



# 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  
**2015**

Date of approval of the Report  
**19 February 2016**

## **CONTENTS**

|   | <b>Page</b> |
|---|-------------|
| GLOSSARY .....  | 4           |
| 1. Issuer Profile.....  | 5           |
| 2. Information on ownership structures as at 19/02/2016 (pursuant to Art. 123- <i>bis</i> of the Consolidated Finance Act – TUF) .....      | 5           |
| Structure of share capital  |             |
| Restrictions to share transfers   |             |
| Significant holdings of share capital   |             |
| Shares having special entitlements  |             |
| Employee share scheme: mechanism to exercise voting rights  |             |
| Restrictions to voting rights   |             |
| Agreements between shareholders   |             |
| Change of control clauses   |             |
| and Articles of Association provisions concerning take-over bids  |             |
| Authorisation to increase the company share capital and authorisation to purchase treasury shares   |             |
| Management and coordination   |             |
| 3. Compliance (pursuant to Art. 123- <i>bis</i> , paragraph 2, letter a) of the Consolidated Finance Act – TUF) .....                       | 8           |
| 4. Board of Directors.....  | 9           |
| 4.1. Appointment and substitution (pursuant to Art. 123- <i>bis</i> , paragraph 1, letter l) of the Consolidated Finance Act – TUF) .....   | 9           |
| 4.2. Composition (pursuant to Art. 123- <i>bis</i> , paragraph 2, letter d) of the Consolidated Finance Act – TUF) .....                    | 10          |
| 4.3. Role of the Board of Directors (pursuant to Art. 123- <i>bis</i> , paragraph 2, letter d) of the Consolidated Finance Act – TUF) ..... | 11          |
| 4.4. Mandated Bodies .....  | 14          |
| 4.5. Other Executive Directors .....  | 16          |
| 4.6. Independent Directors.....   | 17          |
| 4.7. Lead Independent Director .....  | 17          |
| 5. Processing of company information.....   | 17          |
| 6. Committees within the Board (pursuant to Art. 123- <i>bis</i> , paragraph 2), letter d) of the Consolidated Finance Act – TUF) .....     | 17          |
| 7. Appointments Committee.....  | 18          |
| 8. Appointments and Remuneration Committee .....  | 18          |
| 9. Remuneration of Directors.....   | 19          |
| 10. Control and Risk Committee .....  | 21          |
| 11. Internal control and risk management system.....  | 23          |
| 11.1. Executive director in charge of the Internal Control and Risk Management System .....   | 25          |
| 11.2. The Head of the Internal Audit function .....   | 25          |

|   |    |
|---|----|
| 11.3. Management Model pursuant to Italian Legislative Decree 231/2001 .....  | 26 |
| 11.4. Auditing Company .....  | 27 |
| 11.5. Director Responsible for producing the company's accounting documents and other company roles and functions .....   | 27 |
| 11.6. Coordination among parties involved in the internal control and risk management system.....   | 28 |
| 12. Directors' Interests and transactions with related parties.....   | 28 |
| 13. Appointment of Statutory Auditors .....   | 29 |
| 14. Composition and functioning of the Board of Statutory Auditors (pursuant to Art. 123- <i>bis</i> , paragraph 2, letter d) of the Consolidated Finance Act – TUF)..... | 30 |
| 15. Relations with Shareholders .....   | 31 |
| 16. Shareholders' Meetings (pursuant to Art. 123- <i>bis</i> , paragraph 2, letter c) of the Consolidated Finance Act – TUF) .....  | 31 |
| 17. Changes since the closure of the trading period.....  | 32 |

## TABLES

|  |    |
|--|----|
| Table 1: Information on ownership structures .....                     | 34 |
| Table 2: Composition of the Board of Directors and the Committees..... | 35 |
| Table 3: Composition of the Board of Statutory Auditors.....           | 36 |

## 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- <i>bis</i> , paragraph 2, letter b) of the Consolidated Finance Act – TUF)..... | 38 |
| Annex 2. Personal and professional characteristics of the company directors .....   | 40 |

## **GLOSSARY**

**Code/Code of Conduct:** the Code of Conduct of listed companies approved in July 2015 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 2015.

**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 is a leading international group in highly efficient and environmentally friendly power transmission systems.

The activities of the Carraro Group, coordinated by Carraro with functions of strategic guidance and control, are divided into three different business areas: transmission systems and components (Carraro Drive Tech), specialised tractors and engineering services (Carraro Agritalia), power electronics (Elettronica Santerno). The Group's core business (Carraro Drive Tech) is aimed at various application fields, from construction machines to agricultural tractors, from cars to light commercial vehicles, from forklifts to stationary applications (such as cranes and escalators). Power electronics, on the other hand, are applied in photovoltaic systems and in industrial automation (for applications such as industrial refrigeration, water treatment, lifting systems and high-power transport).

As from 27 December 1995, Carraro is listed on the Electronic Stock Market organised and managed by Borsa Italiana SpA.

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 2015, 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 19/02/2016 (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)**

On 26 October 2015, Finaid SpA and Mrs Julia Dora Koranyi Arduini signed a shareholders' agreement, significant pursuant to Art. 122 of the Consolidated Finance Act – TUF, concerning the limits on the transfer of Carraro shares and certain agreements relating to the governance of Carraro.

For further information, please refer to the document available on the Company's website [www.carraro.com](http://www.carraro.com) – Investor Relations – Corporate Governance.

**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.

In particular, on 14 May 2013 - subsequently amended on 29 December 2015, a loan agreement was entered into between Carraro, Carraro International SA and other Carraro Group companies, on the one hand, and Banca Monte dei Paschi di Siena SpA, Banco Popolare Società Cooperativa, Banca Popolare FriulAdria SpA, Cassa di Risparmio del Veneto SpA and Unicredit SpA, on the other, which foresees obligatory early repayment in case of change of control. By change of control is meant (a) with reference to each of the Subsidiaries,

a change in control such that Carraro ceases to have direct or indirect control, pursuant to Article 2359, first paragraph, numbers 1) and 2), and second paragraph, of the Italian Civil Code, it being understood that there shall be no change of control and therefore the case of the "dominant influence" referred to in Article 2359, first paragraph, no. 2) of the Italian Civil Code shall prevail, at least until Carraro has the opportunity to appoint the majority of the members of the administrative body of the related Subsidiary; and (b) with reference to Carraro, whenever the Carraro Family (also in agreement with other parties or under contractual agreements) ceases to hold a number of shares with voting rights in the ordinary Shareholders' Meeting of Carraro sufficient to enable them to exercise a dominant influence on the same, meaning by "dominant influence" the possibility to (i) appoint the majority of members of the administrative body of Carraro and/or (ii) approve the financial statements of Carraro.

On 5 September 2013, a loan agreement was entered into between Carraro and Banca Popolare di Ravenna, which provides for the obligatory early repayment in the event of a change of control; the lender may, at its sole discretion and in full autonomy, decide to waive the obligatory early repayment.

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 23 March 2015 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 19 February 2016, 2,626,988 shares representing 5.71% of share capital of the Company were purchased.

Bearing in mind that the current authorisation will expire on 22 September 2016, the Board passed a resolution to propose a motion to the Shareholders' Meeting, called to approve the 2015 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.

\*\*\*

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. During the Board of Directors meeting held on 10 February 2015, the amendments to the Code, introduced in July 2014 by the Corporate Governance Committee, were approved, while during 2016 the approval and application of the amendments to the Code made in July 2015 is envisaged.



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***

At present, the Board has not identified the need to adopt a succession plan for executive directors, given the structure of the shareholding structure and the current set of powers delegated by the company.

## **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 7 Directors, 6 of which appointed by the Shareholders' Meeting on 23 March 2015, 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 2017 period.

On 18 December 2015, following the resignation of Director Alexander Josef Bossard, the Board, having heard the favourable opinion expressed by the Appointments and Remuneration Committee and the Board of Statutory Auditors, resolved to co-opt as a member of the Board of Directors, which will remain in office until the date of the Shareholders' Meeting called to approve the financial statements for the year 2015, Mr. Riccardo Arduini.

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, 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 23 March 2015, 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 2015 period, the Board held 12 meetings on the following dates:

|            |  |
|------------|--|
| 10.02.2015 | Report of the Chief Executive Officer, Examination and approval of the Carraro Group consolidated financial statements and the draft Carraro SpA financial statements as at 31 December 2014; Approval of the 2015 budget; |
| 19.03.2015 | Report of the Chief Executive Officer, proposal for determination of remuneration for the Board of Directors for 2015;   |

|                   |   |
|-------------------|---|
| <b>27.03.2015</b> | Report of the Chief Executive Officer, Renewal of corporate offices and conferral of powers; appointment of the Control and Risk Committee, Appointments and Remuneration Committee, Supervisory Board; Treasury share purchase programme |
| <b>21.04.2015</b> | Report of the Chief Executive Officer, 2015-2019 Business Plan;   |
| <b>29.04.2015</b> | Report of the Chief Executive Officer, Examination and approval of the quarterly report as at 31 March 2015; breakdown of BoD remuneration for 2015;  |
| <b>20.05.2015</b> | Report of the Chief Executive Officer; update on tax verification;  |
| <b>18.06.2015</b> | Report of the CEO; update on balance sheet, income statement and financial situation of the Group;  |
| <b>29.06.2015</b> | Report of the CEO; appointment of the Lead Independent Director;  |
| <b>05.08.2015</b> | Report of the Chief Executive Officer, Examination and approval of the half-yearly report as at 30 June 2015; update of the code of ethics and of the 231 model;  |
| <b>23.09.2015</b> | Report of the CEO; update of the 2015-2019 business plan;   |
| <b>29.10.2015</b> | Report of the Chief Executive Officer, Examination and approval of the quarterly report as at 30 September 2015;  |
| <b>18.12.2015</b> | Report of the Chief Executive Officer, 2016-2019 Business plan, co-optation of a director pursuant to Art. 2386 of the Italian Civil Code.  |

The Board meetings lasted on average 2 hours. 6 meetings are planned for the year in progress, of which one 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 2015, 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 2015 is shown in detail in the Remuneration Report prepared pursuant to Art. 123-*ter* of the Consolidated Finance Act – TUF.

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

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

The Chief Financial Officer and the Director 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 10 February 2015 the Board made an assessment of the size, composition and functioning of the Board itself and its committees. The assessment process is based on 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 results of the questionnaire are processed by the Lead Independent Director and preliminarily discussed by the Appointments and Remuneration Committee.

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**

On 27 March 2015, the Board resolved to appoint Mr Alberto Negri as Chief Executive Officer, assigning him the following powers of ordinary administration:

- 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 of the 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;
- 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 2,000,000 (two 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 2,000,000 (two 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 2015, 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.

### **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, Fabio Buttignon, Marina Manna and Marina Pittini are independent directors elected by the Shareholders' Meeting of 23 March 2015 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.

The Board of Statutory Auditors, in its meeting of 27 May 2015, 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 latter elected during the Shareholders' Meeting held on 23 March 2015. The next annual verification is scheduled for 10 March 2016.

During 2015, the independent directors met on 7 February 2015, in the absence of the other directors.

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

On 29 June 2015, considering that the conditions set forth in the Code existed, the Board appointed Marina Manna 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 27 March 2015, the Board passed a resolution constituting the following Committees:

- Control and Risk Committee;
- Appointments and Remuneration Committee;

The Appointments 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 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 and Remuneration Committee**

On 27 March 2015, the Board of Directors established within the Board an Appointments and Remuneration Committee which replaced the previous Appointments, Human Resources and Remuneration Committee.

### ***Composition and functioning of the Appointments and Remuneration Committee***

The Appointments and Remuneration Committee consists of two independent directors, Fabio Buttignon and Marina Pittini and of a non-executive director Alexander Bossard (the latter member resigned as a director on 9 December 2015). The Chairman of the Appointments and Remuneration Committee is Fabio Buttignon.

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.

During 2015, the Committee met 5 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 2015 objectives of the Executive Directors; the assessment of the criteria adopted for the remuneration of managers with strategic responsibilities and in particular of the MBO variable incentive scheme; assessment of the correct application of the remuneration policy; 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 Director 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.

\*\*\*

The proceedings of the Committee are coordinated by the Chairman, Prof Fabio Buttignon, 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 and Remuneration Committee***

On 29 April 2015 the Board approved the new text of the Regulations of the Appointments 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 non-executive or independent directors in line with the issues to be discussed on a case by case basis.

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 29 April 2015, 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.

## **9. Remuneration of Directors**

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

On 23 March 2015, 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, (ii) Article 123-ter of the Consolidated Finance Act – TUF (iii) the implementing provisions issued by Consob with resolution no. 18049 of 23 December 2011 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 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.***

With regard to the identification of the incentive objectives of the CFO (Chief Financial Officer) responsible, among other things, for preparation of the accounting documents, the Company believes that, in order to better guarantee equilibrium and impartiality, the same must not be linked to company objectives and economic results achieved by the Company but rather to individual objectives related to the specific activity.

With regard to the head of the Internal Audit function, the latter 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)***

The Company may sign, with individual Executive Directors or Managers with Strategic Responsibilities, agreements that directly or indirectly provide for predetermined indemnities in the case of termination of the relationship, without prejudice, in any case, to the legal and/or collective bargaining obligations and within limits defined by jurisprudence and existing practices.

For further details, please refer to Article 5 of the Remuneration Policy, to Section 2 of the Report on Remuneration which is to be understood to be transcribed here and to the press release that will be released together with the approval of this Report.

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

On 27 March 2015, the Board, in compliance with the provisions of the Corporate Governance Code (2011 version), set up its Control and Risk Committee. The Committee consists of three non-executive and independent directors in the persons of Manna, Prof. Fabio Buttignon and Alexander Bossard (the latter member resigned as a director on 9 December 2015). The Chairman of the Committee is Marina Manna. 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;

The Committee has 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 7 meetings during 2015 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 Head of the Internal Audit function 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 Head of 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.

For 2016, six meetings have been scheduled, of which one 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:

- management and evolution of the Carraro S.p.A. Management Model pursuant to Italian Legislative Decree 231/2001;
- management and evolution of the 231 Management Models adopted by the Italian subsidiaries of Carraro S.p.A.;
- methodology used in verification of the procedures monitoring the main corporate cycles (so-called "262 programme");
- methodological aspects related to the execution of the impairment test;
- assessment of independence of the Head of the Internal Audit function.

b) Issues of an institutional nature:

- aspects emerging from the review of the annual statutory and consolidated financial statements as at 31/12/2014 during the specific meeting with the auditing company and Board of Statutory Auditors;
- Letter of Suggestions emerging from the review of the annual statutory and consolidated financial statements as at 31/12/2014 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 30/06/2015 during the specific meeting with the auditing company and Board of Statutory Auditors;
- review of the annual statutory and consolidated financial statements as at 31/12/2015 during the specific meeting with the auditing company and Board of Statutory Auditors;
- 2015 Audit Plan;
- contents related to risk management and internal control of the 2014 Corporate Governance Report
- assessment document of the organisational, administrative and accounting structure pursuant to Art. 2381 of the Italian Civil Code.

c) Other issues:

- Examination of the impairment test carried out by the company for the purposes of the financial statements as at 31/12/2014 in application of the accounting standards in force.

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

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

The Committee continuously monitored the performance of the management activities of the Company's Management Model according to the indications of Italian Legislative Decree 231/2001, based on the information obtained from the Supervisory Board, with particular attention to the training process of recipients on the new version of the Model and the information flow towards the Supervisory Board;

b) Auditing and verification process of the adequacy of the procedures.

The Control Committee also examined and evaluated the data and information received from the Internal Audit function regarding the adequacy of controls on the main business cycles (so-called "262 programme").

c) Risk Management

The Committee examined the report of cases or types that are relevant from the point of view of risk analysis and the hypotheses of a project to update risk assessment.

d) Audit plans and activities.

The Committee examined the progress of the 2015 Audit Plan during the year, the Audit Reports and the results and the corrective actions emerging from the verification activities performed by the Internal Audit function;

e) Other information from the Management.

The Committee collected and examined various information from the Management of the Company with particular reference to Environment and Safety in the Workplace aspects, extraordinary transactions, financial risks, organisational aspects, and changes in the markets and business of the company and the Group.

## **11. Internal control and risk management system**

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 Control 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.

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 assigned to the Control and Risk Committee which, normally 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) internal operational risks:
  - the reliability of financial reporting, 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) risks of offence pursuant to Italian Legislative Decree 231/2001 with reference to the 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) strategic risks with 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) financial risks with monitoring of 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) 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, reference is made to the brief description pursuant to Art. 123-*bis*, paragraph 2, letter b) of the Consolidated Finance Act – TUF 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 shows an acceptable degree of overall adequacy in monitoring the main risks deriving from the group's activities.

With regard to the functions assigned to the Board of Statutory Auditors by Italian Legislative Decree 39/2010 as the Committee for Internal Control and Auditing, please refer to Article 14 below.

### **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 was assigned to the Chief Executive Officer, Alberto Negri, by the Board of Directors in the meeting of 27 March 2015, maintaining this role until expiry of the term of office envisaged for the Shareholders' Meeting to approve the 2017 financial statements.

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 2015 amounted to 250,000 Euros, in addition to the resources of his structure that consists of three people.

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;

on 5 August 2015, a completely revised version of the Model updated to the company's new organisational structure and with the inclusion of the offences introduced in the Italian Legislative Decree. 231/2001 relating to corruption between private individuals (Art.25-*ter*), self-laundering (Art. 25-*octies*) and employment of third-country nationals whose stay is irregular (Art. 25-*duodecies*).

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;  
offences of corruption between individuals;  
self-laundering offences;  
offence of employment of third-country nationals whose stay is irregular.

During 2012, also the main 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, until November 2015, of 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 auditing of the financial statements relating to the nine-year period 2007/2015, as prescribed by Italian Legislative Decree No. 39/2010.

During the next Shareholders' Meeting, the expiring appointment of PricewaterhouseCoopers S.p.A. for the nine-year period 2016-2024 will be assigned to a new auditor

#### **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;
- the 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 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 29 April 2015, 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 Control 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 23 March 2015 and finishes its term of office at the Shareholders' Meeting for the approval of the 2017 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 2015 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 22 in total with an average duration of 2 hours each.

The Board has planned to hold 13 meetings during 2016, 3 of which have already been held. At its meeting on 27 March 2015 and subsequently on 10 March 2016, the Board planned its own verification of the presence of the independence requirements of directors and on the continuation of independence requirements of the statutory auditors themselves, also with reference to any qualification of independence pursuant to the Code. 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.

\*\*\*

As from the appointment of the Board, which took place on 23 March 2015, no specific initiatives have 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 (specify markets) / not listed | Rights and obligations |
| Ordinary shares                   | 45,989,800 | 100                | Listed in Borsa Italiana SpA          |                        |
| 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<br/>(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 |
|----------------------------|----------------------------|--------------------------------|------------------------------|
| Koranyi Arduini Julia Dora | Koranyi Arduini Julia Dora | 19,784                         | 20,982                       |
| Mario Carraro              | Finaid SpA                 | 39,948                         | 42,369                       |
| Mario Carraro              | Mario Carraro              | 4,138                          | 4,389                        |
| Carraro SpA                | Carraro SpA                | 5,081                          | -                            |
| Heirs of Carraro Francesco | Heirs of Carraro Francesco | 2,614                          | 2,773                        |

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

| Office   | Members              | Board of Directors |                           |                 |                 |              |       |           |                     |   |        |                        | Control and Risk Committee |      | Appointments and Remuneration Committee |      |
|--|----------------------|--------------------|---------------------------|-----------------|-----------------|--------------|-------|-----------|---------------------|---|--------|------------------------|----------------------------|------|---|------|
|  |                      | Year of birth      | Date of first appointment | 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 *** | ****                       | **   | ****                                    | **   |
| Chairman   | Enrico Carraro       | 1962               | 09.01.87                  | 23.03.15        | App. FS.2017    | M            | X     | -         | -                   | -   | 100%   | -                      |                            |      |   |      |
| MD   | Alberto Negri        | 1955               | 29.10.14                  | 23.03.15        | App. FS.2017    | M            | X     | -         | -                   | -   | 100%   | -                      |                            |      |   |      |
| Director   | Tomaso Carraro       | 1966               | 27.01.97                  | 23.03.15        | App. FS.2017    | M            | X     |           | -                   | -   | 90%    | -                      |                            |      |   |      |
| Director   | Riccardo Arduini     | 1948               | 18.12.15                  | 18.12.15        | App. FS.2015    | -            | -     | X         | -                   | -   | -      | 3                      |                            |      |   |      |
| Director   | Fabio Buttignon      | 1959               | 23.03.15                  | 23.03.15        | App. FS.2017    | M            | -     | X         | X                   | X   | 100%   | 5                      | X                          | 80%  | X                                       | 100% |
| Director   | Marina Manna         | 1960               | 20.04.12                  | 23.03.15        | App. FS.2017    | M            | -     | X         | X                   | X   | 100%   | 2                      | X                          | 100% |   |      |
| Director   | Marina Pittini       | 1967               | 23.03.15                  | 23.03.15        | App. FS.2017    | M            | -     | X         | X                   | X   | 90%    | 3                      |                            |      | X                                       | 100% |
| -----DIRECTORS LEAVING OFFICE DURING THE PERIOD IN QUESTION----- |                      |                    |                           |                 |                 |              |       |           |                     |   |        |                        |                            |      |   |      |
| Director   | Alexander J. Bossard | 1950               | 19.06.09                  | 23.03.15        | 09.12.15        | M            | -     | X         | -                   | -   | 78%    | -                      | X                          | 75%  | X                                       | 100% |

|   |        |        |                |
|---|--------|--------|----------------|
| <b>No. meetings held during reference trading period:</b>   | BoD:12 | ICAC:7 | C.Nom e Rem: 5 |
| <b>Indicate the quorum required for the submission of lists by minorities for the election of one or more members (pursuant to Article 147-ter of the Consolidated Finance Act – TUF): 2.5%</b> |        |        |                |

**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            | Year of birth   | Date of first appointment | In office since | In office until  | List (M/m)* | Independence acc. to Code | ** (%) | Number other posts *** |
|--------------------------|--------------------|---|---------------------------|-----------------|------------------|-------------|---------------------------|--------|------------------------|
| <b>Chairman</b>          | Saverio Bozzolan   | 1967  | 23 April 2009             | 23 March 2015   | Approv. FS. 2017 | M           | X                         | 100%   | -                      |
| <b>Regular auditor</b>   | Stefania Centorbi  | 1969  | 23 March 2015             | 23 March 2015   | Approv. FS. 2017 | M           | X                         | 100%   | 6                      |
| <b>Regular Auditor</b>   | Andrea Cortellazzo | 1969  | 23 March 2015             | 23 March 2015   | Approv. FS. 2017 | M           | X                         | 100%   | 5                      |
| <b>Alternate auditor</b> | Barbara Cantoni    | 1962  | 20 April 2012             | 23 March 2015   | Approv. FS. 2017 | M           | X                         | --     | --                     |
| <b>Alternate auditor</b> | Gianmarco Milanato | 1965  | 23 March 2015             | 23 March 2015   | Approv. FS. 2017 | M           | X                         | --     | --                     |
|                          |                    | <b>Indicate the quorum required for the submission of lists by minorities for the election of one or more members (pursuant to Article 148 of the Consolidated Finance Act – TUF): 2.5%</b> |                           |                 |                  |             |                           |        |                        |
|                          |                    | <b>Number of meetings held during the reference trading period: 22</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 investigative 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 Internal Auditing 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**

Born on 17 April 1962, Enrico Carraro joined the family business as a youngster. He began his professional career by getting to know the different realities and business areas. Later he began to take on positions of responsibility in smaller companies of the Carraro Group. Gradually he followed a path that would lead him to take on roles of increasing responsibility. In 2007 he took on the role of Executive Deputy Chairman of the Carraro Group with responsibility for New Business Development initiatives, based on which he coordinated the search, evaluation and definition of new businesses, and the related medium and long-term development plans. In April 2012 he was appointed Chairman of the Carraro Group. Enrico Carraro is also a member of the National Board of Confindustria and from 2012 to 2014 he was part of the "Pesenti" Commission for the reform of Confindustria. Since April 2013, is Deputy Chairman of Confindustria Veneto with responsibility for internationalisation.

#### **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.

#### **Alberto Negri**

Born in 1955, Alberto Negri acquired a consolidated experience in multinational companies, holding various managerial roles in the industrial and management field, in various business areas. A graduate in Electrical Engineering at the Polytechnic of Milan, along his career he had the opportunity to work in the Operations sector of industrial companies such as Philips (electronics), SKF Industrie (bearings) and Fiamm Group (batteries), until becoming General Manager of McCormick Plc - Argo Tractors Group (Landini - Valpadana, tractors) in 2004 and Chief Executive Officer of Performance In Lighting, leading group in the Italian lighting sector, in 2007. In March 2011 Alberto Negri joined the Carraro Group, taking on the managerial responsibility of Gear World, i.e. the Business Unit conceived with the aim of giving independent development to Group companies operating in the gears sector (with plants in Italy, Argentina, India, United States and China). At the same time as the merger of Gear World with the Carraro Drive Tech BU, in January 2013 Alberto Negri took responsibility for the new integrated production platform of the Group, with the role of Senior Vice President Supply Chain & Operations, coordinating the strategies related to the optimal production structure, to the technology choices related to production processes and to procurement and management policies of the entire Supply Chain. In September 2014, to guarantee consistency in the implementation of the strategies, and with the objective of preparing the succession process for the Group's operational top management, envisaged for the spring of 2015, Alberto Negri was appointed Managing Director of Carraro SpA, maintaining the role and responsibilities of the Carraro Drivetech Business Area and gradually taking responsibility for coordinating Carraro Agritalia's activities. As of 29 October 2014 he took on the role of Chief Executive Officer of Carraro SpA.



### **Riccardo Arduini**

Born in Peschiera del Garda on 26 September 1948, Mr. Arduini is the Chairman of the Board and main shareholder of the Brazilian company CINPAL, operating in South America in the mechanical sector. He is a member of the Board of Directors and shareholder of RUMO ALL, a company active since 1997 in the logistics sector in Brazil as well as of São Carlos Empreendimentos and Participações SA a real estate company active since 1999 in Brazil. Mr. Arduini holds a degree in Mechanical Engineering and a Masters in Business Administration from Fundação Getulio Vargas (FVG).

### **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 and until 29 October 2014 he was Chief Executive Officer of Carraro SpA.

### **Fabio Buttignon**

Born in Belluno on 06/11/1959, he is Professor of Corporate Finance at the University of Padua (Department of Economics and Business Management), where he holds the Advanced Corporate Finance course. He has carried out research in Business Strategy and Finance at the University of California in Los Angeles (UCLA).

He is registered in the register of chartered accountants and statutory auditors and participates in corporate governance with the position of director (non-executive) and statutory auditor for a number of medium and large companies (including: Carraro S.p.A., Banca IMI S.p.A., Benetton Group S.p.A., Valentino fashion Group S.p.A., Stevanato Group S.p.A., SIT S.p.A., AFV Acciaierie Beltrame S.p.A., A4 Holding S.p.A., Autostrada Brescia Verona Vicenza Padova S.p.A., Serenissima Partecipazioni S.p.A., Tecnica Group S.p.A.).

He is the main partner and founder of the firm Buttignon Zotti Milan & Co., specialised in advisory activities in company valuations and finance operations for corporate development and restructuring. He has published numerous articles in Italian and international journals on issues of company valuation, finance and business strategy.

### **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, civil and criminal technical consulting and bankruptcy 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 control body of various companies and bodies (including also Stefanel S.p.A. and Banco di Napoli S.p.A.).

### **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 has been a director of Extranca and now sits on the Board of the Banca Antonveneta Foundation, is a director of the BCC Credifriuli bank and of the company Creditaccess Asia NV, a Dutch company which includes various companies operating in Asia that carry out microfinance activities.

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

### **Saverio Bozzolan**

(Padua, 1967) degree in Statistical and Economic Sciences - business specialisation (University of Padua), PhD in Business Administration (Ca' Foscari - Venice), is a Professor in the Department of Business and Management at LUISS Guido Carli University (Rome). Previously he was a Professor at the University of Padua where he taught "Risk and Performance Management" and "Governance of Groups and Consolidated Financial Statements". 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 corporate governance, risk analysis and assessment, internal controls/corporate compliance and economic and financial disclosures, issues on which he has acquired significant research, having published books and articles in national and international journals, as well as professional experience. He is Associate Editor of international accounting and control journals (The International Journal of Accounting, Financial Reporting, Accounting and Business Research).

**Stefania Centorbi**

(Venice, 1969). A graduate in Economics and Commerce at the University of Venice "Ca' Foscari" (1994), with full marks, she is a chartered accountant (since 1995, with registration in January 1996) and statutory auditor. From 1995 to 2002, she worked with leading professional firms and trade associations of national importance, acquiring a solid experience in the field of management consultancy from the statutory-accounting, tax and legal point of view. From 2003 to 2012, she collaborated with management consulting firms, also connected with the university world, in the areas of management control, business process analysis and ICT project management. Since 2013 she has been mainly involved in corporate governance, control and compliance systems, as well as extraordinary transactions: She is specialised in Italian Legislative Decree 231/2001 (Administrative Responsibility of Entities). She holds positions on Boards of Statutory Auditors and Supervisory Boards. She has taught and still teaches and holds seminars, both at the CUOA Business School, as well as at professional associations and orders, training institutions and universities.

**Andrea Cortellazzo**

(Padua, 1969). A graduate in Economics and Commerce at the University of Venice "Cà Foscari" (1995), he is a chartered accountant and statutory auditor. Partner of the firm Cortellazzo & Soatto, with main activity in the Management Consulting Division. He mainly deals with supporting companies and corporate groups within the scope of interventions aimed at business process re-engineering, in the development and implementation of management control, budgeting and reporting systems and has acquired experience in the development and management of management models pursuant to Italian Legislative Decree 231/2001 and internal audit models. He holds positions on Boards of Statutory Auditors and Boards of Directors. Formerly a member of research commissions of the National Council of Chartered Accountants and Accounting Experts on business issues and related to information technology sectors, he carries out training activities.