



**Piaggio & C. S.p.A.**

**Explanatory Memorandum**

**Appointment of the independent auditors for the period 2021-2029 pursuant to Legislative Decree 39/2010 and Regulation (EU) no. 537/2014 and determination of the related fee. Related and consequent resolutions.**

Dear Shareholders,

with the approval of the financial statements for the year ended 31 December 2020, the statutory audit assignment conferred on PricewaterhouseCoopers S.p.A. by the Ordinary Shareholders' Meeting of 13 April 2012 for the years 2012-2020 will expire.

The Board of Statutory Auditors, acting as the "Internal Control and Audit Committee", agreed with the proposal of the competent company departments to bring forward the selection procedure for the award of the statutory audit assignment for the period 2021-2029, commencing it already during the 2019 financial year so as to allow the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2019 to pass a resolution on the assignment in question. This is in order to facilitate the handover and in consideration of the prohibition provided for in Article 5 of Regulation (EU) no. 537/2014 which, in order to protect the auditor's independence, requires the auditor to refrain from providing certain types of services, other than the statutory audit (so-called non-audit), already starting from the financial year immediately preceding the first year of the audit.

Therefore, the proposal relating to the award of the statutory audit assignment for the period 2021-2029 to another independent audit firm pursuant to Legislative Decree 39/2010 and Regulation (EU) no. 537/2014, as well as the determination of the related fee, is submitted for your examination.

Article 17 of Legislative Decree 39/2010 provides that, in fact, for Italian companies issuing securities admitted to trading on regulated markets in Italy and the European Union, the statutory audit assignment conferred on an audit firm shall last for 9 financial years, excluding the possibility of renewal if at least 4 financial years have elapsed since the date of termination of the previous assignment.

To this end, the Company has carried out the selection procedure described in Article 16 of Regulation (EU) no. 537/2014, as a result of which the Board of Statutory Auditors has prepared and submitted to the Board of Directors its reasoned recommendation, containing at least two possible alternatives and a duly justified preference for one of the two. In particular, the Board of Statutory Auditors, taking into account the offers received, has recommended that Deloitte & Touche S.p.A. or Ernst & Young S.p.A. be appointed as independent auditors, expressing its preference in favour of Deloitte & Touche S.p.A.

It should be noted that the Ordinary Shareholders' Meeting, upon reasoned proposal of the Board of Statutory Auditors formulated in accordance with Article 13 of Legislative Decree 39/2010, also containing the recommendation referred to in Article 16 of Regulation (EU) no. 537/2014, confers the audit assignment and determines the fees due to the independent auditors for the entire duration of the assignment and any criteria for adjusting such fees during the assignment.

In light of the above, the Board of Directors, having noted the proposal of the Board of Statutory Auditors (attached to this report), the recommendation contained therein invites you to pass the following resolution:

*"The Ordinary Shareholders' Meeting of Piaggio & C. S.p.A., having noted that with the approval of the financial statements as of 31 December 2020, the assignment of the independent auditors PricewaterhouseCoopers S.p.A. for the financial years 2012-2020 will expire and having examined*

*the proposal made by the Board of Statutory Auditors containing the recommendation as Internal Control and Audit Committee,*

### **RESOLVES**

- *to award the statutory audit assignment of Piaggio & C. S.p.A. to the independent audit firm [●] for the financial years 2021-2029, except for reasons of early termination, for carrying out the activities and under the conditions set out in the offer made by the above-mentioned auditing firm, the economic terms of which are summarised in the Proposal of the Board of Statutory Auditors;*
- *to grant a mandate to the Chairman of the Board of Directors and Chief Executive Officer, as well as to the Deputy Chairman of the Board of Directors, separately from each other, to provide, also through proxies, for what is required, necessary or useful for the execution of what has been resolved, as well as to fulfil the relevant and necessary formalities with the competent bodies and/or offices, with the power to introduce any non-substantial changes that may be required for the purpose, and in general all that is necessary for their complete execution, with any and all necessary and appropriate powers, in compliance with the provisions in force”.*

Mantua, 22 March 2020

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

**REASONED PROPOSAL OF THE BOARD OF STATUTORY AUDITORS OF PIAGGIO & C. SPA PURSUANT TO LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010 REGARDING THE APPOINTMENT OF THE INDEPENDENT AUDITOR FOR THE FINANCIAL YEARS 2021-2029**

**1. Introduction**

With the approval of the separate and consolidated financial statements at 31-12-2020, the statutory audit assignment for the nine-year period 2012-2020 conferred upon PwC SpA will expire.

Under current legislation, most recently amended by European Regulation no. 537/2014 (European Regulation) and Legislative Decree no. 135/2016, the statutory audit assignment cannot be renewed. The new statutory audit assignment must be awarded by means of a special selection procedure to be carried out in accordance with the criteria and procedures set out in Article 16 of the above-mentioned European Regulation.

The Board of Statutory Auditors, acting in its capacity as the Internal Control and Audit Committee, agreed with the proposal of the competent company departments to bring forward the selection procedure for the assignment of the statutory audit assignment for the period 2021-2029 in consideration of the prohibition provided for in Article 5 of the above-mentioned European Regulation which, in order to protect the auditor's independence, requires the auditor to refrain from providing certain types of services, other than statutory auditing of accounts, from the financial year immediately preceding the first year of audit.

In view of the above, the decision was taken that the Shareholders' Meeting, which had been called to approve the financial statements of Piaggio & C. SpA as at 31-12-2019, should also be called to resolve on the choice of the new independent statutory auditor, as well as to approve its remuneration and related adjustment criteria with a reasoned proposal by the Board of Statutory Auditors.

In accordance with the provisions of the aforementioned Article 16 of the European Regulation, as the appointment relates to the statutory auditor for a Public Interest Entity, the proposal made by the Committee that is submitted to you provides for two possible alternatives and indicates the reasoned preference for one of the two.

**Request for Quotation**

In agreement with the Committee, the Company has defined a specific procedure (Procedure) aimed at identifying the independent auditors to which the letter of invitation should be sent.

As part of this procedure, three networks of primary standing have been identified, considered suitable to offer high levels of professionalism and service quality, given the international context in which Piaggio & C. SpA operates.

Deloitte & Touche SpA, EY SpA and BDO SpA were therefore selected from the top 5 audit firms in the world (in addition to PwC, the outgoing auditor, KPMG SpA was not invited to the selection competition due to independence issues).

**Audit services required.**

The services required are as follows:

- a) statutory audit of the separate financial statements of Piaggio & C. S.p.A. and Group companies, including related obligations
- b) statutory audit of the consolidated financial statements of the Piaggio Group.
- c) expression of an opinion on the compliance of the Report on Corporate Governance and Ownership Structure and the Report on Operations with the consolidated and separate financial statements, including the verification of the preparation of non-financial information prepared in accordance with Article 9, paragraph 10 of Legislative Decree 254/2014 and Article 5 of CONSOB Regulation 20267;
- d) limited audit of the condensed consolidated half-year financial report of Piaggio & C. S.p.A and its Group.
- e) periodic verification that the company's accounts are properly kept and that operating events are correctly recorded in the accounting records for Italian companies.
- f) statutory audit of the consolidated non-financial statement referred to in Legislative Decree no. 254/2016;
- g) limited audit of the Corporate Social Responsibility Report
- h) the opinion of the independent auditors for the distribution of interim dividends pursuant to Article 2433-bis paragraph 5 of the Italian Civil Code;

## **The selection.**

In compliance with the provisions of Article 16, paragraph 3, letter e) of the European Regulation, the evaluation of the proposals made by the independent audit firms was carried out on the basis of the selection criteria defined in the tender documents.

In particular, the evaluation process was divided into two phases in which the technical-qualitative aspects and the qualitative-quantitative aspects were respectively evaluated, with the assignment to each bid, at the end of each phase, of a score resulting from the evaluations in each *Evaluation Categories* identified as indicated below:

- Phase 1 (“technical-qualitative assessment”), with a maximum score of 60 points, based on the following *Evaluation Categories*:
  - *Company Profile*: profile and structure of the Italian audit firm and its international network and geographical coverage (weight 5 points);
  - *Independence management*: management by the audit firms of their own independence (weight 5 points). This *Evaluation Category* concerns the evaluation of the procedures proposed by the candidate in order to monitor and ensure their independence for the entire duration of the assignment, and therefore does not include any consideration of the auditor’s *ex ante* compliance with the independence requirements set out in the relevant legislation for the assignment, which is a prerequisite for the conferring of the assignment.
  - *Capabilities & Competence*: specific competences in the automotive sector, qualitative-quantitative composition of the audit team (weight 25 points);
  - *Audit Methodologies & Evolution priorities*: audit approach and proposed procedures, methodologies for controlling the quality of audit work, capacity to adapt to new legislation and regulations, technological evolution and impact on audit procedures (weight 25 points)
- Phase 2 (“Qualitative-quantitative assessment”), with a maximum score of 40 points, based on the following *Evaluation Categories*:
  - *Behaviour & Deliverables*: behaviour during the selection procedure, communication skills, quality of the relationship established between the management and the proposed team (weight 10 points);
  - *Contractual*: commercial structure of the proposal and contract management (weight 10 points);
  - *Pricing*: total fees in the nine years covered by the Bid and hourly instalments weighted by professional qualification (weight 20 points).

## Results of the selection procedure

In view of the fact that all the candidate companies proposed a team dedicated exclusively to the Piaggio Group, underlining a strong commitment to international coordination and the presence of structured internal processes that guarantee compliance with independence regulations, the assessment process gave the following results:

### Qualitative analysis

TECHNICAL PROPOSAL	Maximum Score	D&T	EY	BDO
QUALITATIVE-QUANTITATIVE EVALUATION FOR THE FOLLOWING EVALUATION CATEGORIES	100	93.54	92.58	82.26
Company Profile	5	4.74	4.36	3.51
Independence Management	5	5.00	5.00	5.00
Capabilities & Competence	25	22.66	23.08	13.75
Audit methodologies & Evolution priorities	25	25.00	25.00	20.00
Behaviour & Deliverables	10	10.00	10.00	10.00
Contractual	10	10.00	10.00	10.00
Pricing	20	16.15	15.14	20.00

### Economic conditions

The tender documents required an economic offer formulated with reference to each of the activities indicated above, taking into account the progressive knowledge of the business operations concerned. For the sole purpose of formulating the fees, therefore, the total bid period has been broken down into three three-year periods (2021-2023, 2024-2026, 2027-2029) to reflect the progressive rationalisation of audit activities. The following tables summarise the expected hours, fees and average hourly rates calculated by each company for the three three-year periods from 2021 to 2029.

	Deloitte & Touche SPA								
	Three-year period 2021-2023 (Data per single year)			Three-year period 2024-2026 (Data per single year)			Three-year period 2027-2029 (Data per single year)		
	Hourly Charge			Hourly Charge			Hourly Charge		
	hours	Average	fees	hours	Average	fees	hours	Average	fees
statutory audit	6,536	55	361,528	6,209	55	343,452	5,883	55	325,375
audit package	6,450	63	409,417	6,128	63	388,947	5,805	63	368,476
half-year audit	2,311	43	99,415	2,196	43	94,444	2,080	43	89,473
Corporate Governance audit	96	76	7,329	91	76	6,963	86	76	6,596
Accounting audit	76	77	5,866	72	77	5,572	68	77	5,279
NFS audit	427	80	34,000	406	80	32,300	384	80	30,600
CSR audit	213	75	16,000	202	75	15,200	192	75	14,400
Interim dividends	148	61	9,000	140	61	8,550	133	61	8,100
<b>Total</b>	<b>16,257</b>	<b>58</b>	<b>942,556</b>	<b>15,444</b>	<b>58</b>	<b>895,428</b>	<b>14,632</b>	<b>58</b>	<b>848,300</b>

Ernst & Young SPA									
	Three-year period 2021-2023 (Data per single year)			Three-year period 2024-2026 (Data per single year)			Three-year period 2027-2029 (Data per single year)		
	Hourly Charge			Hourly Charge			Hourly Charge		
	hours	Average	fees	hours	Average	fees	hours	Average	fees
statutory audit	7,667	54	413,902	7,230	54	390,310	6,854	54	370,014
audit package	5,353	60	323,372	5,048	60	304,940	4,785	60	288,733
half-year audit	3,180	56	177,683	2,999	56	167,555	2,843	56	158,842
Corporate Governance audit	30	81	2,434	28	81	2,295	27	81	2,176
Accounting audit	220	81	17,849	207	81	16,832	197	81	15,957
NFS audit	300	81	24,340	283	81	22,953	268	81	21,759
CSR audit	200	81	16,227	189	81	15,302	179	81	14,506
Interim dividends	600	58	34,676	566	58	32,700	536	58	30,999
<b>Total</b>	<b>17,550</b>	<b>58</b>	<b>1,010,483</b>	<b>16,550</b>	<b>58</b>	<b>952,886</b>	<b>15,689</b>	<b>58</b>	<b>902,986</b>

BDO SPA									
	Three-year period 2021-2023 (Data per single year)			Three-year period 2024-2026 (Data per single year)			Three-year period 2027-2029 (Data per single year)		
	Hourly Charge			Hourly Charge			Hourly Charge		
	hours	Average	fees	hours	Average	fees	hours	Average	fees
statutory audit	3,708	61	226,583	3,692	62	230,345	3,690	64	235,656
audit package	5,012	60	299,763	4,998	61	305,334	4,996	62	311,619
half-year audit	1,707	64	109,907	1,699	66	112,016	1,697	68	114,614
Corporate Governance audit	300	66	19,800	300	66	19,800	300	66	19,800
Accounting audit	220	66	14,520	220	66	14,520	220	66	14,520
NFS audit	415	66	27,375	415	66	27,375	415	66	27,375
CSR audit	43	66	2,858	43	66	2,858	43	66	2,858
Interim dividends	120	66	7,920	120	66	7,920	120	66	7,920
<b>Total</b>	<b>11,525</b>	<b>61</b>	<b>708,726</b>	<b>11,487</b>	<b>63</b>	<b>720,169</b>	<b>11,481</b>	<b>64</b>	<b>734,361</b>

The table below compares the total fees paid to date to the outgoing auditor with those proposed by the three selected audit firms.

<b>Annual cost of Piaggio auditing activities on a like-for-like basis</b>				
<b>PWC 2018</b>	<b>PWC 2019</b>	<b>Deloitte</b>	<b>E&amp;Y</b>	<b>BDO</b>
<b>832,692</b>	<b>875,835</b>	<b>836,628</b>	<b>921,200</b>	<b>639,287</b>

The agreed fees will be reassessed annually from 01/01/2023 onwards at a rate of 75% of the change in the Consumer Price Index (e.g. ISTAT index for companies under Italian law, CPI index for companies under UK law, etc.).

These fees may be reviewed, agreed between the parties, only when exceptional circumstances arise, such as to determine the need for a greater number of hours and/or a different commitment of the professional categories envisaged. In this case, it will be the responsibility of the company awarded the contract to provide Piaggio & C. S.p.A. with an estimate and reasoned notice of such circumstances and to submit the proposal to supplement the original estimate.

Finally, as far as expenses are concerned, only documented out-of-pocket expenses actually incurred for travel may be charged back in the invoice, only if the Company awarded the contract does not have offices in the various premises of Piaggio & C. Group companies and, in any case, up to a limit of 10% of the fees relating to the activities for which the travel was necessary.

As can be seen from the tables above, the overall picture of the results of the evaluations is as follows:

- Deloitte: 93.54 points; this is the company that knows the Piaggio Group best (auditor prior to PwC, it was used as a consultant in Administration and IT Processes) and is the company with the highest number of professionals both in Italy and internationally (with particular reference to the countries where the Piaggio Group is present).
- E&Y: 92.58 points; this is the company with the most experience in the Automotive sector (score of 23.08 compared to 22.66 for Deloitte and 13.75 for BDO) but has less knowledge of the Piaggio Group (it was only used as a tax consultant) and this has an impact on the number of hours scheduled and therefore on pricing (15.54 points compared to 16.15 for Deloitte);
- BDO: 82.26 points; has no significant experience either in the Automotive sector or in the Piaggio Group, and has the most economically advantageous offer, but with a significantly lower number of hours dedicated than the other two companies (-30%), which does not seem adequate for the size and complexity of the group.

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In view of the above, the Board of Statutory Auditors, in its capacity as the Internal Control and Audit Committee

- on the basis of the procedure carried out, the tenders received, the evaluations carried out and the results thereof,
- taking into account that Article 16, paragraph 2 of European Regulation 537/2014 provides that the Board's reasoned proposal must contain at least two possible alternatives for the appointment and requires the Board to express a duly justified preference,

Proposes

That the General Shareholders' Meeting of Piaggio & C. SpA appoint Deloitte & Touche SpA or EY SpA as independent statutory auditors for the nine-year period 2021-2029; and, between the two,

Expresses its preference

For the company Deloitte & Touche S.p.A. as the company with the highest score following the bid evaluation procedure and therefore the most suitable to carry out the assignment in line with the Company's requirements.

Declares

That the above recommendation has not been influenced by third parties and that none of the clauses set out in Article 16, paragraph 6 of European Regulation no. 537/2014 applies.

For the Board of Statutory Auditors  
The Chairman

