



# Report on Corporate Governance and Ownership Structures

Pursuant to Article 123-*bis* of the Consolidated Finance Act – TUF  
(traditional administration and control model)

Issued by:  
**Carraro SpA**

Web site  
**[www.carraro.com](http://www.carraro.com)**

Period of the Report  
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## **GLOSSARY**

**Code/Code of Conduct:** the Code of Conduct of listed companies approved in December 2011 by the Corporate Governance Committee and endorsed by Borsa Italiana SpA, ABI, Ania, Assogestioni, Assonime and Confindustria.

**Ital. Civ. Cod. / ICC:** the (Italian) Civil Code.

**Board:** the Board of Directors of the Issuer.

**Issuer/Carraro/Company:** Carraro S.p.A.

**Trading period:** trading period 2012.

**Consob Regulations for Issuers:** the Regulations issued by Consob with resolution no. 11971 in 1999 (and its subsequent amendments) regarding issuers.

**Consob Regulations on Markets:** the Regulations issued by Consob with resolution no. 16191 in 2007 (and its subsequent amendments) regarding markets.

**Consob Related Parties Regulations:** the Regulations issued by Consob with resolution no. 17221 of 12 March 2010 (as amended) regarding related party transactions.

**Report:** the report on corporate governance and ownership structures that companies are obliged to draw up pursuant to Art.123-*bis* of the Consolidated Finance Act – TUF.

**Company:** the issuer of the stocks and shares to which the Report refers.

**Consolidated Financial Act/TUF:** Italian Legislative Decree no. 58 dated 24 February 1998.

## **1. Issuer Profile**

Carraro S.p.A. is a leading multi-national group in power transmission systems.

The activities of the Carraro Group, coordinated by Carraro SpA with functions of strategic guidance and control, are divided up into four business areas: transmission systems, gears and components, vehicles and power electronics. This product offer is addressed to a wide range of applications from earth moving machinery to agricultural tractors, from cars to light commercial vehicles and from forklift trucks to stationary applications (such as escalators). In addition, the Group is increasingly oriented towards developments in emerging sectors linked to renewable energy sources, such as wind power generators and photovoltaic systems.

Carraro has been listed on the Mercato Telematico Azionario, organised and managed by Borsa Italiana SpA, since 27 December 1995.

Carraro's corporate structure is based on the so-called traditional model, based on the following bodies: Shareholders' Meeting, board of directors (supported by consulting committees), board of statutory auditors and auditing company (external).

This Report has been prepared in accordance with the directions contained in the Code itself and in accordance with the format, fourth edition of January 2013, issued by Borsa Italiana.

The Corporate Governance Report can be found on the company's Web site: [www.carraro.com](http://www.carraro.com) – Investor Relations – Corporate Governance and is made available to shareholders together with the documentation provided for the Shareholders' Meeting for approval of the financial statements within the legal deadlines.

## **2. Information on ownership structures as at 15/03/2012 (pursuant to Art. 123-bis of the Consolidated Finance Act – TUF)**

### **a) Structure of share capital (pursuant to Art. 123-bis, paragraph 1, letter a) of the Consolidated Finance Act – TUF)**

Amount of company share capital subscribed and paid in, in Euro: 23,914,696.00.

The categories of shares making up the share capital are indicated in Table 1 in the Annex.

No other financial instruments providing rights to subscribe to newly issued shares have been issued. There are no share-based incentive schemes (*stock options, stock grants, etc.*) which require share capital increases, also free of charge..

### **b) Restrictions to share transfers (pursuant to Art. 123-bis, paragraph 1, letter b) of the Consolidated Finance Act – TUF)**

There are no restrictions to share transfers.

### **c) Significant holdings of share capital (pursuant to Art. 123-bis, paragraph 1, letter c) of the Consolidated Finance Act – TUF)**

According to the communications made by the Company pursuant to Art. 120 of the Consolidated Finance Act – TUF, shareholders who as of today directly or indirectly possess shareholdings exceeding 2% of share capital with voting rights are shown in the attached Table 1

**d) Shares having special entitlements (pursuant to Art. 123-*bis*, paragraph 1, letter d) of the Consolidated Finance Act – TUF)**

No shares having special control rights have been issued.

**e) Employee share scheme: mechanism to exercise voting rights (pursuant to Art. 123-*bis*, paragraph 1, letter e) of the Consolidated Finance Act – TUF)**

There is no employee share scheme having a mechanism differing from the ordinary system.

**f) Restrictions to voting rights (pursuant to Art. 123-*bis*, paragraph 1, letter f) of the Consolidated Finance Act – TUF)**

There are no restrictions to voting rights, except on the treasury stock acquired by the Company.

With regard to deadlines imposed for exercising voting rights, please refer to Section 16 of this Report.

**g) Agreements between shareholders (pursuant to Art. 123-*bis*, paragraph 1, letter g) of the Consolidated Finance Act – TUF)**

The company is not aware of the existence of significant shareholder agreements pursuant to Article 122 of the Consolidated Finance Act – TUF.

**h) *Change of control* clauses (pursuant to Art. 123-*bis*, paragraph 1, letter h) of the Consolidated Finance Act – TUF and Articles of Association provisions concerning take-over bids (pursuant to Articles 104, paragraph 1-*ter* and 104-*bis*, paragraph 1)**

For Carraro and certain of its subsidiaries, stipulating *change of control* clauses falls within the majority of normal contractual negotiations relating to trade agreements. Typically such trade agreements only have significant effects in the event of a competitor of the counterparty gaining control of Carraro or its subsidiaries.

There are moreover change of control clauses in some financing agreements entered into by Carraro, Carraro International SA or other companies in the Carraro Group.

With reference to Articles of Association provisions concerning take-over bids, it is pointed out that paragraphs three and four of Art. 7 of the Articles of Association provide that:

- notwithstanding the provisions of Article 104, paragraph 1 of the Consolidated Finance Act – TUF, if the Company's securities are subject to a takeover and/or exchange bid, authorisation of the shareholders' meeting is not required to carry out acts or transactions which may hinder achievement of the objectives of the bid, during the period between the notification pursuant to Article 102, paragraph 1 of the Consolidated Finance Act – TUF and closure or revocation of the bid;
- notwithstanding the provisions of Article 104, paragraph 1-*bis* of the Consolidated Finance Act – TUF, authorisation of the shareholders' meeting is also not required for implementation of any decisions taken prior to the period indicated in the previous paragraph which have not been yet implemented in whole or in part, which are not part of the normal activities of the Company and implementation of which could hinder the achievement of the objectives of the bid.

**i) Authorisation to increase the company share capital and authorisation to purchase treasury shares (pursuant to Art. 123-bis, paragraph 1, letter m) of the Consolidated Finance Act – TUF)**

The Board has no mandate from the Shareholders' Meeting to increase share capital pursuant to Article 2443 of the Italian Civil Code nor can it issue stockholding financial instruments.

On 20 April 2012 the Shareholders' Meeting of the Company renewed the authorisation, pursuant to and for the purposes of Articles 2357 *et seq.* of the Italian Civil Code and Article 132 of the Consolidated Finance Act – TUF, for the purchase of a maximum of 4,598,980 ordinary shares, fully paid-up, having a unit par value of 0.52 euros, equal to 10% of current subscribed and paid-up share capital, taking into account treasury shares already held by the Company and its subsidiaries, on one or more occasions and for a period of eighteen months from the date of the resolution.

The ordinary shares shall be bought at a price per ordinary share with a minimum of not less than 30% lower and a maximum of not more than 20% higher than the reference price recorded on the stock exchange on the day prior to each individual transaction. The purchases shall be made within the limits of distributable profits and available reserves resulting from the latest regularly approved financial statements at the time the transaction takes place.

The deeds providing the availability of the treasury shares should be made at a minimum price per ordinary share no less than 20% lower, and no more than 20% higher than the reference price recorded in the stock exchange session on the day prior to each individual transaction.

On 14 March 2013, 2,561,937 shares representing 5.57% of share capital of the Company were purchased.

Bearing in mind that the current authorisation will expire on 20 October 2013, the Board passed a resolution to propose a motion to the Shareholders' Meeting, called to approve the 2012 financial statements, to renew the authorisation for the purchase and disposal of treasury shares with the aim of maintaining the necessary operative flexibility over an adequate period of time. For further information please refer to the Directors' Report on the related point on the agenda, which will be made available on the Company's website according to the legal deadlines.

**l) Management and coordination (pursuant to Art. 2497 *et seq.* of the Italian Civil Code).**

Carraro is not subject to management and co-ordination, pursuant to Article 2497 *et seq.* of the Italian Civil Code, by the parent company Finaid SpA.

In fact the Company has an autonomous management and control structure adopted by all Group companies and to which the same report.

The controlling shareholder, Finaid S.p.A., does not interfere in any way with Carraro activities. More specifically, the above point can be demonstrated by the following:

- Finaid is a purely financial holding;
- Finaid does not issue any directions to Carraro;
- the Finaid Board of Directors does not approve Carraro's strategic plans or business plans nor does it regularly interfere in its operations; and
- there are no relationships of a commercial or financial nature between Finaid and Carraro.



The directly-controlled Italian companies have identified Carraro as the party which exercises management and co-ordination activities, fulfilling the legal disclosure obligations.

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It is pointed out that:

- the information required by Article 123-*bis*, paragraph 1, letter i) (“agreements between the company and the directors ... providing for compensation in case of resignation or dismissal without just cause or if their employment ceases due to a takeover bid”) are contained in the remuneration report published pursuant to Art. 123-*ter* of the Consolidated Finance Act – TUF; and
- the information required by Article 123-*bis*, paragraph 1, letter l) (“the rules governing appointment and replacement of directors as well as amendment of the Articles of Association, if different from legislative and regulatory rules applicable in alternative”) are illustrated in the section of the Report dedicated to the Board of Directors (Section 4.1).

### **3. Compliance (pursuant to Art. 123-*bis*, paragraph 2, letter a) of the Consolidated Finance Act – TUF)**

On 18 December 2012, Carraro adopted the Code having the intention of adhering to the recommendations contained therein via the continual and progressive modification of its Corporate Governance policy.

The Code of Conduct adopted by Carraro SpA can be consulted on the website of Borsa Italiana at [www.borsaitaliana.it](http://www.borsaitaliana.it).

Carraro or its subsidiaries of strategic significance are not subject to the provisions of non Italian laws affecting the corporate *Governance* structure of the Company itself.

## **4. Board of Directors**

### **4.1. Appointment and substitution (pursuant to Art. 123-*bis*, paragraph 1, letter l) of the Consolidated Finance Act – TUF)**

Appointment and substitution of directors is governed by Article 21 of the Articles of Association, which may be consulted on the company's Web site ([www.carraro.com](http://www.carraro.com) – Investor Relations – Corporate Governance).

The company's administration is entrusted to a board consisting of between three and eleven members, including non-shareholders, nominated and elected by the Shareholders' Meeting.

The directors are appointed by the Shareholders' Meeting on the basis of lists presented by shareholders. When presenting a list, the shareholder/s must singly or jointly be the holder/s of stock representing at least 2.5% (two point five per cent) of the share capital subscribed or by a different percentage as indicated in the Consob Regulations.

Such lists should be complete with the professional *résumés* of the individual candidates and, as appropriate, an indication of their status as independent, and must be signed by the presenting shareholders. They must be delivered to the Company's registered offices at least 25 days prior to the first anticipated Shareholders' Meeting date.

Each list must contain and expressly indicate the candidature of at least one person who satisfies the requirements of independence as stipulated by Art. 148, paragraph 3 of the

Italian Legislative Decree No. 58/1998, or two if the Shareholders' Meeting decides that the number of directors should be more than seven, pursuant to Art. 147-*ter*, paragraph 4 of the Consolidated Finance Act – TUF. In addition, each list may expressly indicate, if appropriate, those directors who satisfy the requirements of independence as specified in the codes of conduct prepared by companies managing regulated markets or by trade associations.

Lists not having reached a percentage of votes at least equal to half that required by the Articles of Association for submission of the same are not taken into consideration.

The directors are appointed in accordance with the following criteria:

a) a number of directors equal to the total number of members of the Board, as previously established by the Shareholders' Meeting, minus one will be elected from the list obtaining the highest number of votes. The candidates will be elected according to the numerical order in the list;

b) one director will be drawn from the top of the list that obtained the second highest number of votes.

If and until expressly provided for by mandatory legal and/or regulatory provisions, the election mechanism of the Board of Directors referred to in Article 21 of the Articles of Association must ensure that the less represented gender (male or female) obtains at least one third ("Full Quota"), or, where applicable, one fifth ("Reduced Quota") of the directors elected. To this end, each list, except for the lists containing a number of candidates of less than three, must consist of a number of candidates belonging to the gender (male and female) less represented such that, where this list turns out to be the list which obtained the highest number of votes, from the same a number of directors of the less represented gender is drawn, at least equal to the Full Quota, or, where applicable, to the Reduced Quota.

The list having obtained the highest number of votes or the single list (depending on the case) must guarantee compliance with the Full Quota or, where applicable, the Reduced Quota.

In practice, if the composition of the Board, determined on the basis of the sequential numbers assigned to candidates in the aforementioned list and also taking into account the gender (male or female) to which the candidate nominated by the list obtaining the second number of votes belongs, does not include a sufficient number of the less represented gender (male or female), the candidates with the lowest sequential number, belonging to the most represented gender (male or female) will be automatically replaced by the candidates of the less represented gender (male or female) with the highest sequential number, until the Full Quota or, where applicable, the Reduced Quota of directors to be elected is reached.

The candidate at the top of the list gaining the majority of votes will be given the post of the Chairman of the Board of Directors.

In the event of the termination of office, for whatever reason, of one or more directors, their replacement shall be made by the Board of Directors, by resolution approved by the Board of Statutory Auditors. The replacement director/s shall be selected from among the candidates indicated in the same list from which the director/s leaving office was/were appointed, provided that the resulting majority continues to consist of directors appointed by the Shareholders' Meeting. In the event that the director leaving office is independent, another independent director should be appointed. Similarly, if and until expressly provided for by mandatory legal and/or regulatory provisions, the Board must appoint as replacements candidates belonging to the same gender (male or female) of the directors leaving office, in such a way that compliance with the Full Quota or, where applicable, the Reduced Quota of directors belonging to the less represented gender (male or female) is always ensured.

Directors thus appointed remain in office until the subsequent Shareholders' Meeting called to re-appoint the same or extend or reduce the Board via appointment of additional directors or reduction in the number of the same. Any directors appointed by the Shareholders' Meeting in this way, remain in office until the term of those in office at the time of their appointment comes to an end.

If there is no longer a majority of directors appointed by the Shareholders' Meeting, the entire Board shall cease to remain in force. The directors remaining in office must urgently convene the Shareholders' Meeting of the shareholders for the appointment of the new Board.

The Articles of Association can be amended (i) by a resolution passed by an Extraordinary Shareholders' Meeting, pursuant to Art. 18 of the Articles of Association or (ii) by a resolution passed by the Board of Directors, subject to legal restrictions, when the Articles of Association need to be brought into line with legislative provisions.

### ***Succession plans***

The Board was appointed by the Ordinary Shareholders' Meeting of 20 April 2012 and has not yet assessed the adoption of a succession plan for Executive Directors.

### **4.2. Composition (pursuant to Art. 123-bis, paragraph 2, letter d) of the Consolidated Finance Act – TUF)**

The Board in office as at the date of preparing this report consists of 9 members appointed by the Shareholders' Meeting on 20 April 2012, on the basis of the sole list presented by the shareholder Finaid S.p.A. and will remain in office until the date of the Shareholders' Meeting convened for the approval of the financial statements for the 2014 period.

There have been no changes to the composition of the Board since the closure of the 2012 period.

The personal and professional characteristics of directors, with an indication of the seniority of office, position and role held within the Board, as well as the posts as director or statutory auditor held by each in other companies listed on regulated markets, including those abroad, in financial, banking, insurance companies or those of significant dimensions, are listed in the documentation attached to this Report.

### ***Maximum number of posts held in other companies***

The Board of Directors, with its resolution of 22 February 2013, expressed its orientation regarding the maximum number of positions as director (in listed, financial, banking, insurance and large-sized companies), which can be considered compatible with effective performance of the assignment.

In particular, the Board, taking into account: i) the current composition and functioning of the Board; ii) the high participation of directors in Board of Directors and Committee meetings; iii) the duties of the directors indicated in the Articles of Association and in the Code of Conduct, has indicated the maximum number of positions that can be considered compatible with effective performance of the office of director of Carraro to be three (3) for Executive Directors and 7 (seven) for non-executive Directors, including the position on the Board of Directors of Carraro, in listed, financial and large companies (i.e. with turnover/shareholders' equity of more than 500 million euros). Positions held in Carraro Group companies are excluded from this limit.

This limit may be waived - both in a restrictive as well as greater tolerance sense - exclusively with a motivated resolution of the Board of Directors and based on assessment elements including the size, organisation and investment relationships existing between the various companies.

Starting from the appointment of the Board, which took place on 20 April 2012, specific initiatives have not been adopted aimed at expanding the knowledge of directors on the sector in which the Company operates. The intense activity and the contents dealt with in Committee and Board meetings nevertheless ensure a constant update on the company's dynamics and their evolution, as well as on the reference regulatory framework..

#### **4.3. Role of the Board of Directors (pursuant to Art. 123-*bis*, paragraph 2, letter d) of the Consolidated Finance Act – TUF)**

During the course of the 2012 period, the Board held 8 meetings on the following dates:

<b>22.02.2012</b>	Information on the data for the 2011 financial period from the Chief Executive Officer
<b>15.03.2012</b>	Examination and approval of the Carraro Group consolidated financial statements and the draft Carraro SpA financial statements as at 31 December 2011; Proposal for determination of remuneration for the Board of Directors for <u>2012</u>
<b>20.04.2012</b>	Renewal of offices, conferral of powers, appointment of committees, treasury share purchase plan
<b>05.05.2012</b>	Approval of the Quarterly Report as at 31 March 2012, breakdown of Board of Directors remuneration for 2012
<b>21.05.2012</b>	Granting of a personal guarantee to the subsidiary Elettronica Santerno SpA;
<b>01.08.2012</b>	Examination and approval of the half-yearly report as at 30 June 2012
<b>29.10.2012</b>	Examination and approval of the quarterly report as at 30 September 2012; mandatory amendments to articles 21 and 30 of the Articles of Association pursuant to the provisions introduced by Law no. 120 of 12 July 2012
<b>18.12.2012</b>	Examination and approval of the 2013-2016 Business Plan;

The Board meetings lasted on average 2 hours. 7 meetings are planned for the year in progress, of which two already held.

The schedule of major corporate events was notified to the market and to Borsa Italiana S.p.A. in accordance with regulations.

The Board of Directors is the body charged with the Company's administration. It has the role of defining the strategy for the Company and the Group that it forms part of and has management responsibility for it. To this end it has the broadest powers for the ordinary and extraordinary administration of the Company, and has the power to carry out all the actions that it considers appropriate to implement and achieve the corporate purposes, excluding

solely those that the Articles of Association and the law reserve strictly to the Shareholders' Meeting, in accordance with the Code of Conduct.

To be more specific, through the clauses in the Articles of Association, the assigned mandates and corporate practices, the Board is responsible for the following issues of major significance:

- examination and approval of industrial, commercial, organisational and financial company and group strategic plans;
- examination and approval of budgets and operations of significant economic and financial importance to the company and the group;
- verification of the adequacy of the company and group general organisation and administration structure;
- assignment and revocation of mandates to the Chairman and Chief Executive Officer and assignment or revocation of special powers of attorney to Company managers;
- after consultation with the appropriate Committee and the Board of Statutory Auditors, determination of the remuneration of the Chairman, Chief Executive Officer and individual members of the Board and its Committees;
- supervision of company and group general performance, periodically comparing the results achieved with those planned, paying particular attention to transactions of greater economic, financial and equity significance;
- annual appraisal of the size, composition and operation of the Board and its Committees;
- definition of the Corporate Governance rules, as well as monitoring of adoption of and compliance with the rules themselves, with reference to Code;
- examination and approval of the guiding principles, operating limits and, more generally, management of the company and group financial risks, as well as controlling compliance with the adopted policies;
- examination of all quarterly, half yearly and annual profit/loss and financial report documents;
- examination and approval of transactions with related parties, in accordance with the procedure described in greater detail in paragraph 12 below, as well as matters in which Directors have an interest.

The company's Articles of Association stipulate that the Board of Directors also has the power to deliberate with regard to the following:

- establishment or closure of secondary offices;
- transfer of the company headquarters within the national territory;
- company mergers and demergers in the cases envisaged by Articles 2505, 2505-*bis* and 2506-*ter* of the Italian Civil Code; the reduction of the company share capital in the event of the withdrawal of a shareholder;
- amendments to the Articles of Association to meet new legislative provisions;
- except when the Board considers it appropriate that the afore-mentioned resolutions are taken by an Extraordinary Shareholders' Meeting.

In February 2013, the Board assessed the adequacy of the organisational, administrative and accounting structure of the Company and the Group, with particular reference to the internal control system and management of conflicts of interest, according to the procedures adopted for this purpose by the Company. Within the scope of this activity, the Board made recourse to the support of the Control and Risk Committee, the Internal Audit Manager and the Director Responsible for producing the company's accounting documents.

The amount and breakdown of remuneration received by members of the Board of Directors during 2012 is shown in detail in the Remuneration Report prepared pursuant to Art. 123-ter of the Consolidated Finance Act – TUF.

The Board appraised the trend in general management at least every quarter, taking into consideration the information received from the mandated bodies, as well as by means of a periodical comparison between the results achieved and those anticipated.

The Board has not established general criteria for identifying transactions that have significant strategic, economic or financial importance for the Company.

The Board generally considered a 3-day deadline for sending the board documentation in order to allow timely and complete information to directors and statutory auditors.

The Chief Financial Officer and the Head of Legal Affairs of the Company as a secretary are normally invited to attend Board meetings. Depending on the items on the agenda and in order to allow the heads of the competent corporate functions to provide the appropriate information, participation of other Company managers is envisaged.

On 22 February 2013 the Board made an assessment of the size, composition and functioning of the Board itself and its committees. The assessment process started with the filling in of a specific questionnaire by the members of the Board of Directors who expressed their opinions about the assessment of the key issues relating to the Board of Directors itself and its Committees, such as: (i) the functioning of the Board and its Committees (ii) the composition and size of the Board and its Committees, (iii) the Role of the Board and its Committees and (iv) the related standards of conduct.

The Shareholders' Meeting was not called upon to authorise, in general and preventive terms, any exceptions to the non-competition clauses as provided for in Article 2390 of the Italian Civil Code.

#### **4.4. Mandated Bodies**

##### **Chief Executive Officers**

The Chief Executive Officer, Dr. Alexander Josef Bossard, is vested with all the powers of ordinary administration, with the exclusion of any power of extraordinary administration, pursuant to legislation and the Articles of Association, and of the following powers reserved for the Board of Directors or the Chairman of Board of Directors:

- entering into, modifying and/or terminating commercial affiliation agreements or agreements licensing industrial property rights;
- issue or withdrawal of mandates or general powers of attorney;
- issue of security guarantees, establishment of liens or mortgages on the assets of the Company;
- acquisition, sale, licensing, the conferment, and the granting of guarantees on the following:
  - real estate assets;
  - enterprises or business units;
  - company shareholdings.
- approval of the Company's budget and any business plans;

- entering into, amending and terminating any form of banking and financing agreement (more specifically, opening credit lines, loans, advances against securities, invoices and goods, discounts);
- issue, acceptance or endorsement of the Company's bonds;
- opening or closure of local units, plants, branches and agencies.

For the purposes of clarity, but without limitation to the assignment of the afore-mentioned delegated powers of ordinary administration, it is worth noting that the Chief Executive Officer is able to carry out the following (within the limits illustrated in the subsequent paragraph):

- keep and sign company correspondence;
- sell and acquire goods, products, and any other unrecorded movable asset, as well as enter into, amend and terminate agreements for the supply of services and any other agreement, for charge or profit, that is necessary or beneficial for the management of the company;
- purchase and sell vehicles;
- collect any amount owed to the Company from any party (State, public and private entities, physical and/or legal persons and companies), as well as issue the relative receipts/releases;
- hire and dismiss managers, clerical staff and factory workers, and enter into, amend and terminate the related employment agreements;
- enter into, amend and terminate on-going and co-ordinated collaboration agreements and consultancy agreements;
- represent the Company in all dealings and relations with the State fiscal, financial, administrative and judicial offices and their dependent, local and semi-governmental administrative entities, pension, welfare insurance or mutual entities, with the power to agree earnings, issue statements and certificates, open legal proceedings before any administrative and legal authority in the Republic of Italy; make charges, lodge complaints against any measure issued by the afore-mentioned authorities and offices and sign the related documents and/or consequential deeds;
- represent the Company in proceedings before all the authorities in the Republic of Italy and foreign states, as well as all international authorities, appoint advocates and attorneys for the proceedings, including for appeals, claims for revocation, cassation and before the Constitutional Court;
- settle and reconcile any pending suit or dispute the Company has with third parties, including pending suits and disputes on employment with managers, clerical staff and factory workers, appointing arbiters and/or amicable arbitrators and signing the relative settlement deeds;
- represent the Company in any bankruptcy proceedings with all the necessary powers; promote and/or request declarations of insolvency, take part in meetings of creditors, accept and exercise the office of member of the committee of creditors, if the appointment falls on the Company; declare credits confirming their existence and extent; accept and reject schemes of composition and do all else that is necessary and/or useful in such procedures;
- receive from post and telegraphic offices, shipping companies and any other transport enterprise, ordinary, registered and/or insured letters and parcels; collect postal or telegraphic orders, cheques and drafts of any kind and any amount; request and receive amounts, securities, goods and documents, signing the relative receipts, releases from liability, with any public and/or private administration, amongst other, at any public and/or private savings institution, including the State Treasury, the Cassa Depositi e Prestiti (state funded bank), funds owed by the state, customs offices and state and private railway offices, either in their central, regional and/or local offices, and including the regional tax revenue services and their local sections; carry out any other deed or transaction with the aforesaid administrative authorities;

- sign bills of exchange from the Company's clients as the drawer, issue bills of exchange and orders, endorse cheques, drafts and bills of exchange, but in any event draw them and pay them into the Company's current accounts or protest them, offer bills of exchange issued by the Company's customers in discount on their order and drafts issued by the Company on amounts receivable from its customers;
- receive, form and release deposits, including for the purposes of security, allow bonds of any type;
- carry out all financial transactions for the ordinary administration of the Company, open current bank accounts and a current account in the name of the Company with the post-office authorities; make withdrawals, make payments, sign cheques against the above current accounts, including the use of overdrafts, within the granted overdraft limits, monitor these current accounts and approve their statements;
- carry out each and every activity concerning compliance with legislation on safety, protection of the environment and privacy and represent the Company before each and every associated public and private office and entity;
- delegate part of the afore-said powers to executives, middle managers or clerical staff in the company or to third parties, provided that the delegated powers do not give rise to the supposition of direct representative as provide for in Articles 2203 *et seq* of the Italian Civil Code.

Moreover, the following values apply to the powers of ordinary administration attributed to the Chief Executive Officer:

- settling, defining and reconciling proceedings and disputes (including arbitrations) for an amount not exceeding, per individual dispute, Euro 1,000,000 (one million);
- negotiating, entering into, amending and/or terminating:
  - agreements for the acquisition of machinery, plant, equipment and/or vehicles of an amount no greater than, per individual agreement, Euro 1,000,000 (one million);
  - consulting contracts where the amount does not exceed, per contract, Euro 250,000 (two hundred and fifty thousand);
  - any other agreement that stipulates bonds for the Company of amounts no greater, per individual agreement, than Euro 1,000,000 (one million), with the exception of agreements for the supply of goods to the company's customers, for which the aforesaid limit will not apply.

The Chief Executive Officer has not taken offices as a director of another issuer nor does he belong to the same group of which a director of Carraro is Chief Executive Officer.

### **Chairman of the Board of Directors**

The Chairman, Enrico Carraro, is attributed all the powers of the ordinary and extraordinary administration envisaged by law and/or the Company's Articles of Association, excluding the following limitations, which are reserved to the Board of Directors:

- acquisition or sale of stock including minority holdings;
- assignment of security guarantees, collateral or mortgages on company assets;
- acquisition or conveyance of immovable assets;
- approval of the economic and financial budget.

The maintenance of mandates held by the Chairman is based on the preservation of continuity, as ensured by the controlling shareholder, in the management objectives as well as to ensure the strategic vision of the Company and the Group. In actual fact the Chairman performs the role of co-ordination and strategic planning while the executive management of the Company and the Group lies with the Chief Executive Officer. The clause in the Code of Conduct under point 2.P.4 is therefore deemed as complied with, as it suggests avoiding the concentration of different company roles on one single person.



## **Information provided to the Board**

During the 2012 trading period, the Chief Executive Officer reported to the Board at least every quarter regarding the activities he had performed in the exercise of the mandates assigned to him.

### **4.5. Other Executive Directors**

The Board appointed Tomaso Carraro as Deputy Chairman of the Company with the function of replacing the Chairman in the event of his absence or impediment in the management of Shareholders' Meetings or Board of Directors' Meetings, in particular giving him the task of coordinating the activities of the Group and the following powers to be exercised with single signature:

- representing the Company in the OGMs of subsidiary companies;
- issuing directives to subsidiary companies, to the related company bodies and to the management structure to ensure the unitary direction and co-ordination of the group pursuant to the strategies defined by the Board of Directors and the management decisions taken by the Chairman and/or Chief Executive Officer;

Tomaso Carraro is Chairman and/or Chief Executive Officer of several subsidiaries with strategic importance.

### **4.6. Independent Directors**

Annually the Board assesses the existence of the requirements of independence for each non-executive director and any circumstances that could prejudice their autonomous judgement.

Among the non-executive directors, pursuant to the Code of Conduct and taking into consideration the information supplied by each director, Arnaldo Camuffo, Antonio Cortellazzo, Gabriele Del Torchio, Marina Pittini and Marco Reboa are independent directors elected by the Shareholders' Meeting of 20 April 2012 and have declared possession of the requirements provided for in the Code of Conduct to be qualified as independent directors and possession of the requirements of independence pursuant to Art. 148, paragraph 3 of the Consolidated Finance Act – TUF, undertaking to maintain independence during the term of office and, if necessary, to resign.

At the meeting held on 20 April 2012 and, subsequently, on 22 February 2013, the Board made an appraisal regarding the existence of the requirements of independence of the aforesaid Directors, after having acquired all appropriate information regarding the same, also on the basis of information provided by each of them.

The Board of Statutory Auditors, in its meeting of 22 February 2012, as part of its assigned tasks, verified application of the assessment criteria and procedures adopted by the Board to assess the independence of members of the same.

During 2012, the independent directors met twice, on 24 October 2012 and on 11 December 2012, in the absence of the other directors.

### **4.7. Lead Independent Director**

On 18 December 2012, considering that the conditions set forth in the Code existed, the Board appointed Arnaldo Camuffo as Lead Independent Director.

The Lead Independent Director represents a point of reference and coordination of the requests and contributions of non-executive directors and, in particular, of those considered independent according to the parameters set by the Code. He collaborates with the Chairman to ensure that directors are recipients of complete and timely information flows.

## **5. Processing of company information**

On 3 May 2012, the Board adopted the new Procedure for internal management and external communication of confidential information, with particular reference to insider information.

This Procedure establishes the rules of conduct addressed to all employees and collaborators with regard to the confidentiality of information acquired in any capacity in the ordinary performance of their work ("confidential information") and some additional obligations for those who, due to their position, can acquire particularly sensitive information ("insider information"). It also contains rules for the establishment and management of the Register of persons who have access to insider or potentially insider information, an indication of the different sections constituting the Register, as well as the rules for its concrete functioning, the tasks and the roles of those responsible for managing such information and reference is made to the rules that regulate the dissemination of "price sensitive" news and the procedures that managers are required to use for the processing and publication of such news.

Each Recipient, with reference to all information acquired due to his/her job function, is obliged to ensure its confidentiality and is required to comply with the rules of conduct set out in the Procedure, the provisions of the law in force, the rules of conduct referred to in the Code of Ethics of the Carraro Group and in the Management Model pursuant to Italian Legislative Decree 231/2001, for Group Companies that have approved its adoption.

## **6. Committees within the Board (pursuant to Art. 123-bis, paragraph 2), letter d) of the Consolidated Finance Act – TUF)**

On 20 April 2013, the Board passed a resolution constituting the following Committees:

- Control and Risk Committee;
- Appointments, Human Resources and Remuneration Committee;

The Appointments, Human Resources and Remuneration Committee, *inter alia*, has been assigned the functions of the Appointments and Remuneration Committees provided for in the Code.

All committees act merely in a consulting role and support the Board in examining the issues within its sphere of competence.

## **7. Appointments Committee**

The Board of Directors has assigned to the Appointments, Human Resources and Remuneration Committee the functions of the Appointments and Remuneration Committee provided for in the Code.

For information on the composition and operation, please refer to the next section.

## **8. Appointments, Human Resources and Remuneration Committee**

On 20 April 2012, the Board of Directors established within the Board an Appointments, Human Resources and Remuneration Committee which replaced the previous Human Resources and Remuneration Committee.

### ***Composition and functioning of the Appointments, Human Resources and Remuneration Committee***

The Appointments, Human Resources and Remuneration Committee is composed of three independent directors, Arnaldo Camuffo, Antonio Cortellazzo and Marina Pittini, and one executive director, Enrico Carraro. The Chairman of the Appointments, Human Resources and Remuneration Committee is Arnaldo Camuffo.

The current composition of the Committee is in line with the recommendations of the Code that prescribes that the members of the Remuneration Committee are non-executive directors, the majority of whom must be independent directors and at least one of them must have adequate financial and remuneration policy experience. At the same time, said Committee has among its members one executive Director due to the need to ensure integration of the recommendations of the Committee itself with corporate evolution in terms of organisation and management and human resource development plans.

During 2012, the Committee met 6 times for an average duration of approx. 2 hours to address, among other things: the formulation of proposals on remuneration for Directors who have been delegated particular powers by the Board and for other Directors who hold particular offices; the assessment of the Chief Executive Officer's objectives for 2011; the evaluation of the criteria adopted for the remuneration of managers with strategic responsibilities and in particular of the MBO variable incentive scheme for 2013; the evaluation of the Carraro Group's Leadership model and Performance *Management*; the drafting and proposal to the Board of Directors of the Remuneration Policy.

Committee meetings were attended, on a case by case basis, at the invitation of the Committee itself and on individual agenda items, also by (i) the Chairman of the Board of Statutory Auditors or other statutory auditor designated by the same (ii) the Chief Executive Officer, (iii) the Company Head of Legal Affairs as Secretary, (iv) other executives or functional/departmental managers of the Company involved on a case by case basis or interested parties with regard to the topics addressed and (v) external consultants.

When, during the meetings held in 2012, the Committee voted on the proposal to the Board of Directors for the remuneration of CEOs and other directors with special duties, the Chairman, Enrico Carraro, did not participate.

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The proceedings of the Committee are coordinated by the Chairman, Prof Arnaldo Camuffo, who is assisted in organising its meetings by the company departments necessary on a case by case basis. Minutes are taken of Committee meetings.

Committee members are entitled to access information and company functions necessary for the performance of their duties and - whenever deemed necessary - may use external consultants.

Although the Board has not approved a specific budget, the Committee has access to the financial resources necessary on a case by case basis to carry out its tasks.

## ***Functions of the Appointments, Human Resources and Remuneration Committee***

On 5 May 2012 the Board approved the new text of the Regulations of the Appointments, Human Resources and Remuneration Committee, which governs its tasks, its composition and the procedures on how its meetings should be run, and expressly sets out the composition of the Committee and the procedures on how its members should take part in the meetings whether they are executive, non-executive or independent directors in line with the issues which shall be discussed on a case by case basis. If the Committee is called upon to carry out the tasks assigned to it by the Code of Conduct, only the independent directors shall take part.

The Committee has been attributed, in addition to the functions provided for by the Code of Conduct for the appointments committee and for the remuneration committee, respectively, with those provided for by the new Procedure for Transactions with Related Parties adopted by the Board on 3 May 2012, when relating to the allocation or increase in remuneration and economic benefits, and the other tasks related to the evaluation and formulation of proposals and recommendations concerning management and human resources organisation and development plans.

In particular, with reference to the Committee's functions pursuant to the Procedure for Transactions with Related Parties, the Committee expresses its precautionary and reasoned opinion on the Company's interest in carrying out Transactions with Related Parties (as defined in the Procedure) as well as on the expediency and substantial correctness of the related conditions if the Transaction with Related Parties (as defined in the Procedure) concerns the assignment or increases in remuneration and economic benefits of any kind, including the granting of loans or guarantees to a member of an administrative or supervisory body or to a senior manager with strategic responsibilities.

The Committee is also assigned further tasks of a propositional and consultative nature regarding (i) methods for assessing the quality of individual performance and the model of company leadership, based on proposals from the Chief Executive Officer; (ii) assessing the quality of the Chief Executive Officer, the Managers with strategic responsibilities and the candidates for such positions, the identification of procedures for development and strategies for retention; (iii) assessment of the organisational structure regarding business strategies and procedures for succession; (iv) based on information provided by the Chief Executive Officer, the sharing of ideas on macro-dynamics in workforces and labour costs and policies of diversity management, where applicable.

## **9. Remuneration of Directors**

### ***General remuneration policy***

On 20 April 2012, the Ordinary Shareholders' Meeting approved, at the proposal of the Board, the text of the remuneration policy which, pursuant to (i) Article 6 of the Code of Conduct 2011, (ii) Article 123-ter of the Consolidated Finance Act – TUF (iii) the implementing provisions issued by Consob with resolution no. 18049 of 23 December and (iv) the Procedure for Related Party Transactions, defines the criteria and guidelines for the remuneration of members of the Board of Directors itself and of the managers with strategic responsibilities in the Company.

New remuneration policies and programs which the Carraro Group has adopted for Executive Directors and Managers with strategic responsibilities (individually the "Manager" or collectively the "Management" are essentially compliant with the principles provided for by

the Code and consistent with its purposes, though with certain minor differences in certain mechanisms necessary to comply with practices, commitments and expectations consolidated in the Management.

For completeness of information, with reference to the guidelines and criteria used in its preparation, please refer to articles 1, 2, 3 and 5 of the Remuneration Policy which forms the first section of the Remuneration Report issued pursuant to Art. 123-*ter* of the Consolidated Finance Act – TUF.

### ***Share-based remuneration plans***

Currently there are no share-based remuneration plans.

### ***Remuneration of Executive Directors and Managers with strategic responsibilities***

Remuneration of Executive Directors and Managers with strategic responsibilities comprises a fixed and a variable component. A significant part of remuneration - to differing extents depending on the specifics of roles and responsibilities - is linked to achieving specific performance targets.

Detailed information on the remuneration of Directors and Managers with strategic responsibilities is provided in articles 2 and 3 of the Remuneration Policy.

### ***Incentive mechanisms for internal auditors and the director responsible for producing the company's accounting documents.***

Regarding identification of the objectives for the CFO (Chief Financial Officer), responsible, *inter alia*, for preparing accounting documents, the Company believes that alignment with those of other managers with strategic responsibilities can stimulate full sharing in the attainment of the overall objectives of the management team, in terms of building shareholder value and better development of the Group.

With regard to the head of the Internal Audit function, the latter only receives a fixed remuneration whereas, as regards the variable remuneration component, any participation in the Annual MBO plan is envisaged on achievement/exceeding individual objectives that cannot be of the economic/financial type (such as, by way of example but not limited to, turnover, EBIT, EBITDA, net financial position).

### ***Remuneration of Non-executive Directors.***

Remuneration of non-executive Directors is established as a fixed amount and is therefore not linked to any extent whatsoever with the economic results of the Company. If entrusted with Special Duties, the same receive a fixed amount, in addition to the remuneration foreseen for Directors, the determination of which takes place according to the mechanisms provided for in the Remuneration Policy (see Art. 2.1).

### ***Director indemnification in the event of resignation, dismissal or termination of employment following a take-over bid (pursuant to Art.123-bis, paragraph 1, letter i) of the Consolidated Finance Act – TUF)***

It should be pointed out that there is an agreement between the Company and the Chief Executive Officer which provides for payment of an indemnity of one year's fixed remuneration in case of dismissal without just cause.

For further details, reference is made to Article 5 of the Remuneration Policy which is referred to in full here.

## **10. Control and Risk Committee**

On 20 April 2012 the Board re-established its Control and Risk Committee. The Control and Risk Committee is made up of four non-executive and independent directors in the persons of Arnaldo Camuffo and Antonio Cortellazzo, Marina Pittini and Marco Reboa. The Chairman of the Committee is Antonio Cortellazzo. The current composition of the Committee is in line with the recommendations of the Code that prescribes that the members of the Control and Risk Committee are non-executive directors, the majority of whom must be independent directors and at least one of them must have adequate financial and accounting experience.

The Control and Risk Committee provides the Board with proposals and advice and more specifically it is assigned the following tasks:

- assessing the compliance with accounting principles and, in the case of the group, their homogeneity for the purposes of the preparing the consolidated financial statements, together with the Director Responsible for producing the Company's accounting documents and in liaison with the independent auditors and Board of Statutory Auditors;
- providing opinions on the specific aspects relating to the identification of key corporate risks;
- examining the periodic reports, concerning the assessment of the internal control and risk management system, and those of particular relevance prepared by the Internal Audit function;
- monitoring the independence, adequacy, effectiveness and efficiency of the Internal Audit function;
- reporting to the Board at least half-yearly, on approval of the annual and half-yearly financial statements, on the activities carried out as well as the adequacy of the internal control and risk management system;

having the possibility to request the Internal Audit function to carry out checks on specific operational areas, giving simultaneous notice to the Chairman of the Board of Statutory Auditors;

The Control and Risk Committee met regularly for a total of eight meetings during 2012 to discuss both institutional issues and to examine the processes for revising the organisational and control systems aimed at compliance with the new standards of corporate governance. Each meeting saw the attendance of all or the majority of its members, of the Board of Statutory Auditors (at the express invitation of the Committee and without limitations with regard to the items on the agenda), of the Internal Auditing Manager and of the Chief Executive Officer as the executive director responsible for internal control. Other executives or department/office heads in the company also attended the meetings on a case by case basis when interested or directly involved in issues being discussed, such as the Manager of the Administration, Finance and Control (also as Director Responsible for producing the company's accounting documents), the Administrative Manager and the Manager of the Legal Affairs. Also attending the meetings were the auditing company and the external consultants when the meetings discussed their related issues. Minutes of the meetings were duly taken; their average duration was approx. 2 hours.

The percentage of participation of the various members of the current Committee (in office since 20 April 2012) is represented as follows:

For 2013, seven meetings have been scheduled, of which two already held in the first two months of the year.

The matters discussed with the relative opinions, recommendations and resolutions on issues of information and consulting operations for the Board of Directors, were as follows:

a) Issues of a legislative and organisational nature:

- Organisation, management and control model pursuant to Italian Legislative Decree 231/2001 (the "Model");
- management and evolution of the Carraro S.p.A. Model;
- management and evolution of the Management Models adopted by the Italian subsidiaries of Carraro S.p.A.;
- verification of the procedures monitoring the main corporate cycles (so-called "262 programme"): updates to the assessment of internal controls and the test programme for the year in progress;
- examination of the 2012 Audit Plan;
- monitoring of progress of the 2012 Audit Plan;
- examination of the project status of the new information system.

b) Issues of an institutional nature:

- aspects emerging from the review of the annual statutory and consolidated financial statements as at 31/12/2011 during the specific meeting with the auditing company and Board of Statutory Auditors;
- examination of the Letter of Suggestions emerging from the review of the annual statutory and consolidated financial statements as at 31/12/2011 during the specific meeting with the auditing company and Board of Statutory Auditors and consequential action plan;
- aspects emerging from the review of the interim consolidated financial statements as at 30/06/2012 during the specific meeting with the auditing company and Board of Statutory Auditors;
- examination of the audit plan of the statutory and consolidated financial statements as at 31/12/2012, during the specific meeting at the end of the year with the auditing company and the Board of Statutory Auditors. Examination of the changes to be made to the company Articles of Association.

c) Other issues:

- Examination of the impairment test carried out by the company for the purposes of the financial statements as at 31/12/2011 in application of the accounting standards in force;
- Examination of the draft Corporate Governance Report 2012;
- Analysis of corporate governance procedures (Procedure for transactions with Related Parties, Procedure for the management of Confidential and Insider Information, Policy for the management of Financial Risks) in support of the approval resolutions by the Board of Directors;
- Issue of opinions on granting guarantees by Carraro S.p.A. in favour of subsidiaries;
- Approval of the updated version of its Regulations.

The audit activities carried out were focused on the issues mentioned above in point a) and in particular:

a) Organisation Model pursuant to Italian Legislative Decree 231/2001.

The Committee continuously monitored management activities of the company's Management Model as indicated by Italian Legislative Decree 231/2001, on the basis of information obtained from the Supervisory Board on verifications carried out and the results thereof; particular attention was paid to the process of adapting the Carraro S.p.A. Model to the new offences introduced in Italian Legislative Decree 231/2001 in 2009 and 2011 through the specific "Risk Assessment" carried out in the third quarter of 2011 and in the first half of 2012 and the subsequent drafting and release of the new versions of the Code of Ethics and Model 231, as well as the consequent alignment of subsidiary Models;

b) Review and verification of the adequacy of the procedures.

The Auditing Committee also performed checks on the activities aimed at evaluating the adequacy of internal controls over the procedures governing the key company cycles (the so-called "project 262"), their control and updating. In 2012, the Internal Audit department updated the information gathered on the procedures, carried out testing and amended the corrective plans aimed at improving the processes.

Audit plans and activities. The Committee examined:

- the Audit reports, the results and corrective actions emerging from the audit activities performed by the Internal Audit function;
- the regularity in carrying out transactions with related parties in support of the related resolutions of the Board of Directors;

## **11. Internal Control System**

With the support of the Control and Risk Committee, the Board defines the strategies for the internal control and risk management system, so that the key risks relating to the company and its subsidiaries are correctly identified and adequately measured, managed and monitored.

The internal control and risk management system aims to ensure:

- a) the adequacy of company processes in terms of efficacy and efficiency;
- b) the reliability of financial information;
- c) the protection of the company's value;
- d) compliance with external regulations, the company Articles of Association and internal procedures.

The Board of Directors ensures that its assessments and decisions relating to the internal control system, the approval of the financial statements and the half-yearly reports and the relations with the auditing company are supported by appropriate preparatory work; this activity is usually assigned to the Control and Risk Committee which, in the presence of the Board of Statutory Auditors, systematically deals with issues directly or indirectly relating to internal control, including the checks on the correct application of the established accounting principles also with meetings and exchanges of information with the auditing company. The outcomes of these activities are reported to the Board of Directors.

The Board of Directors has so far identified the areas of priority intervention for the purposes of managing the Group's risks in terms of internal operational risks referred to the main business cycles and the risks related to the main offences identified by the Italian Legislative Decree 231/2001. The approach of the internal control system consistently follows this guideline. Other types of risks for which safeguards are active are strategic and financial risks. The Board also intends to progressively expand this perspective to include any other detectable types of internal and external risks that have a possible impact on the strategic objectives.



The structure of the internal control and risk management system can be summarised as follows:

- a) with respect to internal operational risks in the categories of risks and controls related to:
  - the reliability of financial reporting, identified with reference to the business cycles of purchases, sales, stock management, investments, human resources, treasury, accounting/reporting and data consolidation;
  - protection of the value of company assets and data, with reference to asset management procedures and the information technology area;
  -
- b) on the subject of risks of offence pursuant to Italian Legislative Decree 231/2001 in the categories of risks and controls relating to corporate and market abuse offences, those against the public administration, those concerning occupational and environmental safety, money laundering, cyber and organised offence, counterfeit trademarks and patents, infringement of copyright and against industry and commerce;
- c) with reference to strategic risks in the analysis of the procurement markets of raw materials and components, in monitoring the performance of the main customers operating in the target markets and the consequent definition of commercial and industrial plans;
- d) with regard to financial risks in monitoring the performance of the reference markets and in the adoption of specific operating procedures, according to the guidelines defined by the Board of Directors, in particular as regards the exchange rate and interest rate risk;
- e) with regard to specific risks with appropriate insurance coverage.

As regards the main characteristics of existing risk management and internal risk management and control systems with regard to the financial information, also consolidated, process, the brief description pursuant to Art. 123-*bis*, paragraph 2, letter b) of the Consolidated Finance Act – TUF, can be found in Annex 1.

During the year the Control and Risk Committee reported regularly to the Board on the work of the Committee, on the results of the audits carried out and on the functioning of the internal control system, also highlighting performance compared to the results emerging from audits carried out during the previous year. The adequacy of the internal control and risk management system is assessed by the Board taking into account the analyses and evaluations carried out regularly by the Control and Risk Committee and taking into account the information provided by the Supervisory Board on the 231 Management Model.

The assessment of the internal control and risk management system is such that this system shows an acceptable degree of overall adequacy in monitoring the main risks deriving from the group's activities.

### **11.1. Executive director in charge of the Internal Control and Risk Management System**

The role of the Executive Director in charge of the internal control and risk management system has been assigned to the Chief Executive Officer, Alexander Bossard, by the Board of Directors in the meeting of 20 April 2012.

As such, the Executive director in charge of the Internal Control and Risk Management System performs the following tasks:

- a) ensuring identification of the main business risks, taking into account the characteristics of the activities carried out by the issuer and its subsidiaries, and periodically submitting them for examination by the Board of Directors;
- b) executing the guidelines defined by the Board of Directors, taking care of the planning, implementation and management of the internal control and risk management system and constantly verifying its adequacy and effectiveness;
- c) adapting such system to the dynamics of the operating conditions and the legislative and regulatory panorama;
- d) promptly reporting to the control and risk committee (or to the Board of Directors) regarding problems and critical issues that have emerged in the course of his activity or of which he has been informed, so that the committee (or the Board) can take the appropriate initiatives.

He also has the possibility to request the Internal Audit function to carry out checks on specific operating areas and on compliance with internal rules and procedures in the execution of company operations, giving simultaneous notice to the Chairman of the Board of Directors, the Chairman of the Control and Risks Committee and to the Chairman of the Board of Statutory Auditors;

### **11.2. The Head of the Internal Audit function**

The Head of the Internal Audit function has been appointed in the person of Cristiano Dal Checco by the Board of Directors, at the proposal of the executive director in charge of overseeing the functionality of the internal control system with the favourable opinion of the Control and Risk Committee and after consultation with the Board of Statutory Auditors. The Board of Directors also established his remuneration and ensured that he has adequate resources for the function to be performed, always subject to the opinion of the Control and Risk Committee.

The Head of the Internal Audit function:

- had direct access to all information necessary for carrying out his task;
- reported his activities to the Control and Risk Committee and to the Board of Statutory Auditors
- also reported his activities to the executive director responsible for the internal control and risk management system.

He also had adequate resources available for performing the assigned function through the use of resources allocated to the Internal Audit function whose total budget for 2012 amounted to 310,000 Euros.

The Head of the Internal Audit function is a person internal to the issuer and is not responsible for any operational area nor does he report hierarchically to any manager of operational areas.

The main activities carried out during the year by the Head of the Internal Audit function were the development of activities related to the issues addressed by the Control and Risk Committee (see par. 10 above).

### **11.3. Management Model pursuant to Italian Legislative Decree 231/2001**

On 29 March 2007 the Board of Directors passed a resolution adopting a Management Model pursuant to Italian Legislative Decree 231/2001, thereby implementing and formalising a Management structure that already existed in the Company and had been continually updated. We would also like to point out that this adoption took place on the conclusion of a project for the assessment of risks relating to the possible offences envisaged by the decree -

an analysis of the company procedures highlighting the weaknesses and the areas of improvement and the consequent programme of adjustment.

The Board of Directors subsequently approved:

- on 16 December 2008 the updated version of the Model, extending the area of offences, with particular reference to Italian Law No. 123/07 that introduced corporate liability for offences committed in violation of health and safety legislation (Italian Legislative Decree 81/2008); on the same date, the Group's Code of Ethics was also adopted.
- on 15 December 2010, a further updated version of the Model with the inclusion of the offences of money-laundering and (Art. 25-*octies* of Italian Legislative Decree 231/2001) and cybercrimes (Art. 24-*bis* of Italian Legislative Decree 231/2001) in addition to other adjustments required with the new corporate organisation;
- on 1 August 2012 a new version of the updated Model with the inclusion of the offences introduced in Italian Legislative Decree 231/2001 in 2009 and 2011: offences against industry and commerce, infringement of copyright and counterfeit trademarks and patents, association and environmental crimes.

As for the types of offences for which liability of entities is provided for, the following cases have been considered in the current Carraro SpA Management Model:

- offences against Public Administration;
- corporate and market abuse offences;
- cyber crime offences;
- offences related to health and safety in the workplace;
- offences regarding handling of stolen goods, money laundering and use of money or goods and benefits of illicit origin;
- organised crime offences;
- offences of counterfeiting of trademarks and patents;
- offences against industry and commerce;
- offences of copyright infringement;
- offences of incitement not to make statements or to make false statements to the Judicial Authority;
- environmental offences.

In the second half of the year, also the main Italian subsidiaries of Carraro S.p.A. updated their 231 Management Model with regard to the same types of offences, if and as applicable to the respective sectors of activity.

The functioning and compliance with the Carraro S.p.A. Model was placed by the Board under the control of the Supervisory Board, a collegiate body having autonomous powers of initiative and control.

This body consists of an Independent Director, the Head of Internal Auditing and the Legal Affairs Manager.

The Code of Ethics and an extract of the Model may be consulted on the company's website: [www.carraro.com](http://www.carraro.com) – Investor Relations – Corporate Governance.

#### **11.4. Auditing Company**

The law prescribes that during the course of a trading period an independent auditing company should check that the company account books are kept correctly, that operations are recorded accurately in the accounts, and that the financial statements and the consolidated group financial statements correspond to the entries in the account books and the audits carried out, and that they comply with the related legislation.

With a shareholders' meeting resolution passed on 15 May 2007, the Company assigned auditing to PricewaterhouseCoopers S.p.A. for certification of the financial statements relating to the nine-year period 2007/2015, as prescribed by Italian Legislative Decree No. 303/06.

#### **11.5. Director Responsible for producing the company's accounting documents and other company roles and functions**

On 26 June 2007, the Board appointed the Chief Financial Officer, Enrico Gomiero, as the Director Responsible for producing the company's accounting documents. The reason for this was that following the assessment made, the company post held by Mr Gomiero was the most appropriate for the requirements needed for such a position, due to the posts he had already held, his qualifications and the responsibilities inherent therein.

Moreover the Board resolved that the Senior Manager, in order to carry out the tasks assigned to him, will be provided with the financial and human resources in line with the annual budget prepared by the Senior Manager in charge and approved by the Board itself. Subject, nevertheless, to the possibility of the Director Responsible for producing the company's accounting documents to take any action required by urgent and contingent situations which go beyond the approved budget, with the requirement of immediate disclosure to the Board at its earliest meeting.

The Senior Manager in charge, (i) where necessary and appropriate, may make use of the collaboration of other company departments in addition to those he manages in the role of senior manager in the company, in order to carry out his task, in accordance with procedures that will be agreed with them, and (ii) has the authority and the duty to issue instructions to the subsidiary companies, within the limits of the resolutions passed by their company bodies and the responsibilities that each of these have, and to see that they adopt all actions, procedures and activities considered appropriate to enable the same Senior Manager in charge to be able to carry out the tasks assigned to him and provided for by Italian Law No. 262/2005.

Other company roles and functions with specific tasks in terms of internal control and risk management are:

- the Board of Directors, which plays a role of guidance and assessment of the adequacy of the System;
- the Director in charge of the internal control and risk management system is identified in the Company's Chief Executive Officer;
- the Control and Risk Committee, with the task of supporting the assessments and decisions of the Board relating to the risk management and internal control system;
- corporate functions entrusted with the so-called "second level" controls, aimed at ensuring the monitoring and management of corporate risks;
- the head of the internal audit function, as a "third level" control, in charge of verifying that the internal control and risk management system is adequate and operational;
- the Board of Statutory Auditors, which oversees the effectiveness of the internal control and risk management system.

## **11.6. Coordination among parties involved in the internal control and risk management system**

Coordination between the parties involved in the internal control and risk management system is guaranteed by the distribution of tasks among the various entities, as already illustrated in the previous points, and by the method adopted for the exchange and sharing of information. In fact, presence at the meetings of the Control and Risk Committee of all members of the Board of Statutory Auditors, of the Executive Director in charge of the internal control and risk management system, of the Director Responsible for producing the company's accounting documents, of the Head of the Internal Audit function and of the Supervisory Board is foreseen. The Chairman with the Control and Risk Committee ensures the continuity and completeness of the flow of information to the Board of Directors regarding risk management and internal controls.

## **12. Directors' Interests and transactions with related parties**

The Procedure for Transactions with Related Parties whose entire text may be consulted on the company's website: [www.carraro.com](http://www.carraro.com) – Investor Relations – Corporate Governance, was unanimously approved by the Company's Board of Directors on 3 May 2012, following the favourable opinion expressed unanimously by the Control and Risk Committee pursuant to Art. 4, paragraph 1 and 3 of the Consob Regulations on the provisions relating to transactions with related parties, adopted with resolution No. 17221 dated 12 March 2010 and subsequently amended with resolution No. 17389 dated 23 June 2010.

The Procedure indicates the principles to which the Company must adhere in order to ensure the correctness and openness of transactions with related parties with regard to three primary aspects: identification of the counterparties, the management procedures and the openness of disclosures. For this purpose, the document defines and identifies the parties referred to as "related parties" and the transactions with related parties. In examining each relationship with related parties, attention was paid to the substance of the relationship and not simply to its legal format.

The most important transactions must be approved by the Board beforehand with a binding and reasoned opinion provided by the Control and Risk Committee, except when the resolutions concern remuneration for which the Appointments, Human Resources and Remuneration Committee has been attributed responsibility. Such transactions involve providing the public with a disclosure document.

Other transactions, unless they fall within the residual category of low value transactions, are defined as "less important" and can be implemented on receipt of a reasoned and non-binding opinion from the same Committee. The Procedure also outlines the cases where the Procedure need not be applied, including in particular those ordinary transactions that are concluded at conditions equivalent to market or standard conditions, intra-group transactions, provided that there are no significant interests for other related parties of the Company, and for transactions of a low value.

## **13. Appointment of Statutory Auditors**

The Company's Articles of Association prescribes that the Board of Statutory Auditors consists of three regular statutory auditors and two substitutes appointed by the Shareholders' Meeting by means of a list voting system, to ensure minorities appoint one Regular Auditor and one Alternate Auditor.

Only shareholders that by themselves or together with other shareholders are the holders of stock representing at least 2.5% of the share capital with voting rights in the ordinary Shareholders' Meeting are entitled to present lists, or those who represent a different percentage that may be determined by Consob pursuant to its Regulations for Issuers. The lists presented by Shareholders should be presented to the headquarters of the Company at least 15 days prior to the date set for the Shareholders' Meeting on the first call or, in specific cases up to the fifth day following that date.

For additional procedures and legitimate presentation of lists, the provisions in the Consolidated Finance Act – TUF, the Consob Issuer Regulations and Article 30 of the company Articles of Association shall apply. Together with each list, the declarations with which the individual candidates accept their nomination must be presented and published, declaring under their own responsibility, that there are no causes prejudicing their eligibility and compatibility and that they satisfy the requirements prescribed for their respective roles.

Each candidate must present a résumé of his or her personal and professional characteristics alongside the declarations. The Statutory Auditors are selected from persons who may be defined as independent, also according to the criteria prescribed by the Code with regard to Directors. The Board of Statutory Auditors examines the compliance with these criteria after the appointment and thereafter, every year.

If and until expressly provided for by mandatory legal and/or regulatory provisions, each list, except for the lists containing a number of candidates of less than three, must consist of a number of candidates belonging to the gender (male and female) less represented such that, where this list turns out to be the list which obtained the highest number of votes, from the same a number of directors of the less represented gender is drawn, at least equal to the Full Quota, or, where applicable, to the Reduced Quota (as defined in Article 4.1 above).

Those persons, who according to the law or the regulations are subject to ineligibility or loss of office, or do not have the necessary requirements may not be elected as Statutory Auditors, and if they are elected they will lose office. The chair of the Board of Statutory Auditors falls to the regular auditor having obtained the highest number of votes in the second list.

#### **14. COMPOSITION AND FUNCTIONING OF THE BOARD OF STATUTORY AUDITORS (pursuant to Art. 123-bis, paragraph 2, letter d) of the Consolidated Finance Act – TUF)**

The Board of Statutory Auditors monitors compliance with the law and the Articles of Association and has a control function over the management of the company.

Italian Legislative Decree 39/2010 transposing Directive 2006/43/EC on statutory audit of annual accounts, which came into force on 7 April 2010, attributed to the Board of Statutory Auditors the role of Internal Auditing Committee with the task of overseeing the financial reporting process, the effectiveness of internal control, internal audit and risk management systems, the statutory audit of annual and consolidated accounts and independence of the auditing company, in particular as regards the provision of non-auditing services to the entity subject to the statutory audit of its accounts.

The current Board of Statutory Auditors was appointed by the Shareholders' Meeting held on 20 April 2012 and finishes its term of office at the Shareholders' Meeting for the approval of the 2014 financial statements. All the members of the Board were elected from the majority list.

The personal and professional characteristics of statutory auditors are provided in the documentation attached to this Report.

By applying all the procedures prescribed by the Code, the Board of Statutory Auditors verified the continuing existence of the criteria of independence of its members as required by law for statutory auditors and also as by the Code as regards directors.

During the course of 2012 there were no situations for which the members of the Board of Statutory Auditors would have had to declare their interests or those of a third party in a specific company transaction. The exchange of information between the Board of Statutory Auditors and the Control and Risk Committee takes place through the systematic participation of the Board of Statutory Auditors at the meetings of the Committee.

No statutory auditor ceased to hold office during the course of the trading period.

No changes in the composition of the Board of Statutory Auditors have been put into effect since the date of the closure of the trading period.

The meetings of the Board of Statutory Auditors during the year were 14 in total with an average duration of 2 hours each.

The Board has planned to hold 10 meetings during 2013, 3 of which have already been held. At its meeting on 22 February 2013, the Board conducted its own verification of the presence of the independence requirements of directors and on the continuation of independence requirements of the statutory auditors themselves. The Board also verified the independence of the auditing company, in compliance with the laws and regulations on the subject, as well as the nature and extent of services rendered, other than the statutory audit of the accounts of the company and its subsidiaries, by the auditing company itself and by entities belonging to its network.

\*\*\*

Starting from the appointment of the Board, which took place on 20 April 2012, specific initiatives have not been adopted aimed at expanding the knowledge of statutory auditors on the sector in which the Company operates. Participation of the Chairman of the Board of Statutory Auditors and/or Statutory Auditors in the meetings of Board Committees is believed to ensure a constant update on the Company dynamics and their evolution, as well as on the reference regulatory framework.

## **15. Relations with Shareholders**

The company has an interest in establishing and maintaining a continual dialogue with shareholders, as well as with institutional investors and analysts. This is established by the Investor Relations operations which are carried out in harmony with the top management of the company through timely and comprehensive communication of significant events, as also by holding regular meetings with analysts and investors.

The Company's website has the section "Investor Relations" which can be easily identified and accessed. It provides information concerning the Company that has relevance for its shareholders, in order to enable them to exercise their rights in full knowledge.

The company makes quarterly reports available to the public, as well as half yearly reports, company and consolidated financial statements. The Shareholders' Meeting, participation at which is encouraged and facilitated, represents for our company a fundamental opportunity for communication between shareholders and the Board of Directors.

The person in charge of Investor Relations is the Group's Chief Financial Officer, Enrico Gomiero. Constitution of a corporate structure for managing relations with shareholders was not evaluated.

## **16. Shareholders' Meetings (pursuant to Art. 123-*bis*, paragraph 2, letter c) of the Consolidated Finance Act – TUF)**

Pursuant to Article 12 of the Articles of Association: "All shareholders having a right to vote are entitled to intervene at the Shareholders' Meeting, and for which the Company has received the prescribed notification from authorised intermediaries pursuant to current legislation, at least two working days prior to the Shareholders' Meeting."

As it stands the Board is not intending to submit to the Shareholders' Meeting a proposal for regulations since it is of the opinion that the powers assigned to the Chairman of the Meeting by the Articles of Association – including the running of Shareholders' Meetings – allow him to guarantee an ordered running of the Shareholders' Meetings.

Each shareholder is always assured the right to intervene in the items under discussion. The Board reported to the Shareholders' Meeting on operations carried out and scheduled, by responding to specific questions posed by the shareholders. The Board assured shareholders adequate information regarding the elements required to take decisions under the responsibility of the Shareholders' Meeting with full understanding of the situation.

One should note that there were no significant variations to the market capitalisation of the Company, or to the composition of the company's shareholders such as to make it necessary to propose amendments to the Articles of Association to the Shareholders' Meeting relative to the percentages established for the exercise of the prerogatives protecting minority shareholders. On this point, one should also note that in application of Article 144-*quater* of the Consob Regulations for Issuers no.11971/1999, for the presentation of lists for the appointment of members of the Board and the Board of Statutory Auditors, articles 21 and 30 of the Articles of Association of the company require that the percentage threshold of 2.5% of share capital with voting rights or the different measure required by the Consob regulations, which will be indicated in the notification of the Shareholders' Meeting.

## **17. Changes since the closure of the trading period**

Since the date of the closure of the trading period there have been no other changes in the corporate governance structure in comparison with those indicated in the specific sections.



## **TABLES**

**Table 1: Information on ownership structures**

<b>Structure of share capital</b>				
	No. shares	% of share capital	Listed in Borsa Italiana SpA	Rights and obligations
Ordinary shares	45,989,800	100	yes	
Shares with limited voting rights	0	0	-----	
Shares with no voting rights	0	0	-----	

\*Excluding the treasury stock acquired by the company

<b>Other financial instruments (attributing the right to subscribe shares to be issued)</b>				
	Listed (specify markets) / not listed	No. of instruments in circulation	Category of shares serving the conversion/exercise	Number of shares serving the conversion/exercise
Convertible bonds	no	no	no	no
Warrant	no	no	no	no

### **Significant holdings of share capital**

Declarant	Direct shareholder	Percentage of ordinary capital	Percentage of voting capital
Mario Carraro	Mario Carraro/Finaid SpA	62,359	66,038
Carraro SpA	Carraro SpA	5,571	--
Francesco Carraro	Francesco Carraro	2,174	2,303

**Table 2: Composition of the Board of Directors and the Committees**

Board of Directors											Control and Risk Committee		Appoints. HR and Rem. Committee.	
Office	Members	In office since	In office until	List (M/m) *	Exec.	Non-exec.	Indep. acc to Code	Indep. acc to the Consolidated Finance Act – TUF	(%) **	Number other posts ***	****	**	****	**
<b>Chairman</b>	Enrico Carraro	20.04.12	App. FS.2014	M	X	-	-	-	100	-	-		X	100
<b>MD</b>	Alexander J. Bossard	20.04.12	App. FS.2014	M	X	-	-	-	100	-	-		-	
<b>Director</b>	Francesco Carraro	20.04.12	App. FS.2014	M	-	X	-	-	87.5	-	-		-	
<b>Director</b>	Tomaso Carraro	20.04.12	App. FS.2014	M	X		-	-	100	-	-		-	
<b>Director</b>	Antonio Cortellazzo	20.04.12	App. FS.2014	M	-	X	X	X	100	3	X	100	X	100
<b>Director</b>	Arnaldo Camuffo	20.04.12	App. FS.2014	M	-	X	X	X	100	2	X	100	X	100
<b>Director</b>	Gabriele Del Torchio	20.04.12	App. FS.2014	M	-	X	X	X	100	3	-		-	
<b>Director</b>	Marina Pittini	20.04.12	App. FS.2014	M	-	X	X	X	100	-	-	100	X	100
<b>Director</b>	Marco Reboa	20.04.12	App. FS.2014	M	-	X	X	X	100	5	X	67	-	

  

<b>No. meetings held during reference trading period:</b>	BoD:8	IAC:6	HR & Remun C.: 6
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**NOTES**

\* This column indicates M/m according to whether the member was elected from the majority list (M) or the minority list (m).

\*\* This column indicates the percentage of meetings attended by the directors in relation to the meetings of the Board of Directors and the Committees (no. of presences/no. of meetings during the period the person in question has been in office).

\*\*\* This column indicates the number of posts as director or statutory auditor held by the person in question in other companies listed on regulated markets (including foreign), or in financial, banking and insurance companies of significant dimensions. A list of these companies with reference to each director will be attached to this Report, specifying whether the company in which office is held is part of the group to which the Issuer belongs or is head of.

\*\*\*\*This column indicates with an “X” that the member of the BoD is part of the Committee

**Table 3: Composition of the Board of Statutory Auditors**

Office	Members	In office since	In office until	List (M/m)*	Independence acc. to Code	** (%)	Number other posts ***
<b>Chairman</b>	Roberto Saccomani	20 April 2012	Approv. FS. 2014	M	X	93	15
<b>Regular auditor</b>	Saverio Bozzolan	20 April 2012	Approv. FS. 2014	M	X	100	1
<b>Regular Auditor</b>	Marina Manna	20 April 2012	Approv. FS. 2014	M	X	100	18
<b>Alternate auditor</b>	Barbara Cantoni	20 April 2012	Approv. FS. 2014	M	X	--	--
<b>Alternate auditor</b>	Stefania Centorbi	20 April 2012	Approv. FS. 2014	M	X	--	--
<b>Indicate the <i>quorum</i> required for the presentation of lists at the latest appointment: 2.5%</b>							
<b>Number of meetings held during the reference trading period: 14</b>							

**NOTES**

\* This column indicates M/m according to whether the member was elected from the list voted by the majority (M) or by a minority (m).

\*\* This column indicates the percentage of meetings attended by the statutory auditors (no. of presences/no. of meetings held during the period the person in question has been in office).

\*\*\* This column indicates the number of posts as director or statutory auditor held by the person in question which may be considered as significant pursuant to Art.148-*bis* of the Consolidated Finance Act – TUF.

## **ANNEXES**

## **Annex 1.**

### **Principal characteristics of the existing systems of managing risks and internal control in relation to the process of financial disclosures, including those for consolidation (pursuant to Art. 123-bis, paragraph 2, letter b) of the Consolidated Finance Act – TUF)**

The risk management activities are an integral part of the internal control system.

The internal control system on financial disclosures is the process aimed at ensuring the objectives that can be identified as the reliability, precision and promptness of the disclosure itself.

The internal control system on financial disclosures adopted by Carraro S.p.A. was defined in accordance with Art.154-*bis* of the Consolidated Finance Act - TUF and inspired by the "COSO Report" ("Internal Control – Integrated Framework", published by the Committee of Sponsoring Organizations of the Treadway Commission), according to which, the internal control system can be defined as a series of mechanisms, procedures and instruments aimed at ensuring that the corporate goals on the effectiveness and efficiency of operations, the reliability of financial disclosures and compliance with current legislation are achieved.

The planning, definition and maintenance of the internal control system are guaranteed through a process of identification and *assessment of risks* and the identification and assessment of the controls and the information flows.

Carraro S.p.A. adopts administrative and accounting procedures that ensure that the internal control system on financial reporting enjoys an adequate standard of reliability. This system consists mainly of accounting standards, criteria and methods that are common to the whole group, the same accounting and reporting layouts, planning of final accounting and financial statements preparation which is co-ordinated centrally and has similar control procedures. Due to this series of mechanisms that are governed by rules which are distributed through group instructions or guidelines listed in the "accounting manual", the Parent Company achieves an efficient system of collecting and exchanging data with its subsidiaries and performs the necessary task of co-ordination.

In this way, the control system has been defined so as to ensure the dissemination of the controls at the various levels within the management structure in line with the assigned operational responsibilities and the sustainability of these controls over time, so that their performance is integrated and compatible with operating requirements and the level of available resources.

The approach adopted by Carraro S.p.A. relating to the assessment, monitoring and updating of the internal control system on financial disclosures allows the assessments to be made by following a structure which concentrates on the areas of greater risk or importance, or on the risks of significant errors within the parts of the financial statements and the disclosure documents that accompany it. For this purpose the procedure is as follows:

- i) identifying the number and nature of the risks of significant error in the elements of financial and economic disclosures;
- ii) analysing the operating processes and the control activities;
- iii) identifying among these the key controls or the most significant ones for mitigating risks, and assessing their efficacy and thoroughness;
- iv) check on the operativity of the controls using specific testing activities.

The risks of error which might have significant effects on the economic and financial disclosures are identified and assessed through a process that identifies, by looking first at the most significant financial statements items, the management entities, the processes involved with the specific operating activities and the related accounting items generated from them; the controls protecting against the identified risks are identified with the same criteria. According to the methods adopted by Carraro S.p.A., the risks and related controls are therefore associated with the accounts and the corporate processes which are fundamental in the formation of accounting data.

The association and the assessment of the adequacy of the controls, in particular the “key controls”, with the identified risks allow their risk mitigation to be appreciated together with the importance of any residual risk, achieving in this way the objective of limiting the risk of a potentially significant error in the financial statements.

The existing controls in the group may, on the basis of the best international practices, be identified with the two principal types:

1. controls that operate at a group level or individual subsidiary level such as the assignment of responsibilities, powers and mandates, separation of roles and assignment of rights of access to IT system applications;
2. controls that operate at a process level (or “line” controls) such as for example the issuing of authorisations, the performing of reconciliations, the exercising of controls on accuracy and tests on compliance.

The controls are of an automatic nature where the procedures are more widely automated or carried out directly by the operator or by a supervisor. This category also includes the so-called “transversal” or monitoring controls performed by the Group’s administrative and control management, aimed at identifying and understanding the most significant anomalies. In addition, the controls can also be of a precautionary nature with the aim of preventing the occurrence of errors or anomalies which may cause errors in the financial reporting, or of the detective type with the aim of detecting the errors or anomalies which have occurred.

The checks on the efficacy of the design and effective operativity of the key controls are carried out by the Internal Audit department through testing, using appropriate sample selection techniques.

Where deemed appropriate, the assessment of the controls may lead to the identification of compensatory controls, corrective actions or plans for improvement. The results of the monitoring activities are periodically submitted to the scrutiny of the Director Responsible for producing the company's accounting documents, the Control and Risk Committee, the executive director with responsibility for the internal control system and the Board of Statutory Auditors of the Parent Company, who in turn report on the matter to the Board of Directors.

## **Annex 2.**

### **Personal and professional characteristics of the company directors**

#### **Enrico Carraro**

Enrico Carraro was born in Padua on 17 April 1962. In 1985 having completed his studies and military service, Enrico entered the family business. In the last 20 years he has held various key positions in numerous companies of the Carraro group. In June 2007 Enrico Carraro was appointed Executive Deputy Chairman of the Carraro Group. In this role Enrico Carraro was alongside the Chairman in leading the Group, with various powers of legal representation and with specific operational mandates. He also holds the mandate for the New Business Development initiatives, under which he has coordinated the research, evaluation and definition of new businesses, and the relative development programmes over the medium and long term.

#### **Tomaso Carraro**

Tomaso Carraro was born in Padua in 1966, he graduated from the University of Chicago in 2000 (MBA). He began his managerial experience in 1994 as the manager of a commercial branch of Carraro Group in the United States (Chicago, Illinois). During the eight years in the United States, the Group's commercial operations grew significantly and the NAFTA area (United States, Canada and Mexico) became the key market. In 1999 he was appointed General Manager of Carraro North America and successfully completed the organisation of the new manufacturing site in Calhoun (Georgia, United States). In 2002 he returned to Italy and was appointed Chief International Officer of the Carraro Group. In 2007 he was appointed Chairman and Chief Executive Officer of Gear World, the new leading company of the group already operating in the transmission industry, together with the newly acquired miniGears SpA.

#### **Alexander Josef Bossard**

Alexander Bossard, (23 June 1950 – Emmen – CH). After his studies at the University of Applied Sciences (FHBB) in Basle where he graduated in Business Studies in 1973, he started working in the Finance and Control Dept in the Sulzer Group, gaining experience in Paris, Italy and Switzerland. At the start of 1982 he returned to Italy as Administrative Director in De Pretto Escher Wyss in Schio. The areas of responsibility included administration, information technology and purchasing. In 1988 he was appointed Chief Executive Officer of the company. From 1995 to 1998 he was assigned responsibility for North America for the Sulzer International Division in New York, with regard to management and co-ordination of the sales and services organisation in the various production companies in the US, Canada and Mexico, as well as co-ordinating the group's representation with the outside and the activities of the US Holding. From 1999 to 2001 he was Chief Executive Officer of Sulzer Tessile Italia. At the start of 2002 he entered the miniGears Group in Padua as Chief Executive Officer. During these years miniGears has enjoyed strong expansion internationally with the launch of a production plant first in the United States and subsequently with a production unit in China. When the miniGears group was acquired by the Carraro Group in the summer of 2007, he began his collaboration with the Carraro Group, as a Director in Gear World, responsible for acquisition projects and as manager of the Agritalia Business Unit. As of 4 August 2009 he took on the role of Chief Executive Officer of Carraro SpA.



### **Arnaldo Camuffo**

Born in Venice in 1961, he graduated in Business Studies at the Università Ca' Foscari in Venice. In 1990 he obtained his MBA at the Sloan School of Management of the Massachusetts Institute of Technology and a PhD in Business Economics at the University of Venice. He was Professor of Business Management at the University of Venice from 1990-2003 and the University of Padua from 2003-2007. He has been management consultant for some of the most important industrial groups in Italy. He has worked with some of the leading training organisations in Italy and Europe. He collaborates with research institutions and professional associations in Italy in subjects relating to organisation and management of human resources. He is a member of the Scientific Committee of AIF and ASFOR. He is Scientific Director of the Lean Enterprise Center of Italy and member of the Board of Directors of the Lean Global Network. He is Professor of Business Administration at the L. Bocconi University of Milan and lecturer at the SDA Bocconi where he is also Director of the PhD Program in Business Administration and Management. Independent member of the Board of Directors of Autogrill SpA since 2008.

### **Antonio Cortellazzo**

Antonio Cortellazzo (born in Este (PD), in 1937) has been a Chartered Accountant since 1967 and Accounts Auditor since the institution of the Register. Having graduated in Economics and Commerce, he has held important professional posts in Italy and overseas. He was a lecturer in professional techniques from 1999 to 2004 at the University of Padua Economics Faculty and at the Scuola Superiore della Pubblica Amministrazione Locale. After having held significant corporate posts with Credito Italiano, Banca Cattolica del Veneto, Banco Ambrosiano Veneto, Banca Intesa, and with listed companies such as Grassetto, Safilo and Stefanel, he is currently a member of the Board of Directors or the Board of Statutory Auditors in companies in the North-East including Benetton Group, Fondazione Banca Antonveneta, Fondazione per la Ricerca Biomedica Avanzata, NEM SGR S.p.A.

### **Gabriele Del Torchio**

Born in Caravate (Varese) in 1951, he graduated in Economics and Banking Sciences at the Università Cattolica del Sacro Cuore in Milan. He began his career at the Banca Commerciale Italiana and in 1975 joined Sperry New Holland S.p.A., world leader in the agricultural machinery sector, where he held various positions to become Chairman and CEO of Ford New Holland S.p.A. In 1990 he became CEO, and subsequently Chairman, of Fai Komatsu SpA, a leading European company in the construction machinery sector. Between 1998 and 2000, he was CEO of CIFA S.p.A., a company active in the field of concrete plant engineering. In 2000, he became Chairman and Chief Executive Officer of APS S.p.A., a Multiutility in Padua (energy, mobility, environment and telecommunications). From 2003 to 2005, he held the role of CEO of the Carraro Group, a world leader in the automotive systems and components sector.

From 2005 to 2007 he was CEO of the Ferretti Group, a world leader in the luxury pleasure boat sector. In May 2007 he became CEO of Ducati Motor Holding SpA, the most famous brand of motorcycles in the world, of which he was Chairman from January 2009 to July 2012. From April 2010 to January 2012 he held the office of Director of Permasteelisa. In April 2011 he was appointed Director of the SNAI. In July 2012, following the acquisition of Ducati Motor Holding Spa by AUDI AG, he was confirmed as Chief Executive Officer of Ducati. He is also a member of the Board of Directors of Automobili Lamborghini SpA.

**Marina Pittini**

Having graduated from Ca' Foscari University in 1992 in Business Administration, legal specialisation, she carried out a short experience in auditing at KPMG in Milan from 1992 to 1994, in manufacturing and banking companies; in 1995 she joined the family business, Ferriere Nord SpA. Here her career developed through the financial accounts office, corporate ICT, credit management and customer credit worthiness. She has also acquired experience in corporate treasury and in the financial part of the Pittini Group, where she now holds the office of as director in many subsidiaries. She also followed the foundation of the in-house training school for the ongoing training of all Pittini Group employees. Today she is responsible for group finance and credit risk management. She was a director of Extrabanca and now sits on the Board of the Banca Antonveneta Foundation.

**Marco Reboa**

Born in Milan on 21 April 1955, he graduated in Business Administration at the L. Bocconi University of Milan in the 1977/78 Academic Year. He has been registered in the Register of Chartered Accountants of Milan since 14 July 1982 and as an Auditor with decree dated 12 April 1995 published in the Official Journal no. 31 *bis* of 21 April 1995. After an experience at a leading investment bank in London, he started working in 1980 at the Bocconi Institute of Business Economics. He is currently Professor at the Faculty of Law, at the Carlo Cattaneo Free University in Castellanza. In recent years he has published volumes and articles on financial statements, economic valuations and corporate governance. He is editor of the magazine of chartered accountants. He holds corporate offices in Luxottica Group SpA, Parmalat SpA, Interpump SpA, Carraro SpA, Indesit Group SpA, Made in Italy 1 SpA, IMMSI SpA and has held offices in Mediobanca SpA, Eni SpA, Seat Pagine Gialle, Autogrill. He carries out professional activities with his associates in Milan and deals in particular with consultancy in the field of extraordinary finance operations (such as transfers, mergers, etc.), company evaluations, arbitration proceedings concerning appraisal issues and court-appointed or party technical consultant in legal and out of court civil and criminal proceedings.

## **Personal and Professional Characteristics of Company Statutory Auditors**

### **Roberto Saccomani**

Born in Noventa Padovana on 27 February 1953, he graduated in Economics - business specialisation at the Ca' Foscari University in Venice. Registered in the Order of Chartered Accountants and Accounting Experts of the District Court of Padua and in the List of Chartered Auditors, he is a practicing chartered accountant with the firm Lorenzoni Saccomani Associates. In carrying out his professional activity he has acquired extensive experience in the corporate, tax and accounting fields. He has been and still is a member of the Board of Statutory Auditors of several companies and organisations, including a foundation of banking origin.

### **Saverio Bozzolan**

(Padua, 1967) degree in Statistics and Economics - business specialisation (University of Padua), PhD in Business Economics (Ca' Foscari - Venice), is Professor of Business Economics at the University of Padua, where he teaches Business Finance and Corporate Governance and Control Systems. He has spent periods of study and work abroad at, among others, the Industrial and Finance Division of the Bank of England (London), the London School of Economics (London), the Cass Business School (London) and the University of Seville. He is mainly involved in financial planning, risk analysis and assessment and corporate internal controls/compliance, issues on which he has significant research, having published books and articles in national and international journals, and professional experience. He is a member of the editorial board of international accounting and control journals (The International Journal of Accounting, Financial Reporting).

### **Marina Manna**

Born in Foggia on July 26, 1960, she graduated in Economics and Commerce - legal specialisation - at the Faculty of Economics and Commerce of the Ca' Foscari University of Venice in 1984. She has been registered in the Register of Chartered Accountants and Accounting Experts of the District of the Court of Padua and in the List of Auditors since 1989. Since that year she has practised as a chartered accountant with activities mainly focused on tax consultancy, dealing, in particular, with tax proceedings; in both civil and criminal technical consultancy; in insolvency proceedings. She has held positions on the Board of the Order of Chartered Accountants of Padua. She is a member of the Board of Directors and of the Board of Statutory Auditors of various companies and bodies.