

## **PIAGGIO & C. S.p.A.**

### **Board of Directors' Report on the acceptance of the Self-regulatory Code of Conduct for Listed Companies for financial year 2006**

Dear Shareholders,

Acting as the Chairman of the Board of Directors of Piaggio & C. S.p.A. ("**Piaggio**", the "**Issuer**" or also the "**Company**"), on behalf of the said Board, in compliance with the provisions of art. 124-*bis* of Legislative Decree 58/1998 as amended (the "**Consolidated Financial Act**") and Section IA.2.6 of the Instructions for the Regulation of Stock Markets organised and managed by Borsa Italiana S.p.A., I herewith inform you in connection with the *corporate governance* system adopted by Piaggio & C. S.p.A. to adjust to the standards contained within the Self-Regulatory Code of Conduct developed by the Corporate Governance of Listed Companies Committee, as amended, (the "**Self-Regulatory Code**").

The Annual Report that follows, drafted also taking into account the *Guidelines for the drafting of the Annual Report with regard to Corporate Governance* issued by Borsa Italiana S.p.A. (February 2003) and *Handbook on Corporate Governance Reports* prepared by Assonime ed Emittenti Titoli S.p.A. (February 2004), provides you with the prescribed information regarding the actual implementation of the Self-Regulatory Code for the financial year ending 31 December 2006, taking into account that Piaggio ordinary shares have been listed on the Screen-Based Stock Market organised and managed by Borsa Italiana S.p.A. ("**MTA**") since 11 July 2006 (the "**Listing**"). Where, in relation to a number of specific aspects, the adjustment of the corporate governance system to the recommendations of the Self-Regulatory Code has not been done, the specific reasons are given.

The information and the data contained in this document will in any case be updated by the Board of Directors each year on the occasion of the future reports on acceptance of the Self-Regulatory Code.

#### **Structure of the Company's Governance**

Piaggio is organised according to the traditional control and administration model provided for in Arts. 2380 *bis* and following of the Italian Civil Code with the Shareholders' Meeting, Board of Directors and Board of Statutory Auditors.

The task of auditing is entrusted by the Shareholders' Meeting to independent auditors registered in the roll referred to in art. 161 of the Consolidated Financial Act.

The Issuer and the companies that it controls are subject to the management and co-ordination of IMMSI S.p.A. pursuant to article 2497 *sqq.* of the Civil Code.

## 1. Make up and functioning of the Board of Directors

### 1.1 Appointment, make up and term

The company is administered by a Board of Directors composed of a number of members not less than seven and not more than fifteen. The Ordinary Shareholders' Meeting determines, at the time of their appointment, the number of the Board members within the aforesaid limits, as well as their term of office that shall not exceed three financial years, whereafter their appointment expires as at the date of the Shareholders' Meeting called for approval of the Financial Statements for the last financial year of their office. Board directors may be re-elected.

Board Directors are appointed subject to meeting the requisites established by law, by the Articles of Association and other applicable provisions.

As far as the requisites of professionalism are concerned, art.12.2 of the Articles of Association establishes that cannot be appointed to the office of director of the company or, if appointed, shall be disqualified, those who have not gained at least three years experience in the following:

- a) administration and supervision activities, i.e. senior management tasks in joint stock companies with share capital of at least two million Euro; or
- b) professional activities or university teaching in legal, economic, financial and technical-scientific fields strictly related to company operations; or
- c) managerial functions with public bodies or the public administration sector operating in the credit, financial or insurance fields, or in any case in fields which are strictly related to the company operations.

For the requisites of independence of the members of the Board of Directors, please refer to point 1.3.

The directives of the Issuer's By-laws that regulate the composition of and appointment to the Board are suitable to ensure compliance to the directives introduced on the matter by Law 262/2005 (art. 147-*ter* of the Consolidated Financial Act). These instructions are also subject to change within the terms of the law for the purpose of ensuring adjustment to Legislative Decree no.303 dated 29 December 2006 (the "**Decree 303/2006**").

For further details on how the Board of Directors is elected, please refer to art.12 of the Articles of Association.

The Issuer's Board of Directors in office on the date of this report is made up of eleven members, appointed by the Ordinary Shareholders' Meeting of 28 August 2006 and in office until the date of the Shareholders' Meeting called for the approval of the Financial Statements for the financial year ending on 31 December 2008, with the exception of member Gianclaudio Neri appointed by means of cooption pursuant to art. 2386.1 of the Civil Code (as a replacement for member Rocco Sabelli resigning from all the offices held in the company and in the Piaggio Group with effect from 13 November 2006) with a resolution of the Board of Directors dated 13 November 2006 and therefore in office until the next Shareholders' Meeting. It should be remembered that the Board of Directors currently in office was appointed by the Shareholders' Meeting of 28 August 2006 with a resolution adopted by the majority (without the application of the voting by list system) in compliance with the provisions of art. 12.4 of the Articles of Association currently in force.

The following table shows the names of each member of the Board of Directors in office with a specification of the executive offices attributed (see point 1.5), of the appointment of a non-executive director and of an independent director (see point 1.3), as well as any participation in the Committees set up inside the Board of Directors (see points 1.1.1, 2.1 and 3.3).

<b>NAME</b>	<b>FUNCTION</b>
<b>ROBERTO COLANINNO</b>	CHAIRMAN AND CHIEF EXECUTIVE OFFICE
<b>MATTEO COLANINNO</b>	VICE PRESIDENT
<b>GIAN CLAUDIO NERI</b>	NON-EXECUTIVE DIRECTOR
<b>MICHELE COLANINNO</b>	NON-EXECUTIVE DIRECTOR
<b>LUCIANO PIETRO LA NOCE</b>	NON-EXECUTIVE DIRECTOR – APPOINTMENT PROPOSALS COMMITTEE MEMBER – REMUNERATION COMMITTEE MEMBER
<b>GIORGIO MAGNONI</b>	NON-EXECUTIVE DIRECTOR
<b>DANIELE DISCEPOLO</b>	NON-EXECUTIVE AND INDEPENDENT DIRECTOR – LEAD INDEPENDENT DIRECTOR – CHAIRMAN OF THE INTERNAL CONTROL COMMITTEE
<b>FRANCO DEBENEDETTI</b>	NON-EXECUTIVE AND INDEPENDENT DIRECTOR – CHAIRMAN OF THE APPOINTMENT PROPOSALS COMMITTEE – MEMBER OF THE REMUNERATION COMMITTEE
<b>RICCARDO VARALDO</b>	NON-EXECUTIVE AND INDEPENDENT DIRECTOR - CHAIRMAN OF THE REMUNERATION COMMITTEE – MEMBER OF THE INTERNAL CONTROL COMMITTEE
<b>LUCA PARAVICINI CRESPI</b>	NON-EXECUTIVE AND INDEPENDENT DIRECTOR – MEMBER OF THE APPOINTMENT PROPOSALS COMMITTEE – MEMBER OF THE INTERNAL CONTROL COMMITTEE
<b>GIAN GIACOMO ATTOLICO TRIVULZIO</b>	NON-EXECUTIVE DIRECTOR

On 16 March 2007, the Issuer's Board of Directors carried out an annual assessment pursuant to art. 1.C.1, g) of the Self-Regulatory Code, believing that the make-up and functioning of the Board of Directors are adequate for the company's managerial and organisational requirements, taking into account the presence, out of a total of eleven members, of nine non-executive directors, four of whom are non-executive independent directors, who also ensure a suitable composition of the committees instituted inside the Board of Directors (see point 1.3 with reference to the non-executive directors and points 1.1.1, 2.1 and 3.3 with reference to the committees).

As prescribed by art. 12.2 of the Articles of Association and art. 6.C.1 of the Self-Regulatory Code, the professional *curricula* of the candidates to the office of director have been filed at the registered office and made available on the Company website [www.piaggio.com](http://www.piaggio.com).

In compliance with the provisions of art. 12 of the Articles of Association, the directors in office have the requisites provided for under the applicable legal provisions, the regulations and the Articles of Association.

The following table shows the administrative and control offices currently held in joint-stock companies by members of the Board of Directors:

Full name	Company	Management and control positions held in public companies
Roberto Colaninno	<ul style="list-style-type: none"> <li>- IMMSI S.p.A. *</li> <li>- Omniaholding S.p.A. *</li> <li>- Omniainvest S.p.A. *</li> <li>- Omnipartecipazioni S.p.A. *</li> <li>- RCN Finanziaria S.p.A. *</li> <li>- Immobiliare Regis S.r.l.</li> <li>- Rodriquez Cantieri Navali S.p.A.*</li> <li>- Capitalia S.p.A. *</li> <li>- Medio banca S.p.A. *</li> <li>- Fondazione Piaggio Onlus</li> </ul>	<ul style="list-style-type: none"> <li>Chairman of the Board of Directors</li> <li>Chairman of the Board of Directors</li> <li>Chairman of the Board of Directors</li> <li>Chairman of the Board of Directors</li> <li>Director</li> <li>Chairman of the Board of Directors</li> <li>Director</li> <li>Director</li> <li>Director</li> <li>Director</li> </ul>
Gianclaudio Neri	<ul style="list-style-type: none"> <li>- Rodriquez Cantieri Navali S.p.A.*</li> <li>- Intermarine S.p.A.</li> <li>- RCN Finanziaria S.p.A. *</li> </ul>	<ul style="list-style-type: none"> <li>Chief Executive Officer and General Manager</li> <li>Director</li> <li>Director</li> </ul>
Matteo Colaninno	<ul style="list-style-type: none"> <li>- Giovani Imprenditori di Confindustria</li> <li>- Confindustria</li> <li>- Omniaholding S.p.A. *</li> <li>- Banca Popolare di Mantova S.p.A. *</li> <li>- IMMSI S.p.A. *</li> <li>- Omniainvest S.p.A. *</li> <li>- RCN Finanziaria S.p.A. *</li> <li>- Immobiliare Regis S.r.l.</li> <li>- Risparmio &amp; Previdenza S.p.A. *</li> <li>- Omnipartecipazioni S.p.A. *</li> </ul>	<ul style="list-style-type: none"> <li>National Chairman</li> <li>Vice Chairman</li> <li>Vice Chairman and Chief Executive Officer</li> <li>Board of Directors Vice Chairman</li> <li>Director</li> <li>Director</li> <li>Director</li> <li>Director</li> <li>Director</li> <li>Director</li> </ul>
Michele Colaninno	<ul style="list-style-type: none"> <li>- Is Molas S.p.A. *</li> <li>- Moto Guzzi S.p.A.</li> <li>- Omniainvest S.p.A. *</li> <li>- Omnipartecipazioni S.p.A. *</li> <li>- Rodriquez Cantieri Navali S.p.A.*</li> <li>- Omniaholding S.p.A. *</li> <li>- IMMSI S.p.A. *</li> </ul>	<ul style="list-style-type: none"> <li>Director</li> <li>Director</li> <li>Director</li> <li>Director</li> <li>Director</li> <li>Chief Executive Officer</li> <li>Director</li> </ul>
Daniele Discepolo	<ul style="list-style-type: none"> <li>- Imaging S.p.A.</li> <li>- Zucchi S.p.A. **</li> <li>- Invextra S.p.A.</li> <li>- Esaote S.p.A.</li> <li>- Arquati S.p.A.</li> <li>- Olcese S.p.A.</li> <li>- Dafofin One S.A.</li> <li>- Beta Skye S.r.l. *</li> <li>- Investimenti &amp; Sviluppo S.p.A. *</li> </ul>	<ul style="list-style-type: none"> <li>Chairman of the Board of Directors</li> <li>Director</li> <li>Chairman of the Board of Directors</li> <li>Director</li> <li>Extraordinary Commissioner</li> <li>Legal Commissioner</li> <li>Director</li> <li>Chairman of the Board of Directors</li> <li>Director</li> </ul>

Luciano Pietro La Noce	- Rodriquez Cantieri Navali S.p.A.* - Is Molas S.p.A. * - Apuliae S.p.A. - Omniainvest S.p.A. * - Omniapartecipazioni S.p.A. * - B&L S.r.l. - IMMSI S.p.A. * - RCN Finanziaria S.p.A. * - Gruppo Smile S.r.l. - LNB Partners S.r.l.	Chairman of the Board of Directors Chairman of the Board of Directors Chairman of the Board of Directors Chief Executive Officer Chief Executive Officer Sole Director Chief Executive Officer Chairman of the Board of Directors Director Director
Giorgio Magnoni	- Acqua Blu S.r.l. * - SO.PA.F. S.p.A. ** - IDA S.r.l. - LM LS S.p.A. - Omniapartecipazioni S.p.A. * - Società Agricola YANI S.r.l. - Management & Capitali S.p.A. **	Chairman of the Board of Directors Board of Directors Vice Chairman Sole Director Director Director Chairman of the Board of Directors Supervisory Director
Franco Debenedetti	- CIR S.p.A. ** - COFIDE S.p.A. ** - Progetto Italia S.p.A. - Fondazione Rodolfo Debenedetti - IRIDE S.p.A. **	Director Director Advisory Board Member Director Director
Luca Paravicini Crespi	- CIR S.p.A. ** - Gruppo Editoriale l'Espresso S.p.A. ** - Scala Group S.p.A. - Education.it S.p.A. - Consilium SGR S.p.A. * - Il Gallione S.p.A. *	Director Director Director Director Director Director
Riccardo Varaldo	- Finmeccanica S.p.A. ** - Banca CR Firenze S.p.A. ** - Italy-Japan Business Group	Director Director Board Member
Gian Giacomo Attolico Trivulzio	- Immobiliare Molgora S.p.A. - Spafid S.p.A. - Fondazione Poldi Pezzoli	Chairman of the Board of Directors Director Director

\* financial holding, banking and assurance company or large company

\*\* listed company

With reference to the offices held by the Issuer's directors on administrative bodies or control bodies of other companies, the Board of Directors does not deem it appropriate, in the current state of affairs, to introduce set limits to the number thereof, even in the light of the expected changes to the regulations regarding the accumulation of offices that may be taken on in listed and other companies, without affecting the duty of each director to evaluate the compatibility of the offices of director or statutory auditor held in other companies listed on regulated markets or in financial holding companies, banks, insurance companies or large companies, with the diligent performance of the tasks undertaken as a Piaggio director.

As regards the positions held by Directors of the Issuer in the Parent Company IMMSI S.p.A., it is hereby stated that the majority of the Issuer's Board members hold no management or control position in IMMSI S.p.A. (see point 1.3).

### 1.1.1 Appointment Proposals Committee

The company's Board of Directors, in compliance with the provisions of the Self-Regulatory Code and in consideration of the list voting system provided for in the Articles of Association for the

appointment of the administrative body, has instituted, as part of itself, an Appointments Committee, most members of which are non-executive independent directors, with the task of verifying that the lists presentation procedures laid down in the Articles of Association is adhered to properly and transparently as required by the relevant provisions of law and the Articles of Association. Once it has verified that the presentation procedure for lists has been respected, ensuring specifically that the documents that are filed along with the lists and the proper deadlines for these have been met in full, this committee arranges the necessary formalities for the presentation of these lists to the Shareholders in Meeting convened for the appointment of the Board of Directors or members thereof.

Pursuant to the application criteria under 6.C.2 c) of the Self-regulatory Code, the Committee also has the duty to give the Board of Directors an opinion, if and when necessary, regarding the size and composition thereof.

On 28 August 2006, the Board of Directors appointed as the members of the Appointment Proposals Committee, Board Members Franco Debenedetti, as its Chairman, Luca Paravicini Crespi and Luciano La Noce.

Over the year ending on 31 December 2006, the Appointment Proposals Committee did not meet as it had been instituted on 28 August 2006.

## **1.2 Board of Directors' Meetings**

Over the year ended on 31 December 2006, starting from the Listing, 4 (four) Board of Directors' meetings were held on the following dates: 28 August 2006; 11 September 2006; 13 November 2006; 12 December 2006.

All the company's directors attended these meetings with the sole exception of the meetings of 11 September and 13 November at which one director was absent.

At least 4 (four) Board meetings are expected during the current financial period. Apart from the meeting already held on 16 March 2007 (approval of the draft separate Financial Statements and Consolidated Financial Statements for the financial year ended 31 December 2006), the 2007 calendar of the main corporate events (already communicated to the market and to Borsa Italiana S.p.A. in accordance with regulatory provisions) envisages another 3 (three) meetings on:

- 7 May 2007 – approval of the First Quarter Report;
- 5 September 2007 – approval of the Interim Report;
- 7 November 2007 – approval of the Third Quarter Report.

## **1.3 Non-executive directors, independent directors and Lead Independent Director**

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

The Board of Directors assesses the independence of its non-executive members, pursuant to both arts. 148. 3 b) and c) of the Consolidated Finance Act as referred to in art. 147-ter, paragraph

4, of the Consolidated Financial Act, and pursuant to art. 3 of the Self-Regulatory Code, at the time of the appointment, as well as periodically over the course of the period in office and the result of said evaluation is made known to the market through the annual corporate governance report. The assessment of the Board of Directors is verified by the Board of Statutory Auditors pursuant to the Self-Regulatory Code.

It should be noted that, in order to rule out potential risks of limiting management independence of the Issuer that could arise, specifically, by an overlapping of the Boards of Piaggio and that of the Parent Company IMMSI S.p.A.: (a) the current Board of Piaggio contains five non-executive Directors (Michele Colaninno, Luciano Pietro La Noce, Giorgio Magnoni, Gianclaudio Neri and Gian Giacomo Attolico Trivulzio) and four Independent non-executive Directors (Daniele Discepolo, Franco Debenedetti, Riccardo Varaldo and Luca Paravicini Crespi); (b) the majority of the Issuer's Board members do not hold administrative and management appointments in IMMSI S.p.A.

The qualifications for independence pursuant to article 3 of the Self-Regulatory Code and article 148.3, points b) and c) of the Consolidated Financial Act, held by the independent directors currently in office were evaluated by the Board of Directors at the meeting held on 16 March 2007. On [11 April 2007] the Board of Statutory Auditors acknowledged that the investigative criteria and procedures adopted by the Board of Directors for verifying the independence requisites had been properly applied. These independent directors have the independence qualifications pursuant to article 3 of the Self-Regulatory Code and article 148.3 b) and c) of the Consolidated Financial Act, in that each of them:

- (i) does not control the Issuer, either directly or indirectly, or through subsidiaries, trust companies or through third parties, nor is able to exercise considerable influence thereon;
- (ii) does not participate, either directly or indirectly, in any shareholder agreement through which one or more persons can exercise control or considerable influence over the Issuer;
- (iii) is not, or was not in the three previous financial years, a significant representative of the Issuer (i.e. chairman, legal representative, executive director, or executive with strategic responsibilities) or one of its subsidiaries having strategic significance or a company subjected to the joint control of the Issuer, or a company or entity that – together with others through a shareholders agreement – controls the Issuer or is capable of exercising a considerable influence thereon;
- (iv) does not, or did not in the previous financial year, carry out – either directly or indirectly (e.g. via subsidiaries or companies in which they are significant representatives, in the sense indicated in item (iii) above, or as a partner in a professional firm or a consulting company) – important commercial, financial or professional relationships or working relationships as employees: (a) with the Issuer, one of its subsidiaries, or with one of its significant representatives in the sense indicated in item (iii) above (b) with a person who, alone or jointly with others through a shareholders agreement, controls the Issuer, or rather – being a company or entity – with related significant representatives in the sense indicated in item (iii) above, thereof;
- v) notwithstanding the indications under item (iv) above, does not have working relationship as employee or contractors, or other asset-based or professional relationships that could

jeopardise a director's independence: (a) with the Issuer, its subsidiaries or parent companies, or with companies subject to joint control; (b) with the Issuer's Directors; (c) with spouses, relatives and the like up to the fourth degree of kinship of directors of the companies as under item (a) above;

- (vi) does not receive, or has not received in the previous three financial years, any large bonuses from the Issuer, or from a subsidiary or Parent Company, additional to the fixed salary of a non-executive director of the Issuer, including participation in incentives plans based on corporate performance, such as stock option plans;
- (vii) has not been a Director of the Issuer for more than nine of the last twelve years;
- (viii) does not hold the position of executive director in another company in which one of the Issuer's executive directors is also a director;
- (ix) is not a shareholder or director of a company or entity belonging to the Issuer's external auditor's corporate network;
- (x) is not a close family member of a person who falls into the categories mentioned in the previous points and who is not a spouse, relative and the like up to the fourth degree of kinship of the directors of the Issuer, its subsidiaries, parent companies or companies subject to its joint control.

On 28 August 2006, the Board of Directors appointed the Independent non-executive Director, Daniele Discepolo, as Lead Independent Director in accordance with the Self-Regulatory Code so that he may be the point of reference and co-ordinator for the requests of the non-executive Directors, especially the Independent Directors. The Lead Independent Director, Daniele Discepolo, an Independent Director having the necessary accounting and finance skills, is also Chairman of the Internal Control Committee (see point 3.3 for information).

On 19 February 2007 the Lead Independent Director held a meeting of the Independent Directors which Chairman and Chief Executive Officer Roberto Colaninno and the Chairman of the Board of Statutory Auditors Giovanni Barbara were also invited to attend. The aim of the meeting was to set the initiatives to ensure efficient co-ordination among the independent directors as well as ensure information flowed properly among them.

#### **1.4 Role and powers of the Board of Directors**

The Board has a central role in connection with corporate organisation and is responsible for the functions and strategic guidelines, as well as the verification of the existence of the necessary controls to monitor the performance of the Issuer and Piaggio Group companies.

Each member of the Board of Directors is required autonomously to pass informed resolutions, pursuing the aim of creating value for the shareholders, and undertakes to devote to the position held in the company the necessary time for guaranteeing the diligent carrying out of his or her duties regardless of the offices held outside the Piaggio Group, being aware of the responsibilities entailed in the office held.

To this end, each candidate for the office of Director assesses beforehand, when accepting the office in the company and regardless of any limits imposed by law and regulations regarding the



accumulation of offices, the capacity to perform the tasks assigned to him or her with the due care and efficiency, taking into account the overall commitment required by the offices held outside the Piaggio Group.

Each member of the Board of Directors is also required to notify the said Board of Directors of any acceptance of the office of director or statutory auditor in other companies, with the purpose of complying with the obligations to provide relevant information pursuant to applicable legal provisions and regulations.

Pursuant to art. 17 of the By-laws the Board has all the powers for the management of the company and for this purpose can approve or execute all the actions that it shall consider necessary or useful for the implementation of the objects of the company with the exception of those reserved by the law and By-laws for the Shareholders' Meeting.

On the strength of said provision in the Articles of Association, the Board of Directors is also empowered to take decisions pursuant to art. 2436 of the Civil Code as far as they concern:

- mergers or spin offs, defined as simplified in accordance with articles 2505, 2505-*bis*, 2506-*ter*, last paragraph, of the Civil Code;
- sub-offices establishing or ending;
- transferring the registered office of the company within Italy;
- indicating board directors empowered to represent the company legally;
- reducing share capital in the event of a withdrawal;
- amending the Articles of Association to account for legal provisions,

without prejudice to the above, resolutions may in any event also be passed by an Extraordinary General Meeting of Shareholders.

The Piaggio Board of Directors, in the meeting held on 28 August 2006 (for the powers of the Chairman of the Board and the Chief Executive Officer see 1.5 below), approved a resolution in connection with the apportionment of the management authorities of the Board of Directors, reserving its formal composition in any case to the Board, in addition to the powers reserved thereto by law or statutory directive, the powers listed below:

- a) acquisition or disposal of equity investments in companies, enterprises or business branches;
- b) conclusion and modification of loan agreements in whatever form entered into, the amount of which is greater than Euro 25 million;
- c) granting of secured guarantees on assets and personal guarantees for third party obligations, other than those granted in the interest of directly or indirectly controlled companies;
- d) transfer of brands, patents and other intellectual property rights, as well as the conclusion of licence contracts;
- e) conclusion and modification of agreements of a multi-year commercial nature, including joint ventures;

- f) purchase and sale of real estate;
- g) other extraordinary administration transactions, the amount of which is greater than Euro 50 million;
- h) without prejudice to the provisions of the above clauses, transactions concluded with related parties, as defined pursuant to applicable legal and regulatory directives, with the exclusion of the typical and usual transactions for company business concluded at market conditions;
- i) appointment of the company's general manager and manager of the administration, finance and control division;
- j) appointment of the members of the management bodies and general managers of the directly or indirectly controlled companies.

Pursuant to art. 17.2 of the Articles of Association, the Directors promptly report to the Board of Statutory Auditors during Board Meetings, which may also be specially convened, and in any case at least every quarter, on activities carried out and on transactions of major economic, financial and asset-related interest undertaken by the company or by its subsidiaries, referring specifically to transactions in which they have an interest, for themselves or for third parties, or which are influenced by the person in charge of management and coordination. If expedient due to particular circumstances, directors may report to each standing statutory auditor in writing.

Art. 17.3 of the Articles of Association grants the Board of Directors, after the obligatory opinion of the Board of Statutory Auditors, the appointment of the executive in charge of drafting company accounting documents (art. 154-*bis* of the Consolidated Financial Act), to whom the powers and the functions established by law and other applicable regulations as well as the powers established by the Board of Directors at the time of appointment or with a later resolution are attributed. The Board of Directors also establishes the emolument of the above executive. It should be pointed out that with reference to the professional requisites required of the executive in charge of drafting the company accounting documents, it is required that the Articles of Association be amended to incorporate the provisions of Decree 303/2006 within the terms of the law.

The executive in charge of drafting company accounting documents is adequately empowered and given the necessary means to carry out the tasks he or she has been delegated.

The executive in charge of drafting company accounting documents shall be appointed by the Issuer's Board of Directors within the period provided for in Law 262/2005, as amended recently by Decree 303/2006, and thus by 30 June 2007.

Pursuant to art. 17.5 of the Articles of Association, the Board of Directors may also appoint one or more general executives, and establish their duties and remuneration. On 13 November 2006 the Issuer's Board of Directors appointed Daniele Bandiera to the office of Manager of the General Operations Department and Michele Pallottini to Manager of the General Finance Department.

Pursuant to art. 17.6 of the Articles of Association, the Board of Directors may set up committees with the consulting and/or proposal powers and determine their powers, attributions and how they work. Please refer to point 1.1.1 and to the subsequent points 2.1. and 3.3 for the committees set up by the Issuer's Board of Directors to be part thereof.

The Board is convened at the registered office of the company or at another place, provided said

location is in Italy, whenever deemed necessary by the Chairman - or person acting on his behalf pursuant to the Articles of Association (see 1.5 below) or when requested by the Chief Executive Officer, if appointed, or by at least three Board Directors, without prejudice to powers to convene the Board granted to other parties in accordance with law.

Pursuant to art. 15 of the Articles of Association, for the resolutions to be valid, it is necessary to have a majority of the directors in office present and the resolutions are passed with the majority of the voting members the calculation of which shall exclude the abstainers. In the case of a tie, the vote of the person chairing the meeting prevails.

### **1.5 Powers of the Chairman, Vice Chairman and the Delegated Bodies**

The Chairman is elected by the Board of Directors from among its members if said appointment has not already been made by the Shareholders' Meeting.

The Chairman convenes the Board of Directors and co-ordinates its work, making sure that adequate information on the topics on the agenda is provided to all the directors, taking into account the circumstances of the case (art. 14, paragraphs 1 and 3 of the Articles of Association). He or she also chairs the Shareholders' Meeting, ascertains the identity of the attendees, notes the correct constitution of the meeting, and if the necessary quorum of shareholders to be able to pass valid resolutions is reached, regulates the conduct of the meeting, establish how votes are to be taken and ascertains the results thereof pursuant to art. 9 of the Articles of Association.

The Board of Directors may also elect one or more Vice Chairpersons, who replace(s) the Chairman in tasks referred to above in the case the same is absent or indisposed (art. 13.1 of the Articles of Association).

The Chairman is empowered to represent the company legally, has corporate signing powers and, if the Chairman is absent or indisposed temporarily or otherwise, these powers are exercised by the Vice Chairperson(s) in the terms provided for by the Articles of Association. The power of representation also lies with the Chief Executive Officer(s), if appointed, within the scope of the delegated powers (art. 23.1 of the Articles of Association).

On 28 August 2006, the Piaggio Board of Directors appointed to the office of Chairman, board member Roberto Colaninno and, to the office of Vice Chairman, board member Matteo Colaninno.

Pursuant to art. 17 of the Articles of Association, the Board of Directors, within the scope of laws and the Articles of Association - may delegate its powers and attributions to an Executive Committee, determining its term and number of members, in any case no fewer than three. Where an Executive Committee has been set up, the Board of Directors shall determine its term and the number of its members, beforehand; Committee members include, by right, the Chairman and Chief Executive Officer or Chief Executive Officers, if several have been appointed (art. 19 of the Articles of Association). The Executive Committee meets when the Chairman deems it necessary or when a request is made therefore by the Chief Executive Officer, if appointed, or by at least two members without prejudice to the calling powers of other parties pursuant to the law, and Board of Statutory Auditors takes part of it (art. 20 of the Articles of Association). Procedures for convening the Executive Committee and for its operation - where not provided for by laws in force and by the Articles of Association herein - are established by specific regulations approved by the Board of

Directors.

At the date of this Report, the Issuer's Board of Directors has not appointed an Executive Committee.

The Board of Directors may also delegate, to the above extent, some of its powers and functions to the Chairman and/or other members, as well as appoint one or more Chief Executive Officers to whom said powers and functions are delegated. The power of company representation also lies with the Chairman and the Chief Executive Officer(s), if appointed, within the scope of the delegated powers.

The powers of the delegated bodies include the power to confer, within the scope of the powers received, and for individual actions or categories of actions, powers to company employees and powers of attorney to third parties, in both cases with the power to sub-delegate or to confer powers of attorney respectively.

In compliance with art. 17.7 of the Articles of Association, the delegated bodies (and therefore the Chief Executive Committee or the Chief Executive Officers, if appointed) answer adequately and promptly to the Board of Directors and the Board of Statutory Auditors, at the meeting of the Board of Directors, called specially or otherwise and at least every quarter, regarding the transactions concluded, the general performance of operations and the outlook as well as the most significant transactions as regards size and characteristics conducted by the company and its subsidiaries, referring specifically to the transactions in which they have an interest for themselves or on behalf of third parties, or that are influenced by the party in charge of the management and co-ordination. If expedient due to particular circumstances, directors may report to each standing statutory auditor in writing.

Chairman Roberto Colaninno, by a Board of Directors resolution dated 28 August 2006, was attributed with all the powers of ordinary and extraordinary administration with the exception of those powers reserved by law or by the provisions of the Articles of Association to the Board of Directors acting in concert, as well as the powers in any case reserved for the Board's Authority on the strength of its resolution (for a list of the powers reserved for the competence of the Board refer to the provisions of 1.4 above).

Following the resignation of Chief Executive Officer Rocco Sabelli on 13 November 2006 from all the offices held in the company and in the Piaggio Group, Chairman Roberto Colaninno was appointed on the same date as Chief Executive Officer, with the attribution of the powers listed above. The powers attributed to the Chief Executive Officer Roberto Colaninno are added to those enjoyed thereby, pursuant to the Articles of Association, for the office of Chairman.

During the financial year ended at 31 December 2006, the Board Members were informed about the subjects dealt with by the Board of Directors in such a way as to allow them to give their informed opinion regarding the matters submitted to them.

The delegated bodies reported to the Board of Directors on their work in a suitable and timely manner as prescribed by law and the Articles of Association, i.e. at least on a quarterly basis, regarding general operational performance and the outlook, as well as on the more significant transactions made by the Company and its subsidiaries according to size and characteristics.

## 2. Remuneration of the Directors and Executives

Pursuant to art. 18 of the Articles of Association, the Directors are entitled to reimbursement of the expenses they incurred over the financial year for the exercise of their functions and they are also entitled to an annual payment to be established by the Ordinary Shareholders' Meeting that arranges their appointment which remains unchanged until a different resolution by the said Shareholders' Meeting. The Board of Directors, after consulting with the Board of Statutory Auditors, determines the emoluments of the Chairman, Vice Chairperson(s), Chief Executive Officers and members of the Executive Committee, if appointed. Alternatively, the General Meeting may determine the total fees for the entire Board, including board members with particular positions, with the individual fees determined by the Board of Directors, after consulting with the Board of Statutory Auditors.

The Issuer implements a remuneration policy for the authorised bodies and top executives that envisages incentives linked to company profitability, including through appropriate incentive schemes which provide for the allocation of stock options.

The amount of the emoluments received by the members of the Board of Directors during the financial year ended at 31 December 2006 is specified in detail in the explanatory notes to the Financial Statements pursuant to art. 78 and Appendix 3C of Consob Regulation 11971/1999 as amended (the "**Regulations on Issuers**"). The document is also available on the *Internet* website of the company.

### 2.1 Remuneration Committee

The Company's Board of Directors has established a Remuneration Committee from its members, in compliance with the provisions of the Self -Regulatory Code. The members of the Remuneration Committee are non-executive directors, the majority of whom are independent, with the task: (i) to make proposals to the Board regarding the remuneration of the Chief Executive Officer and other directors who hold special positions, monitoring the application of the decisions made; and (ii) to make general recommendations to the Board regarding the remuneration of executives having strategic responsibilities in the Piaggio Group, keeping account of information and indications given by the Chief Executive Officer and occasionally checking the criteria adopted for the remuneration of these executives.

Moreover, duties relating to the management of stock option plans that may have been approved by relevant Company bodies have been given to the Remuneration Committee.

On 28 August 2006, the Board of Directors appointed as the members of the Remuneration Committee, Board Members Riccardo Varaldo, as its Chairman, Luciano La Noce and Franco Debenedetti.

Over the year ending on 31 December 2006, starting from the Listing, 2 (two) Remuneration committees meetings were held on the following dates: 4 September 2006 and 7 November 2006. During the first meeting, the Committee noted the resolutions passed by the company's Board of Directors on 28 August 2006 regarding the remuneration of the directors and deemed itself not obliged to make any observations on the subject; during the second meeting the Committee approved its Regulations, put forward a proposal for the remuneration of the new Chief Executive Officer and acquired information from the Human Resources Director regarding the new

organisational structure, reserving the right to express its recommendations concerning the remuneration of the two new General Executives after the appointment thereof.

These meetings were attended by all the members of the Committee and the Chairman of the Board of Statutory Auditors also attended the meeting on 7 November 2006.

### 3. The Internal Control System

The Board defines the guidelines of the internal control system, considered as a combination of processes aimed at monitoring the efficiency of corporate operations, the reliability of financial information, in compliance with laws and regulations and the safekeeping of corporate assets.

The Board: (i) arranges the prevention and management of the inherent corporate risks of the Issuer and the Group of which the Issuer is Parent Company by defining the guidelines of the control system to ensure that these risks are correctly identified, as well as appropriately measured, monitored, managed and evaluated, including in relation to the safekeeping of corporate assets and the healthy and proper management of the company; (ii) periodically inspects – at the very least on an annual basis – the appropriateness, effectiveness and actual functioning of the internal control system.

In exercising these functions, the Board collaborates with a director who is in charge of overseeing the functioning of the internal control system (the "**Director In Charge**"), with the tasks specified in point 3.1, and with the Internal Control Committee as part of itself with the functions specified in point 3.3; it also takes into consideration the organisational and management models adopted by the Piaggio Group pursuant to Legislative Decree 231/2001.

The Board of Directors, in response to a proposal by the Appointed Director and having obtained the opinion of the Internal Control Committee, appoints the Internal Control Supervisor with the tasks referred to in point 3.2, establishes the remuneration and ensures that he/she receives adequate means to carry out his/her functions, including from the viewpoint of the operating structure and internal organisational procedures to access the information needed by the office.

It should be noted that on 12 March 2004, Piaggio adopted the organisation, management and control model for the prevention of crimes for the purposes envisaged in Legislative Decree 231/2001. On the date of this report, the Supervisory Body, in office for the years 2006-2007-2008 and therefore until the approval of the Financial Statements for the year to 31 December 2008, is composed as follows: Giovanni Barbara, as member of the Board of Statutory Auditors and chosen among the statutory auditors; Alessandro Bertolini as the Issuer's Corporate and Legal Affairs executive (appointed to replace Gianclaudio Neri who has resigned from the office of General Executive and was subsequently appointed to the office of Board Member), and Enrico Ingrassia, who has the role of chairman, as the member designated by the Chief Executive Officer in concert with the Chairman of the Board of Statutory Auditors, chosen amongst the external experts having the necessary requisites.

In the meeting on 5 December 2006, the Supervisory Body updated the Organisational Model pursuant to Law 231/2001 in the part relating to the Internal Control mechanisms, describing the

crimes and administrative offences connected with breaching the information requirements following the Listing.

The updated version of the Model was sent to all the directors of the Piaggio Group and published on the corporate intranet.

On 3 March 2005, the subsidiary Moto Guzzi S.p.A. also adopted its own organisational, management and control model in accordance with Law 231/2001 and appointed its own Supervisory Body, which has the same members as the Supervisory Body of the Issuer.

### **3.1 Director appointed to oversee the functionality of the Internal Control System**

The Appointed Director is selected by the Board of Directors and given the task of overseeing the functionality of the internal control system. The Appointed Director has the task in connection with and in implementation of the guidelines established by the Board of Directors: (a) to identify the corporate risks in connection with the features of the company's operations and the operations of the sectors it works in including through other group companies; (b) to design, implement and manage the internal control system; (c) to manage the effectiveness, adequacy and proper functioning of the internal control system; (d) to attend to the updating of the internal control system, deal with any issues that might have arisen during the monitoring, changes in the organisational and operating structure of the business, the dynamics of the company's operations and new developments on the legislative and regulative front that may be relevant to the Group. In the exercise of these functions, the Appointed Director is aided through the work of the Internal Control Supervisor and answers to the Board of Directors with regard to the activities carried out, when so requested or anyway when it is deemed necessary or advisable by said Appointed Director when specific issues arise.

On 13 November 2006, the company's Board of Directors, in compliance with the provisions of the Self-Regulatory Code and with the assistance of the Internal Control Committee, appointed Chief Executive Officer Roberto Colaninno as the Appointed Director to oversee the functionality of the internal control system (to replace outgoing Chief Executive Officer Rocco Sabelli), and attributed him the above-mentioned functions.

The Appointed Director has identified Pierantonio Piana, head of Cogitek S.r.l., as the person with the professional requisites and characteristics of independence necessary for holding the position of Internal Control Supervisor and, on 30 November 2006, proposed the appointment of said person to the Internal Control Committee which approved the choice.

At the meeting on 12 December 2006 the company's Board of Directors, after noting the proposal of the Appointed Director and after considering the approval of the Internal Control Committee, appointed Pierantonio Piana as the Internal Control Supervisor, commissioning Chairman Roberto Colaninno and General Finance Executive, Michele Pallottini, severally to draw up the terms and conditions of the office with a term coinciding with that of the Board of Directors in office.

### **3.2 Internal Control Supervisor**

The Internal Control Supervisor, who is not in charge of any operating area and is not answerable to any heads of the operating areas, is appointed by the Board of Directors on the proposal of the Chief Executive officer and is charged with the following functions:

- (i) to check the effectiveness, adequacy and proper functioning of the internal control system;
- (ii) to assist the Appointed Director in carrying out the tasks charged thereto;
- (iii) refer to the activities carried on at least once a quarter to the Appointed Director possibly through a written report as well as the Internal Control Committee and the Board of Statutory Auditors with half-yearly interim reports;
- (iv) immediately inform the Appointed Director, the Board of Statutory Auditors and the Internal Control Committee if, while performing the above-mentioned management checks, significant risk profiles arise for the company or, anyway, elements, potential or real that are particularly damaging to the same;
- (v) attend the Board of Directors' and Internal Control Committee meetings to which he or she is invited;
- (vi) to carry out further tasks that the Board deem appropriate to attribute to the Internal Control Supervisor with particular reference to the internal audit function.

On 12 December 2006, the company's Board of Director, on the proposal of the Chief Executive Officer and having consulted with the said Committee, appointed Pierantonio Piana as the Internal Control Supervisor, giving the same the above-mentioned functions.

The Internal Control Supervisor has drawn up a document called "The Internal Control System of Piaggio & C. S.p.A." that has been shown in details to the Internal Control Committee at the meeting held on 7 February 2007. On that date the Internal Control Supervisor and the Internal Control Committee together established the ways to make the co-ordination, verification and reporting more efficient with the involvement also of the Supervisory Body, pursuant to Legislative Decree 231/2001, where deemed necessary and appropriate.

### **3.3 The Internal Control Committee**

The Board of Directors sets up as part of itself an Internal Control Committee consisting of independent non-executive directors. The Chairman of the Board of Statutory Auditors or another Statutory Auditor designated thereby take part in the Committee meetings. Said meetings can be attended by the Appointed Director and, by invitation of the Committee, the Internal Control Supervisor or other employees the participation of whom is deemed useful for the development of the meeting.

The Internal Control Committee is a consultative body that can put forward proposals to the Board of directors and is mandated to carry out the following duties:



- (i) assist the Board in carrying out activities inherent in the internal control system, specifically in defining guidelines for the system and the activities involved in periodic inspections of the system's suitability, efficacy and effective functioning;
- (ii) examine the work plan of the designated internal control manager and the periodic interim reports sent by the latter;
- (iii) together with the executive responsible for preparing corporate accounting documents and the auditors, assess the suitability of the accounting principles used and their consistency in the drafting of the Consolidated Financial Statements;
- (iv) assess the proposals made by the external auditors for their appointment, assess the audit plan drawn up and the results shown in the report and in the Comments and Suggestions letter;
- (v) refer to the Board at least half-yearly, on the approval of the interim Financial Statements and report, regarding the activities performed by and the suitability of the internal control system;
- (vi) perform additional tasks that the Board feels appropriate for the Committee, with special reference to relationships with the external auditors and consultation functions regarding transactions with related parties as envisaged by the specific procedure approved by the Board (See item 4).

The Board of Directors, in compliance with the provisions of the Self -Regulatory Code, has set up as part of itself, an Internal Control Committee consisting of non-executive independent directors with the above functions. On 28 August 2006, the Board of Directors appointed as the members of said Committee non-executive independent directors Daniele Discepolo (also appointed Lead Independent Director pursuant to the Self-Regulatory Code) with the function of Chairman, Riccardo Varaldo and Luca Paravicini Crespi.

During the course of the financial year ended at 31 December 2006, with effect from the Listing, 1 (one) Internal Control Committee meeting was held, on 30 November 2006, at which the Chairman amply illustrated and described the function of the Internal Control Committee, highlighting specifically the tasks of a consulting and proposal making nature with which it is mandated by the company's Board of Directors, The Chairman of the Board of Statutory Auditors gave an overview of the control activities existing within the company on the subject of Internal Auditing, and asked the manager of this function to describe the existing auditing work and the future programmes; the Committee resolved approve the proposal of the Appointed Director and appoint Pierantonio Piana as the Internal Control Supervisor.

This meeting was attended by all the Committee members and the Chairman of the Board of Statutory Auditors.

The Internal Control Committee also met on 7 February 2007. The Internal Control Supervisor and the members of the Supervisory Body pursuant to Legislative Decree 231/2001 were invited to this meeting. At this meeting the Supervisor gave the Committee a full explanation of the document

entitled "The Internal Control System of Piaggio & C. S.p.A.", agreeing with the Committee the means for making the company's Internal Control System's co-ordination, verification and reporting activities more efficient. The auditing work and the checks associated thereto were analysed at this meeting.

#### **4. Transactions with Related Parties**

On 28 August 2006, the company's Board of Directors approved the "Procedure for the Significant Transactions and those with Related Parties" aimed at regulating the informational and procedural aspects of the transactions with a specific economic, financial and asset-related importance with particular reference to the transactions with associated parties, in compliance with the recommendations of the Self-Regulatory Code and the provisions of art. 2391-*bis* of the Civil Code.

For the purpose of actually implementing article 9 of the Self-Regulatory Code, the Board of Directors has established the criteria (quantitative and/or qualitative) that are paramount in the identification of the transactions reserved for the examination and the approval of the Board of Directors. These criteria have been identified in relation to the type of transaction involved, with specific and distinct reference (i) to significant income, equity and financial transactions or those in relation to the Company business (i.e. "**Significant Transactions**" as defined elsewhere); as well as (ii) to transactions with related parties (i.e. "**Related Party Transactions**", as defined elsewhere).

In order to actually implement articles 9.C.1 and 9.C.2 of the Self-regulatory Code, the Board of Directors has also defined appropriate procedures suited to guarantee the Directors a full and exhaustive report on Significant Transactions and Transactions with Related Parties.

##### **4.1 Significant Transactions**

The following are considered significant income, equity and financial transactions, i.e. transactions relating to the company's business ("**Significant Transactions**"):

- 1) acquisitions or disposals of equity investments in companies or branches of companies;
- 2) the conclusion or modification of loan contracts of any type stipulated for amounts of more than Euro 25 million;
- 3) the granting of collateral guarantees on assets and personal guarantees for commitments to third parties other than those granted in the interest, directly or indirectly, of subsidiary companies;
- 4) the transfer of brands, patents and other intellectual property rights, as well as the conclusion of licensing contracts;
- 5) the conclusion and modification of multi-year commercial agreements, including joint-venture agreements;
- 6) the purchase and sale of real estate;

- 7) other extraordinary administrative transactions having an amount of more than Euro 50 million;
- 8) the appointment of the general manager and the head of the Company's administration, finance and control departments;
- 9) the appointment of the members of administration bodies and the general managers of directly and indirectly held subsidiary companies.

Reference must usually be made, for the calculation of the amounts indicated in items 2) and 7) above, to each transaction considered on an individual basis, except in the case of transactions that are strictly and objectively related to a similar strategic or executive plan, where reference must be made to the total value of all the related transactions.

In relation to each Significant Transaction, the Board must receive a report – drawn up by the delegated bodies – suitable for allowing for a prior examination of the essential elements of this transaction. Specifically, an exhaustive report must be provided regarding the strategic motivations for the Significant Transaction and its estimated income, equity and financial effects, including at consolidated level.

#### **4.2 Transactions with Related Parties**

In conformance with art. 2.1 h) of the Regulations on Issuers, Related Parties are those defined by international accounting standards regarding Financial Statements information on transactions with related parties, adopted according to the procedure under article 6 of EC regulation no. 1606/2002 (*International Accounting Principle IAS 24*).

In order to ensure precise compliance with the principles and procedures as under this point, the delegated bodies arrange the preparation and updating of the list of identifiable Related Parties.

Transactions with Related Parties are therefore reserved for the examination and approval of the Piaggio Board of Directors, except for Normal Transactions with Related Parties at Market Conditions (as defined below).

In any case, it remains understood that the Board of Statutory Auditors has the authority in the case of Normal Transactions with Related Parties at Market Conditions that can also be qualified as Significant Transactions. In this case the principles and the procedures referred to in point 4.1 are applied.

For the purposes of this procedure:

- **“Normal Transactions”** mean repeated, or typical transactions, or those that occur during the normal course of the business of the company, according to type, subject and conditions of payment;
- **“Transactions at Market Conditions”** mean transactions concluded at market conditions, i.e. at conditions that conform to trading practices carried out normally or at conditions that do not deviate from those practised for similar transactions.

In relation to each Transaction with Related Parties reserved to the Board of Directors, the Board must receive a report – drawn up by the delegated bodies – suitable to allow for a prior

examination of the essential elements of this transaction, with special reference to the following elements:

- the general characteristics of the transactions (specifically indicating: the subject, motivations, amount and timing of the transaction, as well as the nature of its correlation);
- the methods used to calculate the amount and/or the main conditions and main terms that could susceptibly generate commitments for the Company;
- foreseeable income, equity and financial effects of the transaction, on a direct and consolidated basis;
- any interests (direct and indirect) that the members of the corporate bodies might have in the transaction.

After having received the report from the delegated bodies and wherever the opportunity may arise, and taking account of the nature, amount and other characteristics of an individual Transaction with Related Parties (as under Art. 9.C.1 of the Code) the Board may request that the transaction is concluded with the assistance of one or more experts, who express an opinion on the economic and/or executive conditions and technical methods of the transaction. The selection of experts to be consulted must be from amongst individuals whose expertise and authority is recognised, and whose independence and lack of conflict of interest regarding the transaction must be verified.

In accordance with Art. 9.C.2 of the Self-regulatory Code, directors who have an interest – even potential or indirect – in a Transaction with Related Parties must inform the Board, in advance and exhaustively, on the existence of this interest and the circumstances surrounding it. In relation to each actual case and based on the report given by the Board member involved – also taking account of the need to ensure the proper functioning of the management body – the Board of Directors is required to evaluate whether or not it is opportune to request that this Board member: (i) distance him/herself from the session before the beginning of discussions and until a decision has been reached; or (ii) to abstain from participation in votes regarding the matter.

Transactions with Related Parties other than those reserved for examination and approval by the Board are instead entrusted to the expertise of the delegated bodies, in accordance with the powers given to them.

Except where otherwise specified below, the delegated bodies must supply the Board with an exhaustive report on the essential elements of the Transaction with Related Parties arising from those that have already taken place, as well as on potential risk profiles or other critical issues of this Transaction at the next meeting thereof. Specifically, an exhaustive report must be supplied regarding the following elements:

- general features of the transaction (with special reference to the nature of the association and the motivations for the transaction);
- foreseeable income, equity and financial effects of the transaction, including on a consolidated basis.

In any case, it remains understood that the delegated bodies have the possibility – where they feel it opportune – to subject Transactions with Related Parties to the examination and approval of the

Board of Directors if, despite not being reserved to the authority of the Board, they present – in concrete terms – specific elements and/or risks critical to the safekeeping of corporate assets, or for the protection of minority shareholders. In this case, the relevant procedure must be applied.

## **5. Shareholders' Meeting**

The Shareholders' Meeting has the power, in ordinary session for: a) approving the Financial Statements; (b) the appointment and removal of Directors, Statutory Auditors and the Chairman of the Board of Statutory Auditors and, when there is one, the party responsible for auditing; (c) the establishment of the fees for the Directors and Statutory Auditors if not established by the Articles of Association (see item 2); (d) passing resolutions on the responsibilities of the Directors and the Statutory Auditors; (e) passing resolutions on other items by law to the authority of the Shareholders' Meeting, as well as the authorisations if any requested by the Articles of Association for the fulfilment of the acts of the Directors, without affecting in any case the responsibility of thereof for acts performed; (f) the approval of any regulations for Shareholders' Meetings; (g) passing resolutions on anything else it has authority for pursuant to the law.

The Extraordinary Shareholders' Meeting passes resolutions with regard to the amendments to the Articles of Association, the appointment, substitution and the powers of the receivers and any other issue expressly attributed by law to its authority. The Board of Directors is given the power to pass resolutions regarding the subjects indicated in art. 17 of the Articles of Association without affecting the power of the Shareholders' Meeting in extraordinary session to pass said resolutions.

The provisions of the law and the Articles of Association are adhered to for the validity of the constitution and deliberations of the Extraordinary Shareholders' Meeting.

The Company does not feel it necessary, at present, to propose the adopting of specific regulations for the proceedings of Shareholders' Meetings, since it also believes it appropriate that in principle Shareholders are ensured the maximum level of participation and expression in discussions at Meetings.

In order to facilitate attendance at Shareholders in Meetings, these meetings can be held as a video conference, with Shareholders participating from different locations, whether nearby or distant, provided that the meeting formalities are respected and that the principles of good faith and shareholders parity of treatment is complied with art. 6.2 of the Articles of Association.

## **6. Processing of Corporate Information**

With regard to issues concerning the processing of price-sensitive information, the Issuer's Board of Directors has adopted the initiatives and/or the procedures described in brief below, for the purpose of monitoring access to and the circulation of price-sensitive information before divulgation to the public to ensure compliance with the obligations of secrecy provided for by law and regulations as well as for the purpose of regulating the internal management and communication to the outside of the aforesaid information.

## **6.1 Procedure for external communication of price-sensitive information**

On 28 August 2006, the Board of Directors adopted the "Procedure for the publication of price-sensitive information" for the purpose of regulating the internal management of price-sensitive information and its disclosure to the outside.

In accordance with this procedure, the Piaggio Chairman, Chief Executive Officer and Investor Relations Officer (please see item 7 below) ensure the correct management of publication to the market of price-sensitive information, and supervise that this Procedure is observed.

The Investor Relations Officer and Press Relations Officer – briefed by the Group's top management or otherwise made aware of the Company's and its subsidiaries' significant corporate events – verify with the Corporate Finance and Control General Manager and Head of the Corporate Legal Business Department that legal obligations have been met, and if information should be considered as sensitive.

If information is deemed price-sensitive or regulations in force require it to be published, the Press Relations Officer draws up a press release and – with the help of the Head of the Legal Department – ensures that this release covers the requirements stipulated by the legislation in force in this regard.

The text of the press release must be submitted to the Chairman and Chief Executive Officer, and – where necessary – the Board of Directors for final approval before being published.

The press release is entered into the Network Information System (NIS), which is organised and managed by Borsa Italiana and via the NIS, the release is sent to Consob and to at least two press agencies. Moreover, the Company inserts the release "by the opening of the market the day after it has been published" on the website [www.piaggiogroup.com](http://www.piaggiogroup.com), ensuring that this information stays on the website for at least two years.

In order to ensure the proper management of price-sensitive information within the Group, this Procedure is made known to the Chief Executive Officers of the main subsidiaries, i.e. the Piaggio subsidiaries that fall within its scope of consolidation.

The management of price-sensitive information of subsidiaries is entrusted to their Chief Executive Officers, who must send as soon as possible to the Finance and Control General Manager and/or Investor Relations Officer of Piaggio any information that – on the basis of their evaluation – could contain information that is price-sensitive in accordance with this Procedure.

The Finance and Control Manager and/or the Investor Relations Function that have received price-sensitive information from the Managing Directors of the subsidiary companies consult with the Legal and Corporate Manager for the verification of the legal obligations and specifically whether such information should be considered price-sensitive.

If information is deemed price-sensitive or regulations in force require it to be published, the Press Relations Officer draws up a press release and – with the help of the Head of the Legal Department – ensures that this release covers the requirements stipulated by the legislation in force in this regard.

The text of the press release must be submitted to the Chairman and Chief Executive Officer, and – where necessary – the Board of Directors for final approval before being published.

## **6.2 Register of persons with access to price-sensitive information**

With special reference to the requirement of listed Issuers, entities having control over them and persons acting in their name or on their account, establish and manage a register of persons having access to price-sensitive information pursuant to art. 115-*bis* of the Consolidated Financial Act. At the meeting held on 3 May 2006 the Company's Board of Directors approved the following: (i) pursuant to and for the effects of art. 152-*bis* of the Regulations on Issuers, to grant powers to the Parent Company IMMSI S.p.A. to keep, manage and update the register of persons having access to price-sensitive information, including that for Piaggio and companies belonging to the Piaggio Group; (ii) to implement the "Procedure for the management of the Register of persons having access to Price-sensitive Information" adopted by IMMSI S.p.A. by approval of its own Board of Directors at the meeting held on 24 March 2006.

## **6.3. Internal Dealing**

Regarding the management of reporting requirements deriving from the new Internal Dealing regulation pursuant to art. 114.7 of the Consolidated Financial Act, and arts. 152-*sexies*, 152-*septies* and 152-*octies* of the Regulations on Issuers, in effect for listed companies as of 1 April 2006, the Company Board of Directors approved the adoption of the "Procedure to comply with Internal Dealing requirements" on 3 May 2006, effectively binding as of the date of Listing.

The notifications relating to significant transactions pursuant to the internal dealing regulations made during the 2006 financial year, with effect from the Listing, were reported to the market with respect to this Procedure, and are available on Company website ([www.piaggio.com](http://www.piaggio.com) - *Investor Relations* section).

## **7. Investor and Shareholder Relations**

The Company believes it to be in its own specific interest – besides being its duty to the market – to establish a continuous dialogue with the majority of its shareholders, as well as with institutional investors, from the time of its Listing on the stock market based on the reciprocal understanding of their respective roles. This relationship must in any case be carried out with respect to the "Procedure for the publication of price-sensitive information" described in item 6.1 above.

It was considered that this relationship with the majority of shareholders and institutional investors could be facilitated via the constitution of dedicated corporate structures, provided with the suitable personnel and organisational resources.

In the Meeting of 8 March 2006, the Board of Directors passed a resolution to set up the Investor Relations function to supervise the relationships with the shareholders and the institutional investors in general and to carry out special tasks if necessary in the management of the price-sensitive information and in the relations with Consob and Borsa Italiana S.p.A., commissioning the Chief Executive Officer to appoint the party responsible for Investor Relations after the Listing.

At the date of this report, the executive of the Investor Relations function is Leonardo Caputo (who also holds the position of "Strategic Planning Business Development and Regulatory Affairs" Manager). This department can be contacted at: [investorrelations@piaggio.com](mailto:investorrelations@piaggio.com).

The investor relations reporting activities is also ensured by making available the most significant corporate documentation in a timely and on-going basis on the Company website ([www.piaggio.com](http://www.piaggio.com) - Investor Relations section).

Specifically, this website – which can be freely perused by investors in Italian - contains all press releases distributed to the market, the periodic accounting documentation of the Company approved by the relevant corporate bodies (Financial Statements and consolidated versions, interim and quarterly reports) , as well as the documentation distributed at meetings with professional investors, analysts and the financial community.

Moreover, the Issuer's website contains the Articles of Association, the documents prepared for Shareholders' Meetings, Internal Dealing communications, this Report on the corporate governance system, and any other document that the Issuer is required by regulations in force to publish on its website.

At the meeting of 16 March 2007, the Board of Directors noted that, pursuant to the Art. 11.C.6 of the Self-Regulatory Code, there have been no significant variations in the Issuer's market capitalisation nor in the composition of its corporate structure such as to make it necessary to propose changes to the company's Articles of Association in relation to the percentages established for the exercising of the prerogatives set up to protect the minorities. In this connection, it is noted that following the amendments to the Articles of Association to bring them into line with the requirements of Decree 303/2006 and the relative instructions regarding enforcement, the percentage thresholds established by the Articles of Association for the presentation of the lists for the appointment of the members of the Board of Directors and the Board of Statutory Auditors will only operate if the Consolidated Financial Act or the Issue Regulation do not provide for the application of a different threshold fixed by the legislator or by Consob referring to the features of the Issuer (capitalisation; floating capital; ownership structure).

## **8. Board of Statutory Auditors**

Pursuant to article 24 of the Articles of Association, the Board of Statutory Auditors comprises three standing and two alternate Statutory Auditors, who remain in office for three years, and are removed from office on the date of the Shareholders' Meeting convened to approve the Financial Statements relative to the last financial year of their term office. Statutory Auditors may be re-elected.

Pursuant to art. 25 of the Articles of Association, the Board of Statutory Auditors exercise the powers and the functions attributed by law and other applicable provisions.

Statutory Auditors shall have the requisites established by law, Articles of Association and other applicable provisions.

The provisions of the Issuer's Articles of Association that govern the appointment of the Board of Statutory Auditors are suitable for guaranteeing compliance with art. 148.2-*bis* of the Consolidated Financial Act introduced by law 262/2005; these instructions are also subject to amendment within the terms of the law in order to bring them into line with Decree 303/2006.

The appointment of the Board of Statutory Auditors takes place according to lists presented to Shareholders. The appointment of the Board of Statutory Auditors takes place according to lists presented to Shareholders. Each shareholder, as well as shareholders who have entered into a



significant shareholder agreement pursuant to art. 122 of the Consolidated Financial Act, as well as the Parent Company, its subsidiaries and joint ventures pursuant to art. 93 of the Consolidated Financial Act, cannot present or take part in presenting more than one list, either by proxy or through trust companies, nor can they vote on different list.

For further details on how the Board of Statutory Auditors is elected, please refer to art. 24 of the Articles of Association.

Each member of the Board of Statutory Auditors is also required to notify the said Board of any acceptance of the office of director or statutory auditor in other companies, with the purpose of complying with the obligations to provide relevant information pursuant to applicable legal provisions and regulations.

The Board of Statutory Auditors assesses the independence of its members, also on the basis of criteria provided for by the Self-Regulatory Code with reference to the Directors, after the appointment and later, during the term of the office, annually. The result of this assessment is made known to the market through the annual Corporate Governance Report.

The Board of Statutory Auditors in office at the date of this Report, appointed by resolution of the Ordinary Shareholders' Meeting on 30 March 2006 (based on the statutory provisions applicable prior to the Listing) and in office until the approval of the Financial statements at 31 December 2008, consists of:

<b>NAME</b>	<b>OFFICE</b>
<b>GIOVANNI BARBARA</b>	CHAIRMAN
<b>ATTILIO FRANCESCO ARIETTI</b>	STANDING AUDITOR
<b>ALESSANDRO LAI</b>	STANDING AUDITOR
<b>MAURIZIO MAFFEIS</b>	ALTERNATE AUDITOR
<b>MAURO GIRELLI</b>	ALTERNATE AUDITOR

All the offices of management and control held at the date of this report in public companies by members of the Board of Statutory Auditors are shown in the table below.





Mauro Girelli	<ul style="list-style-type: none"> <li>- Sensim S.p.A.</li> <li>- Stai Prefabbricati S.p.A.</li> <li>- A.D.I.R.A. Ass.Distr.Independenti Ricambi Auto</li> <li>- Auto Azzurra S.r.l.</li> <li>- Ballarini Paolo e figli S.p.A.</li> <li>- Bonera 2 S.p.A.</li> <li>- Caleffi S.p.A. **</li> <li>- Filippini Moto S.p.A</li> <li>- Immobiliare Regis S.r.l.</li> <li>- Moto Guzzi S.p.A.</li> <li>- Omniaholding S.p.A. *</li> <li>- Padana Pannelli S.p.A</li> <li>- Polychem Systems S.r.l.</li> <li>- Stai Prefabbricati S.r.l.</li> <li>- Immobiliare Chiese S.p.A</li> <li>- Is Molas S.p.A</li> <li>- Omniainvest S.p.A. *</li> <li>- Omniapartecipazioni S.p.A. *</li> <li>- RCN Finanziaria S.p.A. *</li> <li>- Rodriquez Cantieri Navali S.p.A.*</li> <li>- Sogefi S.p.A. **</li> <li>- La Folaga Soc. Coop. a R.L.</li> </ul>	<ul style="list-style-type: none"> <li>Chairman of the Board of Statutory Auditors</li> <li>Chairman of the Board of Statutory Auditors</li> <li>Chairman of the Board of Statutory Auditors</li> <li>Standing Auditor</li> <li>Standing Auditor</li> <li>Standing Auditor</li> <li>Standing Auditor</li> <li>Standing Auditor</li> <li>Standing Auditor</li> <li>Standing Auditor</li> <li>Standing Auditor</li> <li>Standing Auditor</li> <li>Standing Auditor</li> <li>Standing Auditor</li> <li>Alternate Auditor</li> <li>Alternate Auditor</li> <li>Alternate Auditor</li> <li>Alternate Auditor</li> <li>Alternate Auditor</li> <li>Alternate Auditor</li> <li>Alternate Auditor</li> </ul>
---------------	--	--

\* financial holding, banking and assurance company or large company

\*\* listed company

On 7 February 2007 the Board of Statutory Auditors verified the existence of the requisites of independence of their members on the basis of the above-mentioned criteria.

During the financial year ended on 31 December 2006 the members of the Board of Statutory Auditors attended all the Company Board of Directors' meetings.

Over the year ended on 31 December 2006, starting from the Listing, 5 (five) Board of Statutory Auditors meetings were held on the following dates: 19 July 2006; 18 August 2006; 17 October 2006; 30 November 2006 and 20 December 2006.

All the members of the Board of Statutory Auditors attended these meetings.

The delegated bodies reported to the Board of Statutory Auditors on their work in a suitable and timely manner as prescribed by law and the Articles of Association, i.e. at least on a quarterly basis, regarding general operational performance and the outlook, as well as on the more significant transactions made by the Company and its subsidiaries according to size and characteristics.

16 March 2007