no longer used was situated.

Buildings — €/000 76,329

Buildings decreased overall by €/000 2,961. The negative imbalance is due to new investments made during the year amounting to €/000 1,340, the decrease from depreciation for the period of €/000 4,148 and the disposal of residual costs of €/000 153.
Capitalisation of €/000 1,340 refers to office buildings and mainly to renovation works at sites at Pontedera, Mandello del Lario, Noale and Scorzè.
During the period, capitalisation amounting to €/000 1,252 was recognised, of which €/000 129 relative to investments made in previous years.

Plant and machinery — €/000 44,500

The item decreased overall by €/000 3,708. The negative imbalance is due to new investments made during the year amounting to €/000 5,647, the decrease from depreciation for the period of €/000 9,206 and the disposal of residual costs of €/000 149.

Capitalisation mainly concerned investments in work on production lines of new vehicles and the purchase of new machinery for mechanical processing.
During the period, capitalisation amounting to €/000 6,142 was recognised, of which €/000 1,287 relative to investments made in previous years.

Equipment — €/000 20,308

The item decreased overall by €/000 6.163. The negative imbalance is due to depreciation for the period amounting to €/000 11,070 and the disposal of residual costs of €/000 1,804, partially offset by new investments for €/000 6,711.

Capitalisation of €/000 6,711 refers to equipment and namely moulds for new vehicles launched during the year or scheduled to be launched in the first half of next year, moulds for new engines and specific equipment for assembly lines.
During the period, capitalisation amounting to €/000 6,732 was recognised, of which €/000 1,619 relative to investments made in previous years.

Other plant, property and equipment €/000 1,860

As of 31 December 2017, the item Other assets, including assets under construction, comprised the following:

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
EDP systems	912	802	110
Office furniture and equipment	324	466	(142)
Vehicles	41	48	(7)
Cars	583	609	(26)
Total	**1,860**	**1,925**	**(65)**

The item decreased overall by €/000 65. The negative imbalance is due to depreciation for the period of €/000 507, partially offset by new investments made in the year for €/000 442.
During the period, capitalisation amounting to €/000 422 was recognised, of which €/000 15 relative to investments made in previous years.

Finance lease agreements

As of 31 December 2017, the net value of assets held through lease agreements was equal to €/000 11,555 and refers to the Pontedera painting plant for the Vespa which was sold and repurchased at the same time through a finance lease agreement.

Warranties

As of 31 December 2017 the Company did not own land and buildings encumbered by mortgage liens or privileges in favour of banks to secure loans obtained in previous years.

16. Investment Property *€/000 0*

As of 31 December 2017 no investment property was held.

17. Deferred tax assets *€/000 42,447*

In compliance with IAS 12, the item indicates the net balance of deferred tax assets and liabilities. This net balance is broken down in the table below.

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Deferred tax assets	56,525	54,388	2,137
Deferred tax liabilities	(14,078)	(14,516)	438
Total	**42,447**	**39,872**	**2,575**

Deferred tax assets total €/000 56,525 compared to €/000 54,388 as of 31 December 2016, recording a positive change of €/000 2,137.

The balance of deferred tax assets as of 31 December 2017 refers to:
› €/000 23,993 for allocations made for temporary differences;
› €/000 32,532 for allocations made for tax losses generated under the National Consolidated Tax Convention of which IMMSI S.p.A. is the consolidating company.

The positive change of €/000 2,137 is attributable to:

- €/000 4,040 from the recognition in profit and loss of deferred tax assets recognised in previous years;
- €/000 299 from the recognition in shareholders' equity of deferred tax assets recognised in previous years;
- €/000 6,476 from the recognition in profit and loss of new deferred tax assets.

Deferred tax assets were recognised in light of forecast results of Piaggio & C. S.p.A., and the foreseeable use of relative tax benefits in future years based on the plan approved by the Board of Directors on 26 February 2018. As Piaggio & C. S.p.A. is part of the National Consolidated Tax Convention of the IMMSI Group, the recovery of deferred tax assets is related to and confirmed by taxable amounts of companies that are part of the above convention, as indicated in the long-term plans approved by their respective Boards of Directors.

Details of items affected by the allocation of deferred tax assets as well as the amount of deferred tax assets already recognised and not recognised are shown in the table below.

	Amount	Tax effect 24%	Tax effect 3.9%
In thousands of euros			
Nacional Motor goodwill	12,919	3,101	504
Discounting termination benefit	3,176	762	
Derbi trademark	10,000	2,400	390
Provisions for risks	6,565	1,576	251
Provision for product warranties	10,065	2,416	392
Provisions for bad debts	15,375	3,690	
Provisions for obsolete stock	28,777	6,906	1,122
Other changes	1,446	347	12
Total for provisions and other changes	**88,323**	**21,198**	**2,671**
2007 tax loss including Moto Guzzi transferred to IMMSI	10,987	2,637	
2011 tax loss transferred to IMMSI	1,024	246	
2012 tax loss transferred to IMMSI	26,625	6,390	
2013 tax loss transferred to IMMSI	29,978	7,195	
2014 tax loss transferred to IMMSI	18,193	4,366	
2015 tax loss transferred to IMMSI	21,191	5,086	
2016 tax loss transferred to IMMSI	6,812	1,635	
2017 tax loss transferred to IMMSI	20,739	4,977	
Total out of tax losses	**135,549**	**32,532**	**0**
Losses from the fair value measurement of financial instruments		**124**	
Deferred tax assets already recognised		**56,525**	
Deferred tax assets not recognised for provisions and other changes	0	**0**	

Overall, the movement of deferred tax assets can be summarised as follows:

	Values as of 31 December 2016	Portion to the income statement	Portion to the Statement of Comprehensive Income	Portion to the income statement	Portion to the Statement of Comprehensive Income	Values as of 31 December 2017
In thousands of euros						
Deferred tax assets for:						
Temporary changes	25,193	(1,942)	(299)	1,041		23,993
Losses generated within the framework of tax consolidation	29,195	(2,098)		5,435		32,532
Total	**54,388**	**(4,040)**	**(299)**	**6,476**	**-**	**56,525**

Deferred tax liabilities total €/000 14,078 compared to €/000 14,516 as of 31 December 2016, recording a negative change of €/000 438.
As of 31 December 2017, provisions for deferred taxes referred to:
› €/000 3,359 for the surplus value recognised by the merged company Aprilia in 2005 for buildings already held through leases, and purchased back by Aprilia Leasing S.p.A.
› €/000 337 for temporary changes in taxable income that will be annulled next year;
› €/000 2,765 for depreciation charges minus tax-recognised goodwill values;
› €/000 506 for tax-deducted costs, off the accounts, in relation to the application of IAS/IFRS;
› €/000 3,038 for allocation of the merger loss to the Aprilia brand, arising from its merger in 2005;
› €/000 4,073 for allocation of the merger loss to the Guzzi brand, arising from its merger in 2008;
Provisions for deferred tax liabilities were reduced in the period by €/000 966 following issue of the relative portion and increased overall by €/000 528 for new provisions.

Deferred tax assets and liabilities were determined applying the tax rate in effect in the year when temporary differences occur.

18. Inventories *€/000 160,889*

As of 31 December 2017, this item totalled €/000 160,889, compared to €/000 152,541 at the end of 2016, and consisted of:

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Raw, ancillary materials and consumables	68,378	65,466	2,912
Provision for write-down	(7,845)	(8,262)	417
Net value	**60,533**	**57,204**	**3,329**
Work in progress and semifinished products	17,288	15,818	1,470
Provision for write-down	(852)	(852)	(0)
Net value	**16,436**	**14,966**	**1,470**
Finished products and goods	103,996	99,449	4,547
Provision for write-down	(20,080)	(19,078)	(1,002)
Net value	**83,916**	**80,371**	**3,545**
Advances	4		4
TOTAL	**160,889**	**152,541**	**8,348**

As of 31 December 2017, inventories had increased by €/000 8,348, in line with production volumes and sales in the year.
Changes in the obsolescence fund are summarised in the table below:

	As of 31 December 2016	Use	Allocation	As of 31 December 2017
In thousands of euros				
Raw materials	8,262	(1,312)	894	7,844
Work in progress and semifinished products	852			852
Finished products and goods	19,078	(3,209)	4,212	20,081
TOTAL	**28,192**	**(4,521)**	**5,106**	**28,777**

19. Current trade receivables *€/000 46,878*

Current trade receivables amounted to €/000 46,878 compared to €/000 52,937 as of 31 December 2016, registering a decrease of €/000 6,059
No non-current trade receivables were recorded for either period.

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Trade receivables	28,527	27,118	1,409
Trade receivables due from subsidiaries	16,187	22,536	(6,349)
Trade receivables due from affiliated companies	2,162	3,281	(1,119)
Trade receivables due from parent companies	2	2	0
Total	**46,878**	**52,937**	**(6,059)**

Trade receivables are recorded net of a provision for bad debts equal to €/000 19,655.
Trade receivables comprise receivables referred to normal sales operations and include receivables in foreign currency for a total value, at the exchange rate in effect as of 31 December 2017, taking account of exchange risk hedging, of €/000 9,225.

The item "Trade receivables" includes invoices to issue amounting to €/000 443 relative to normal business transactions and credit notes to issue amounting to €/000 9,070 mainly referring to premiums to pay to the sales network in Italy and abroad for having reached targets.
Trade receivables are usually sold to factoring companies and mainly on a without recourse and advance payment collection basis.
The Company sells a large part of its trade receivables with and without recourse. Piaggio has signed contracts with some of the most important Italian and foreign factoring companies as a move to optimise the monitoring and the management of its trade receivables, besides offering its customers an instrument for funding their own inventories, for factoring classified as without the substantial transfer of risks and benefits. On the contrary, for factoring without recourse, contracts have been formalised for the substantial transfer of risks and benefits. As of 31 December 2017, trade receivables still due, sold without recourse, totalled €/000 59,112. Of these amounts, Piaggio received payment prior to natural expiry of €/000 58,587.
As of 31 December 2017, advance payments received from factoring companies and banks for trade receivables sold with recourse totalled €/000 14,613 with a counter entry recorded in current liabilities.

Movements of the provisions for write-down relative to trade receivables were as follows:

In thousands of euros	
Opening balance as of 1 January 2017	**18,823**
Decreases for use recognised in profit or loss	(278)
Increases for allocations	1,110
Closing balance as of 31 December 2017	**19,655**

During the period, the provision for bad trade debts was used to cover losses amounting to €/000 278.
Allocations to the provision were made against risks arising from the valuation of relative receivables as of 31 December 2017.
Trade receivables due from subsidiaries and associates refer to the supply of products undertaken in normal market conditions.

20. Other current and non-current receivables *€/000 59,816*

Other non-current receivables are broken down as follows:

Other non-current receivables	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Other receivables due from social security institutions	510	236	274
Other receivables due from affiliated companies	115	133	(18)
Other receivables due from third parties	1,930	2,631	(701)
Total	**2,555**	**3,000**	**(445)**

Receivables due from social security institutions refer to sums receivable from and payable by the Italian National Social Security Institute (INPS) for termination benefit accrued by employees on solidarity contracts.
The item "Other" includes guarantee deposits amounting to €/000 333 and prepaid expenses amounting to €/000 1,580.

Other current receivables are broken down as follows:

Other current receivables	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Other receivables due from third parties	10,393	10,988	(595)
Other receivables due from subsidiaries	36,990	30,208	6,782
Other receivables due from affiliated companies	948	1,047	(99)
Other receivables due from parent companies	8,930	7,596	1,334
Total	**57,261**	**49,839**	**7,422**

The item other receivables due from third parties comprises the following:

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Receivables due from employees	1,506	2,098	(592)
Due from social security institutions	792	2,241	(1,449)
Sundry receivables from third parties:			
Amounts due to suppliers	66	436	(370)
Supplier advances	1,111	-	1,111
Invoices and credit to issue	1,913	1,597	316
Sundry receivables due from Italian and foreign third parties	2,299	1,095	1,204
Fair value of derivatives	102	401	(299)
Other receivables	2,604	3,120	(516)
Total	**10,393**	**10,988**	**(595)**

Receivables due from employees refer to advances paid for secondments, sick leave, contract advances, cash provisions, etc.
Sundry receivables of €/000 2,299 mainly refer to receivables due from Italian and foreign parties, originating from transactions not related to typical activities. The item is recognised net of provisions for write-downs of €/000 5,549.
Suppliers advances are related to the agreement made in the contract with Foton signed on 19 September 2017.

Movements of the provision for bad debts relative to sundry receivables were as follows:

In thousands of euros	
Opening balance as of 1 January 2017	**5,142**
Decreases for use	(282)
Increases for allocations	689
Closing balance as of 31 December 2017	**5,549**

During the measurement of relative receivables as of 31 December 2017, a further allocation to the provision of €/000 689 was necessary.

21. Current and non-current tax receivables *€/000 13,110*

Tax receivables are broken down as follows:

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
VAT receivables	886	1,756	(870)
Income tax receivables	11,333	9,086	2,247
Other tax receivables	891	151	740
Total	**13,110**	**10,993**	**2,117**

Non-current tax receivables totalled €/000 9,351 compared to €/000 6,176 as of 31 December 2016. The positive net change amounted to €/000 3,175.
Current tax receivables due from Tax authorities total €/000 3,759 compared to €/000 4,817 as of 31 December 2016. The net negative change amounted to €/000 1,058.

22. Breakdown of operating receivables by measurement method

The table below shows the breakdown of operating receivables by measurement method:

Operating assets as of 31 December 2017

	Assets measured at FVPL	Assets measured at FVOCI	Financial derivatives	Assets at amortised cost	Total
In thousands of euros					
Non-current assets					
Tax receivables				9,351	9,351
Other receivables				2,555	2,555
Total non-current operating receivables	**0**	**0**	**0**	**11,906**	**11,906**
Current assets					
Trade receivables				46,878	46,878
Other receivables			102	57,159	57,261
Tax receivables				3,759	3,759
Total current operating receivables	**0**	**0**	**102**	**107,796**	**107,898**
Total	**0**	**0**	**102**	**119,702**	**119,804**

Operating assets as of 31 December 2016

	Assets measured at FVPL	Assets measured at FVOCI	Financial derivatives	Assets at amortised cost	Total
In thousands of euros					
Non-current assets					
Tax receivables				6,176	6,176
Other receivables				3,000	3,000
Total non-current operating receivables	**0**	**0**	**0**	**9,176**	**9,176**
Current assets					
Trade receivables				52,937	52,937
Other receivables			401	49,438	49,839
Tax receivables				4,817	4,817
Total current operating receivables	**0**	**0**	**401**	**107,192**	**107,593**
Total operating receivables	**0**	**0**	**401**	**116,368**	**116,769**

23. Receivables due after 5 years — *€/000 0*

As of 31 December 2017, there were no receivables due after 5 years.

24. Assets held for sale *€/000 0*

As of 31 December 2017, there were no assets held for sale.

25. Trade payables (current) *€/000 263,762*

Trade payables are wholly included under current liabilities and total €/000 263,762, compared to €/000 269,770 as of 31 December 2016.

Current liabilities	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Amounts due to suppliers	244,741	245,208	(467)
Trade payables due to subsidiaries	10,064	15,030	(4,966)
Trade payables due to associates	8,428	9,411	(983)
Trade payables due to parent companies	519	121	398
Trade payables due to other related parties	10	-	10
Total	**263,762**	**269,770**	**(6,008)**
of which reverse factoring	*110,165*	*109,129*	*1,036*
Of which supply chain financing	*17,367*	*14,766*	*2,601*

The item comprises trade payables of €/000 251,742 for the purchase of goods, materials and services for business operations and €/000 12,020 for the purchase of assets.
The item includes payables in foreign currency for a total value, at the exchange rate in effect at 31 December 2017, taking account of hedging on exchange risk, of €/000 37,288.
To facilitate credit conditions for its suppliers, the Company has used factoring agreements since 2012, mainly supply chain financing and reverse factoring agreements, as described in more detail in "accounting policies adopted by the Company", to which reference is made. These operations did not change the primary obligation, nor substantially changed payment terms, so their nature is the same and they are still classified as trade liabilities.
As of 31 December 2017, the value of trade payables covered by reverse factoring or supply chain financing agreements was equal to €/000 127,532 (€/000 123,895 as of 31 December 2016).

26. Provisions (current and non-current portion) *€/000 16,589*

	Balance as of 31 December 2016	Allocations	Uses	Balance as of 31 December 2017
In thousands of euros				
Provisions for risks				
Provisions for risk on investments	921	2,270	(913)	2,278
Provision for purchase risks related to used vehicles	203		(203)	0
Provision for contractual risks	4,349		(1,741)	2,608
Risk provision for legal disputes	1,512			1,512
Provision for guarantee risks	58			58
Total provisions for risks	**7,043**	**2,270**	**(2,857)**	**6,456**
Provisions for expenses				
Provision for product warranties	8,216	8,521	(6,673)	10,064
Other reserves	69	69	(69)	69
Total provisions for expenses	**8,285**	**8,590**	**(6,742)**	**10,133**
Total provisions for risks and charges	**15,328**	**10,860**	**(9,599)**	**16,589**

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

Current portion	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Provisions for risk on investments	2,278	921	1,357
Provision for purchase risks related to used vehicles	-	203	(203)
Provision for product warranties	7,045	5,751	1,294
Promotional expense fund	69	67	2
Provision for financial services expenses	-	2	(2)
Total current portion	**9,392**	**6,944**	**2,448**

Non-current portion:	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Provisions for contractual risks	2,608	4,349	(1,741)
Risk provision for legal disputes	1,512	1,512	0
Provision for guarantee risks	58	58	0
Provision for product warranties	3,019	2,465	554
Total non-current portion	**7,197**	**8,384**	**(1,187)**

The provision for risks on investments refers for €/000 404 to the subsidiary Piaggio Concept Store Mantova, for €/000 10 to the subsidiary Piaggio Indonesia and for €/000 1,864 to the subsidiary Piaggio Fast Forward. Provisions were made in compliance with the equity method valuation and the related risk provisions refer to the Parent Company's commitment for the re-capitalisation of the investees.
The provision for contract risks refers mainly to charges which could arise from the renegotiation of a supply contract.
The provision for litigation refers for €/000 44 to labour litigation and the remaining €/000 1,468 refers to other legal proceedings.
The provision for risks on guarantees provided refers to charges expected for guarantees issued on the transfer of company equity investments.
The provision for product warranties of €/000 10,064 refers to potential liabilities related to the sale of products. The provision refers to allocations for technical assistance on products covered by customer service which are estimated to be provided over the contractually envisaged warranty period. This period varies according to the type of goods sold to the sales market and to the customer acceptance of a scheduled maintenance plan.
The provision increased during the year by €/000 8,521 for new allocations and was used for €/000 6,673 for expenses sustained referring to sales in previous years.

27. Retirement funds and employee benefits — *€/000 42,868*

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Provision for retirement	140	130	10
Post-employment benefits provision	42,728	47,111	(4,383)
Total	**42,868**	**47,241**	**(4,373)**

The provision for retirement mainly consists of provision for supplementary customer allowances, representing the amounts payable to agents if agency agreements are terminated for reasons not attributable to them. During the year, the provision was increased by €/000 10 for benefits accrued during the period.

Movements for post-employment benefits provision are as follows:

In thousands of euros	
Opening balance as of 1 January 2017	**47,111**
Cost for the year	7,726
Actuarial gains recognised as Shareholders' equity	(1,090)
Interest cost	640
Uses and transfers of retirement funds	(11,643)
Other changes	(16)
Closing balance as of 31 December 2017	**42,728**

Economic/technical assumptions

The economic/technical assumptions used to discount the value are described in the table below:

Technical annual discount rate	1.30%
Annual rate of inflation	1.50% as from 2018
Annual rate of increase in termination benefits	2.625% as from 2018

As regards the discount rate, the Company uses the iBoxx Corporates AA rating with a 10+ duration as the valuation benchmark. If the iBoxx Corporates A rating with a 10+ duration had been used, the value of actuarial losses and that of the provision as of 31 December 2017 would have been lower by €/000 1,150.

The table below shows the effects, in absolute terms, as of 31 December 2017, which would have occurred following changes in reasonably possible actuarial assumptions:

In thousands of euros	Provision for termination benefits
Turnover rate +2%	42,297
Turnover rate -2%	43,232
Inflation rate + 0.25%	43,309
Inflation rate - 0.25%	42,130
Discount rate + 0.50%	40,886
Discount rate - 0.50%	44,686

The average financial duration of the bond is 10 years.

Estimated future amounts are equal to:

Year	Future amounts
In thousands of euros	
1	4,750
2	1,100
3	3,260
4	4,674
5	4,458

28. Current and non-current tax payables — *€/000 3,847*

Their breakdown was as follows:

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Non-current portion	-	-	-
Current portion			
Due for income taxes	209	245	(36)
Other tax payables for:			
- VAT	19	60	(41)
- Tax withheld at source	3,561	3,628	(67)
- Duty and tax records to pay	36	15	21
- Stamp duty paid electronically	22	237	(215)
Total other tax payables	3,638	3,940	(302)
Total current portion	**3,847**	**4,185**	**(338)**
Total	**3,847**	**4,185**	**(338)**

Current tax payables of €/000 209 refer to taxes to pay abroad for income generated abroad, mainly for royalties, technical consultancy services and other services for the subsidiary Piaggio Vietnam.
Payables for regional production tax are entered offset against relative receivables. Regional production tax due for the year amounted to €/000 612.
Payables for withheld taxes paid refer to the income of employee and outsourced work and commission.

29. Other payables (current and non-current) — *€/000 43,974*

Other non-current payables are broken down as follows:

Non-current portion	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Deferred income to affiliated companies	13	163	(150)
Deferred income	1,565	1,095	470
Other payables	100	150	(50)
Total	**1,678**	**1,408**	**270**

Other current payables are broken down as follows:

Current portion	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Amounts due to subsidiaries	5,481	2,675	2,806
Amounts due to affiliated companies	179	176	3
Amounts due to parent companies	6,185	6,211	(26)
Payables to employees	9,481	9,330	151
Amounts due to social security institutions	7,358	7,853	(495)
Amounts due to company boards	607	190	417
Amounts due for temporary funding	1,062	741	321
Amounts due for financial statement assessments	221	275	(54)
Amounts due to customers	2,802	3,085	(283)
Payables from the fair value measurement of financial instruments	6	237	(231)
Accrued expenses	4,338	4,060	278
Deferred income	295	483	(188)
Other payables	4,281	3,826	455
Total	**42,296**	**39,142**	**3,154**

As regards the non-current portion:

› deferred income to associates of €/000 13 mainly concerns income for technical assistance that will be recognised in profit or loss in 2019.

› deferred income comprises €/000 893 from research subsidies to recognise in profit or loss in relation to amortisation, €/000 81 from royalties for years after 2018 and €/000 591 from income related to extended warranties on vehicles for years after 2018.

› Other payables refer to €/000 100 for a guarantee deposit .

As regards the current portion:

› payables to parent companies refer to IMMSI S.p.A. and chiefly to tax consolidation;

› amounts due to employees refer to the amount for holidays accrued but not taken of €/000 7,617 and other payments to be made for €/000 1,864;

› contributions of €/000 1,062 refer to contributions relative to subsidies for research activities not yet acquired;

› amounts due to clients mainly refer to premiums paid for achieving sales targets that will be paid at the end of the reporting period and to credit notes for returns;

› deferred income comprises €/000 227 from research subsidies to recognise in profit or loss in relation to amortisation, €/000 1 from royalties, €/000 6 for interest receivable on deferred payments of customers and €/000 61 from income from extended vehicle warranties.

› Accrued expenses refer to €/000 593 for interest on loans, to €/000 3,588 for interest on debenture loans, to €/000 42 for interest on lease agreements and to €/000 115 for various services.

30. Breakdown of operating payables by measurement method

The table below shows the breakdown of operating payables by measurement method:

Operating liabilities as of 31 December 2017

	Derivatives at FVPL	Financial derivatives	Liabilities at amortised cost	Total
In thousands of euros				
Non-current liabilities				
Tax payables				-
Other payables			1,678	1,678
Total non-current liabilities	**-**	**-**	**1,678**	**1,678**
Current liabilities				
Trade payables			263,762	263,762
Tax payables			3,846	3,846
Other payables		6	42,290	42,296
Total current liabilities	**-**	**6**	**309,898**	**309,904**
Total	**-**	**6**	**311,576**	**311,582**

Operating liabilities as of 31 December 2016

	Derivatives at FVPL	Financial derivatives	Liabilities at amortised cost	Total
In thousands of euros				
Non-current liabilities				
Tax payables				-
Other payables			1,408	1,408
Total non-current liabilities	**-**	**-**	**1,408**	**1,408**
Current liabilities				
Trade payables			269,770	269,770
Tax payables			4,185	4,185
Other payables		237	38,905	39,142
Total current liabilities	**-**	**237**	**312,860**	**313,097**
Total	**-**	**237**	**314,268**	**314,505**

31. Payables due after 5 years

The company has loans due after 5 years; details are given in Note 36 Financial Liabilities. Apart from these loans, no other long-term payables due after five years have been recorded.

D) Information on financial assets and liabilities

This section provides information on the carrying amount of financial assets and liabilities held, and in particular:
› specifically describes the type of financial assets and liabilities;
› the accounting standards adopted;
› describes how fair value is determined, how measurements and estimates are made, and the uncertainties involved.

The Company holds the following financial assets and liabilities:

Financial assets as of 31 December 2017

	Assets measured at FVPL	Assets measured at FVOCI	Financial derivatives	Assets at amortised cost	Total
In thousands of euros					
Non-current assets					
Other financial assets			7,329	36	7,365
Total non-current assets	**0**	**0**	**7,329**	**36**	**7,365**
Current assets					
Other financial assets			2,183	14,172	16,355
Cash and cash equivalents				10,239	10,239
Securities					0
Total current assets	**0**	**0**	**2,183**	**24,411**	**26,594**
Total	**0**	**0**	**9,512**	**24,447**	**33,959**

Financial assets as of 31 December 2016

	Assets measured at FVPL	Assets measured at FVOCI	Financial derivatives	Assets at amortised cost	Total
In thousands of euros					
Non-current assets					
Other financial assets			17,433	36	17,469
Total non-current assets	**0**	**0**	**17,433**	**36**	**17,469**
Current assets					
Other financial assets			4,001	9,714	13,715
Cash and cash equivalents				90,882	90,882
Total current assets	**0**	**0**	**4,001**	**100,596**	**104,597**
Total	**0**	**0**	**21,434**	**100,632**	**122,066**

Financial liabilities as of 31 December 2017

	Derivatives at FVPL	Fair value adjustment	Financial derivatives	Liabilities at amortised cost	Total
In thousands of euros					
Non-current liabilities					
Bank financing				115,763	115,763
Bonds		7,120		304,592	311,712
Other loans				319	319
Leases				9,057	9,057
Hedging derivatives					-
Total non-current liabilities	**-**	**7,120**	**-**	**429,731**	**436,851**
Current liabilities					
Bank financing				57,958	57,958
Bonds		2,121		9,625	11,746
Other loans				14,930	14,930
Leases				1,108	1,108
Hedging derivatives					-
Total current liabilities	**-**	**2,121**	**-**	**83,621**	**85,742**
Total	**-**	**9,241**	**-**	**513,352**	**522,593**

Financial liabilities as of 31 December 2016

	Derivatives at FVPL	Fair value adjustment	Financial derivatives	Liabilities at amortised cost	Total
In thousands of euros					
Non-current liabilities					
Bank financing				198,602	198,602
Bonds		16,921		282,442	299,363
Other loans				636	636
Leases				10,165	10,165
Total non-current liabilities	**-**	**16,921**	**-**	**491,845**	**508,766**
Current liabilities					
Bank financing				71,212	71,212
Bonds		3,884		9,617	13,501
Other loans				11,343	11,343
Leases				1,081	1,081
Total current liabilities	**-**	**3,884**	**-**	**93,253**	**97,137**
Total	**-**	**20,805**	**-**	**585,098**	**605,903**

32. Investments *€/000 127,442*

The investments heading comprises:

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Investments in subsidiaries	121,998	118,629	3,369
Investments in affiliated companies	5,444	5,354	90
Total	**127,442**	**123,983**	**3,459**

Movements for the period are shown below:

	Carrying amount as of 31.12.2016	2017 result	Translation reserve	IAS 19 Discounting reserve	Company transac-tions	Carrying amount as of 31.12.2017
In thousands of euros						
Subsidiaries						
Piaggio Vespa B.V.	17,502	6,972	(926)	33	(3,650)	19,931
Piaggio Vehicles Pvt Ltd	73,426	27,126	(5,806)	411	(16,625)	78,532
Nacional Motor	2,572				600	3,172
Piaggio Vietnam Co Ltd	13,398	11,197	(3,181)		(8,904)	12,510
Piaggio China Ltd	1,993	210	(168)		9	2,044
aprilia racing s.r.l.	3,732	(1,205)		7	(1,000)	1,534
Piaggio España SL	3,374	331			(950)	2,755
Piaggio Indonesia	0	(2)			2	0
Piaggio Advanced Design Center	284	16	(26)			274
Piaggio Fast Forward Inc.	0	(6,629)			6,629	0
Piaggio Concept Store Mantova S.r.l.	0	(652)			652	0
Atlantic 12 FCIIC	2,348	100			(1,202)	1,246
Total subsidiaries	**118,629**	**37,464**	**(10,107)**	**451**	**(24,439)**	**121,998**
Associates						
Zongshen Piaggio Foshan	5,233	545	(440)			5,338
Pontech Soc. Cons. a.r.l.	111	(15)				96
Immsi Audit S.c.a.r.l.	10					10
Fondazione Piaggio onlus	0					0
Total associates	**5,354**	**530**	**(440)**	**0**	**0**	**5,444**
Total investments	**123,983**	**37,994**	**(10,547)**	**451**	**(24,439)**	**127,442**

Investments in subsidiaries €/000 121,998

The following company transactions concerned investments in subsidiaries during the year:

- Piaggio Vespa B.V., the recognition of dividends for €/000 7,150 and payment of a share premium of €/000 3,500;
- Piaggio Vehicles, the recognition of dividends for €/000 9,429 and sale of treasury shares for €/000 7,196 to the subsidiary.
- Nacional Motor, payment to cover losses of €/000 600 through the waiver of financial receivables;
- Piaggio Vietnam, the recognition of dividends for €/000 8,904;
- Piaggio China, capital payment of €/000 9;
- Aprilia Racing, the recognition of dividends for €/000 1,000;
- Piaggio Espana, the recognition of dividends for €/000 950;
- Piaggio Indonesia, additional recapitalisation commitments for €/000 2;
- Piaggio Fast Forward, a capital increase payment of €/000 4,926, of which €/000 161 for commitments already made in the previous year, in addition to further recapitalisation commitments of €/000 1,864;

- Piaggio Concept Store Mantova, a payment to cover losses of €/000 1000, of which €/000 752 for commitments already made in the previous year, in addition to further recapitalisation commitments of €/000 404;
- Atlantic 12 closed property mutual investment fund, a partial repayment of €/000 1,202.

Investments in Associates €/000 5,444

Investments in affiliated companies did not change in relation to company transactions.

33. Other non-current financial assets *€/000 7,365*

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Fair value of hedging derivatives	7,329	17,433	(10,104)
Investments in other companies	36	36	0
Total	**7,365**	**17,469**	**(10,104)**

The item "Fair value of hedging derivatives" refers to the fair value of the Cross Currency Swap on the private debenture loan, of which details are given in section 38.

The table below shows the composition of investments in other companies:

Altre imprese	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
A.N.C.M.A. – Rome	2	2	-
ECOFOR SERVICE S.p.A. – Pontedera	2	2	-
Consorzio Fiat Media Center – Turin	3	3	-
S.C.P.S.T.V.	21	21	-
IVM	8	8	-
Total other companies	**36**	**36**	**-**

34. Other current financial assets *€/000 16,355*

This item comprises:

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Financial receivables due from subsidiaries	14,171	9,714	4,457
Fair value of hedging derivatives	2,184	4,001	(1,817)
Total	**16,355**	**13,715**	**2,640**

The item Financial receivables due from subsidiaries refers to loans to Nacional Motor for €/000 6,005, to Piaggio Vehicles Private Limited for €/000 5,518, to Piaggio Concept Store Mantova for €/000 848 and Aprilia Racing for €/000 1,800.

35. Cash and cash equivalents *€/000 10,239*

This item mainly includes short-term or on demand bank deposits.
Cash and cash equivalents are broken down as follows:

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Bank and postal deposits	10,215	90,855	(80,640)
Cash on hand	24	27	(3)
Total	**10,239**	**90,882**	**(80,643)**

Reconciliation of cash and cash equivalents recognised in the statement of financial position with cash and cash equivalents recognised in the Statement of Cash Flows

The table below reconciles the amount of cash and cash equivalents above with cash and cash equivalents recognised in the Statement of Cash Flows.

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Cash and cash equivalents	10,239	90,882	(80,643)
Current account overdrafts	(173)	(10)	(163)
Closing balance	**10,066**	**90,872**	**(80,806)**

36. Current and non-current financial liabilities *€/000 522,593*

In 2017, overall debt decreased by €/000 83,310, from €/000 605,903 to €/000 522,593. Total financial debt in 2017, net of the fair value measurement of financial derivatives to hedge foreign exchange risk and interest rate risk of €/000 9,241, decreased by €/000 71,746.

	Financial liabilities as of 31 December 2017			Financial liabilities as of 31 December 2016			Change		
	Current	Non-current	Total	Current	Non-current	Total	Current	Non-current	Total
In thousands of euros									
Gross financial debt	83,621	429,731	513,352	93,253	491,845	585,098	(9,632)	(62,114)	(71,746)
Fair Value of hedging derivatives	2,121	7,120	9,241	3,884	16,921	20,805	(1,763)	(9,801)	(11,564)
Total	**85,742**	**436,851**	**522,593**	**97,137**	**508,766**	**605,903**	**(11,395)**	**(71,915)**	**(83,310)**

This decrease is attributable to the repayment of instalments of financial payables due, using available resources.

Total net financial debt went up from €/000 484,502 as of 31 December 2016 to €/000 488,942 as of 31 December 2017, with an increase of €/000 4,440.

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Liquidity	10,239	90,882	(80,643)
Short-term financial receivables due from subsidiaries	14,171	9,714	4,457
Current financial receivables	**14,171**	**9,714**	**4,457**
Current account overdrafts	(173)	(10)	(163)
Current account payables	(15,000)	(1,897)	(13,103)
Bonds	(9,625)	(9,617)	(8)
Current portion of bank loans	(42,785)	(69,305)	26,520
Amounts due to factoring companies	(14,613)	(11,030)	(3,583)
Amounts due under leases	(1,108)	(1,081)	(27)
Current portion of payables due to other lenders	(317)	(313)	(4)
Current financial debt	**(83,621)**	**(93,253)**	**9,632**
Consolidated debt/net current debt	**(59,211)**	**7,343**	**(66,554)**
Payables due to banks and lenders	(115,763)	(198,602)	82,839
Debenture loan	(304,592)	(282,442)	(22,150)
Amounts due under leases	(9,057)	(10,165)	1,108
Amounts due to other lenders	(319)	(636)	317
Non-current financial debt	**(429,731)**	**(491,845)**	**62,114**
NET FINANCIAL DEBT[36]	**(488,942)**	**(484,502)**	**(4,440)**

36) *Pursuant to Consob Communication of 28 July 2006 and in compliance with the recommendation of the CESR of 10 February 2005 "Recommendation for the consistent implementation of the European Commission's Regulation on Prospectuses". The indicator does not include financial assets and liabilities arising from the fair value measurement of financial derivatives used as hedging and the fair value adjustment of relative hedged items equal to €/000 9,241 and relative accruals.*

The tables below analyse the composition and changes in the net financial position as of 31 December 2017 and 31 December 2016.

	Book value as of 31.12.2017	Book value as of 31.12.2016	Change
In thousands of euros			
Cash and cash equivalents	10,239	90,882	(80,643)
Financial receivables	14,171	9,714	4,457
Current financial debt	(83,621)	(93,253)	9,632
Non-current financial debt	(429,731)	(491,845)	62,114
Net Financial debt	**(488,942)**	**(484,502)**	**(4,440)**
Cash and cash equivalents and financial receivables	24,410	100,596	(76,186)
Gross debt, fixed rate	(355,131)	(352,049)	(3,082)
Gross debt, variable rate	(158,221)	(233,049)	74,828
Net Financial debt	**(488,942)**	**(484,502)**	**(4,440)**

		Cash flows						
	Balance as of 31.12.2015	*Changes*	*Re-payments*	*New issues*	*Reclassifica-tions*	*Exchange delta*	*Other changes*	*Balance as of 31.12.2016*
In thousands of euros								
Liquidity	**12,745**	**78,137**						**90,882**
Short-term financial receivables due from third parties								0
Government securities available for sale								0
Short-term financial financial receivables due from subsidiaries	13,403		(6,130)	2,441				9,714
Short-term financial financial receivables due from affiliated companies								0
Current financial receivables	**13,403**	**0**	**(6,130)**	**2,441**	**0**	**0**	**0**	**9,714**
Current account overdrafts	(53)		43					(10)
Current account payables	0			(1,897)				(1,897)
Current portion of medium-/long-term bank loans	(29,814)		29,833		(69,305)		(19)	(69,305)
Total current bank loans	**(29,867)**	**0**	**29,876**	**(1,897)**	**(69,305)**	**0**	**(19)**	**(71,212)**
Debenture loan	0				(9,669)		52	(9,617)
Amounts due to factoring companies	(15,320)		4,290					(11,030)
Amounts due under leases			1,570	(1,570)	(1,090)		9	(1,081)
Current portion of payables due to other lenders	(312)		312		(315)		2	(313)
Borrowings from subsidiaries	(4,205)		4,205					0
Curren financial debt	**(49,704)**	**0**	**40,253**	**(3,467)**	**(80,379)**	**0**	**44**	**(93,253)**
Net current financial debt	**(23,556)**	**78,137**	**34,123**	**(1.026)**	**(80,379)**	**0**	**44**	**7,343**
Payables due to bank and lenders	(184,842)			(82,500)	69,305		(565)	(198,602)
Debenture loan	(290,139)				9,669		(1.972)	(282,442)
Amounts due under leases	0			(11,269)	1,090		14	(10,165)
Borrowings from subsidiaries	0							0
Payables due to other lenders	(951)				315			(636)
Non-current financial debt	**(475,932)**	**0**	**0**	**(93,769)**	**80,379**	**0**	**(2,523)**	**(491,845)**
NET FINANCIAL DEBT	**(499,488)**	**78,137**	**34,123**	**(94,795)**	**0**	**0**	**(2,479)**	**(484,502)**

		Cash flows						
In thousands of euros	*Balance as of 31.12.2016*	*Changes*	*Re-payments*	*New issues*	*Reclassifica-tions*	*Exchange delta*	*Other changes*	*Balance as of 31.12.2017*
Liquidity	**90,882**	**(80,643)**						**10,239**
Short-term financial receivables due from third parties								
Government securities available for sale								
Short-term financial financial receivables due from subsidiaries	9,714		(1,000)	5,687		(230)		14,171
Short-term financial financial receivables due from affiliated companies								
Current financial receivables	**9,714**	**0**	**(1,000)**	**5,687**	**0**	**(230)**	**0**	**14,171**
Current account overdrafts	(10)			(163)				(173)
Current account payables	(1,897)			(13,103)				(15,000)
Current portion of medium-/long-term bank loans	(69,305)		119,305	(500)	(92,285)			(42,785)
Total current bank loans	**(71,212)**	**0**	**119,305**	**(13,766)**	**(92,285)**	**0**	**0**	**(57,958)**
Debenture loan	(9,617)		11,432		(9,669)		(1,771)	(9,625)
Amounts due to factoring companies	(11,030)		0	(3,583)	0			(14,613)
Amounts due under leases	(1,081)		1,081		(1,108)			(1,108)
Current portion of payables due to other lenders	(313)		313		(317)			(317)
Borrowings from subsidiaries	0							0
Curren financial debt	**(93,253)**	**0**	**132,131**	**(17,349)**	**(103,379)**	**0**	**(1,771)**	**(83,621)**
Net current financial debt	**7,343**	**(80,643)**	**131,131**	**(11,662)**	**(103,379)**	**(230)**	**(1,771)**	**(59,211)**
Payables due to bank and lenders	(198,602)			(9,500)	92,285		54	(115,763)
Debenture loan	(282,442)			(30,000)	9,669		(1.819)	(304,592)
Amounts due under leases	(10,165)				1,108			(9,057)
Borrowings from subsidiaries								
Payables due to other lenders	(636)				317			(319)
Non-current financial debt	**(491,845)**	**0**	**0**	**(39,500)**	**103,379**	**0**	**(1,765)**	**(429,731)**
NET FINANCIAL DEBT	**(484,502)**	**(80,643)**	**131,131**	**(51,162)**	**0**	**(230)**	**(3,536)**	**(488,942)**

The table below shows the debt servicing schedule as of 31 December 2017:

	Nominal value as of 31.12.2017	Amounts falling due within 12 months	Amounts falling due after 12 months	Amounts falling due in				
				2019	2020	2021	2022	Beyond
In thousands of euros								
Bank financing	174,256	58,324	115,932	56,419	16,355	16,329	15,806	11,023
Bonds	322,130	9,669	312,461	10,360	11,050	261,051	30,000	
Other medium/long-term bank loans								
of which amounts due to other lenders	*15,249*	*14,930*	*319*	*319*				
of which amounts due under leases	*10,178*	*1,110*	*9,068*	*1,128*	*1,147*	*1,167*	*1,186*	*4,440*
Total other loans	25,427	16,040	9,387	1,447	1,147	1,167	1,186	4,440
Total	**521,813**	**84,033**	**437,780**	**68,226**	**28,552**	**278,547**	**46,992**	**15,463**

The financial debt consisted of loans and debenture loans contracted primarily in euro; the only financial liability in currency consisted of the private debenture loan (US Private Placement), also covered by a cross currency swap as described in detail below.
Medium and long-term bank debt amounts to €/000 158,548 (of which €/000 115,763 non-current and €/000 42,785 current) and consists of the following loans:

- a €/000 21,818 medium-term loan from the European Investment Bank to finance Research & Development investments planned for the 2013-2015 period. The loan will mature in December 2019 and has a repayment schedule of 11 six-monthly instalments at a fixed rate of 2.723%. Contract terms require covenants (described below);
- a €/000 59,908 medium-term loan (nominal value of €/000 60,000) from the European Investment Bank to finance Research & Development investments planned for the 2016-2018 period. The loan will mature in December 2023 and has a repayment schedule of 7 fixed-rate annual instalments. Contract terms require covenants (described below);
- a €/000 29,639 loan (nominal value of €/000 30,000), a syndicate loan for a total of €/000 250,000 comprising a €/000 175,000 four-year tranche as a revolving credit line (of which a nominal value of €/000 5,000 used as of 31 December 2017) and a tranche of €/000 75,000 as a five-year amortisation loan (€/000 25,000 as of 31 December 2017). Contract terms require covenants (described below);
- a €/000 3,330 three-year loan (nominal value of €/000 3,333) with amortisation granted by Banco BPM for an original amount of €/000 10,000 maturing in December 2018;
- a €/000 12,483 medium-term loan (nominal value of €/000 12,505) granted by Banca Popolare Emilia Romagna. The loan will fall due on 5 June 2019 and has an amortisation schedule of six-monthly instalments;
- a €/000 11,364 loan granted by Banco BPM, comprising a tranche of €/000 12,500 granted as a revolving credit line (unused as of 31 December 2017), maturing in January 2021 and a tranche of €/000 12,500 (€/000 11,364 as of 31 December 2017), maturing in July 2022, which has been wholly disbursed;
- a €/000 9,451 medium-term loan (nominal value of €/000 9,500) granted by Interbanca-Banca IFIS. The loan will fall due on 30 September 2022 and has an amortisation schedule of quarterly instalments. Contract terms require covenants (described below);
- a €/000 9,992 medium-term loan (nominal value of €/000 10,000) granted by Banca del Mezzogiorno. The loan will fall due on 2 January 2023 and has an amortisation schedule of six-monthly instalments. Contract terms require covenants (described below);
- €/000 563 of loans from various banks granted pursuant to Italian Law no. 346/88 on subsidised applied research.

All the above financial liabilities are unsecured.

The item Bonds for €/000 314,217 (nominal value of €/000 322,130) refers to:

› a €/000 42,010 private debenture loan (nominal value of €/000 42,130), (US Private Placement) issued on 25 July 2011 for $/000 75,000 wholly subscribed by an American institutional investor, payable in 5 annual portions from July 2017, with a semi-annual coupon. As of 31 December 2017, the fair value measurement of the debenture loan was equal to €/000 51,371 (the fair value is determined based on IFRS related to fair value hedging). A Cross Currency Swap has been taken out on this debenture loan to hedge the exchange risk and interest rate risk;
› €/000 242,361 (nominal value of €/000 250,000) related to a high-yield debenture loan issued on 24 April 2014 for a nominal amount of €/000 250,000, maturing on 30 April 2021 and with a semi-annual coupon with fixed annual nominal rate of 4.625%. Standard & Poor's and Moody's assigned a B+ rating with a stable outlook and a B1 rating with a stable outlook respectively for the issue.
› €/000 29,846 (nominal value of €/000 30,000) for a five-year private debenture loan issued on 28 June 2017 and wholly subscribed by Fondo Sviluppo Export, the fund set up by SACE and managed by Amundi SGR. The issue has no specific rating or listing on a regulated market.

The company may repay in advance:

› all or part of the amount of the high yield debenture loan issued on 24 April 2014, according to the conditions indicated in the indenture. The value of these prepayment options was not deducted from the original contract, as these are considered as being closely related to the host instrument (as provided for by IAS 39 AG30 g).
› all or part of the amount of the private placement issued on 28 June 2017, according to the conditions indicated in the contract. The value of prepayment options was not deducted from the original contract, as these are considered as being closely related to the host instrument (as provided for by IAS 39 AG30 g).

Medium-/long-term payables due to other lenders equal to €/000 10,801 (nominal value of €/000 10,816) of which €/000 9,376 due after the year and €/000 1,425 as the current portion, are detailed as follows:

› a finance lease for €/000 10,165 (nominal value of €/000 10,179) granted by Albaleasing as a Sale&Lease back agreement on a production plant of the Company. The agreement is for ten years, with quarterly repayments (non-current portion equal to €/000 9,057);
› subsidised loans for a total of €/000 636 provided by the Italian Ministry of Economic Development and Italian Ministry of Education, University and Research using regulations to encourage exports and investments in research and development (non-current portion of €/000 319).

Payables to factoring companies totalled €/000 14,613.

Covenants

In line with market practices for borrowers with a similar credit rating, main loan contracts require compliance with:

1. financial covenants, on the basis of which the company undertakes to comply with certain levels of contractually defined financial indices, with the most significant comprising the ratio of net financial debt/gross operating margin (EBITDA), measured on the consolidated perimeter of the Group, according to definitions agreed on with lenders;
2. negative pledges according to which the company may not establish collaterals or other constraints on company assets;
3. "pari passu" clauses, on the basis of which the loans will have the same repayment priority as other financial liabilities, and change of control clauses, which are effective if the majority shareholder loses control of the company;
4. limitations on the extraordinary operations the company may carry out.

The measurement of financial covenants and other contract commitments is monitored by the Company on an ongoing basis. According to results as of 31 December 2017, all covenants had been fully met.
The high-yield debenture loan issued by the company in April 2014 requires compliance with typical covenants of international high-yield market practices. In particular, the company must observe the EBITDA/Net borrowing costs index, based on the threshold established in the Prospectus, to increase financial debt defined during issue. In addition, the Prospectus includes some obligations for the issuer, which limit, inter alia, the capacity to:

1. pay dividends or distribute capital;
2. make some payments;
3. grant collaterals for loans;
4. merge with or establish some companies;
5. sell or transfer own assets.

Failure to comply with the covenants and other contract commitments of the loan and debenture loan, if not remedied in agreed times, may give rise to an obligation for the early repayment of the outstanding amount of the loan.

Amortised Cost and Fair Value Measurement

All financial liabilities are measured in accordance with accounting standards and based on the amortised cost method (except for liabilities with hedging derivatives measured at Fair Value Through Profit & Loss, for which the same measurement criteria used for the derivative are applied). According to this method, the nominal amount of the liability is decreased by the amount of relative costs of issue and/or stipulation, in addition to any costs relating to refinancing of previous liabilities. The amortisation of these costs is determined on an effective interest rate basis, and namely the rate which discounts the future flows of interest payable and reimbursements of principle at the net carrying amount of the financial liability.
IFRS 13 – Fair Value Measurement defines fair value on the basis of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In the absence of an active market or market that does not operate regularly, fair value is measured by valuation techniques. The standard defines a fair value hierarchy:

› level 1 – quoted prices in active markets for assets or liabilities measured;
› level 2 – inputs other than quoted prices included within Level 1 that are observable directly (prices) or indirectly (derived from prices) on the market;
› level 3 – inputs not based on observable market data.

The valuation techniques referred to levels 2 and 3 must take into account adjustment factors that measure the risk of insolvency of both parties. To this end, the standard introduces the concepts of Credit Value Adjustment (CVA) and Debit Value Adjustment (DVA): CVA makes it possible to include the counterparty credit risk in the fair value measurement; DVA reflects the risk of insolvency of the Company.

The table below shows the fair value of payables measured using the amortised cost method as of 31 December 2017:

In thousands of euros	Nominal value	Carrying amount	Fair Value [37]
High yield debenture loan	250,000	242,361	256,473
Private debenture loan in USD	42,130	42,010	55,506
Private debenture loan in EUR	30,000	29,846	28,268
EIB (R&D loan 2013-2015)	21,818	21,818	22,025
EIB (R&D loan 2016-2018)	60,000	59,908	56,573
Credit line from B. Pop. Emilia Romagna	12,505	12,483	12,539
Loan from Banco BPM	11,364	11,364	11,525
Loan from B. del Mezzogiorno	10,000	9,992	9,410
Loan from Interbanca-Banca IFIS	9,500	9,451	9,559
Revolving syndicated loan	5,000	4,756	5,026
Syndicated loan maturing in July 2019	25,000	24,883	25,227

37) *The value deducts DVA related to the issuer, i.e. it includes the risk of insolvency of Piaggio.*

For liabilities due within 18 months, the carrying amount is basically considered the same as the fair value.

Fair value hierarchy

The table below shows the assets and liabilities measured and recognised at fair value as of 31 December 2017, by hierarchical level of fair value measurement.

In thousands of euros	Level 1	Level 2	Level 3
Assets measured at fair value			
Financial derivatives			
- *of which financial assets*		*9,511*	
- *of which other receivables*		*102*	
Investments in other companies			36
Total		**9,613**	**36**
Liabilities measured at fair value			
Financial derivatives			
- *of which other payables*		*(6)*	
Financial liabilities at fair value recognised through profit or loss		(51,371)	
Total		**(51,377)**	

The following tables show Level 2 and Level 3 changes during 2017:

In thousands of euros	Level 2
Net balance of liabilities as of 31 December 2016	(51,006)
Gain (loss) recognised in profit or loss	(359)
Gain (loss) recognised in the statement of comprehensive income	(68)
(Increases)/Decreases	9,669
Net balance of liabilities as of 31 December 2017	**(41,764)**

In thousands of euros	Level 3
Balance of assets as of 31 December 2016	36
Gain (loss) recognised in profit or loss	0
Increases/(Decreases)	0
Balance of assets as of 31 December 2017	**36**

E) Management of financial risk

This section describes all financial risks to which the Company is exposed and how these risks could affect future results.

37. Credit risk

The Company considers that its exposure to credit risk is as follows:

	As of 31 December 2017	As of 31 December 2016
In thousands of euros		
Liquid assets	10,239	90,882
Financial receivables	16,355	13,715
Trade receivables	46,878	52,937
Tax receivables	13,110	10,993
Other receivables	59,816	52,839
Total	**146,398**	**221,366**

The Company monitors or manages credit centrally by using established policies and guidelines. The portfolio of trade receivables shows no signs of concentrated credit risk in light of the broad distribution of our licensee or distributor network. In addition, most trade receivables are short-term. In order to optimise credit management, the Company has established revolving programmes with some primary factoring companies for selling its trade receivables without recourse.

38. Financial risks

The financial risks the Company is exposed to are liquidity risk, exchange risk, interest rate risk and credit risk.

The management of these risks, in order to reduce management costs and dedicated resources, is centralised and treasury operations take place in accordance with formal policies and guidelines which are applicable to all Group companies.

Liquidity risk and capitals management

The liquidity risk arises from the possibility that available financial resources are not sufficient to cover, in due times and procedures, future payments arising from financial and/or commercial obligations. To deal with this risk, cash flows and the Company's credit line needs are monitored or managed centrally under the control of the Treasury in order to guarantee an effective and efficient management of financial resources as well as optimise the debt's maturity standpoint.

In addition, the Company finances the temporary cash requirements of subsidiaries by providing direct short-term loans regulated in market conditions or guarantees. A cash pooling zero balance system is used between the Company and European companies to reset the receivable and payable balances of subsidiaries on a daily basis, for a more effective and efficient management of liquidity in the Eurozone.

As of 31 December 2017, the most important sources of financing irrevocable until maturity granted to the Company were as follows:

› a debenture loan of €/000 250,000 maturing in April 2021;
› a debenture loan of $/000 61,000 maturing in July 2021;
› a debenture loan of €/000 30,000 maturing in June 2022;
› a credit line of €/000 200,000 comprising a Revolving Credit Facility of €/000 175,000 maturing in July 2018 and a loan of €/000 25,000 maturing in July 2019;
› Revolving credit facilities for a total of €/000 32,500, with final settlement in July 2022;
› loans for a total of €/000 128,520, with final settlement in December 2023.

As of 31 December 2017, the Company had a liquidity of €/000 10,239, €/000 202,500 of undrawn credit lines irrevocable to maturity and €/000 67,680 of revocable credit lines, as detailed below:

	As of 31 December 2017	As of 31 December 2016
In thousands of euros		
Variable rate with maturity within one year - irrevocable until maturity	170,000	
Variable rate with maturity beyond one year - irrevocable until maturity	32,500	167,500
Variable rate with maturity within one year - cash revocable	48,680	47,218
Variable rate with maturity within one year - with revocation for self-liquidating typologies	19,000	19,000
Total	**270,180**	**233,718**

The table below shows the timing of future payments in relation to trade payables:

	As of 31 December 2017	Within 30 days	Between 31 and 60 days	Between 61 and 90 days	Over 90 days
In thousands of euros					
Amounts due to suppliers	244,741	144,561	63,734	25,698	10,748
Amounts due to subsidiaries	10,064	10,064			
Amounts due to affiliated companies	8,428	8,428	-	-	-
Amounts due to parent companies	519	519	-	-	-
Trade payables due to other related parties	10	10	-	-	-
Total trade payables	**263,762**	**163,582**	**63,734**	**25,698**	**10,748**

Management considers that currently available funds, as well as funds that will be generated from operations and loans, will enable the Company to meets its requirements relative to investments, the management of working capital and repayment of loans on expiry and will ensure an adequate level of operating and strategic flexibility.

Exchange Risk

The company operates in an international context where transactions are conducted in currencies different from the euro. This exposes it to risks arising from exchange rates fluctuations. For this purpose, the Company has an exchange rate risk management policy which aims to neutralise the possible negative effects of the changes in exchange rates on company cash-flows.

This policy analyses:

- **the transaction exchange risk:** the policy wholly covers this risk which arises from differences between the recognition exchange rate of receivables or payables in foreign currency in the financial statements and the recognition exchange rate of actual collection or payment. To cover this type of exchange risk, the exposure is naturally offset in the first place (netting between sales and purchases in the same currency) and if necessary, by signing currency future derivatives, as well as advances of receivables denominated in currency;
- **the economic exchange risk:** arises from changes in company profitability in relation to annual figures planned in the economic budget on the basis of a reference change (the "budget change") and is covered by derivatives. The items of these hedging operations are therefore represented by foreign costs and revenues forecast by the sales and purchases budget. The total of forecast costs and revenues is processed monthly and relative hedging is positioned exactly on the average weighted date of the economic event, recalculated based on historical criteria. The economic occurrence of future receivables and payables will occur during the budget year.

At the end of the reporting period, the Company's exposure to exchange risk was as follows:

As of 31 December 2017	USD	GBP	CHF	CNY	YEN	SGD	CAD	SEK	INR	PLZ	VND	Total
In thousands of euros												
Non-current assets												
Long-term tax rreceivables										714		
Total non-current assets	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**714**	**0**	**714**
Current assets												
Trade and other receivables	9,148	104		973	383	267	184	(117)	7,574		10,497	29,013
Other financial assets	5,578											5,578
Bank and postal deposits	570	76		428	329	25	5	137				1,570
Total current assets	**15,296**	**180**	**0**	**1,401**	**712**	**292**	**189**	**20**	**7,574**	**0**	**10,497**	**36,161**
Total assets	**15,296**	**180**	**0**	**1,401**	**712**	**292**	**189**	**20**	**8,288**	**0**	**10,497**	**36,875**
Non-current liabilities												
Total non-current liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Current liabilities												
Trade and other payables	21,018	612	13	11,013	4,326	61		174	14	1	23	37,255
Total current liabilities	**21,018**	**612**	**13**	**11,013**	**4,326**	**61**	**0**	**174**	**14**	**1**	**23**	**37,255**
Total liabilities	**21,018**	**612**	**13**	**11,013**	**4,326**	**61**	**0**	**174**	**14**	**1**	**23**	**37,255**

At the end of the reporting period, the company had no financial liabilities in currency subject to exchange risk.

Cash flow hedging

As of 31 December 2017, the Group had undertaken the following futures transactions (recognised based on the regulation date) relative to payables and receivables already recognised to hedge the transaction exchange risk:

Operation	Currency	Amount in local currency/000	Value in euro (forward exchange rate) €/000	Average maturity
in thousands				
Purchase	CAD	400	264	31/01/2018
Purchase	CNY	73,000	9,283	08/02/2018
Purchase	GBP	630	708	29/03/2018
Purchase	JPY	410,000	3,079	17/01/2018
Purchase	SEK	6,700	676	31/01/2018
Purchase	USD	17,100	14,398	25/01/2018
Sale	CAD	680	450	31/01/2018
Sale	INR	500,000	6,514	09/01/2018
Sale	SEK	4,500	453	31/01/2018
Sale	SGD	100	63	31/01/2018
Sale	USD	16,700	14,007	15/02/2018

As of 31 December 2017, the Company had undertaken the following transactions to hedge the business exchange risk:

Operation	Currency	Amount in local currency/000	Value in euro (forward exchange rate) €/000	Average maturity
in thousands				
Purchase	CNY	182,000	22,811	15/06/2018
Sale	GBP	8,175	9,205	02/07/2018

To hedge the economic exchange risk alone, cash flow hedging is adopted with the effective portion of profits and losses recognised in a specific shareholders' equity reserve. Fair value is determined based on market quotations provided by main traders.
As of 31 December 2017 the total fair value of hedging instruments for the economic exchange risk recognised on a hedge accounting basis was positive by €/000 96. During 2017, gains under other components of the Statement of Comprehensive Income were recognised amounting to €/000 96 and net losses from other components of the Statement of Comprehensive Income were reclassified under profit/loss for the year amounting to €/000 164.
The net balance of cash flows during 2017 is shown below, divided by main currency:

Cash Flow	2017
In millions of euro	
Canadian Dollar	8.6
Pound Sterling	19.2
Japanese Yen	(7.1)
US Dollar	2.9
Chinese Yuan[38]	(64.2)
Total cash flow in foreign currency	**(40.6)**

38) cash flow partially in euro

In view of the above, an assumed appreciation/deprecation of 3% of the euro would have generated potential profits for €/000 1,182 and potential losses for €/000 1,256 respectively.

Interest rate risk

This risk arises from fluctuating interest rates and the impact this may have on future cash flows arising from variable rate financial assets and liabilities. The Company regularly measures and controls its exposure to the risk of interest rate changes, as established by its management policies, in order to reduce fluctuating borrowing costs, and limit the risk of a potential increase in interest rates. This objective is achieved through an adequate mix of fixed and variable rate exposure, and the use of derivatives, mainly interest rate swaps and cross currency swaps.
As of 31 December 2017, the following hedging derivatives were in use:

Derivatives for fair value hedging

- a Cross Currency Swap to hedge the private debenture loan issued by the Parent Company for a nominal amount of $/000 61,000. The purpose of the instrument is to hedge both the exchange risk and interest rate risk, turning the loan from US dollars to euro, and from a fixed rate to a variable rate; the instrument is accounted for on a fair value hedge basis, with effects arising from the measurement recognised in profit or loss. As of 31 December 2017, the fair value of the instrument was equal to €/000 9,511. The net economic effect arising from the measurement of the instrument and underlying private debenture loan was equal to €/000 -359; sensitivity analysis of the instrument and its underlying, assuming a 1% increase and decrease in the shift of the variable rates curve, showed a potential impact on the Income Statement, net of the related tax effect, of €/000 8 and €/000 -10 respectively, assuming constant exchange rates; whereas assuming a 1% reversal and write-down of exchange rates, sensitivity analysis identified a potential impact on the income statement, net of the relative tax effect, of €/000 -20 and €/000 20 respectively.

	Fair Value
In thousands of euros	
Cross Currency Swap	9,511

F) Information on shareholders' equity

39. Share capital and reserves — €/000 290,020

Share capital — €/000 207,614

During the period, the nominal share capital of Piaggio & C. did not change.
On 19 April 2017 the new composition of share capital of Piaggio & C. S.p.A (fully subscribed and paid up) was registered at the relative Companies Register, following the cancellation of 3,054,736 treasury shares without any change to the share capital, resolved by the Extraordinary Shareholders' Meeting of 12 April 2017.
Therefore, as of 31 December 2017, the nominal share capital of Piaggio & C., fully subscribed and paid up, was equal to €207,613,944.37 divided into 358,153,644 ordinary shares.

Treasury shares — €/000 0

On 12 April 2017, the Extraordinary Shareholders' Meeting resolved to cancel 3,054,736 treasury shares. Therefore, as of 31 December 2017, Piaggio & C. did not hold any treasury shares.

Shares in circulation and treasury shares	2017	2016
no. of shares		
Situation as of 1 January		
Shares issued	361,208,380	361,208,380
Treasury portfolio shares	3,054,736	16,000
Shares in circulation	358,153,644	361,192,380
Movements for the period		
Cancellation of treasury shares	(3,054,736)	
Purchase of treasury shares		3,038,736
Situation as of 31 December		
Shares issued	358,153,644	361,208,380
Treasury portfolio shares		3,054,736
Shares in circulation	358,153,644	358,153,644

Share premium reserve — €/000 7,171

The share premium reserve as of 31 December 2017 was unchanged compared to 31 December 2016.

Legal reserve — €/000 19,095

The legal reserve as of 31 December 2017 had increased by €/000 700 as a result of the allocation of earnings for the previous year.

Other reserves — €/000 (20,895)

This item consists of:

	As of 31 December 2017	As of 31 December 2016	Change
In thousands of euros			
Net capital gain from contribution	152	152	0
IFRS transition reserve	5,789	11,435	(5,646)
Financial instruments' fair value reserve	(320)	(388)	68
Translation reserve from the valuation of investments using the equity method	(26,516)	(15,969)	(10,547)
Total other reserves	**(20,895)**	**(4,770)**	**(16,125)**

The financial instruments fair value provision is negative and refers to the effects of cash flow hedge accounting in foreign currencies and interest. These transactions are described in full in the note on financial instruments. As of 31 December 2016 this valuation was negative, amounting to €/000 388.

Dividends €/000 19,698

The Shareholders Meeting of Piaggio & C. S.p.A. of 12 April 2017 resolved to distribute a dividend of 5.5 eurocents per ordinary share. During April this year, therefore, dividends were distributed to a total value of €/000 19,698. During 2016, dividends totalling €/000 17,962 were paid.

	Total amount		Dividend per share	
	2017	2016	2017	2016
	€/000	€/000	€	€
In thousands of euros				
Authorised and paid	19,698	17,962	0.055	0.05

Earnings reserve €/000 97,628

The composition of reserves as of 31 December 2017 was as follows:

	As of 31 December 2017
In thousands of euros	
Earnings reserve	97,628
Of which:	
Earnings reserve from the valuation of investments with the equity method	26,301
Retained earnings (losses)	50,734
Profit (loss) for the period	20,593

Individual items of Shareholders' equity are analytically presented in the table below, based on origin, availability and use in the three previous years.

Key:
A: to increase capital
B: to cover losses
C: to allocate to shareholders
39) wholly available to increase capital and cover losses. For other uses prior adjustment (also by transfer from the share premium reserve) of the legal reserve to 20% of the Share Capital is necessary. As of 31 December 2017 this adjustment would be equal to €/000 22,428.

Type/description	Amount	Possible use	Portion available	2014 uses to cover losses
In thousands of euros				
Share capital	207,614			
Capital reserves:				
Share premium	7,171	A,B,C(39)	7,171	
Profit reserves:				
Legal reserve	19,095	B	---	
Net capital gain from contribution	152	A,B	152	
IAS transition reserve	5,789	A,B	5,789	
Financial instruments' fair value reserve	(320)			
Translation reserve from the valuation of investments with the equity method	(26,516)			
Total Reserves	*5,371*		*13,112*	
Earnings reserve from the valuation of investments with the equity method	26,301	A,B	26,301	
Treasury shares	*0*			
Stock option reserve	13,384			
Reserve for actuarial gains (losses) relative to termination benefit	(7,123)			
Retained earnings (losses)	44,473			1,649
Total retained earnings (losses)	*50,734*	*A,B,C*	*50,734*	*1,649*
Profits (losses) for the period	20,593			
Total shareholders' equity	**310,613**		**90,147**	

Pursuant to article 2426 section 5 of the Italian Civil Code, shareholders' equity is not available for the value of development costs still to be amortised as of 31 December 2017 that amount to €/000 63,001.

40. Other Comprehensive Income (Expense) €/000 (9,200)

The value of other components of the Statement of Comprehensive Income is broken down as follows:

	Reserve for measurement of financial instruments	Reserve for the year	Total Other components of the Statement of Comprehensive Income
In thousands of euros			
As of 31 December 2017			
Items that will not be reclassified in the income statement			
Remeasurements of defined benefit plans		828	828
Portion of components of the Statement of Comprehensive Income of subsidiaries/associates measured with the equity method		451	451
Total	**0**	**1,279**	**1,279**
Items that may be reclassified in the income statement			
Total income (losses) for the fair value adjustment of financial assets available for sale			0
Total profits (losses) on cash flow hedges	68		68
Portion of components of the Statement of Comprehensive Income of subsidiaries/associates measured with the equity method		(10,547)	(10,547)
Total	**68**	**(10,547)**	**(10,479)**
Other components of the Statement of Comprehensive Income	**68**	**(9,268)**	**(9,200)**
As of 31 December 2016			
Items that will not be reclassified in the income statement			
Remeasurements of defined benefit plans		(2,377)	(2,377)
Portion of components of the Statement of Comprehensive Income of subsidiaries/associates measured with the equity method		(285)	(285)
Total	**0**	**(2,662)**	**(2,662)**
Items that may be reclassified in the income statement			
Total profits (losses) on cash flow hedges	198		198
Portion of components of the Statement of Comprehensive Income of subsidiaries/associates measured with the equity method		1,469	1,469
Total	**198**	**1,469**	**1,667**
Other components of the Statement of Comprehensive Income	**198**	**(1,193)**	**(995)**

The tax effect relative to other components of the Statement of Comprehensive Income is broken down as follows:

	As of 31 December 2017			As of 31 December 2016		
	Gross value	*Tax (expense) / benefit*	*Net value*	*Gross value*	*Tax (expense) / benefit*	*Net value*
In thousands of euros						
Remeasurements of defined benefit plans	1,089	(261)	828	(3,127)	750	(2,377)
Total profits (losses) on cash flow hedges	89	(21)	68	92	106	198
Portion of components of the Statement of Comprehensive Income of subsidiaries/ associates measured with the equity method	(10,096)		(10,096)	1,184		1,184
Other components of the Statement of Comprehensive Income	**(8,918)**	**(282)**	**(9,200)**	**(1,851)**	**856**	**(995)**

G) Other information

41. Share-based incentive plans

As of 31 December 2017, there were no incentive plans based on financial instruments.

42. Fees for Directors, Statutory Auditors and Key Managers

For a complete description and analysis of fees of Directors, Statutory Auditors and Key Managers, reference is made to the remuneration report available from the registered office, and on the Company's website in the section "Governance".

	2017
In thousands of euros	
Directors	2,115
Statutory auditors	155
Key Managers	260
Total fees	**2,530**

43. Information on related parties

Revenues, costs, payables and receivables as of 31 December 2017 involving parent companies, subsidiaries and affiliated companies refer to the sale of goods or services which are a part of normal operations of the Group.
Transactions are carried out at normal market values, depending on the characteristics of the goods and services provided.
Information on transactions with related parties, including information required by Consob in its communication of 28 July 2006 n. DEM/6064293, is reported below.
The procedure for transactions with related parties, pursuant to article 4 of Consob Regulation no. 17221 of 12 March 2010 as amended, approved by the Council on 30 September 2010, is published on the institutional site of the Issuer www.piaggiogroup.com, under Governance.

Relations with Parent Companies

Piaggio & C. S.p.A. is controlled by the following companies:

Designation	Registered office	Type	% of ownership	
			As of 31 December 2017	As of 31 December 2016
IMMSI S.p.A.	Mantua - Italy	Direct parent company	50.0703	50.0621
Omniaholding S.p.A.	Mantua - Italy	Final parent company	0.1370	0.0858

During 2017, transactions on the shares of parent companies were not carried out directly or indirectly. Piaggio & C. S.p.A. is subject to the management and coordination of IMMSI S.p.A. pursuant to article 2497 et seq. of the Italian Civil Code. During the period, this management and coordination concerned the following activities:

› as regards mandatory financial disclosure, and in particular the financial statements and reports on operations of the Group, IMMSI has produced a group manual containing the accounting standards adopted and options chosen for implementation, in order to give a consistent and fair view of the consolidated financial statements.

› IMMSI has defined procedures and times for preparing the budget and in general the business plan of Group companies, as well as final management analysis to support management control activities.

› IMMSI has also provided services for the development and management of Company assets, with a view to optimising resources within the Group, and provided property consultancy services and other administrative services.

› IMMSI has provided consultancy services and assistance for the Company and subsidiaries concerning extraordinary financing operations, organisation, strategy and coordination, as well as services intended to optimise the financial structure of the Group.

In 2016, for a further three years, the Parent Company signed up to the National Consolidated Tax Mechanism pursuant to articles 117 to 129 of the Consolidated Income Tax Act (T.U.I.R.) of which IMMSI S.p.A. is the consolidating company, and to whom other IMMSI Group companies report to. The consolidating company determines a single global income equal to the algebraic sum of taxable amounts (income or loss) realised by individual companies that opt for this type of group taxation.
The consolidating company recognises a receivable from the consolidated company which is equal to the corporate tax to be paid on the taxable income transferred by the latter. Whereas, in the case of companies reporting tax losses, the consolidating company recognises a payable related to corporate tax on the portion of loss actually used to determine global overall income, or calculated as a decrease of overall income for subsequent tax periods, according to the procedures in article 84, based on the criterion established by the consolidation agreement.
Under the National Consolidated Tax Mechanism, companies may, pursuant to article 96 of Presidential Decree no. 917/86, allocate the excess of interest payable which is not deductible to one of the companies so that, up to the excess of Gross Operating Income produced in the same tax period by other subjects party to the consolidation, the amount may be used to reduce the total income of the Group.
Piaggio & C. S.p.A. has undertaken a rental agreement for offices owned by Omniaholding S.p.A.. This agreement, signed in normal market conditions, was previously approved by the Related Parties Transactions Committee, as provided for by the procedure for transactions with related parties adopted by the Company.
Omniaholding S.p.A. has undersigned Piaggio & C. bonds for a value of €2.9 million on the financial market, and collected related interest.

Pursuant to article 2.6.2, section 13 of the Regulation of Stock Markets organised and managed by Borsa Italiana S.p.A., the conditions as of article 37 of Consob regulation no. 16191/2007 exist.

Transactions with Piaggio Group companies

The main intercompany relations with subsidiaries refer to the following transactions:

Piaggio & C. S.p.A.

- sells vehicles, spare parts and accessories to sell on respective markets, to:
  - Piaggio Hrvatska
  - Piaggio Hellas
  - Piaggio Group Americas
  - Piaggio Vehicles Private Limited
  - Piaggio Vietnam
  - Piaggio Concept Store Mantova
- sells components to:
  - Piaggio Vehicles Private Limited
  - Piaggio Vietnam
- grants licences for rights to use the brand and technological know how to:
  - Piaggio Vehicles Private Limited
  - Piaggio Vietnam
- provides support services for scooter and engine industrialisation to:
  - Piaggio Vehicles Private Limited
  - Piaggio Vietnam
- provides support services for staff functions to other Group companies;
- issues guarantees for the Group's subsidiaries, for medium-term loans;
- purchases vehicles, spare parts and accessories from:
  - Piaggio Vehicles Private Limited
  - Piaggio Vietnam
- receives a vehicle, spare parts and accessories distribution service on respective markets from:
  - Piaggio Hrvatska
  - Piaggio Hellas
  - Piaggio Group Americas
  - Piaggio Vehicles Private Limited
  - Piaggio Vietnam
- receives a sales promotion service and after-sales services on respective markets from:
  - Piaggio France
  - Piaggio Deutschland
  - Piaggio Limited
  - Piaggio España
  - Piaggio Vespa
- receives a components and vehicles design/development service and a local supplier scouting service from Foshan Piaggio Vehicles Technologies R&D;
- receives a vehicle and components research/design/development service from Piaggio Advanced Design Center;
- receives a racing team management service and vehicle design service from Aprilia Racing;
- rents property from Atlantic 12.

Relations between Piaggio & C. S.p.A. and JV Zongshen Piaggio Foshan Motorcycle Co. Ltd

Main intercompany relations between Piaggio & C S.p.A. and JV Zongshen Piaggio Foshan Motorcycle Co. Ltd, refer to the following transactions:

Piaggio & C. S.p.A.

- grants licences for rights to use the brand and technological know how to Zongshen Piaggio Foshan Motorcycle Co. Ltd..

Zongshen Piaggio Foshan Motorcycle Co. Ltd

- sells vehicles, spare parts and accessories, which it has manufactured in some cases, to Piaggio & C. S.p.A. for subsequent sale.

The table below summarises relations described above and financial relations with parent companies, subsidiaries and affiliated companies as of 31 December 2017 and relations during the year, as well as their overall impact on financial statement items.

In thousands of euros	Revenues from sales	Costs for materials	Costs for services, leases and rentals	Employee costs	Other operating income	Other operat-ing costs	Result from Equity valuation Pos/(Neg)	Financial income	Borrowing costs	Taxes	Other receivables > 12 months	Trade receivables	Other receivables < 12 months	Financial receiv-ables	Financial payables > 12 months	Other payables < 12 months	Financial payables due within one year	Trade payables	Other payables < 12 months
Aprilia Racing Srl	359	4	11,290		1,298		(1,205)	30				57	433	1,800				45	51
Atlantic 12			648		1		100						1					162	
Fondazione Piaggio			24								115								24
Foshan Piaggio Vehicles Technology R&D Co. Ltd			1,162		222								272					94	
Immsi Audit			733		54								45						
IMMSI S.p.A.			2,675		87	12		21		(1,144)		1	8,930					480	6,185
Is Molas S.p.A.			9															10	
Nacional Motor S.A.								61					50	6,005					
Omniaholding			63						134						2,900			39	
Piaggio Advanced Design Center Corporation			558				16											90	
Piaggio Asia Pacific Ltd					325								219					61	42
Piaggio China							210												
Piaggio Concept Store Mantova	1,060		17		198		(652)	41				1,688	260	848				41	
Piaggio Deutschland GMBH			4,629		162								76					935	172
Piaggio España SLU			4,309		111		332					219	674					1,062	534
Piaggio Fast Forward	3				7		(6,629)	182				3	15	5,518					
Piaggio France SAS			6,148		99								183					462	
Piaggio Group Americas Inc.	50,147		401		855							6,714	253					175	
Piaggio Group Japan					192								97						
Piaggio Hellas S.A.	17,280		105		1,304							951	55					133	
Piaggio Hrvatska DOO	2,914		5		122							1,683	32					23	
Piaggio Limited			2,380		71								33					240	
Piaggio Vehicles Pvt. Ltd	839	14,660	275		14,893	2	27,125					487	10,298					4,291	23
Piaggio Vespa B.V.			2,883		64	851	6,972	3				5	7,207					409	3,953
Piaggio Vietnam Co. Ltd	31,034	55,207	396		13,890	244	11,197					4,287	16,607					1,841	577
Pontedera & Tecnologia S.C.AR.L							(15)												
PT Piaggio Indonesia					519		(2)						225						129
Zongshen Piaggio Foshan Motorcycle Co. Ltd	355	23,322			220	4	545					2,256	903			13		8,428	155
TOTALE	**103,991**	**93,193**	**38,710**	**0**	**34,694**	**1,113**	**37,994**	**338**	**134**	**(1,144)**	**115**	**18,351**	**46,868**	**14,171**	**2,900**	**13**	**0**	**19,021**	**11,845**
% of accounting item	**12.7%**	**19.3%**	**22.7%**	**0.0%**	**32.0%**	**6.3%**	**99.7%**	**91.4%**	**0.5%**	**32.3%**	**4.5%**	**39.1%**	**81.8%**	**86.6%**	**0.7%**	**0.8%**	**0.0%**	**7.2%**	**28.0%**

44. Contract commitments and guarantees

Contract commitments of the Company are summarised based on their expiry.

	In 1 year	Between 2 and 5 years	After 5 years	Total
In thousands of euros				
Operating leases	1,013	765	-	**1,778**
Other commitments	-	-	-	**-**
Total	**1,013**	**765**	**-**	**1,778**

The main guarantees issued by banks on behalf of Piaggio & C. S.p.A in favour of third parties are listed below:

Type	Amount €/000
Warrant to grant credit of Piaggio & C. for USD 6,400,000 to guarantee the credit line for working capital of USD 5,800,000 granted by Bank of America to the subsidiary Piaggio Vehicles Private Limited	
of which drawn	0
of which undrawn	5,336
Warrant to grant credit of Piaggio & C. for INR 550,000,000 to guarantee the credit line for working capital of INR 500,000,000 granted by the Hongkong and Shanghai Banking Corporation to the subsidiary Piaggio Vehicles Private Limited	
of which drawn	0
of which undrawn	7,180
Warrant to grant credit of Piaggio & C. for INR 1,500,000,000 to guarantee the credit line for working capital of INR 1,500,000,000 granted by the Credit Agricole CIB to the subsidiary Piaggio Vehicles Private Limited	
of which drawn	0
of which undrawn	19,581
Warrant to grant credit of Piaggio & C. for USD 18,700,000 to guarantee the credit line for Supply Chain Finance program of USD 17,000,000 granted by the Bank of America to the subsidiary Piaggio Vehicles Private Limited	
of which drawn	12,267
of which undrawn	3,325
Warrant to grant credit of Piaggio & C. for USD 19,680,000 to guarantee the credit line of an equal amount granted by I.F.C. to the subsidiary Piaggio Vietnam	
of which drawn	3,410
of which undrawn	13,000
Warrant to grant credit of Piaggio & C. for USD 22,000,000 to guarantee the credit line for working capital of USD 20,000,000 granted by ANZ to the subsidiary Piaggio Vietnam	
of which drawn	0
of which undrawn	18,344
Warrant to grant credit of Piaggio & C. for USD 11,000,000 to guarantee the credit line for working capital of USD 10,000,000 granted by Hongkong and Shanghai Banking Corporation to the subsidiary Piaggio Vietnam	
of which drawn	0
of which undrawn	9,172
Warrant to grant credit of Piaggio & C. for USD 11,500,000 to guarantee the credit line for working capital of USD 10,000,000 granted by BNP Paribas to the subsidiary Piaggio Vietnam	
of which drawn	4,765
of which undrawn	4,824

Type	Amount €/000
Warrant to grant credit of Piaggio & C. to guarantee the credit line granted by VietinBank to the subsidiary Piaggio Vietnam	
of which drawn	13,295
of which undrawn	2,447
Warrant to grant credit of Piaggio & C. for USD 5,500,000 to guarantee the credit line for working capital of USD 5,000,000from Hongkong and Shanghai Banking Corporation to the subsidiary Piaggio Indonesia	
of which drawn	1,538
of which undrawn	3,048
Warrant to grant credit of Piaggio & C. for USD 6,000,000 to guarantee the credit line for working capital of USD 5,000,000 from Bank of America to the subsidiary Piaggio Indonesia	
of which drawn	923
of which undrawn	4,080
Warrant to grant credit of Piaggio & C. to guarantee the credit line from Banca Intesa San Paolo to the subsidiary Piaggio Group Americas for USD 19,000,000	
of which drawn	11,673
of which undrawn	4,170
Warrant to grant credit of Piaggio & C. to guarantee the credit line from Banca Intesa San Paolo to the subsidiary Piaggio Group Japan for USD 4,500,000	
of which drawn	2,548
of which undrawn	1,204
A guarantee of Piaggio & C. on a line for derivatives, agreed on with Hongkong and Shanghai Banking Corporation, for the subsidiary Piaggio Indonesia for USD 3,300,000	
of which drawn	30
of which undrawn	2,722
A guarantee of Piaggio & C. for a guarantee on derivatives agreed on by I.F.C. for the subsidiary Piaggio Vietnam	
of which drawn	165

The main guarantees issued by banks on behalf of Piaggio & C. S.p.A in favour of third parties are listed below:

Type	Amount €/000
A guarantee of BCC-Fornacette issued to Pisa Customs Authorities for handling Piaggio goods at the Pisana docks and at Livorno Port	200
Guarantee of BCC-Fornacette issued in favour of Poste Italiane – Rome to guarantee contract obligations for the supply of vehicles	1,321
Guarantee of BCC-Fornacette issued in favour of Motoride Spa to reimburse VAT following the deductible tax surplus	298
Guarantee of Banco di Brescia issued to the local authorities of Scorzè, to guarantee payment of urbanisation and construction charges relative to the Scorzè site	166
Guarantee of Banca Intesa San Paolo issued to the Ministry of the Interior of Algeria, to guarantee contract obligations for the supply of vehicles	140
Guarantee of Banca Intesa San Paolo issued to the Ministry of the Defense of Algeria, to guarantee contract obligations for the supply of vehicles	158
Guarantee of Banca Nazionale del Lavoro issued in favour of ALDI Immobiliare to guarantee compliance with the sale of the property located in the municipality of Noale	300
Guarantee of Banca Nazionale del Lavoro issued in favour of FOTON International Trade, for the signing of the FOTON – PIAGGIO supply agreement	1,000

45. Disputes

For details of litigation, see the same section in the Notes to the Consolidated Financial Statements.

46. Significant non-recurring events and operations

For 2017 and 2016, no significant non-recurrent transactions were recorded.

47. Transactions arising from atypical and/or unusual transactions

During 2017 and 2016, the Company did not record any significant atypical and/or unusual operations, as defined by Consob Communication DEM/6037577 of 28 April 2006 and DEM/6064293 of 28 July 2006.

48. Events occurring after the end of the period

No events to be reported occurred after the end of the period.

49 Proposal to allocate profit for the period

Dear Shareholders,
The Financial Statements as of 31 December 2017 record a profit for the period equal to € 20,593,022.32. The Board of Directors of Piaggio & C. S.p.A. proposes allocating as follows:

› € 1,029,651.12 Legal reserve
› € 19,563,371.20 reserve from the valuation of investments with the equity method.

Moreover, considering that Piaggio & C. did not hold any treasury shares and that available reserves of € 19,720,774.09 net of development costs have been recorded in the financial statements - pursuant to article 2426(5) of the Italian Civil Code, also taking into account the Group's prospects, the Board of Directors of Piaggio & C. S.p.A. proposes distributing a dividend of € 0.055 including taxes, for each ordinary share, for a maximum total of € 19,698,450.42 for the entire amount in the "Retained earnings" reserve and establishing 23 April 2018 as the coupon no. 11 detachment date, 24 April 2018 as the dividend record date and 26 April 2018 as the date from which the dividend is payable.

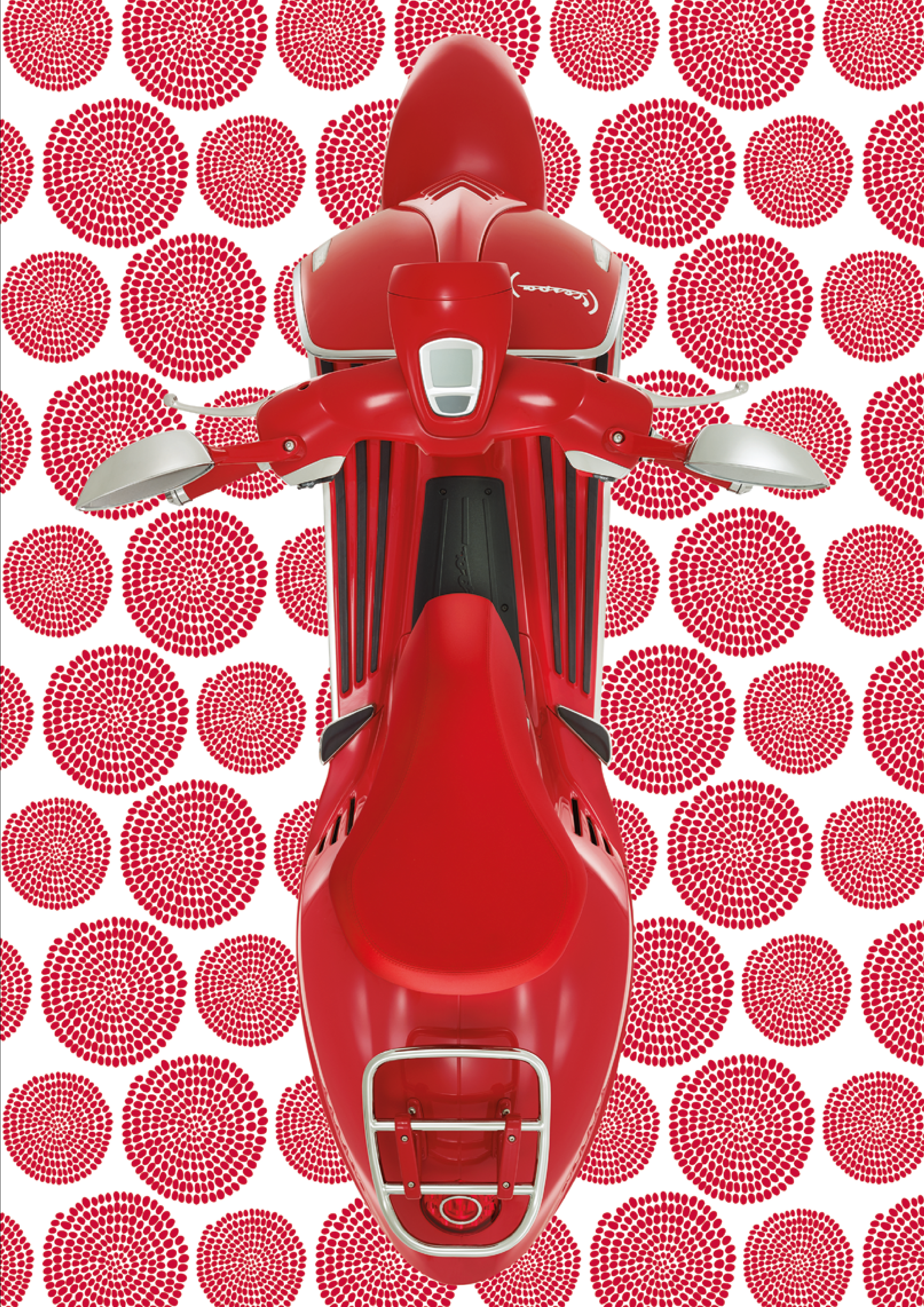
50. Authorisation for publication

This document was published on 23 March 2018 authorised by the Chairman and Chief Executive Officer.

Milan, 28 February 2018

for the Board of Directors

Chairman and Chief Executive Officer
Roberto Colaninno



Attachments

Piaggio Group companies

Reference is made to attachments to the Consolidated Financial Statements.

Information pursuant to article 149-duodecies of the Consob Regulation on Issuers

The following statement was prepared pursuant to article 149 duodecies of the Consob Regulation on Issuers and indicates the fees for 2016 for auditing services and other services provided by the same independent auditors and entities belonging to the auditing firm's network.

Type of service	Subject providing the service	Fees for 2017
In euro		
Auditing services	PWC	363,870
Auditing services CSR/DNF	PWC	54,000
Certification services	PWC	10,000
Other services	PWC	192,000
Total		**619,870**

Information on company management and coordination activities

The Company is subject to the management and coordination of IMMSI S.p.A..
Pursuant to article 2497-bis, section 4 of the Italian Civil Code, main data of the last financial statements of the parent company IMMSI S.p.A, with registered office in Mantova (MN), Piazza Vilfredo Pareto 3 – tax code 07918540019, for the year ended 31 December 2016, are summarised below. The above essential data were taken from the Financial Statements for the year ended 31 December 2016. To fully understand the financial position of IMMSI S.p.A as of 31 December 2016, as well as the financial performance of the company in the year ending at this date, reference is made to the financial statements, and the report of the independent auditors, available in the forms and according to procedures established by law.

Income statement	2016	2015
In thousands of euros		
Financial income	18,688	24,811
Of which related parties and intergroup	*18,346*	*21,793*
Borrowing costs	(10,478)	(10,188)
Income/(loss) from investments	-	-
Operating income	4,277	4,434
Of which related parties and intergroup	*1,949*	*1,982*
Costs for materials	(34)	(35)
Costs for services, leases and rentals	(3,426)	(3,395)
Of which related parties and intergroup	*(435)*	*(408)*
Employee costs	(1,245)	(1,321)
Depreciation of plant, property and equipment	(78)	(86)
Amortisation of goodwill	-	-
Amortisation of intangible assets with a definite life	-	-
Other operating income	124	150
Of which related parties and intergroup	*92*	*86*
Other operating costs	(697)	(769)
Profit before tax	**7,131**	**13,601**
Taxes	(1,639)	1,895
Of which related parties and intergroup	*-*	*1,868*
Profit after taxes from continuing operations	**5,492**	**15,496**
Profit or loss arising from assets held for disposal or sale	-	-
Net profit for the period	**5,492**	**15,496**

Statement of comprehensive income	2016	2015
In thousands of euros		
Net profit for the period	**5,492**	**15,496**
Items that may be reclassified to profit or loss:		
Profits (losses) from the fair value measurement of assets available for sale (AFS)	(6,695)	(557)
Effective portion of profit (losses) from instruments to hedge financial flows	274	298
Adjustment of the Investment Property reserve	-	2,129
Items that may be reclassified to profit or loss:		
Actuarial gains (losses) relative to defined benefit plans	(15)	15
Total profit (loss) for the period	**(944)**	**17,381**

Statement of Financial Position	As of 31 December 2016	As of 31 December 2015
In thousands of euros		
NON-CURRENT ASSETS		
Intangible assets	-	-
Plant, property and equipment	119	175
Of which related parties and intergroup	*5*	*10*
Investment Property	74,055	74,004
Investments in subsidiaries and associates	322,332	322,332
Other financial assets	13,996	12,115
Of which related parties and intergroup	-	-
Tax receivables	-	-
Deferred tax assets	-	-
Trade receivables and other receivables	6	7
Total non-current assets	**410,509**	**408,633**
ASSETS HELD FOR DISPOSAL	-	-
CURRENT ASSETS		
Trade receivables and other receivables	55,954	52,167
Of which related parties and intergroup	*55,373*	*51,416*
Tax receivables	120	502
Inventories	-	-
Works in progress to order	-	-
Other financial assets	184,677	176,553
Of which related parties and intergroup	*177,054*	*162,234*
Cash and cash equivalents	792	18,702
Total current assets	**241,543**	**247,924**
Total assets	**652,052**	**656,557**
SHAREHOLDERS' EQUITY		
Share capital	178,464	178,464
Reserves and retained earnings	186,816	182,863
Net profit for the period	5,492	15,496
Total shareholders' equity	**370,771**	**376,823**
NON-CURRENT LIABILITIES		
Financial liabilities	-	117,311
Trade payables and other payables	422	674
Retirement fund and similar obligations	302	342
Other long-term provisions	-	-
Deferred tax liabilities	19,128	17,485
Total non-current liabilities	**19,852**	**135,812**
LIABILITIES RELATED TO ASSETS HELD FOR DISPOSAL	-	-
CURRENT LIABILITIES		
Financial liabilities	257,453	141,780
Trade payables	1,918	913
Of which related parties and intergroup	*361*	*84*
Current taxes	281	425
Other payables	1,776	803
Of which related parties and intergroup	*2*	*2*
Current portion of other long-term provisions	-	-
Total current liabilities	**261,429**	**143,921**
Total Shareholders' Equity and Liabilities	**652,052**	**656,557**

Certification of the Separate Financial Statements pursuant to article 154/bis of Legislative Decree 58/98

1. The undersigned Roberto Colaninno (Chairman and Chief Executive Officer) and Alessandra Simonotto (Appointed Executive) of Piaggio & C. S.p.A. hereby certify, also in consideration of article 154-bis, sections 3 and 4, of Legislative Decree no. 58 of 24 February 1998:
   - the appropriateness with regard to the company's characteristics and
   - the actual application of administrative and accounting procedures for the formation of the Separate Financial Statements as of 31 December 2017.

2. With regard to the above, no relevant aspects are to be reported.

3. Moreover
   3.1 the financial statements:

   a. a) have been prepared in compliance with the international accounting standards endorsed by the European Community pursuant to regulation (EC) no. 1606/2002 of the European Parliament and Council of 19 July 2002;

   b. b) correspond to accounting records;

   c. c) give a true and fair view of the statement of financial position and results of operations of the Issuer;

   3.2 The Report on Operations includes reliable analysis of the trend of operations and operating results, as well as the situation of the Issuer and a description of main risks and uncertainties to which they are exposed.

Date: 28 February 2017

Chairman and Chief Executive Officer **Executive in charge**

Report of the Independent Auditors on the Financial Statements of the Parent Company

pwc

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Piaggio & C. SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Piaggio & C. SpA (the Company), which comprise the statement of financial position as of 31 December 2017, the income statement, statement of comprehensive income, statement of changes in shareholders' equity, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

[illegible]

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Key audit matters	*Auditing procedures performed in response to key audit matters*
Investments in development costs, industrial patent and intellectual property rights	
"Note C14) to the financial statements Intangible assets" During the financial year 2017, the Company made investments totalling Euro 51.4 million, mainly in relation to the study of new vehicles and new engines which will feature as the future products in the 2017-2019 range. The net book value as of 31 December 2017 of development costs and industrial patent rights amounted to Euro 139.7 million, equal to approximately 12 per cent of total assets. Given the size of the annual investments and the high degree of professional judgement required to verify the compliance with the requirements of the international accounting standard "IAS 38 – Intangible Assets" adopted by the European Union, we considered it necessary to focus on this specific financial statement area. Management's main estimates relate to the technical feasibility to complete the product being developed, the intention to complete the product for sale, as well as the existence of the future cash flows from the sale of the product that are adequate to support the future recoverability of the costs capitalised and recorded in the financial statements.	We obtained an understanding of and evaluated the procedure adopted by the Piaggio Group for capitalising development costs, industrial patent and intellectual property rights. We then obtained details of the costs capitalised by project, and analysed, on a sample basis, the increases and decreases during the year with particular attention to the compliance with the requirements of international accounting standard "IAS 38 – Intangible Assets" adopted by the European Union for the capitalisation of internally generated intangible assets. Our procedures also included discussions with management aimed at understanding the characteristics of the various projects. We also verified, on a sample basis, the estimated future cash flows and management's subsequent monitoring of the estimated future cash flows, which occurs at least once a year.
Goodwill	
"Note C14) to the financial statements Intangible assets" Goodwill which amounted to Euro 369 million as of December 31 2017, is considered a significant item. Given the complex valuation processes in respect of a number of variables and the high degree of professional judgement required for this financial statement area, we paid special attention to	We obtained an understanding of and evaluated the estimates made by management with regard to the expected cash flows over a four-year period, inferred from budget data for 2018 and supplemented by forecast data for 2019-2021. As part of this process we examined sector studies and reviews. Furthermore, with the support of PwC network experts, we retraced the methods used to

2 of 6

management's estimates relating to the recoverability of the goodwill recognised in the financial statements in accordance with international accounting standard "IAS 36 – Impairment of Assets" adopted by the European Union. The main activities carried out by management were related to the estimate of the expected future cash flows, the methods used to calculate the discount rate and the steady growth rate of the financial cash flows beyond the reference time period.	calculate the discount rate and the steady growth rate of financial cash flows beyond the time period of the plan approved by management. The analysis was specifically focused on the cash generating units identified by management. Finally, with the support of PwC network experts, we conducted sensitivity analyses in relation to the key assumptions adopted by the Company's management in order to determine whether there was any impairment of goodwill.
Assessment of the recoverability of deferred tax assets *"Note C17) to the financial statements Deferred tax assets"* Deferred tax assets in the separate financial statements of Piaggio & C. SpA as of 31 December 2017 amounted to Euro 42.4 million and primarily related to the temporary differences mainly due to provisions, as well as prior years tax losses. Piaggio & C. SpA joined the National Consolidated Tax Convention of the IMMSI Group, whose consolidating entity is IMMSI SpA. In addition to the future results expected by Piaggio & C. SpA, the recoverability of deferred tax assets also depends on the results of all companies that are part of the National Consolidated Tax Convention of the IMMSI Group. Assessing the recoverability of deferred tax assets is a key audit matter given the significance of the amounts and the complexity of the valuation process which requires significant accounting estimates to be made by the management of Piaggio & C. SpA and of the IMMSI Group, with the objective of forecasting the future taxable results of all companies that are part of the National Consolidated Tax Convention of the IMMSI Group.	 Our audit procedures consisted in assessing the reasonableness of the estimates made by management in forecasting the future taxable profit of Piaggio & C. SpA, included in the plan approved by the Board of Directors on 26 February 2018. These activities were carried out with the involvement of PwC network experts. We also obtained the findings of the work performed by the Group auditor on the parent company IMMSI SpA in respect of the recoverability of deferred tax assets of all companies included in the National Consolidated Tax Convention of the IMMSI Group.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

On 13 April 2012, the shareholders of Piaggio & C. SpA in general meeting engaged us to perform the statutory audit of the Company's and consolidated financial statements for the years ending 31 December 2012 to 31 December 2020.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

pwc

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/1998

Management of Piaggio & C. SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Piaggio & C. SpA as of 31 December 2017, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/1998, with the financial statements of Piaggio & C. SpA as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Piaggio & C. SpA as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Florence, 22 March 2018

PricewaterhouseCoopers SpA

Signed by

Corrado Testori
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers.

Report by the Board of Statutory Auditors on the Financial Statements as at 31 December 2017

REPORT by the BOARD OF STATUTORY AUDITORS
on the FINANCIAL STATEMENTS as at 31 December 2017

To the Shareholders,

In this report – drawn up in accordance with article 153 of Legislative Decree no. 58/1998 and the second paragraph of article 2429 of the Italian Civil Code – the Board of Statutory Auditors of Piaggio & C. SpA describes the work and checks that it carried out, in the course of its duties, in the financial year ended 31 December 2017.

1. The work of the Board of Statutory Auditors

In 2017 the Board of Statutory Auditors carried out its statutory duties in compliance with the rules of the Italian Civil Code, Legislative Decree no. 39/2010, as amended by Legislative Decree no. 135/2016, Legislative Decree no. 58/1998 (the Consolidated Law on Finance or "TUF"), the company's articles of association, and the rules issued by public regulatory authorities, also taking into account the rules of conduct recommended by the *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili* (National Council of Professional Accountants).

Over the course of the year, the Board of Statutory Auditors held 10 meetings, six of which with the Control and Risk Committee. The Board also attended all the meetings of the Board of Directors. The Chair of the Board of Statutory Auditors, or another member of the Board, attended the meetings of the Control and Risk Committee.

The head of Internal Audit also attended the meetings of the Board of Statutory Auditors, as a permanent guest, to ensure continuous interfacing with the third-level control function.

2. Significant transactions during the year

In the course of its supervisory work, the Board of Statutory Auditors periodically obtained from the company's directors, also by attending their board meetings, information on the activities and most important business, economic and financial transactions approved and implemented by the company and its subsidiaries, also pursuant to the first paragraph of article 150 of the TUF. Among the most significant transactions of 2017, further details of which can be found in the directors' report and the notes on the financial statements, are the following:

12 April 2017 – Piaggio & C. S.p.A.'s extraordinary shareholders' meeting approved the cancellation of 3,054,736 own shares. The company's share capital (fully subscribed and paid-in), which remains unchanged, is now divided into 358,153,644 shares.

28 June 2017 – Issue of a long-term bond with a maturity period of five years and an overall value of EUR 30 million, subscribed by Fondo Sviluppo Export and designed to consolidate Piaggio Group internationalisation and support its expansion into new markets.

19 September 2017 – Signing of a preliminary agreement with Foton Motor Group, for the strategic development of a new range of light 4-wheel commercial vehicles.

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The Board of Statutory Auditors also checked whether there were any important non-recurring transactions, as defined in CONSOB Communication no. DEM/6064293 of 28 July 2006, noting that in 2017 no such transactions had taken place.

3. Checks

3.1 – Checking of compliance with the law, the articles of association, and the Code of Practice for the Self-Regulation of the Committee of Corporate Governance of Listed Companies

Based on the information gathered in the course of its work, the Board of Statutory Auditors did not discover any transactions that were (i) not compliant with the principles of sound governance, not approved and implemented in compliance with the law and the company's articles of association, not in the company's interests, or not in line with the resolutions adopted by the shareholders' meeting, or (ii) manifestly imprudent, risky or such as to compromise the integrity of the company's equity value.

The Board of Statutory Auditors was not aware of any transactions involving a potential conflict of interest.

The Board of Statutory Auditors checked that the procedure governing business with related parties was compliant with the rules of law and was properly followed.

In particular, in accordance with that procedure, the chair and/or other statutory auditors attended meetings of the Control and Risk Committee to discuss transactions with related parties; the Board received periodic information about the trends in this area.

The Board of Statutory Auditors judged that the Board of Directors, in its report and in the notes on the financial statements, had provided adequate information about transactions with related parties, taking account of the rules in force. So far as the Board of Statutory Auditors is aware, no intercompany transactions in 2017 were in conflict with the company's interests.

In 2017, there were no atypical or unusual transactions. The most significant ordinary transactions were prudent, did not conflict with the resolutions adopted by the shareholders' meeting, and were not such as to harm the company's equity value.

The Board of Statutory Auditors, noting that Piaggio & C. SpA had adopted the Code of Practice for the Self-Regulation of the Committee of Corporate Governance of Listed Companies, checked that its members satisfied the independence criteria, and that the criteria and procedures adopted by the Committee to evaluate the independence of directors had been correctly applied.

3.2 – Checking of the adequacy of the internal control system and the systems for managing risk and the organisational framework

The Board of Statutory Auditors checked the adequacy of the internal control system and risk management system by:

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- holding meetings with the company's management;
- holding periodic meetings with the control functions – Internal Audit, Risk Management and the *Dirigente Preposto* (the manager in charge of preparing the company's financial reports) – in order to evaluate their planning methods, based on identification and evaluation of the main risks involved in the processes and associated with the organisational units;
- examining the periodic reports by the control functions and periodic information on the outcome of monitoring;
- gathering information from those in charge of the functions;
- discussing the results of the audit firm's work;
- participating in the work of the Control and Risk Committee and, when the issues required this, discussing them with the Committee;
- meeting the subsidiary's supervisory bodies.

3.3 – Checking of the administrative and accounting system and the process of reporting financial and other information

The Board of Statutory Auditors, in its capacity as the Internal Control and Audit Committee, also following the changes made to the Italian system by Legislative Decree no. 135/2016, monitored the process and checked the efficacy of the internal control and risk management systems in respect of financial reporting.

The Board of Statutory Auditors periodically met the *Dirigente Preposto* to exchange information on the administrative and accounting system, and on its reliability to give a true picture of transactions.

In the course of these meetings, the *Dirigente Preposto* did not report any shortcomings in the operating and control processes that could alter the view that the administrative and accounting procedures are adequate and actually applied.

The Board of Statutory Auditors examined the *Dirigente Preposto*'s report on the financial statements for 2017, which sets out the results of the tests on the controls, the main issues detected in light of the relevant rules of law and methodologies, and the appropriate remedies.

The Board of Statutory Auditors also noted the statements issued on 28 February 2018 by the Managing Director and the *Dirigente Preposto*, pursuant to article 154-*bis* of the TUF and article 81-*ter* of CONSOB Regulation no. 11971/1999. According to these statements, there are no shortcomings that could alter the view that the administrative and accounting procedures are adequate.

The Board of Statutory Auditors also took note of the checks carried out by the *Dirigente Preposto* with regard to the consolidated subsidiaries; no critical issues emerged from these.

The audit firm, PricewaterhouseCoopers S.p.A, in the course of periodic meetings and in light of its Supplementary Report – required by article 11 of Regulation (EU) No 537/2014 and issued on 22 March 2018 – did not inform the Board of Statutory Auditors of any critical issues that could affect the internal control system in relation to administrative and accounting procedures; nor did it ever mention any reprehensible facts or irregularities to be reported in compliance with the second paragraph of article 155 of the TUF.

The Board of Directors drew up, in compliance with the law, Piaggio Group's consolidated financial statements for the year ended 31 December 2017. These were audited by the audit firm PricewaterhouseCoopers S.p.A. As required by the rules of conduct issued by the *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili* (National Council of Professional Accountants) on 15 April 2015, the Board of Statutory Auditors verified that the procedures governing the preparation and layout of the financial statements and directors' reports were followed.

In light of the above, there is nothing that leads the Board of Statutory Auditors to believe that the business was not run in compliance with the principles of sound governance or that the organisational framework, system of internal controls and accounting and administrative apparatus were not, as a whole, suited to the needs and size of the Company.

The Company has prepared the Dichiarazione non Finanziaria (Non Financial Declaration, in the following DNF) an obligation introduced by Legislative Decree no. 254/2016 for financial years starting on or after 1 January 2017. These rules were supplemented by the "Regulation Implementing Legislative Decree no. 254 of 30 December 2016), published on 18 January 2018 by CONSOB in the form of Resolution no. 20267.

The company has prepared the DNF, as a section in the directors' report, on a consolidated basis and the Board of Statutory Auditors, in compliance with paragraph seven of article 3 of Legislative Decree no. 254/2016, has verified – also in light of the audit firm's own report pursuant to paragraph ten of article 3 of Legislative Decree no. 254/2016, issued on 22 March 2018 – that the NFS is complete and is compliant with the rules of law and DNF drafting criteria. The Board did not discover anything that needs to be mentioned in this report.

3.4 – Checking in accordance with Legislative Decree no. 39/2010

The Board of Statutory Auditors, in its capacity as the Internal Control and Audit Committee, checked the work of the audit firm, in compliance with article 19 of Legislative Decree no. 39/2010, as recast.

Following the so-called "Barnier Reform" and the ensuing new domestic legal framework introduced by Regulation (EU) No 537 of 16 April 2014 and Legislative Decree no. 135 of 17 July 2016, which has recast Legislative Decree no. 39/2010, the Board of Statutory Auditors has undergone appropriate training in this respect.

Moreover, at the invitation of the Board of Statutory Auditors, the company has drawn up adequate procedures for checking the payments made to the audit firm in accordance with the Barnier Reform.

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As already mentioned, during the year, the Board of Statutory Auditors met the audit firm PricewaterhouseCoopers S.p.A. several times, pursuant to article 150 of the TUF, in order to exchange information about the work performed in the course of their respective duties.

The audit firm:

- issued on 22 March 2018 – in accordance with article 14 of Legislative Decree no. 39/2010 and article 10 of Regulation (EU) No 537 of 16 April 2014 – its audit reports, from which it emerges that the individual and consolidated financial statements, for the year ended 31 December 2017, were drawn up clearly and give a true and fair view of the assets and liabilities, financial position, profitability and cash flow of Piaggio & C. S.p.A. and its group. These reports also certify that the directors' report on the individual and consolidated financial statements for the year ended 31 December 2017 and the information given in the "Report on governance and ownership structures" are consistent with the individual and consolidated financial statements for the year ended 31 December 2017.

The audit firm submitted to the Board of Statutory Auditors, again on 22 March 2018, the Supplementary Report required in accordance with article 11 of Regulation (EU) No 537/2014. The Board of Statutory Auditors will bring the Supplementary Report to the attention of the next Board of Directors' meeting.

In relation to the financial reporting process, the Supplementary Report does not indicate any significant shortcomings in the internal control system that deserve to be brought to the attention of those responsible for governance.

In its Supplementary Report to the Board of Statutory Auditors, the Audit Firm made the statement on its independence required by article 6 of Regulation (EU) No 537/2014; there was nothing in this statement to indicate any situations that could compromise its independence.

Moreover, the Board of Statutory Auditors took note of the Report on Transparency drawn up by the audit firm and published on its website in accordance with article 18 of Legislative Decree no. 39/2010.

Finally, as already mentioned, the Board of Statutory Auditors examined the content of PricewaterhouseCoopers S.p.A.'s report on the DNF, issued in accordance with paragraph ten of article 3 of Legislative Decree no. 254/2016 on 15 March 2018.

The Board of Statutory Auditors reports that in 2017, in addition to the auditing of the individual and consolidated financial statements and the financial statements of the company's subsidiaries, PricewaterhouseCoopers and its network were entrusted with the following work, with the approval of the Board of Statutory Auditors.

	Service provider	Client	Fee for 2017
EUR			
NFS and CSR auditing	PWC	Parent company Piaggio & C	54,000
Certification services	PWC	Parent company Piaggio & C	10,000
	PWC network	Subsidiaries	45,520
Other services	PWC	Parent company Piaggio & C	192,000
	PWC	Subsidiaries	14,000
Total			**315,520**

The audit firm also confirmed that, over the course of the year, as there were no grounds for doing so, it did not issue any other opinions required by law.

3.5 – Dealings with the Supervisory Board (Organismo di Vigilanza)

As recommended by the rules of conduct issued by the *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili* (National Council of Professional Accountants), in 2017 the Board of Statutory Auditors obtained all useful information from the Supervisory Board in order to verify that it had the necessary level of autonomy, independence and expertise to carry out its duties effectively.

The Board of Statutory Auditors also gathered information from the Supervisory Board about the adequacy, working and actual implementation of the Organisational Model adopted by the company.

The Supervisory Board reported on the work it carried out in the course of the year ended 31 December 2017, without flagging up any particular issues, and describing a situation basically in line with that required by the Organisational and Management Model referred to in Legislative Decree no. 231/2001.

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Apart from the facts that it has already described above, the Board of Statutory Auditors is not aware of anything to be reported to the shareholders' meeting.

During the year the Board received no complaints from the shareholders under article 2408 of the Italian Civil Code.

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In the course of its work, and on the basis of the information gathered, the Board of Statutory Auditors has not discovered any omissions, reprehensible facts, irregularities or significant circumstances that need to be reported to the regulatory authorities or mentioned in this report.

In conclusion, the Board of Statutory Auditors – taking into account the specific duties of the audit firm when auditing the accounts and when verifying the reliability of the individual financial statements, the fact that the audit firm has issued an unqualified opinion, and the statements issued pursuant to article 154-*bis* of Legislative Decree no. 58/1998 by the *Dirigente Preposto* – has no further comments that it wishes to make to the shareholders' meeting, pursuant to article 153 of the TUF, about the approval of the financial statements for the year ended 31 December 2017, as accompanied by the directors' report and as presented by the Board of Directors. Therefore it has no objection to the approval of the financial statements, the proposed allocation of the year's profit, and the distribution of dividends.

22 March 2018.

For the Board of
Statutory Auditors
The Chair

Piera Vitali

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This report is available on the Internet at:
www.piaggiogroup.com

We would like to thank all colleagues for their valuable help in preparing this document.

PIAGGIO GROUP

Management and Coordination
IMMSI S.p.A.
Share capital €207,613,944.37 fully paid-up
Registered office: Pontedera (PI) viale R. Piaggio, 25
Pisa Register of Companies and Tax Code 04773200011
Economic and Administrative Register Pisa 134077