

CARRARO GROUP



Sustainability Report

2017



Consolidated Non-Financial Statement pursuant to Italian Legislative Decree 254/2016

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Letter from the Chairman

Campodarsego, 29 March 2018

The publication of our first Sustainability Report coincides with the Group's return to strong economic and financial performance at the conclusion of one of the most complex periods ever.

The 2017 financial year registered a turnover of Euro 606 million, an EBITDA of Euro 55 million and a Net Financial Position of Euro 145.9 million, laying the foundations for a new phase of growth and looking to the future with renewed energy.

At each stage of the industrial life of the Group, and particularly during complex periods, our decisions have always been guided by the same values that have enabled us to grow since our foundation in 1932.

Our entrepreneurial family has always interpreted business growth in its broadest sense, including within this definition the growth of our employees and the region. So it is with great pleasure that I introduce our first Sustainability Report, remembering those historic principles which in 2011 were formalised in a Code of Conduct for every single person in the Group, with no exceptions.

We are responsible

We guarantee quality at all levels through responsible, respectful and transparent conduct towards every person who interacts with us or works within the Group. We respect the environment in which we operate, adopting compatible and sustainable practices and systems. We protect our collaborators by implementing the highest safety levels, defined at global level, in each of the Group's plants, and maintain the same high standards in every country in which we operate. We offer our stakeholders and shareholders the opportunity to be an active part of a successful business.

We create value

The quality of our products generates value. We work constantly to offer our clients the most advanced and competitive technological solutions, generating value for our collaborators and shareholders to guarantee business continuity. We balance economic efficiency with effective processes to ensure the future development of our organisation. We optimise and reward performance that generates value at all levels.

We develop talent

We develop talent without barriers, working with interdepartmental, transversal and international groups to facilitate relations at each level, promoting integration to resolve problems and generate results. We develop shared knowledge and skills. We are active listeners, paying attention to the needs and valuing the contribution of all of our stakeholders. We develop talent with commitment, working continuously and systematically to enable our employees to grow within the Group, including through transversal, interdepartmental transfers.

We value their ideas and differences, celebrating and promoting success as part of a stimulating corporate environment.

We stimulate innovation

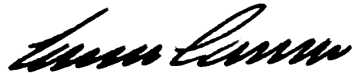
We promote innovation and the exchange of ideas with our clients, suppliers, technicians, collaborators and research centres. We always implement innovative working methodologies, adopting a long-term approach to anticipate business trends in all areas and seizing future opportunities to ensure the continued success of our Group. We know how to adapt quickly to new requirements and strive to develop innovation and knowledge.

We work as a team

We want to develop long-term collaborative relations based on mutual trust and respect, developing synergies that reinforce the competitive position of the Group and our clients on reference markets. We work with clients and suppliers to develop Carraro products to provide a consistently high-quality service. We want to be recognised as a trustworthy partner by all of our stakeholders.

These are the principles that drive our approach to business. This is the path we have chosen as our contribution to building a better future.

Enrico Carraro

A stylized, handwritten signature in black ink, appearing to read 'Enrico Carraro'.

Note on Methodology

With the first edition of the Consolidated Non-Financial Statement 2017, the Carraro Group notifies its stakeholders of its policies, management model and strategies as regards the environment, social themes, employees, respect for human rights and the fight against corruption, as well as reporting the main results achieved in terms of the creation of value in the medium and long term.

The 2017 NFS of the Carraro Group has been prepared in accordance with the G4 Sustainability Reporting Guidelines issued in 2013 by the GRI - Global Reporting Initiative using the «Core» option, and will be published annually.

These principles envisage that the information contained in this document refers to aspects and themes which, on the one hand, influence the decisions taken by stakeholders and, on the other, reflect the most significant economic, social and environment impacts of the Group's activities.

The GRI Content Index helps to identify the information reported in the document.

In line with relevant legislation and the GRI-G4 guidelines, the non-financial report included in this document reflects the principle of materiality, or relevance. In fact, relevant themes are identified through a materiality analysis and assessment, as described in Chapter 1, paragraph 1.4 "Acting sustainably". The identified themes have environmental and social impacts on the Group activities and are capable of influencing the decisions of stakeholders.

The data and information collected and reported in this Non-Financial Statement are based on measurable data. In the case that the use of such data was not possible, estimates have been made to provide the most precise and comprehensive representation possible.

The aim of the Non-Financial Statement is to provide a broad and comprehensive vision of the Group's position on sustainability, such as the approach, objectives, methods, actions taken and results achieved during the year in the context of social responsibility in the medium and long term.

Preparation process

Coordinated and supported by a work group, the preparation process involved all of the main company departments to varying extents in order to define the material themes and content, select indicators and collect and validate data and information. In particular, the data was processed using the internal IT system used to produce the accounts and reports of the Group and a non-financial reporting system specifically implemented in order to meet the requirements of the GRI-G4 guidelines and Legislative Decree no. 254/2016. Economic and financial information refers to the 2016 and 2017 Financial Statements.

At the time of approval of the 2017 Financial Statement, the Board of Directors approved the Statement, which was subsequently assessed by the CCRs.

The Non-Financial Statement was subject to an audit (limited assurance engagement according to the criteria of the principle ISAE 3000 revised) by Deloitte & Touche S.p.A..

The Statement is available on the website of the Carraro Group in the interests of disclosure and transparency to stakeholders.

Period and scope of the report

All data and information contained in this document refers to the January 1, 2017 – December 31, 2017 financial year. When available and useful for the purposes of data comparison or contextualisation, figures for the 2016 financial year have been included and duly indicated.

The scope of the report corresponds to the Consolidated Financial Statement as at 31 December 2017 included in the Annual Financial Report 2017, with the exception of certain non-operating entities or entities which are not significant to the purposes of the information provided, as indicated in the document. The set of entities thus understood is indicated in the document by the terms "Group", "Carraro" or "Carraro Group".

Reporting principles

For the purposes of the report, have been applied the following principles set-up by the standard GRI - G4:

- **Materiality:** The main economic, social and environmental impacts related to the activities which are most significant to the Group and internal and external stakeholders involved in the Group's activities are described, as indicated in the materiality analysis.
- **Stakeholder inclusiveness:** The expectations and interests of the main stakeholder categories who operate or are influenced by the Group's activities are considered.
- **Sustainability context:** The report considers the socio-economic context in which the Group operates and the most relevant themes for the metal mechanics and automotive sector, taking into account similar sustainability reports published by national and international groups in the sector or related industries.
- **Completeness:** The number and nature of the reporting aspects and the scope of the Non-Financial Statement are such to provide a comprehensive representation of the main economic, social and environmental impacts of the Group.
- **Balance:** The document shows the sustainability performance of the Group, reporting both positive and negative results and trends without distinction and highlighting areas for improvement.
- **Comparability:** The indicators have been selected and engineered to be reapplied over time, providing uniformity and guaranteeing their value as a reporting tool.
- **Accuracy:** Whenever possible, figures and data are derived from direct surveys or measurements. In all other cases, duly indicated in the document, estimates have been used according to the best available criteria.
- **Timeliness:** The Non-Financial Statement is prepared annually and published on the same date as the Group's Consolidated Financial Statement.
- **Clarity:** Data is reported to provide clear information that may be useful to internal and external stakeholders of the Group.
- **Reliability:** All data and information contained in this document is validated by the relevant company department managers and supported by documentary evidence such to confirm its existence, comprehensiveness and accuracy.

The Group has implemented and maintains an EH&S Management system that envisages the definition of annual or multi-year objectives and their periodic monitoring.

As regards additional sustainability matters, within the next two years the Group undertakes to define and implement a strategy to be integrated with the Group's medium and long-term business objectives with a focus on material aspects.

The Group companies considered in the Non-Financial Statement correspond, unless otherwise indicated in the footnotes, to the following companies considered within the Scope of the Consolidated Financial Statement of Carraro S.p.A.:

Name	Registered office	Notes	31.12.2017	31.12.2016
Parent Company:				
Carraro S.p.A.	Campodarsego (PD)		✓	✓
Italian subsidiaries:				
Carraro Drive Tech S.p.A.	Campodarsego (PD)		✓	✓
SIAP S.p.A.	Maniago (PN)		✓	✓
Foreign subsidiaries:				
Carraro International S.A.	Luxembourg	(2),(3)	*	*
Carraro Deutschland Gmbh	Hattingen (Germany)	(1),(3)	*	*
Carraro Technologies India Pvt. Ltd.	Pune (India)		✓	✓
Carraro Argentina S.A.	Haedo (Argentina)		✓	✓
Carraro China Drive System	Qingdao (China)		✓	✓
Carraro India Ltd.	Pune (India)		✓	✓
Carraro North America Inc.	Norfolk (USA)	(2),(3)	*	*
Carraro Drive Tech Do Brasil	Santo André (Sao Paolo State)	(3)	*	*
Mini Gears Inc	Virginia Beach (USA)	(1),(3)	*	*
Gear World North America Inc.	Virginia Beach (USA)	(1),(3)	*	*
Mini Gears Property	Virginia Beach (USA)	(1),(3)	*	*

✓ : entity included in the CSR report

* : entities not considered in the report in reference to Energy, Emissions, Water, Effluents and Waste as the related parameters are not measurable in that they correspond to small units (in some cases non-productive or non-operational).

(1) non-operational entity

(2) non-productive entity

(3) entity of insignificant size (<20 employees and turnover of < 10 €/Mil)

The basic reporting cycle is annual:

- 2017: tax year January 1, 2017 – December 31, 2017

- 2016: tax year January 1, 2016 – December 31, 2016, included for comparative purposes.

1.

Carraro and sustainability



1.1

Key Indicators

Key Figures 2017 (2016)



Revenues (€/mln)

606

(593,7 - 2016)



Plants

9

9 / 2016

Italy, India, China, Brazil, Argentina



Market Capitalisation (€/mln)

311,5

(71,1 / 2016)



Employees

3.156

(2.979 / 2016)



R&D Centres

5

5 / 2016

Italy, China, Argentina, India



Investments (€/mln)

16

(16 / 2016)

1.2

The Group

Characteristics of the Group

The Carraro Group is a global leader in the production of transmission systems for off-highway vehicles and specialised tractors and is composed of the set of Italian and foreign companies controlled directly or indirectly by the holding company Carraro S.p.A.

Carraro S.p.A., which carries out strategic management, transversal business coordination and support services, operates in two business sectors: **Drivelines & Components** e **Vehicles**.



Drivelines & Components



CARRARO DRIVETECH Axles & Transmissions for AG & CE



SIAP Gears for off-highway & heavy-duty applications



Through the subsidiaries Carraro Drive Tech and SIAP, the Group designs, manufactures and sells drive systems (axles and transmissions) mainly for agricultural equipment and construction equipment, and also markets a wide range of gears for very diverse sectors, from the automotive industry to material handling, agricultural applications and construction equipment.



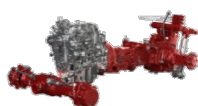
Vehicle engineering & contract manufacturing



Outsourcing solutions



Powertrains



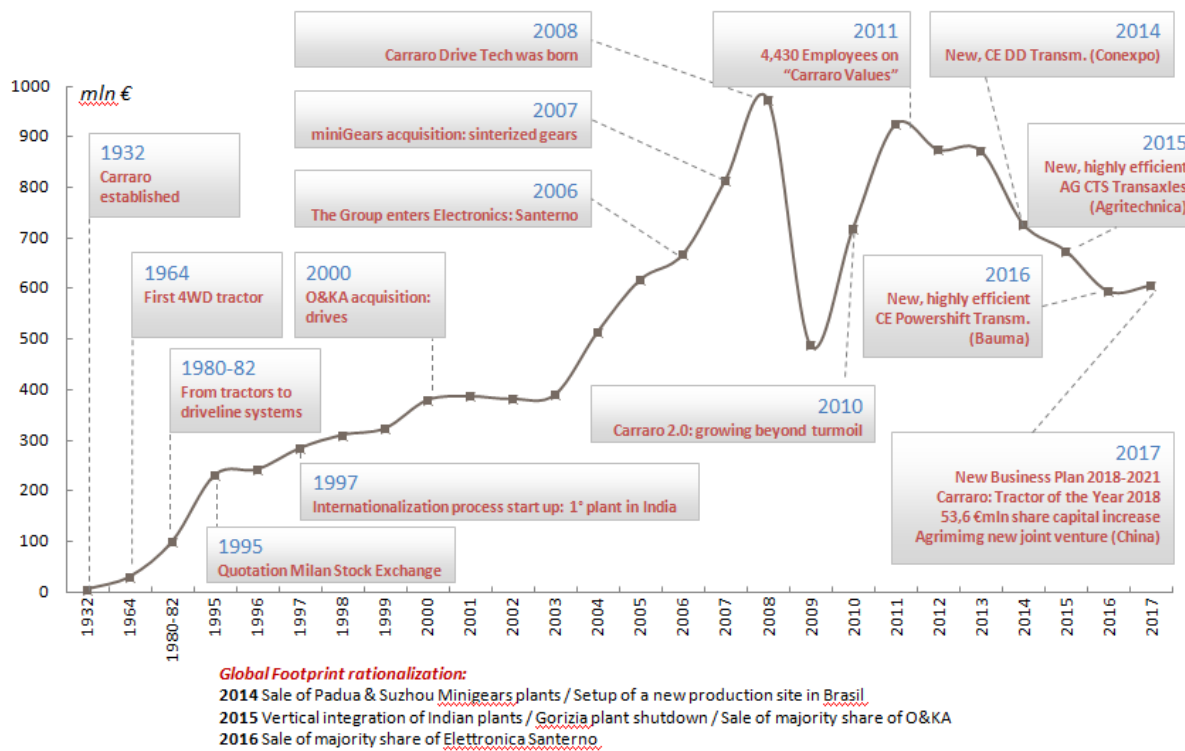
Vineyard, orchard & open field tractors



Attraverso Through the subsidiary Carraro Agritalia, the Group designs and manufactures special tractors (for vineyards and orchards, from 60 to 100 hp) for third-party brands, namely John Deere, Massey Ferguson and Claas, as well as a specialist own-brand range; Agritalia also provides engineering services for the design of innovative tractor ranges.

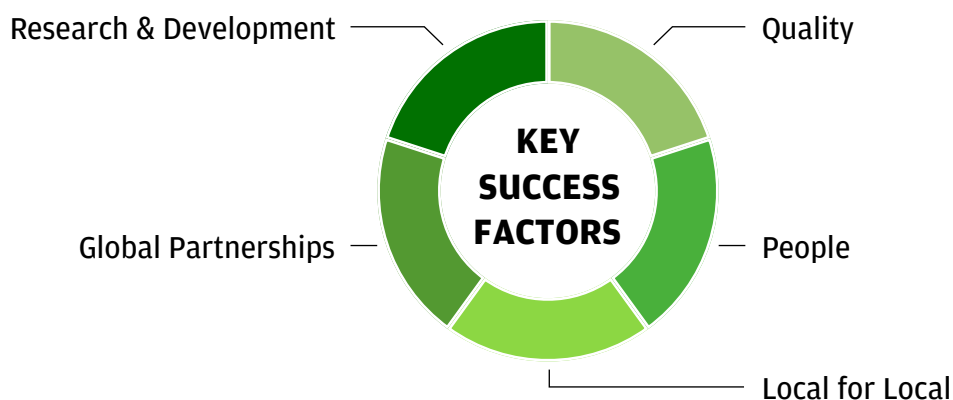
History of the Group

Founded in 1932 by Giovanni Carraro, who introduced the first sowing machines to the market, and developing the first agricultural tractor under the “three horses” brand in 1958, over the years the Company has established itself at the centre of the agricultural machinery sector and has contributed significantly to its development. Research, innovation and quality have always been the characteristic traits of the Group's continued success, enabling it to expand its skills over the years to reach to larger markets, developing into an International Group and becoming a trusted partner of some of the leading global manufacturers of tractors, construction machinery and material handling equipment.



Success Factors

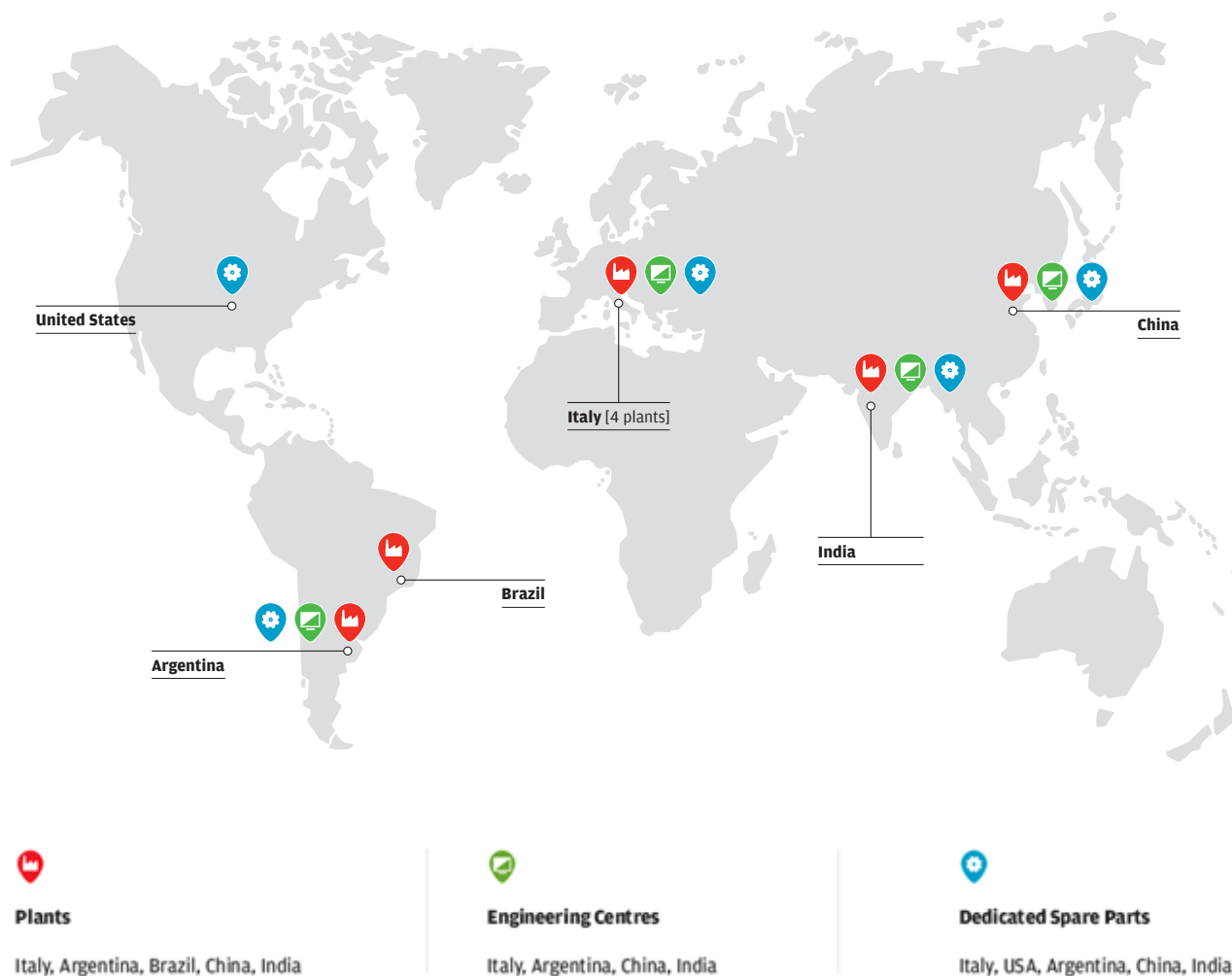
The recognised technological leadership in the field of drive systems for on and off-highway applications, and the consolidated know-how of management and power conversion systems are the key factors behind Carraro's success on the market.



Global Presence

The main office is the registered office of the Italian Parent Company Carraro S.p.A., located in Campodarsego (Padua).

The Group also has several operating facilities



Operating Sites

1) HeadQuarter:

Italy:

Carraro SpA: Headquarters – Campodarsego (Padua)

2) Plants:

Italy:

Carraro Drive Tech SpA: Campodarsego (Padua) – Poggiofiorito (Chieti)

Carraro SpA Divisione Agritalia: Rovigo

Siap SpA: Maniago (Pordenone)

Argentina:

Carraro Argentina S.A.: Haedo, Buenos Aires

Brazil:

Carraro Drive Tech do Brasil LTDA: Caxias do Sul

China:

Carraro China Drive Systems Co. Ltd.: Chengyang District (Qingdao)

India:

Carraro India Ltd: plant 1 (axles) MIDC Ranjangaon (Pune) – plant 2 (gears) MIDC Ranjangaon (Pune)

3) Other logistical bases:

Italy:

SIAP S.p.A.: Gorizia

4) R&D Centres (Engineering Centres):

Italy:

Engineering Centre for Tractors: Carraro S.p.A. Divisione Agritalia (Rovigo)

Engineering Centre for Drivelines: Carraro SpA Campodarsego (Padua)

Argentina:

Engineering Centre for Drivelines: Carraro Argentina S.A., Haedo (Buenos Aires)

China:

Engineering Centre for Drivelines: Carraro China Drive Systems Co. Ltd. . Chengyang District (Qingdao)

India:

Engineering Centre for Drivelines: Carraro Technologies India Pvt. Ltd. (Pune)

5) Dedicated Spare Parts Distribution Centres:

Italy:

Carraro Drive Tech S.p.A.: Monselice (Padua)

USA:

Carraro Drive Tech S.p.A.: Rockford (Illinois) (external logistics centre)

Argentina:

Carraro Argentina S.A.: Haedo (Buenos Aires)

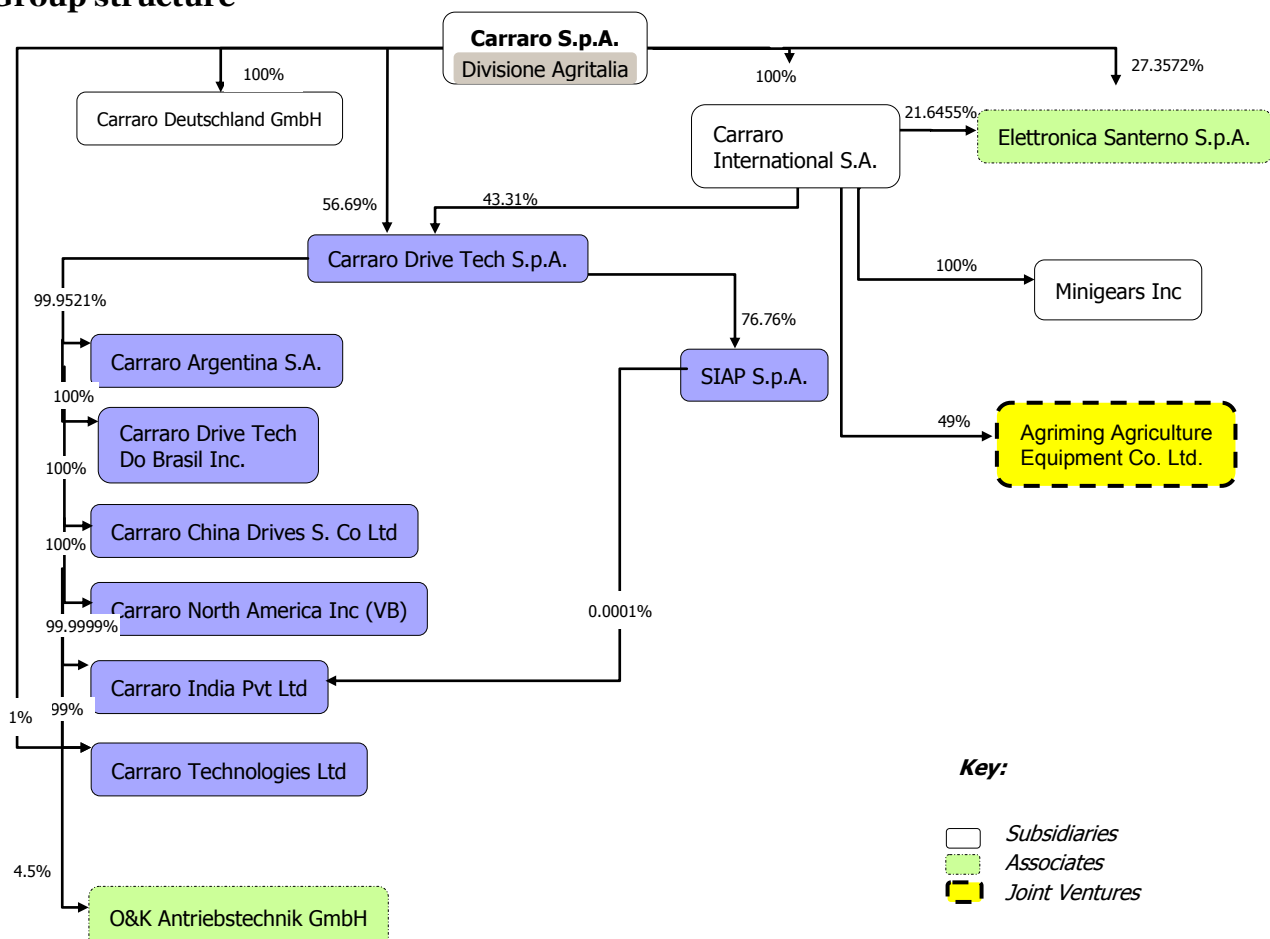
China:

Carraro China Drive Systems Co. Ltd.: Chengyang District (Qingdao)

India:

Carraro India Ltd: MIDC Ranjangaon (Pune)

Group structure



Changes to Group size, structure, ownership or supply chain in the last two financial years refer exclusively to:

- the departure from the scope of consolidation of Elettronica Santerno S.p.A. on 30 November 2016 due to the sale of the majority shareholding to third parties; data and information referring to this company are excluded from the figures for 2016 included for comparative purposes to provide uniformity with the first reporting period (2017);
- the departure from the scope of consolidation of the Polish company FON S.A. due to the sale of the same in 2017; as a non-operational entity, no data for the two reporting periods is provided.

Ownership structure and economic and financial dimension

Ownership structure

Carraro S.p.A. is a public liability company established in Italy at the Companies Register of Padua and is controlled by Finaid S.p.A.. The Share Capital is set at Euro 41,452,543.60 fully paid-up, separated into 76,442,194 ordinary shares of a nominal value of Euro 0.52 each and 3,274,236 category B shares of a nominal value of Euro 0.52 each.

The Parent Company Carraro S.p.A. has been listed on the Italian Stock Exchange since 1996.

As is the case for most listed companies, the trend in stock value reflects the combination and variation over time of relevant market trends, investors' expectations and forecasts and the confidence of the financial markets in the performance, robustness and continuity of the company and its controlling Group.

Market Capitalisation Value

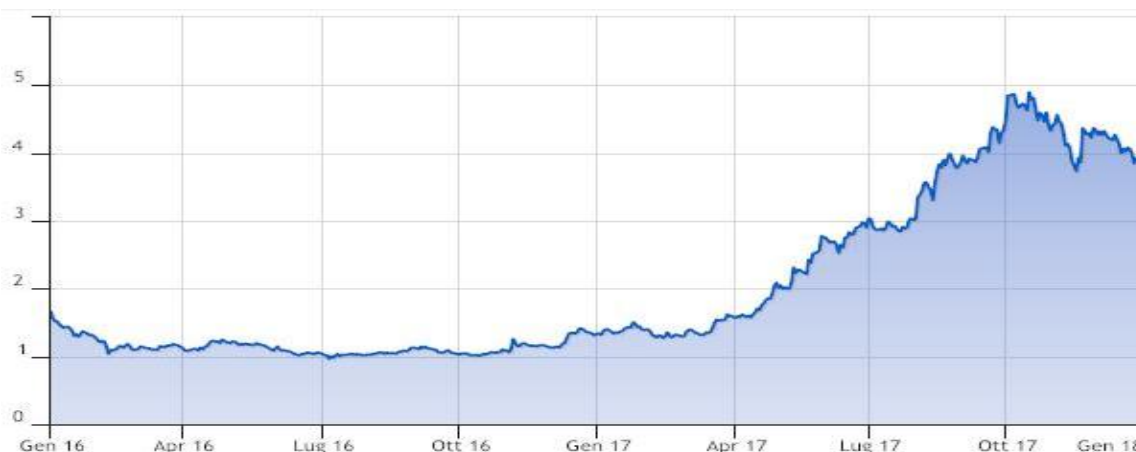
Based on market data (Borsa Italiana), the average listing and market capitalisation values of the Parent Company Carraro S.p.A. are as follows:

	31.12.2017	31.12.2016	Average in 2017	Average in 2016
Listing (€)	3.908	1.546	2.967	1.322
Market Capitalisation (€/Mln) (*)	311.5	71.1	-	-

(*) gross of treasury shares

Share price

As regards share performance in 2016 and 2017, the following trend was observed:



Financial and economic data of the Group

The main consolidated financial and economic indicators are as follows:

	31.12.2017 (€/Mln)	31.12.2016 (€/Mln)
Revenue	606.0	593.7
EBITDA	55.0	39.2
EBIT	33.7	11.8
Net Income	13.7	-9.1
Investments	15.5	16.0
NFP	-145.9	-183.2
Shareholders' Equity	82.2	46.7

Human resources

The Group's workforce is one of the key resources for the management of the business and the pursuit of the short, medium and long-term objectives identified by Group companies.

The focus on human resources, in particular as regards the recruitment of new employees and their placement in the most appropriate position within the organisational structure, has enabled all of the Group's operational departments to carry out their assigned activities effectively over time, both in favourable market conditions as well as during periods of increased difficulty linked to the evolution of the market.

The composition of the workforce by organisational level, gender, professional qualification and geographic distribution is generally balanced, considering the pronounced industrial manufacturing tone of the business and the location of its operational sites, taking into account cultural diversity, regulations and average training levels in the various countries in which the Group operates.

Workforce by gender and qualification

The data refers exclusively to wholly consolidated companies and is subdivided by category:

Workforce	M 2017	%	F 2017	%	Total	%	M 2016	%	F 2016	%	Total	%
Senior managers	24	1%	1	0%	25	1%	24	1%	1	0%	25	1%
Executives and Officers(*)	77	3%	9	3%	86	3%	80	3%	10	4%	90	3%
Clerical staff	387	14%	187	64%	574	18%	385	14%	186	65%	571	19%
Factory workers	1,959	68%	81	28%	2,040	65%	1,924	71%	82	29%	2,006	67%
Employees	2,447	85%	278	95%	2,725	86%	2,413	90%	279	98%	2,692	90%
External workers	417	15%	14	5%	431	14%	282	10%	5	2%	287	10%
Total at 31.12	2,864	100%	292	100%	3,156	100%	2,695	100%	284	100%	2,979	100%

(*) the term "Officer" refers to the General Manager or Plant Manager of the external operational sites, as well as certain department managers reporting directly to the aforementioned managers.

The Carraro Group, in the various regions in which it operates, has never exercised any form of gender discrimination as regards the recruitment of the workforce. The current composition shows a more significant female presence in clerical roles, in line with the trend of the metal and mechanical sector.

Number of employees by gender and macro geographic area (excl. external workers)

Employees	M 2017	%	F 2017	%	Total	%	M 2016	%	F 2016	%	Total	%
Europe	1,023	42%	200	72%	1,223	45%	1,050	44%	201	72%	1,251	46%
Asia	1,243	51%	71	26%	1,314	48%	1,169	48%	68	24%	1,237	46%
Americas	181	7%	7	3%	188	7%	194	8%	10	4%	204	8%
Total at 31.12	2,447	100%	278	100%	2,725	100%	2,413	100%	279	100%	2,692	100%

The geographic distribution of Group employees reflects the number and size of the production plants located in the various geographic areas. The most significant presence is observed in Italy with five operational plants and India with the two Carraro India Ltd plants and the Carraro Technologies Ltd research centre.

Number of external workers by gender and macro geographic area

External workers	M 2017	%	F 2017	%	Total	%	M 2016	%	F 2016	%	Total	%
Europe	182	44%	5	36%	187	43%	39	14%	1	20%	40	14%
Asia	235	56%	9	64%	244	57%	242	86%	4	80%	246	86%
Americas	0	0%	0	0%	0	0%	1	0%	0	0%	1	0%
Total at 31.12	417	100%	14	100%	431	100%	282	100%	5	100%	287	100%

Total number of employees by employment contract and type

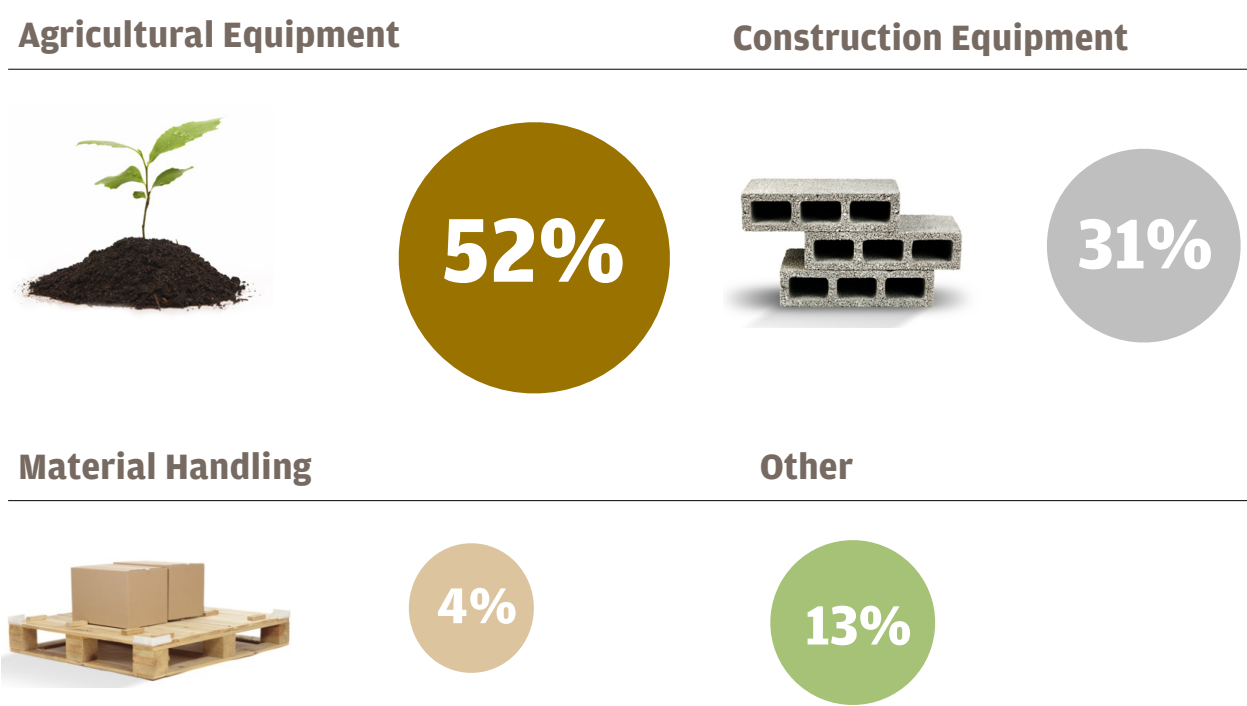
Employment contract and type	M 2017	F 2017	Total	M 2016	F 2016	Total
Temporary Part time	0	0	0	0	2	2
Temporary Full time	300	40	340	232	42	274
Temporary	300	40	340	232	44	276
Permanent Part time	7	31	38	7	30	37
Permanent Full time	2,140	207	2,347	2,174	205	2,379
Permanent	2,147	238	2,385	2,181	235	2,416
External workers	417	14	431	282	5	287
Total at 31.12	2,864	292	3,156	2,695	284	2,979

1.3

Markets, products and innovation

Markets

Research and innovation are the competitive levers which have enabled the Group to successfully trade with leading global manufacturers of agricultural and construction machinery and occupy an important market position, as shown by the volumes produced, the client portfolio acquired and the distribution of sales in the main areas of the globe.



Agricultural Equipment	Construction Equipment
25% Market share in agricultural axes	25% Market share in “light/utility” segment
30% Market share in utility tractors drivelines	25% Market share in “medium/heavy” segment

The reference market for the Group is represented by the leading Italian and international manufacturers of agricultural machinery, construction machinery, material handling equipment and commercial vehicles according to the following tables:

Markets served

By country	Italy USA Germany United Kingdom Turkey Iran India China Argentina Brazil
By type	Agricultural machinery Construction machinery Material handling machinery Commercial road vehicles

<u>Sales by market segment</u>	<u>31.12.2017</u> <u>€/000</u>	<u>% of total</u> <u>at 31.12.2017.</u>	<u>31.12.2016</u> <u>€/000</u>	<u>% of total</u> <u>at 31.12.2016.</u>
AGRICULTURE	313,266	51.69%	285,789	48.13%
CONSTRUCTION	184,861	30.50%	173,080	29.15%
REPLACEMENT PARTS	51,871	8.56%	47,957	8.08%
MATERIAL HANDLING	24,065	3.97%	22,865	3.85%
AUTOMOTIVE	15,875	2.62%	15,080	2.54%
RAILWAYS AND TRANSPORT	1,117	0.18%	1,937	0.33%
INDUSTRIAL APPLICATIONS	1,040	0.17%	1,066	0.18%
RENEWABLE ENERGIES	0	0.00%	36,150	6.09%
OTHER	13,926	2.30%	9,823	1.65%
TOTAL	606,021	100.00%	593,747	100.00%

<u>Sales by geographic area</u>	<u>31.12.2017</u> <u>EUR</u>	<u>% of total</u> <u>at 31.12.2017.</u>	<u>31.12.2016</u> <u>EUR</u>	<u>% of the total</u> <u>as at</u> <u>31.12.2016</u>
FAR EAST	106,825	17.63%	85,341	14.37%
NORTH AMERICA	84,790	13.99%	56,828	9.57%
SOUTH AMERICA	50,483	8.33%	47,937	8.07%
EU COUNTRIES	175,406	28.94%	186,504	31.41%
NON-EU COUNTRIES	100,659	16.61%	123,000	20.72%
ITALY	87,858	14.50%	94,137	15.85%
TOTAL	606,021	100.00%	593,747	100.00%

Brands, products and services

The value of the Group's trademarks is founded on the consolidated long-standing presence of Carraro products in the agricultural and construction machinery sectors; the brand recognition originates from the company's historic link to agricultural vehicles, first as regards sowing machines and then branching into tractors, and later focusing on technologically-advanced components and drive systems.

The historic trademark of the “three horses”, which is intrinsically connected to agricultural tractors, is still in use and was recently regenerated by the development and distribution of a wide range of specialist vehicles. In the 1980s, the Tre Cavallini (Three Horses) trademark was joined by the modern Carraro trademark, under which all of the Group's power transmission products and spare parts are marketed.

MAIN TRADEMARKS, PRODUCTS AND SERVICES

Trademarks

 CARRARO	Research and Development
 CARRARO DRIVETECH	Axle and Drive Systems
SIAP	Drive System Components
 CARRARO AFTER SALES & SPARE PARTS	Replacement Parts
 CARRARO AGRITALIA	Agricultural Vehicles
 Tractors built for the best™	Carraro Tractors
carry4you.it	Merchandising

Products

Drive systems (axles, drive systems) for:	<ul style="list-style-type: none">• Construction machinery (backhoe loaders, wheel loaders, excavators, compactors)• Agricultural machinery (tractors, harvesters)• Transportation machinery (forklift trucks)• Telehandlers• Light commercial vehicles
Gears and components for:	<ul style="list-style-type: none">• Drive systems for agricultural and construction machinery• Drive systems for transportation and lifting machinery and commercial vehicles• Wind turbines
Special agricultural vehicles	

Services

- Research and Development
- Design and Engineering
- Sale of Spare Parts
- Post-sale Service

Research and innovation

Innovating means opening the mind to the future and not being afraid to take a leap forward from the past; in a world of continual evolution, it is essential to design solutions that can anticipate the needs of tomorrow, and this means listening very carefully to the end users of our products. This is the foundation of the Group's journey of development.

Throughout its history, Carraro has always been a pioneer in its field, from automatic sowers and four-wheel drive tractors to the increasingly sophisticated and technologically-advanced drive systems available today, designed to optimise vehicle efficiency.

As part of the progressive consolidation of the current Carraro range, which includes gears, axles and drive systems for off-highway applications (agricultural and construction machinery) and on-highway vehicles (cars and forklift trucks), innovative products have been launched to meet concrete needs, such as the axles with electronically operated suspension which improve the safety of tractors operating in the field and increase efficiency during road transfer phases. In terms of agricultural vehicles, the range of special tractors developed both for leading global manufacturers (OEM) such as John Deere, Massey Ferguson and Claas as well as the Carraro "Tre Cavallini" trademark is the result of the creative efforts of the Group in a particularly innovative project in terms of design and technology, combining three different motors from 60 to 100 hp and six separate configurations for use in orchards and vineyards.

Thanks to the experience gained over its eighty year history, Carraro is deeply convinced that, much more so than in the past, business success within the industry depends on a company's ability to innovate in all directions, including in the field of environmental sustainability.

The current range of Carraro products is strongly oriented towards improving the experience of end users, whether they be farmers or construction machinery operators. Improving productivity and reducing emissions and consumption continue to be fundamental objectives for the Group. This is evidenced by the Direct Drive drive system solutions for loaders, which improve efficiency by 12%, the ECOlogy Mode system, which enables slight reductions in the kW consumption of construction machinery and the new generation drive systems for twin-shift tractors (Twin Shift™), which improve productivity and offer greater comfort when using the machine in the field.

The Group employs numerous engineers and technicians during the design, prototype and testing phases, maintaining a close collaborative relationship with the University of Padua and partnerships with leading manufacturing clients. The Group pursues multiple lines of research: from the continual refinement of mechanical solutions (e.g. twin shift) to studies into systems which combine mechanical elements with electrical and electronic devices (Electrical Continuous Variable) and hybrid tractors. This commitment is proven by the 22 patents registered by the Group over the years, which have helped to open new doors and indicate leading trends across the industry.

Engineering Centres

The Group's Research and Development is carried out at the head offices of Carraro S.p.A. as well as in the regional Engineering Centres located in the main areas in which the Group operates. The Engineering Centre at the head offices of Carraro S.p.A. in Campodarsego has developed continuously over the years thanks to significant investments in design, prototyping and testing activities, as well as the development of various test areas.

A total of 83 workers are employed at the complex, which includes offices, technical areas and a test area of 3,820 square metres.

The total dimension of Carraro's R&D activities is expressed by the following indicators:

		31.12.2017	notes
Human resources, R&D and prototyping	<i>no. (FTE)</i>	192	70% Italy, 30% abroad
Financial investment in R&D	<i>€/Mln</i>	21.9	-
Financial investment in R&D (impact on revenue)	<i>%</i>	3.61	-
Patents registered in various countries	<i>no.</i>	22	-
R&D Centres worldwide	<i>no.</i>	5	2 in Italy, 3 at foreign sites
Prototype development and test centres	<i>no.</i>	1	Italy

1.4

Acting Sustainably

Our relationship with sustainability

Carraro, an international Group and world leader in the development of highly efficient and environmentally sustainable power transmission systems, carefully considers the social, environmental and economic implications of its business activities and aims to adopt responsible conduct that respects the environment, communities, institutions, collaborators and commercial partners, both clients and suppliers.

Due to its international presence, the Group interacts with stakeholders from different continents and cultures, each with different needs, aspirations, obligations and regulatory systems.

The sustainability policy of the Carraro Group is based on compliance with regulations in every context in which it operates, and aims to reconcile local cultures and requirements with the philosophy of responsibility that the Group has set itself, as summarised in the Carraro Values.

The regulations in the different countries, in particular as regards environmental protection and health and safety in the workplace, are continually evolving, and increasingly stringent and complex rules are being defined to regulate safety conditions, the reduction of emissions, waste treatment and water consumption.

The inability to comply with laws and regulations can result in financial charges and reputational damage due to penalties or restoration costs related to civil and criminal liability.

Consequently, Carraro has implemented a management system which aims to ensure constant alignment with regulatory developments and thus reduce the risks of negative impacts on the Group's business activities and financial position.

The aim of the Carraro Group is not only to guarantee compliance with the regulatory requirements in force for all of its operative sites but also to implement a set of uniform standards to regulate the actions and conduct of its employees when researching and developing optimum solutions, in line with international best practices.

The commitment of the Carraro Group to respecting the principles of sustainability in the performance of its business processes follows a precautionary approach to assess the risk of possible impacts on the environment and safe working conditions when planning and commencing manufacturing activities, the social impact associated with the presence of its manufacturing sites and the main decisions which may be adopted on an industrial level.

Decisions may relate to investments in manufacturing (purchase or launch of new machinery or factories), the introduction or modification of production processes and the design and development of new products. The product development process in particular considers the legal framework and any market requirements in relation to compliance with specific environmental standards (e.g. emission limits) and specific product quality standards throughout the development phase.

With specific reference to environmental protection, particular focus is given to solutions which use recycled material, especially for packaging materials, and which reduce and/or eliminate the use of hazardous substances such as paints.

Carraro aims to maintain the conditions achieved in order to obtain the environmental certificates of its plants, assessing the scope and relevance of all possible collateral effects, ensuring systematic governance of business processes and aiming to continually improve the management of the environmental and social aspects within its jurisdiction.

Carraro's commitment to reducing its environmental impact includes taking into consideration all factors which make up the Group's environmental footprint, including the selection and use of natural raw materials and resources and their transformation and regeneration into new components.

As regards the industrial transformation processes within its plants, the Group promotes initiatives aimed at mitigating the environmental impact of manufacturing processes.

International certificates achieved

As part of its continuous efforts to improve the processes implemented to serve the market, Carraro has always aimed to comply with the requirements provided by the leading standards in the field, both in terms of industrial production and product sales and also as part of a constant drive to minimise the risks to the environment and health and safety in the workplace.

This commitment is recognised by the award of the certificate of compliance with the main standards to the Group's largest manufacturing plants in Italy and abroad.

Name	Area	Company/Operative unit	Registered office	Country
ISO 9001:2008	Quality	Carraro Drivotech S.p.A. Carraro Drivotech S.p.A. Ricambi Carraro China Drive Systems Co. Carraro Argentina S.A. Carraro India Ltd. (axle plant)	Campodarsego (PD) Monselice (PD) Qingdao Haedo Ranjangaon (Pune)	Italy Italy China Argentina India
ISO/TS 16949:2009	Quality	SIAP S.p.A. Carraro India Ltd. (gear plant)	Maniago (PN) Ranjangaon (Pune)	Italy India
ISO 9001:2015	Quality	Carraro SpA Divisione Agritalia	Rovigo	Italy
OHSAS 18001:2007	Workplace safety	Carraro SpA Divisione Agritalia	Rovigo	Italy
ISO 14001	Environmental protection	Carraro Drivotech S.p.A. Carraro SpA Divisione Agritalia SIAP S.p.A. Carraro India Ltd. (axle plant) Carraro China Drive Systems Co.	Campodarsego (PD) Rovigo Maniago (PN) Ranjangaon (Pune) Qingdao	Italy Italy Italy India China

The materiality analysis of the Carraro Group

Since 2016, Carraro has implemented a process to define the non-financial aspects of the materiality analysis in relation to the Group and its stakeholders, taking into account different sources (company documents, sector studies, benchmarks in relation to clients, competitors and other leading players) according to the international guidelines of the GRI-G4 reporting standards.

The analysis identified the material aspects, which were then verified, analysed, rationalised and classified according to different criteria, such as business strategy, economic, social and environmental impact, reputational risk and alignment with internal policies and the Code of Ethics.

The analysis involved employees through the exchange of information, meetings and interviews.

The concept of materiality is used to associate the commitment of employees and external stakeholders to the goals which reinforce the link between sustainability and commercial operations, as well as to define the reporting priorities in social and environmental contexts.

The analysis process was developed in three stages:

Step1

Evaluation of material themes

The themes which may be relevant to Carraro S.p.A. and its stakeholders were identified. The assessment of relevance of such themes to the outlooks of Carraro S.p.A. and its stakeholders was carried out based on the perception of internal management. The relevance of each theme was allocated according to the following scale:

1 - Negligible	2 - Low	3 - Medium	4 - High	5 - Very High
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Step2

Identification of the "Top 3"

Once the potentially relevant themes were assessed, the three most relevant themes for Carraro S.p.A. and its stakeholders were identified, based on the perception of internal management.

Step3

Preparation of the Materiality Matrix.

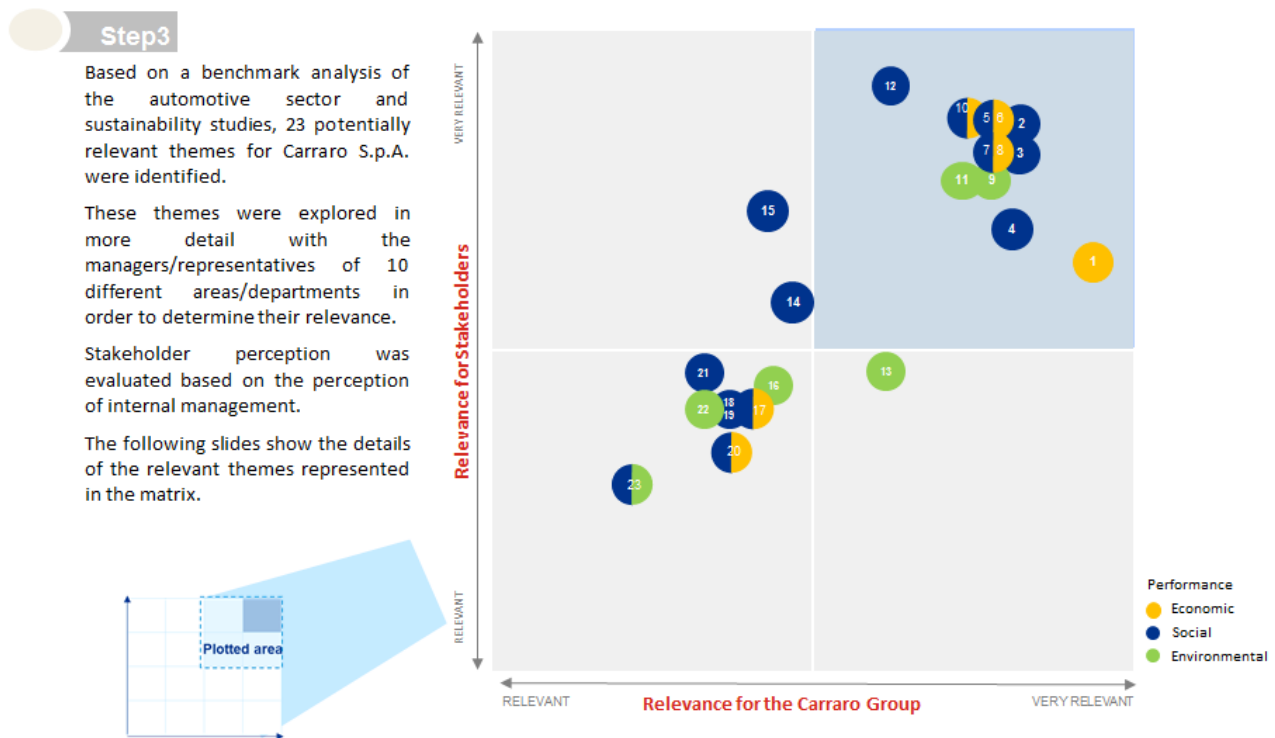
The allocated levels are shown in the Materiality Matrix below.

Aspects related to governance, legal compliance and economic performance (creation of sustainable value over time) are considered as prerequisites to the materiality analysis; such aspects are therefore included in the Sustainability Report but are not subject to specific evaluation and insertion in the Materiality Matrix.

Finally, the result of the materiality analysis was approved by the Management and presented to the Control, Risk and Sustainability Committee.

Carraro Materiality Matrix

The following table shows the relevant themes for the Carraro Group



Relevant reporting themes for the Carraro Group

#	Relevant theme
1	Value of the Brand and reputation
2	Corporate welfare and health and safety in the workplace
3	Diversity, equal opportunities and inclusion
4	Management of the supply chain and use and optimisation of local suppliers
5	Product safety and quality
6	Anti-corruption
7	Well-being and work-life balance
8	Focus on technology and product innovation
9	Reduction of energy consumption and greenhouse gas emissions
10	Ethics and integrity in business management processes
11	Reduction in waste produced and adoption of responsible waste disposal methods
12	Community development
13	Sustainable products and processes
14	External relations and transparent communications with stakeholders, also in reference to sustainability
15	Engagement, dialogue, customer satisfaction and quality services

#	Relevant theme
16	Reduction in water consumption and waste management
17	Performance management and employee remuneration
18	Dialogue and internal communication
19	Training and skills development
20	Internal control and risk management procedures
21	Protection of human and workers' rights
22	Responsible sourcing and use of materials
23	Attraction, development and retention of resources

MOST RELEVANT THEMES (REFER TO BOX IN THE TOP RIGHT OF THE PREVIOUS SLIDE)

In line with its business strategy, the materiality matrix demonstrates that the Carraro Group focuses on the **value of the brand and its reputation**. As regards the supply chain, one priority is represented by supply chain **management and the use and valorisation of local suppliers**. Other environmental and social themes considered include **the reduction of energy consumption and greenhouse gas emissions, the reduction of produced waste and adoption of responsible waste disposal methods, ethics and integrity in business management processes and anti-corruption**. The elements listed are intrinsically linked to human capital, to which the Group pays particular attention in terms of **corporate welfare and health and safety in the workplace, well-being and the work-life balance, diversity, equal opportunities and inclusion and the development of communities affected by the Group's activities**.

Stakeholder engagement in the Carraro Group

In recognition of its responsibility towards the social context in which it operates, the Carraro Group pays particular attention to its internal and external stakeholders, with an open approach to stakeholder engagement in line with the values, principles and guidelines defined by the Group's Code of Ethics and the Corporate Sustainability Policy. This approach is expressed through meetings with various stakeholders which enable mutual growth, aligning the business model to the expectations and needs of stakeholders, creating long-term value and anticipating the emergence of any concerns.

The internal and benchmark analyses identified the stakeholders of the Carraro Group deemed to be influential in the definition of the Group's business strategy.

Stakeholder engagement and interaction by stakeholder category

Stakeholder	Engagement/interaction
Employees	<ul style="list-style-type: none"> - Projects and/or initiatives for company welfare - Emails for submitting reports - Company Intranet - Internal newsletter - Insertion schemes for new employees - Company meetings to discuss results and future objectives - Training schedule
Trade unions and workers' representatives	<ul style="list-style-type: none"> - Regular appraisals
Clients	<ul style="list-style-type: none"> - Regular meetings - Surveys/market research - Continuous dialogue through communications channels (e.g. email, telephone, social media, post) - Customer service - Company website - Online sales channels for spare parts
Suppliers and commercial partners	<ul style="list-style-type: none"> - Regular meetings - Carraro Private Network - Quality assessment audits/visits
Shareholders and the financial community	<ul style="list-style-type: none"> - Meetings organised throughout the year (e.g. Shareholders' Meeting, presentation to analysts, roadshows for special projects) - Company website ("Investor Relations" section)
Local communities and NGOs	<ul style="list-style-type: none"> - Projects to support social initiatives - Open factory day
Local authorities, public administration, regulatory bodies and trade associations	<ul style="list-style-type: none"> - Meetings with representatives of local institutions
Schools and universities	<ul style="list-style-type: none"> - Site visits - Collaborations with schools and the academic community
Media	<ul style="list-style-type: none"> - Company website - Interviews with company management - Press releases - Events, trade fairs

Stakeholder	Engagement/interaction
Environment	Support and engagement projects <ul style="list-style-type: none"> - Reduction of energy consumption and greenhouse gas emissions - Continual monitoring of energy consumption and greenhouse gas emissions - Responsible waste disposal methods

1.5

Ethics, Integrity and Values

The Carraro Group is inspired by principles which repudiate any form of discrimination or abuse in the context of internal and external relations.

Employees and collaborators are obliged to adopt behaviour that is in line with existing regulations and the company policies and procedures adopted by the various Group departments, both as regards colleagues and in relation to third parties with whom they interact.

As regards relations between the Group companies and third parties, including public entities, employees and collaborators are required to act according to the ethical principles and applicable law, expressly prohibiting any form of illegitimate favouritism, collusion, corruption or solicitation of personal gain or on behalf of third parties.

Employees and collaborators are required to perform all activities with the maximum transparency, correctness and fairness, cooperating with managers and observing any instructions received.

The Carraro Group undertakes to avoid, both directly and indirectly, any financial, economic and commercial relations with parties who breach anti-corruption regulations in any way.

According to the principle of fair competition in relations with clients and suppliers, the Group undertakes to respect the principles and laws that regulate anti-competitive behaviour, operating on the markets fairly and correctly, ensuring the quality of its own products and respecting any contractual agreements.

The system to protect the integrity of the Carraro Group comprises the set of codes, policies and values adopted by Group companies:

- Carraro Values;
- Group Code of Ethics;
- Human Rights and Protection of Diversity Policy;
- Anti-Corruption Policy;
- Safety and Environmental Policy;
- Procedure for Related-Party Transactions;
- Organisational Models pursuant to Legislative Decree no. 231/2001.

In addition to the ethical principles, since 2011 the Group has implemented a project to identify and promote the “Carraro Values”, specifically the principles of conduct incorporated over time into the corporate culture and in place to support the Group's entrepreneurial mission.

The Carraro Values expressed in the Code of Ethics are constantly shared with all employees in recognition of the fact that these elements constitute a significant part of the Group's intangible heritage. These values are classified into five categories:

1. ACTING RESPONSIBLY
2. CREATING ADDED VALUE
3. DEVELOPING TALENT
4. STIMULATING INNOVATION
5. WORKING TOGETHER

The ethical standards of the Carraro Group, as defined in the Group Code of Ethics, relate to the following principles:

- honesty and integrity in financial relations

- fair competition
- prohibition of the provision and receipt of gifts, advantages and promises of favours;
- transparent management of conflicts of interest;
- processing of confidential or price-sensitive information
- correct entrepreneurial activity and prevention of money-laundering;
- protection of privacy;
- transparent conduct in sponsorship agreements;
- protection of industrial and intellectual property;
- fight against organised crime;
- correct management of human resources;
- protection of employee health and safety in the workplace
- appropriate use of company tools and computer systems;
- transparent relations with the Public Authorities;
- equity relations with commercial counterparts and the financial community;
- independence from political organisations;
- protection of the environment;
- prevention of market abuse
- compliance with financial reporting rules.

The Code of Ethics expresses the commitments and ethical responsibilities of the Group in the performance of its business and activities, promoting behavioural standards among Group employees across all levels in relation to the principles of legality, loyalty, correctness and professional integrity, aimed at preserving the integrity of the heritage of the Carraro Group and protecting its image and respectability.

This document is based on a long-term commitment which brings an ethical approach to the strategy and financial objectives for industrial development of the Carraro Group.

Training on the Code of Ethics is provided regularly to all existing employees and new members of the governance body and workforce. Employees are required to fully respect the provisions of the Code in relation to their responsibilities in all company contexts, including participation in specific training activities offered by the Group. To ensure that all relevant parties are informed and undertake to fulfil this commitment, the Code is distributed among the Carraro Group at the time of adoption and in the case of any amendments both as a hard copy and in electronic format.

The Code is subject to regular review by the Board of Directors of Carraro S.p.A.; any amendments, modifications or substantial additions must be approved by the Board according to the same procedures used for its initial adoption. In particular:

- the Board of Directors is responsible for the approval of any substantial amendment, modification or addition to the Code of Ethics, according to the same procedures used for its initial adoption;
- the Chairman and the Chief Executive Officer of Carraro S.p.A. have the right to make any change of an exclusive formal nature, as long as the content remains largely unchanged;
- the Board of Directors and the Supervisory Body of Carraro S.p.A. must be promptly informed of any such amendments or additions proposed by the Chairman or the Chief Executive Officer;
- the Supervisory Body must notify the competent bodies of any breaches of the Code of Ethics. Furthermore, the Supervisory Body is responsible for the promotion and distribution of the Code among relevant parties, as well as

providing assistance to those who report cases of non-compliance and ensuring that the Group protects such persons from pressure, interference, intimidation and retribution.

Training sessions are provided to recipients upon the issue of each new version of the Code of Ethics. The document is available in Italian and English in order to be fully received by the members of the Governance body, employees, commercial partners and other stakeholders.

In order to report illicit behaviour and conduct contrary to the ethics of the Group, specific email addresses have been established for the submission of reports to bring such cases to the attention of the Supervisory Body:

- Carraro S.p.A. and foreign companies: info.odv@carraro.com;
- Carraro Drive Tech S.p.A.: info.odv@carrarodrivetech.com;
- SIAP S.p.A.: info.odv@siapgears.com.

The ethical position and philosophy of the Carraro Group in relation to suppliers are characterised by principles of clarity and transparency in confirming compliance, understood as a personal commitment required by commercial partners, of general ethical principles, including as regards human rights.

The requirement to implement the Code of Ethics of the Group is common practice in relations with suppliers, as is its distribution to partners by the most easily accessible methods available (online, private network).

The Carraro Group bases its activities on the principles of the Code of Ethics, and one of its fundamental objectives is to ensure compliance with the legislation and regulations in force in all countries in which it operates.

Carraro S.p.A. requires all Group companies to comply with the values expressed in the Code of Ethics and to collaborate fully in the pursuit of its objectives, acting in full compliance with the law and applicable regulations.

The Carraro Group does not maintain commercial relations with parties whose activities are not guided by the underlying principles of the Code of Ethics.

The Group promotes rules of conduct in line with the principles of legality, loyalty, correctness and professional integrity among all Group employees at all levels.

All employees are required to act in line with the policies of the Group which may never, including in pursuit of company objectives, translate into illegal actions or conduct contrary to applicable regulations or Group procedures with regard to individual positions, both as regards relations with colleagues and third parties.

The Group acts in compliance with the industrial and intellectual property rights legally held by third parties, as well as with European and international laws, regulations and conventions to protect such rights.

In 2016 and 2017, no significant sanctions in relation to failure to comply with laws and regulations were observed.

2.

Governance



2.1

Governance Model

Corporate Governance and Corporate Governance Code

Corporate governance is the set of tools, regulations and mechanisms aimed at the effective management of the organisation's decision-making processes in pursuit of corporate objectives in the interests of all Group stakeholders.

The Parent Company Carraro S.p.A. complies with the Corporate Governance Code published by the Committee for Corporate Governance of Listed Companies in July 2015. A traditional administrative system has been adopted, based on the presence of three main bodies: the Shareholders' Meeting, the Board of Directors and the Board of Statutory Auditors, supported by the internal committees of the Board of Directors, the Manager in charge of preparing the company accounts, the Supervisory Body and the Independent Auditors.

Shareholders' Meeting

The Shareholders' Meeting expresses the wishes of shareholders in relation to the objectives assigned by the Bylaws; the Meeting appoints the Board of Directors and the Board of Statutory Auditors, and approves the annual Financial Statement.

The Board of Directors

The Board is the membership body of the Company's directors and is responsible for the definition and management of the strategic objectives of the Company and the Group. To this end, the Board of Directors is vested with the broadest powers for the ordinary and extraordinary administration of the Company and has the right to carry out all other actions that it deems opportune for the implementation and realisation of corporate objectives, excluding those reserved by law or the Bylaws to the Shareholders' Meeting, in accordance with the Corporate Governance Code.

In particular, in accordance with the Bylaws and conferred powers, the Board has jurisdiction as regards:

- the review and approval of strategic plans, the budget and major transactions as well as the review of all interim and annual economic and financial reports (such plans envisage the attainment of defined financial objectives in accordance with policies aimed at ensuring compliance with appropriate quality standards of the products offered on the market, maintaining standards in relation to workplace health and safety, environmental protection, human rights and workers' rights and combating illegal business practices in line with the laws in more developed countries);
- definition of the nature and level of risk compatible with strategic objectives, in the context of medium to long-term sustainability;
- verification of suitability of the general organisational and administrative structure of the Company and the Group;
- assignment and revocation of powers to the Chairman, the Chief Executive Officer and the assignment or revocation of special powers of attorney to Company directors;
- determination of remuneration for the Managers of the various departments;
- supervision of the overall performance of Company and Group management;
- regular evaluation of the dimension, composition and performance of the Board and its Members;
- evaluation of managerial and professional figures whose presence in the Board is deemed opportune;
- definition of the Corporate Governance rules and supervision of their compliance with the Code;
- review and approval of the principles, limits and outcomes of financial risk management operations;
- review and approval of related-party transactions.

The Bylaws also envisage that the Board of Directors has the right to approve the establishment or removal of secondary offices, the transfer of the head office within Italy, corporate mergers or demergers in the cases provided by Articles 2505, 2505-bis and 2506-ter of the Italian Civil Code, the reduction of share capital following shareholder withdrawal and amendments to the Bylaws for changes to regulations.

The powers conferred to the Board of Directors define it as the principle body responsible for all decisions of a financial, environmental and corporate nature.

Internal Committees of the Board of Directors

The Committee has established the following internal committees:

- The Appointments and Remuneration Committee;
- The Control, Risk and Sustainability Committee;

All Committees act merely in a consulting and advisory role and assist the Board in matters within their respective jurisdictions.

The Appointments and Remuneration Committee is charged with the formulation of proposals in relation to the remuneration to be recognised to Board Members to whom the Board of Directors has granted specific powers and other Directors who fulfil certain roles; the evaluation of the 2017 objectives of the Executive Directors; the evaluation of the criteria adopted for defining the remuneration of Directors with strategic responsibilities and in particular the incentives scheme on a variable MBO basis; the evaluation of the correct application of the remuneration policy; the preparation and proposal to the Board of Directors of the Remuneration Policy.

The Control, Risk and Sustainability Committee, which acts in a consulting and advisory role to the Board, is charged with the following duties:

- the assessment, together with the Financial Reporting Manager and having consulted the external auditor and the Board of Statutory Auditors, of the proper use of the accounting principles and, in the case of groups, their consistency for the purpose of drafting the Consolidated Financial Statements;
- the issue of opinions on specific aspects concerning the identification of the main business risks;
- the examination of the periodic reports on the assessment of the internal control and risk management system and those of particular relevance drafted by the Internal Audit department;
- monitoring the independence, adequacy, effectiveness and efficiency of the Internal Audit department, with the right to require the same to conduct audits on specific operating areas, notifying the same to the Chairman of the Board of Statutory Auditors;
- the presentation of reports to the Board, at least every six months, at the time of approval of the annual and interim financial report, on its activities and the adequacy of the internal control and risk management system;
- supporting, through suitable preliminary activities, the assessments and decisions of the Board of Directors relating to the management of corporate management risks in relation to strategic objectives;
- supporting the Board of Directors in risk management activities and the definition of the objectives and approaches to be adopted on the subject of sustainability in the medium to long term.

The Board of Statutory Auditors

The Board of Statutory Auditors supervises compliance with the law and the Bylaws and has management control functions.

Legislative Decree no. 39/2010, transposing Directive 2006/43/CE on the subject of legal audits of annual statements, entered into force on 07 April 2010, assigned to the Board of Statutory Auditors the role of Internal Control and Auditing Committee, with the duty of overseeing the financial reporting procedure, the effectiveness of internal control, audit and risk management systems, the statutory audit of annual financial statements and consolidated financial statements and the independence of the statutory auditors, in particular as regards the provision of non-audit services to the entity subject to the statutory audit.

Executive Director responsible for the internal control and risk management system

The role of the Executive Director responsible for the internal control and risk management system was appointed to the Chief Executive Officer Mr. Alberto Negri by the Board of Directors at the meeting of 27 March 2015, maintaining such role until the expiry of the mandate provided by the Shareholders' Meeting to approve the 2017 financial statement.

As such, the Executive Director responsible for the internal control and risk management system carries out the following duties:

- a) the identification of the main corporate risks, taking into account the characteristics of the activities carried out by the issuer and its subsidiaries, and subjecting them to regular review by the Board of Directors;
- b) the implementation of the strategies defined by the Board of Directors, overseeing the preparation, implementation and management of the internal control and risk management system and constantly ensuring its adequacy and efficacy;
- c) the adaptation of this system to the dynamics of the operating conditions and the legislative and regulatory framework;
- d) reporting promptly to the Control, Risk and Sustainability Committee (or the Board of Directors) as regards problems and concerns emerged in the performance of its activities or which have otherwise come to its knowledge, in order that the Committee (or Board) may take appropriate action.

It also has the right to request that the Internal Audit department carry out audits of specific operating areas and compliance with internal rules and procedures in the performance of company activities, promptly notifying the same to the Chairman of the Board of Directors, the Chairman of the Control, Risk and Sustainability Committee and the Chairman of the Board of Statutory Auditors.

Internal Control and Risk Management System

The internal control and risk management system aims to ensure:

- a) the adequacy of company processes in terms of efficiency and efficacy;
- b) the reliability of the information provided to corporate bodies and the market;
- c) the protection of Company assets;
- d) compliance with external regulations, the Bylaws and internal procedures.

The internal control system for financial information adopted by Carraro S.p.A. was defined in accordance with the provisions of Article 154-bis of the Consolidated Law on Finance and is inspired by the "COSO Report" ("Internal Control and Integrated Framework", published by the Committee of Sponsoring Organisations of the Treadway Commission), according to which the internal control system may be defined as a set of mechanisms, procedures and instruments aimed at ensuring the attainment of business objectives in terms of the efficiency and efficacy of operations, the reliability of financial information and compliance with existing law.

Organisational Model pursuant to Legislative Decree no. 231/2001

On 29 March 2007, the Board of Directors of the Parent Company resolved to adopt a Code of Ethics and the Organisational Model pursuant to Legislative Decree no. 231/2001, formalising and incorporating an existing organisational structure into the Company and ensuring its constant update. This adoption took place following the conclusion of a project to assess the risks relating to the types of offences envisaged by the decree.

The Board of Directors subsequently approved updated versions of the Model until the Model approved on 05 August 2015.

The Code of Ethics of Carraro S.p.A. was subsequently adopted by all directly controlled subsidiaries to become the Code of Ethics of the Carraro Group, while all Italian subsidiaries adopted an Organisational Model pursuant to Legislative Decree no. 231/2001.

The Code of Ethics and the Organisational Models were distributed to the Group via a specific online training programme and were disclosed to commercial partners.

To ensure the correct application, implementation and maintenance of the Models of the various companies, the Supervisory Bodies envisaged by the Decree have been established.

Sustainability policies and actions

The Sustainability policies adopted by the Carraro Group consider the aspects related to the integrity and transparency of financial relations, responsibility in the performance of business activities, the protection and optimisation of personnel, health and safety in the workplace, environmental protection, as well as all other characteristics that contribute to the Group's position as a global leader. Carraro has adopted the following Policies at Group level:

- Environment, Health and Safety Policy
- Quality Policy
- Anti-Corruption Policy
- Human Rights Policy
- Diversity Policy

Protection and optimisation of personnel

The Carraro Group is committed to developing the skills and capabilities of all of its employees, promoting a working environment and conduct characterised by:

- the protection of health, safety and integrity and the prevention of discrimination, in particular as regards race, gender, age, nationality, religion, personal beliefs, political opinions, health and personal and social situation, as well as the prevention of abuse of any kind;
- the promotion of an innovative and entrepreneurial spirit within the limits of responsibility of each employee;
- the principles of merit and competence within the limits permitted by the requirements of the role;
- the offer of equal opportunities in the workplace and as regards professional advancement for all employees;
- the definition of roles, responsibilities and availability of information such to enable each member of the organisation to carry out their duties in the interests of the company.

Protection of the Environment

The Group operates across nine manufacturing sites in five different nations.

The manufacturing processes carried out at the industrial sites essentially regard the mechanical processing of iron and steel and assembly of manufactured components purchased from third-parties. These processes also use accessory materials such as packaging, lubricants, paints and solvents.

Over the years, Group Management has defined objectives to:

- implement a systematic monitoring, control and coordination system of all themes related to environmental protection;
- define parameters at Group level for the management of environmental issues at all Italian and foreign sites, independently of the local regulatory structure;
- carry out risk assessments and start the process to obtain environmental certification of production sites;

In the course of these objectives, the Group:

- established in 2011 a Group Environment, Health and Safety department within the Parent Company, charged with the role of implementing an environmental management and control system and coordinating all environmental protection activities at each production site;
- implemented in 2012 a management and control system (EH&S Management System) within the EH&S Department which defines principles and rules of conduct, provides training and information to promote an environmentally sustainable culture within the Group's manufacturing activities and carries out audits and risk assessments;
- studies solutions aimed at reducing the environmental impact of industrial activities, proposing and promoting the adoption of all the applications offered by current technology to reduce the risks of pollution;
- checks compliance with local legislation at the various sites;
- has implemented systemic data streams with the Management with indicators and analysis tools essential for the management of risks and the implementation of risk management strategies.

Significant achievements in this regard include the conversion, supported by appropriate investments, of the solvent-based coating systems to water-based coating systems such to eliminate atmospheric emissions and enable the attainment of the Environmental Certificates according to standards ISO 9001 and ISO/TS 16949 at almost all of the Group's plants.

In the determination of production allocations and the definition of make-or-buy decisions, the variable of transport optimisation has also been considered in terms of eco-sustainability and the reduction of CO₂ emissions in line with the Group's mission.

Health and Safety in the Workplace

A significant portion of the Group's industrial processes refers to mechanical processes and the assembly of mechanical components. Risks relating to health, safety and environmental impact arising from working processes are mainly represented by typical manufacturing risks.

Over the years the Group has developed a culture aimed at protecting workplace health and safety, in recognition of its importance in the industrial context in which it operates, in response to the increasingly complex demands of Italian legislation and with the subsequent intention to internalise the most effective health and safety risk mitigation strategies. This intention was established as a fundamental objective in order to guide each action, investment and problem-solving capacity in all sites regardless of geographic location.

In addition to the environmental protection activities, the Group has assigned to the Group Environment, Health and Safety Department the role of implementing a workplace health and safety management and control system and coordinating all related activities at each manufacturing site.

In 2012 the department implemented a management and control system (EH&S Management System) that:

- defines the principles and rules of conduct;
- provides information and training to promote the culture of a safe working environment;
- performs regular audits;
- prepares improvement plans, indicating solutions aimed at reducing risks of accident and ensuring their implementation;
- checks compliance with local legislation at the various sites;

- has implemented systemic data streams with the Management with indicators and analysis tools essential for the management of risks and the implementation of risk management strategies;
- defines the annual accident targets, ensuring their attainment and analysing the reasons for any discrepancies.

Significant results in this regard include the attainment, supported by adequate investments, of the OHSAS 18001 certification for the site of the Agritalia division of Carraro S.p.A..

Energy consumption

The Management is increasingly focused on energy consumption, promoting internal audit programmes and strategies to improve the energy efficiency of its manufacturing processes in order to reduce energy consumption.

In particular, key actions include:

- organisational decisions, with the *ex novo* establishment in 2013 of an Energy Management department dedicated to studying and formulating energy efficiency proposals;
- the analysis of the limitations and opportunities of the existing legislative framework, including public incentivisation schemes;
- study of technical solutions for the realisation of low energy consumption plants and alternative energy generation methods;
- renegotiation of energy supply contracts, extending the tender to renewable energy providers;

Product quality

The Group constantly strives to direct every effort to design and production in order to achieve the highest levels of quality possible. In this regard, since 1994 it has adopted and maintained a complete set of Quality Procedures in line with the international standards that have been gradually issued by the relevant international bodies. The timeline of certifications awarded to the Group is as follows:

Certification	Year
ISO 9001	1994
ISO 9002	1994
QS 9000	1996
SAE Company Of The Year	1998
QS 9000	1998
ISO/TS 16949	1999
ISO 9001	2000
ISO/TS 16949	2000
ISO/TS 16949	2002
ISO 9001	2008
ISO/TS 16949	2009

Process for delegation and management

The Carraro Governance Model for the management of economic, environmental and social aspects envisages the combined commitment of the following bodies with the respective tasks:

- *Board of Directors*: the Board of Directors has ultimate responsibility for risk management and the definition of strategies;
- *Chief Executive Officer*: the CEO also acts as Executive Director and is responsible for the internal control and risk management system, as well as the implementation of the strategies defined by the Board of Directors;
- *The Control, Risk and Sustainability Committee*: the Committee acts in an investigatory, consulting and advisory role to the Board of Directors on economic, environmental and social aspects, *inter alia*;
- *Sustainability Operating Committee*: the Committee acts as an operating body and is responsible for the analysis, evaluation, proposal and monitoring of data and plans sustainability actions;
- *Representatives of the main company departments*: department representatives collect data and measurements and carry out activities aimed at achieving Group objectives, reporting all information to the Sustainability Operating Committee in order to ensure its full and effective operation.

Sustainability governance

Board of Directors

The decision-making and implementing powers in relation to economic, social and environmental aspects reside with the Board of Directors, its Chairman and the Chief Executive Officer, according to the powers conferred by the Shareholders' Meeting and appointed delegates.

On 27 October 2017, the Board of Directors appointed to the Control and Risk Committee consultancy and advisory roles to the Board of Directors in relation to all economic, social and environmental aspects related to the "sustainability" of the company.

Control, Risk and Sustainability Committee

The Control, Risk and Sustainability Committee discusses, examines and evaluates all matters related to sustainability with the support of the company departments, including as regards the non-financial statement envisaged by Legislative Decree no. 254/2016, and reports periodically to the Board of Directors.

The Control, Risk and Sustainability Committee meets periodically to carry out its role in general, evaluating sustainability topics and reporting to the Board of Directors at least every six months.

As well as its previously assigned roles as regards the internal control and risk management system, the Committee is also charged with the following duties:

- the verification of compliance with the policies adopted by the company in the various contexts;
- the regular collection of information on implemented activities by the Sustainability Operating Committee;
- the monitoring of the improvement plans and programmes, when adopted;
- the evaluation of any periodic reports and the annual financial statement;
- the submission of regular reports to the Board of Directors on all relevant aspects.

Sustainability Operating Committee

The Sustainability Operating Committee is an internal corporate body formed of representatives of all the main departments with transversal jurisdiction at Group level, which is responsible for handling any sustainability-related themes indicated as relevant to the Group for each of the aspects that fall within its operating sector.

This Committee acts as a work group and is tasked with analysing the data, evaluating any concerns, studying and proposing technical and operative solutions, promoting programmes and projects and monitoring their development, ensuring the regular flow of information and data required for the annual reports, and reports to the Control, Risk and Sustainability Committee.

Appointment and composition of the Board of Directors

The selection and appointment criteria for members of the Board of Directors are listed in the Bylaws and reflect the conditions to protect diversity defined by current legislation. According to these regulations, diversity refers to gender: the under-represented gender (male or female) must constitute at least one third (“Complete quota”) or, in certain cases, one fifth (“Reduced quota”) of the members of the Board of Directors.

During the appointment process of the Board of Directors, each list of candidates must contain and expressly identify at least one person in line with the independence requirements envisaged by the auditors pursuant to Article 148, paragraph 3 of Legislative Decree 58/1998.

The Board of Directors annually evaluates the existence of the independence requirements of each non-executive director.

The skills and experience of the members of the Board of Directors are assessed in order to ensure:

- a significant presence of directors with extensive corporate knowledge gained, at least in part, in industrial manufacturing companies;
- the presence of skills in the various branches of the Group's principle business activities and related fields (tax, finance, strategy);
- the presence of professionals from entrepreneurial, university or specialist consultancy backgrounds.

The current Board of Directors has a balanced representation of these skills, and includes members with higher degrees in engineering, economics and business administration, including courses undertaken abroad; who have acted as managing directors, general managers in important industrial and financial companies or university professorships in business subjects; who are enrolled in professional accounting and tax registers; who have direct entrepreneurial experience in manufacturing and logistics companies; and who are present in the highest business associations.

The Board of Directors is constituted exclusively of members appointed by the Shareholders' Meeting. According to current legislation, the representation of both majority and minority shareholders is guaranteed; at the time of appointment, directors can present their lists provided that the latter, alone or together with other shareholders, represent at least 2.5% of the share capital subscribed at the time of submission of the list.

The highest governance body is the Board of Directors, the members of which have the following characteristics:

- Composition and executive role
 - 3 members are executive directors (Chairman of the Board of Directors, Chief Executive Officer and Deputy Chairman);
 - 4 members are non-executive directors.

- Independence

Of the 4 non-executive directors, 3 are independent directors.

- Duration of mandate

The mandate of the governance body is valid for three years from the date of appointment and expires with the approval of the annual financial statement.

- Number of positions and the commitments of each members, including the nature of the appointment.

BOARD OF DIRECTORS	ENRICO CARRARO	Chairman
In office until the approval of the 2017 Financial Statement	TOMASO CARRARO	Vice Chairman
(Appointed at the Shareholders' Meeting of 23.03.2015)	ALBERTO NEGRI	Chief Executive Officer
	FABIO BUTTIGNON (1) (2)	Director *
	RICCARDO ARDUINI	Director
	MARINA MANNA (1) (2) (3)	Director*
	MARINA PITTINI (1) (2)	Director *
	(1) Members of the Control, Risk and Sustainability Committee (2) Members of the Appointments and Remuneration Committee (3) Members of the Supervisory Board	
	* Independent Directors	
BOARD OF STATUTORY AUDITORS	SAVERIO BOZZOLAN	Chairman
In office until the approval of the 2017 Financial Statement	STEFANIA CENTORBI	Regular Auditor
(Appointed at the Shareholders' Meeting of 23.03.2015)	ANDREA CORTELLAZZO	Regular Auditor
	BARBARA CANTONI	Alternate Auditor
	GIANMARCO MILANATO	Alternate Auditor

Broken down by age

	< 31	31-40	41-50	> 50	Total
Executives	-	-	-	3	3
Non-Executives	-	-	-	1	1
Independent	-	-	1	2	3
Total	-	-	1	6	7

- Gender

The criteria used to select the members of the Board of Directors pursuant to Article 21 of the Bylaws envisage that the under-represented gender (male or female) must constitute at least one third (“complete quota”) or, in certain cases, one fifth (“reduced quota”) of the total number of Board members. In the current Board of Directors, two out of the seven members are women, while there is one woman out of a total of three members in the Board of Statutory Auditors.

- Belonging to under-represented social groups

None of the members of the current Board of Directors belong to under-represented social groups.

- Competencies in relation to economic, environmental and social impacts

As a whole, all the directors and statutory auditors have gained extensive experience in the management or administration of manufacturing companies or services in sectors, markets and territories characterised by a close interactive relationship expressed by diversified economic, social and environmental repercussions.

- Stakeholder representation

Stakeholders are represented exclusively by shareholders in accordance with the rules in force for the appointment of directors and statutory auditors defined for companies listed on the Italian Stock Exchange. No other stakeholder categories are represented in the governing bodies.

- Remuneration policies

The remuneration policies adopted by the Carraro Group aim to fairly remunerate the work of each employee, in line with the commitment given and contribution provided to the activities of the company, with recognition, where possible, of the quality of the professional contribution.

Through this approach the Group aims to incentivise its employees, rewarding conduct that is in line with its objectives and values and creating conditions such to attract and retain resources assigned to the most significant positions, taking into account market standards for remuneration in order to ensure an appropriate level of competitiveness.

For management roles, an MBO scheme has been developed, whereby the variable part of total remuneration is determined by the achievement of specific objectives defined by area or role and linked to the general corporate performance.

For executives and managers with strategic responsibilities, the criteria and guidelines for remuneration were established by the Remuneration Committee which operates according to the roles assigned to it by the Corporate Governance Code; remuneration is composed of two components, one fixed and one variable, with the latter, to an extent determined by the specifics of the respective roles and responsibilities, linked to the achievement of specific performance objectives.

The processes to communicate critical concerns to the Board of Directors are those envisaged to provide systematic and continual reports on economic, environmental and social topics produced by the Control, Risk and Sustainability Committee and, in the case of relevant topics to the Organisational Model 231, by the Supervisory Body.

2.2

Risk Management

Carraro risk management system

In the framework of its Corporate Governance system, the **Carraro** Group follows a risk management model inspired by national and international best practices, and directly integrated with the process to define strategies and ensure their implementation in the business plans. In particular, the organisational roles involved in the company risk management process are as follows:

- The Board of Directors, which is responsible for the definition of the nature and level of risk compatible with strategic objectives, in the context of medium to long-term sustainability;
- The Control, Risk and Sustainability Committee, which is responsible for supporting the Board of Directors on topics related to internal control and risk management;
- The Executive Director in charge of the Internal Control and Risk Management system, who is responsible for the identification of the main corporate risks and the implementation of the indications issued by the Board of Directors on the subject of risk management, as well as for the assessment of their adequacy;
- The Risk Owner, who for each of the main central departments is responsible for ensuring, in conjunction with company management, that the main risks to which Carraro and its subsidiaries are exposed are correctly identified and monitored in business management activities;
- The Internal Audit department, which is responsible for monitoring the correct operation of the risk assessment and management process, using this as a reference for establishing the internal control system according to a principle of consistency between risks and controls.

In line with the most widespread and consolidated approaches on the subject, the main risk categories considered by the Group management are:

- External risks, namely those determined by factors beyond the control of the Group (such as country risk, market or sector risk, cost of supply or availability of raw materials, natural or political events).
- Internal risks, whose effect is influenced to a lesser or greater extent by the actions of the Group; such risks are subdivided into:
- Strategic risks (adopted business model, technological innovation, market/sector position, sustainability).
- Operational risks (product development, industrialisation, supply chain, human resources, IT systems, compliance).

Main economic, environmental and social risks to which the Carraro Group is exposed

Risks associated with general economic conditions

The Group's economic, equity and financial situation is influenced by various factors within the general macro-economic framework, such as changes to the gross national product, the state of the agricultural and construction industries, the cost of raw materials and the level of business confidence in the various countries in which the Group operates. Significant macro-economic events, such as a generalised and significant increase in the prices of raw materials, a significant fall in demand in one of the key markets of the Group, enduring uncertainty and volatility of the financial and capital markets, falling interest rates and unfavourable changes in the exchange rates of the major currencies to which the Group is exposed may all impact negatively on the Group's operations and future, as well as its economic results and financial position.

Risks associated with market/customer trends

The market sectors in which the Group operates are variously influenced by cyclical growth and downsizing trends according to progressively less predictable dynamics. The methods by which the main clients absorb these variations in demand and reflect them along the supply chain have a significant impact on the production volumes that the Group is required to develop, with repercussions for the supply and waste management policies and, as a result, the working capital requirements and the ability to adequately absorb fixed costs.

Country risk

A global presence is fundamental for the Group, encompassing a strategy serving clients and seizing opportunities on new markets for its product range. The Carraro Group operates in different countries and its exposure to their related risks has gradually increased over the years. On these markets, unstable economic-political conditions occur on a cyclical basis which impact on, and could negatively affect, the financial situation and economic performance of the Group.

Risks associated with health and safety in the workplace

A significant portion of the Group's industrial processes refers to mechanical processes and the assembly of mechanical components. The risks related to health and safety in the workplace deriving from working activities are predominantly those typical of the metal-mechanics industry, which includes machining, interaction between operators and automatic and semi-automatic machinery, assembly of parts, movement of loads, use of high temperature furnaces and other related activities.

Environmental risks

The Group operates across nine manufacturing sites in five different nations.

The manufacturing processes carried out at the Group's industrial sites are essentially mechanical processing of iron and steel and assembly of purchased components.

These processes use accessory materials such as packaging, lubricants, paints and solvents. The objective of limiting the impact of emissions into the environment has seen a significant improvement from 2008 onwards, thanks to important investments in moving from solvent-based coatings to water-based products.

Risks associated with relations with employees and trade unions

The Group carries out its industrial activities through complex manufacturing processes that require extensive use of specialist employees in the production, assembly and transportation phases. Relations with employees are mediated by the presence of trade unions which are generally well-organised and well-established in the various countries. The status of these relations determines the continuity of production works and the ability to schedule activities in order to meet the delivery commitments agreed with the client, with risks of discontinuity or interruptions in service related to situations of conflict due to contract renewal or the resizing or closure of production plants.

The risk of variability in market demand determines the ability to adjust production volumes to the sometimes unpredictable fluctuations in the demand of target markets, thus leading the Group to resort, in part, to external workers to cope with peak periods of production activity.

The Group also relies significantly on the professional contribution of key personnel and highly specialised figures (for example, managers with strategic responsibilities or figures with particular expertise in the field of process or product engineering) who, due to the skills and experience gained, are significant elements in the prompt and appropriate implementation of business plans and operational projects essential to Carraro's growth and development.

Risks associated with product quality

The success of the manufactured products depends largely on the ability to ensure quality standards appropriate to the target markets, considering:

- for drive systems (axles, transmissions and related components), the levels of reliability required by the machines in which the Group's products represent key components;
- for agricultural vehicles, their usage safety requirements according to the restrictions set forth by law or applicable legislation, and the industrial standards for road safety, operational safety, workplace safety and environmental safety (engine noise and emissions).

The risk of defects is therefore considered from the design phase; procurement, production and testing processes are carried out in constant dialogue with the client to check the achieved results, and with the suppliers to ensure the required quality levels from the first phases of the industrial supply chain.

3.

Resources and the Environment



3.1

Resources

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3.1.1 Materials

Management of production and packaging materials

The Group operates production plants in diverse geographical areas and interacts with different and constantly evolving regulatory entities, particularly in more developed countries.

In any case, an approach has been adopted to minimise environmental risk by aligning all operating units to the most rigorous standards inspired by European regulations, irrespective of whether local regulations permit different levels of freedom.

This strategy aims to maintain a high level of confidence among local stakeholders, primarily local authorities and employees, as regards the Group's ability to reduce the environmental impact of its production activities, operating with a constant commitment to the adoption of the most suitable technical solutions.

The manufacturing processes carried out at the Group's industrial sites primarily regard the mechanical processing of iron and steel products and the assembly of finished components. Production also requires the use of supplementary materials such as packaging, lubricants and paints.

In order to limit the environmental impacts of the final stages of the production cycle, since 2008 the Group has implemented an investment plan that has led to the gradual shift from solvent-based coatings to water-based paints, drastically reducing the risk of introducing poisonous emissions into the water system and the atmosphere.

As regards compliance with leading global technical standards, activities have been launched and concluded to obtain the Environmental Certifications according to the ISO 14001 standard at the Group's plants in Italy, China and India (axle plant).

The environmental initiatives launched by the Group include:

- 1) the preference for recyclable and reusable products in the procurement of packaging materials and equipment;
- 2) the use of plastic or metal containers for the exchange of materials with suppliers, reducing the use of non-reusable wooden or cardboard containers;
- 3) the verification and redefinition of raw materials (selection of optimum minimum dimensions in the purchase of semi-finished raw metals) to reduce the amount of excess metal produced in machining processes.

Given the nature of the products, the most significant materials used in production processes are those for direct use and are classified according to weight or type according to following commodity categories: castings, steel and purchased components (semi-finished and finished) composed to varying extents of metal, plastic, glass and rubber.

TABLE - DIRECT USE

Materials used	unit of measurement	2017	2016
Casting	tonnes	68,000	61,000
Steel	tonnes	31,100	27,000
Mixed components	tonnes	19,600	19,000
Total	tonnes	118,700	107,000

Note: the weight per unit is estimated on the data extracted by internal ERP systems, adjusted by a correction factor, weighted by purchase value, of around 8% for iron and steel castings and 20% for mixed components.

Based on the information collected from our suppliers, the estimated percentage of recycled materials for iron castings is currently 88%.

The increase in the use of materials in 2017 compared to the previous year is in line with the increase in production and sales volumes in the year under review.

3.1

Resources

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3.1.2 Energy

Energy usage policies

As regards energy, the targets pursued by the Group to reduce industrial costs translate into the constant drive to achieve increasingly higher standards of energy efficiency and the definition of the approach and methodology to be implemented to reduce energy intensity, energy consumption and greenhouse gas emissions produced by the Group's activities.

The effective implementation of these methodologies helps to control costs, limit indirect environmental impact, including as regards emissions, and reduce the need for technical supporting infrastructures.

In more recent years, the Group's focus towards an increasingly judicious use of energy has led to the promotion and development of a series of organisational and operational initiatives to review energy usage decisions and implement improvement programmes aimed at delivering immediate results:

- establishment of the new Energy Management department;
- analysis of regulatory systems and public incentivisation schemes (e.g. green certificates);
- study of alternative energy generation systems (e.g. co-generation plants);
- renegotiation of energy supply contracts with renewable energy providers;
- evaluation of the viability of investments in low-energy lighting systems.

According to these strategies, since 2014 the Carraro Group has dedicated resources and skills to improving the efficiency of energy consumption in manufacturing and technological processes, particularly in reference to:

- the combined electricity and thermal energy system;
- the use of LED lighting in plants;
- the replacement of compressed air production plants with other high efficiency systems;
- the flare gas recovery systems in the steel heat-treatment process (SIAP S.p.A. plant in Maniago).

Thanks to the dedication of appropriate organisational resources and skills and the appointment of the Energy Manager, significant reductions in costs have been achieved in the negotiation of electricity and methane gas supply contracts.

As regards the selection of energy suppliers for Italian sites, in 2017 the target to source 100% of all energy from renewable energy sources was achieved.

Energy Consumption

Total energy: direct and indirect consumption in absolute terms

a) Direct energy consumption in the plants and offices by source type (Scope 1)	unit of measurement	2017	2016
Total direct energy consumption	GJ	334,514	378,044
From non-renewable fuel sources:	GJ	334,514	378,044
Natural gas (methane)	GJ	173,537	170,882
Diesel (generators)	GJ	10,558	8,696
Butane	GJ	117,247	166,622
Motor fuels	GJ	14,970	15,912
Propane	GJ	18,202	15,932
From renewable fuel sources:	GJ	0	0

Note: conversion factors are taken from DEFRA.

The diverse nature of the products and technologies used at the plants of the Carraro Group require the use of different energy sources:

- Methane: required for the steel heat-treatment process, co-generation, domestic heating and coating processes;
- Diesel: required for electricity generation;
- Propane and butane: required for the steel heat-treatment process;
- Automotive fuels: fuel used by company vehicles and the fleet of buses used to transport employees to and from work in India and China. The data has been estimated based on distances travelled and the average consumption by vehicle type.

b) Indirect energy consumption in the plants and offices by source type (Scope 2)	unit of measurement	2017	2016
Total indirect energy consumption	GJ	163,187	156,104
Electricity	GJ	163,187	156,104
from non-renewable sources	GJ	77,553	156,104
from renewable sources	GJ	85,634	0

The reduction in direct consumption [Table A, Scope 1 -11.5%] derives from a number of factors:

- the increased use of natural gas and propane is linked to the usage intensity of heat-treatment systems;
- less use of fuel for road transport is mainly linked to rationalisation of the routes of the buses used at the Indian facility to improve the efficiency of the service in the time bands of less use;
- the reduction in the use of butane, used in the heat-treatment systems at the plant in Argentina, reflects the drop in local production;
- the increase in the use of combustible diesel relates to a greater use of energy produced by generators in the case of interruptions to the supply of electricity from the national grid.

The increase in indirect energy consumption (+4.5%) is directly linked to the increase in production in 2017 compared to the previous year and a more intense use of manufacturing machinery and industrial plants.

Plans to reduce energy consumption

In implementing the policies to reduce energy consumption, in line with the Group energy efficiency investment plans, since 2014 intervention plans have been launched at some of the Group's main plants with regard to lighting in the production and storage areas, the production of compressed air, the co-generation plant and the recovery of flare gases in the steel heat-treatment process.

In particular:

- 1) Lighting: mercury vapour and neon lights have been replaced with LED lighting at all Italian production plants and at the Pune plant in India.
- 2) Production of compressed air: at the Carraro Drive Tech S.p.A. plant in Campodarsego (PD), new compressors for the production of compressed air and new air-treatment dryers have been installed, resulting in a significant reduction in energy usage.
- 3) Co-generation plants: at the SIAP S.p.A. plant in Maniago (PN), a co-generation system fuelled by methane gas with a nominal power of 904 kWe has been installed, aimed at the production of electricity for internal use and the recovery of thermal energy for central heating systems and heat processes.
- 4) Recovery of flare gases: at the SIAP S.p.A. plant in Maniago (PN), various "Hybridcarb" systems have been installed for the recovery and reuse of flare gas used in the steel heat-treatment process, significantly reducing atmospheric emissions and energy consumption.

The reduction in energy consumption recorded during 2017 was calculated Using the year of reference 2014 for all companies with the exception of Carraro India Ltd., for which the 2015 data was used; in both cases, the baseline data coincides with the launch of energy efficiency improvement initiatives.

The reduction in energy consumption is monitored through the use of estimates or appropriate instruments ("continuous monitoring").

Year 2017

Reduction plan	Programmes aimed at reducing energy consumption – 2017	unit of measurement	Energy consumption prior to reduction plans	Value of reductions
Production of compressed air	Upgrading of the compressor chamber at the Carraro Drive Tech S.p.A. plant in Campodarsego	GJ	4,061	1,369
Lighting	Replacement of the traditional lighting units with LED bulbs in the production areas of the Carraro Drive Tech S.p.A. plant in Campodarsego		1,472	935
Lighting	Replacement of the traditional lighting units with LED bulbs in the production areas of the Carraro Drive Tech S.p.A. plant in Poggiofiorito		1,611	1,131
Lighting	Replacement of the traditional lighting units with LED bulbs in the production areas of the Carraro S.p.A. Agritalia		1,553	1,118
Lighting	Replacement of the traditional lighting units with LED bulbs in the production areas of SIAP S.p.A. in Maniago		1,779	908
Lighting	Replacement of the traditional lighting units with LED bulbs in the production areas of Carraro India Ltd		306	60
Co-generation	Energy sourced from the co-generation plant at the SIAP S.p.A. plant in Maniago (electricity and thermal energy)		148,726	13,360
Flare gas recovery	Flare gas recovery from heat-treatment furnaces at the SIAP S.p.A. plant in Maniago		1,233	581

3.2

Environment

Environmental compliance

One of the fundamental principles of the environmental policy of the Carraro Group is the recognition that compliance with local regulations in the areas in which it operates and the pursuit of business objectives to protect the environment are of primary importance. All local organisations must comply with the regulations and laws issued by the authorities as well as the Standard Practices indicated in the Group's EH&S Management System.

The aim of the Standard Practices is to define the activities necessary to effectively control possible pollution sources through the use of appropriate parameters, tools and management methods, promoting technologies that enable effective monitoring.

The EH&S Management System outlines an annual Assessment Programme aimed at assessing the level of implementation or performance in order to measure the effectiveness of the management system and monitor compliance with environmental aspects.

As regards environmental compliance, in 2017 and 2016 no significant sanctions were applied to Group companies for failure to comply with environmental laws or regulations.

3.2 Environment

3.2.1 Emissions

Approach

The Group places particular focus on polluting emissions, including as regards compliance with local regulations. All operating units are required to comply with the Standard Practices envisaged by the Group EH&S Management System.

The Standard Practices define, *inter alia*, the activities necessary to control emissions through the use of engineering and management best practices, and promote the use of technologies to control atmospheric pollution. The EH&S policies of the Carraro Group provide that in the case of accidental release of greenhouse gases (GHG), an investigation will be carried out to determine the cause and identify appropriate corrective measures to prevent the incident from happening again.

Furthermore, the Group has developed appropriate environmental emergency procedures that guarantee a swift response to incidents in order to minimise environmental impact.

Direct greenhouse gas emissions (Scope 1)

The methodologies used to calculate emissions directly measure the relevant energy source (methane, propane, diesel, petrol, butane), losses (or refills) of cooling/air-conditioning systems and the conversion into GHGs in order to determine the value of CO₂ equivalent.

Direct emissions by energy source (Scope 1)	unit of measurement	2017	2016
Total emissions		18,992	21,599
From non-renewable sources:		18,992	21,599
Natural gas (methane)	tonnes of CO ₂ eq.	8,878	8,734
Diesel		737	607
Butane		6,986	9,931
Propane		1,085	950
Motor fuels		1,018	1,085
Other (GHG - Freon)		288	292

Note:

- the data provided does not consider any compensation factors (e.g. green certificates)
- conversion factors are taken from DEFRA and ACRIB

The data provided considers the emissions comprised of CO₂ equivalent deriving from the use of methane gas, diesel, butane and propane gas used in production cycles and the freon used to replenish refrigeration systems.

The fuel used by company vehicles and the fleet of buses used to transport employees to and from work at the plants in India and China is estimated on the basis of distance travelled and the average consumption per vehicle type.

The production of CO₂ equivalent in 2017 fell by 12%, due predominantly to a reduction in the use of butane at the Argentinian plant.

Indirect greenhouse gas emissions (Scope 2)

Indirect greenhouse gas emissions (Scope 2)	unit of measurement	2017	2016
Total indirect emissions		14,571	24,413
Electricity	tonnes of CO ₂	14,571	24,413

Note: conversion factors are taken from AIB and Terna (data expressed in tonnes of CO₂).

The CO₂ emission factors from renewable sources (hydroelectric, photovoltaic, wind, biomass, etc.) are considered as zero, in accordance with the provisions of the UNFCCC Convention (United Nations Framework Convention on Climate Change) for the reporting of CO₂ emissions.

Since 2017, the electricity used in the Italian plants of the Carraro Group is produced entirely by renewable sources.

This is the key factor behind the significant reduction in emissions.

Reduction of greenhouse gas emissions

In terms of direct emissions (Scope 1), since 2015 a programme has been launched to monitor significant data in relation to the use of gas in refrigeration systems, with regular maintenance works carried out to ensure the correct operation of refrigeration circuits.

In operational terms, all plants are now required to recover the freon gas used in the circuits before any maintenance or repair works and reuse it in the system.

As regards indirect emissions (Scope 2), since 2017 the Carraro Group has elected to only buy electricity produced from renewable sources (eg. hydroelectric, wind, photovoltaic, biomass) for its Italian plants.

The decision of the Group to focus on ecologically sustainable suppliers resulted a reduction of CO₂¹ produced by electricity consumption in 2017 of 40% compared to 2016 (approximately 9,800 tonnes).

This decision is in line with existing sustainability policies and enables a further reduction in the indirect environmental impact of the Group's activities, providing subsequent benefits in terms of reductions in CO₂ emissions.

Logistics

To adequately supply its production lines, both in terms of flows from suppliers and intra-group exchanges, and to provide an effective product delivery service to clients, each year Carraro transports large quantities of materials and components by land, sea and air, and uses specialised transporters.

In this context, the Group considers logistics and transportation processes to be key factors in terms of efficiency (time and cost) and environmental impact.

For some time, Carraro has aimed to direct the initiatives of its companies to the pursuit of sustainable logistics practices, providing clear indications to act consistently with such practices and seeking the greatest possible collaboration with supply chain partners.

¹ Greenhouse gas emissions are calculated solely in reference to CO₂ emissions.

The Group manages approximately 400 direct suppliers and 200 customer groups worldwide. In order to improve its environmental performance in terms of transportation and storage management logistics, the Group has developed a partnership programme with its suppliers, which aims to:

- increase transportation efficiency with a more judicious use of intermodal transport;
- optimise the transportation capacity of each vehicle or transport unit;
- minimise the use of protective and packaging materials.

Indirect emissions (Scope 3)

Emissions generated by the inbound and outbound transportation of goods refer to all logistics activities related to the purchase and sale of materials, components and finished products between the Group's entities regardless of performance conditions and refer principally to overland and sea transportation.

Work trips refer to transfers of technical, commercial or other departmental staff between the Group's sites in Italy and abroad and for the management of relations with trade partners.

Indirect energy emissions produced outside the organisation by emission source (Scope 3)	unit of measurement	2017	2016
<u>From non-renewable sources</u>		<u>20,581</u>	<u>18,539</u>
Inbound/outbound transportation of goods (*)	tonnes of CO₂ equivalent	18,787	16,777
Work trips by air (**)		1,794	1,762
<u>Total emissions</u>		<u>20,581</u>	<u>18,539</u>

(*) emissions related to the inbound/outbound transportation of goods have been calculated on the estimated distances of the main journeys travelled by land and sea. The parameters used to calculate emissions are taken from DEFRA.

(**) The parameters used to calculate emissions are taken from DEFRA.

The increase in the volume of emissions generated in 2017 is directly related to the more intensive logistic flow of purchases and sales, in line with the increase in sales during the period.

Other emissions

Ozone-depleting substances by type	unit of measurement	2017	2016
Other (HFC)	kg	136	140

Note: the data provided does not include the Argentinian plant and, for 2016, only partially includes the Indian plant.

Hydrofluorocarbon emissions in 2017 totalled 136 kg (140 kg in 2016).

This improvement, achieved in a context characterised by increased emissions sources, was obtained through the application of an effective repair procedure in the case of faults at all of the Group's plants.

Due to the nature of the production processes at the Group's plants, atmospheric emission sources are formed principally of emissions from thermal power plants, co-generation systems (NOx and PM) and coating systems (VOC).

	unit of measurement	2017	2016
NOx, SOx and other significant emissions			
NOx	Kg	13,309	13,674
Volatile organic compounds (VOC)	Kg	7,191	8,374
Particulate matter (PM)	Kg	856	1,074

Note:

- the data provided does not include the Argentinian plant and, for 2016, only partially includes the Indian plant.

- kilograms of NOx and particulate matter were estimated based on the analysis carried out and the operating hours of each emission source,

The commitment of the Carraro Group to reduce greenhouse gas emissions was formalised in 2015 with the implementation of initiatives aimed at reducing the impacts generated by processes that create greenhouse gases and pollutants.

In particular, thanks to the replacement of solvent-based coatings to water-based coatings, a significant reduction in emissions of volatile organic components (VOCs) has been achieved.

Furthermore, following the solutions implemented between 2015 and 2016 to improve plant efficiency, NOx emissions have also been reduced. The most significant projects include the replacement of the thermal power plant at the Campodarsego site, the improved yield of the co-generation plant at Maniago and the improvements in the efficiency of the heat-treatment furnaces at the Pune site in India.

3.2 Environment

3.2.2 Waste

Waste management

With an annual production of over five million items across nine manufacturing sites, the Group produces approximately 14,000 tonnes of industrial waste each year. Reducing the amount of waste produced has always been a priority in the definition of company policies. Hazardous waste presents a greater risk to the environment and human health, as well as higher operating costs in order to ensure compliance with regulations compared to other types of waste.

Since 2014, specific waste reduction programmes have been implemented, focusing particularly on non-recyclable waste. These initiatives have led to a 9.3% reduction in recyclable waste and a 21.4% reduction in non-recyclable waste since their introduction (data for 2014-2017).

The commitment of the Carraro Group in this regard continued in 2016 with the requirement for all local production units to explicitly commit to the implementation of solutions that allow the reuse of materials, such as the adoption of recyclable containers for the transport of raw materials and semi-finished products. A continuous review of supply chain processes was also promoted in order to optimise the inbound flow of raw materials and reduce wastage through solutions such as the rescaling of raw materials to reduce off-cuts generated by the machining process at the Maniago plant.

In various contexts, in line with these objectives and in reference to the 2015-2017 period:

- a new ecological area was created at the Campodarsego site which eliminated the run-off effect of certain waste;
- the suction plant for the treatment of oil vapours was optimised at the Maniago plant, resulting in advantages in terms of reduced emissions and the recovery of oil;
- separated waste collection was implemented definitively at the Carraro India production plant.

The tables below show the waste produced by type and disposal method.

Type of waste	unit of measurement	2017	2016
Hazardous waste	t	4,495	3,930
- Exhaust oil	t	254	301
- Cleaning water	t	953	923
- Oil emulsions	t	1,401	1,643
- Other	t	1,887	1,063
Non-hazardous waste	t	9,597	9,139
- Paper and cardboard	t	220	291
- Wood	t	1,458	1,237
- Mixed packaging	t	670	697
- Other	t	7,249	6,914
Total	t	14,092	13,069

Hazardous waste included in the item "Other" predominantly refers to waste materials from maintenance activities carried out on electrical plants, machinery and equipment.

Non-hazardous waste included in the item "Other" mainly refers to metal off-cuts from machining processes.

Waste disposal method	unit of measurement	2017	2016
Reuse	t	5,647	5,351
Recycling	t	3,474	3,049
Incineration	t	2,490	3,459
Landfill	t	2,481	1,210
Total	t	14,092	13,069

Most spare iron is reused through its sale as a raw material to operators authorised for its reuse.

Recycling refers to paper, plastic and glass. In these cases, waste is sold to environmental operators authorised for the storage and recycling of such materials.

Non-recyclable or reusable waste is delivered to an authorised operator for incineration.

The increase in waste (+7.8%) reflects the increase in production volumes in 2017 compared to the previous year.

Overall, compared to the rise in production, the amount of waste which is reused or recycled has remained stable at just under two thirds of the total (64.7%).

Special waste produced by the production processes of the Carraro Group is not subject to intra-group or international transportation. Waste transportation, sale and treatment activities are carried out in accordance with the local regulations of each nation in which the Group operates.

3.2 Environment

3.2.3 Water

Water resources

The availability of water to adequately or sufficiently meet the demands of the region is becoming an urgent problem in many parts of the world and is an increasing concern at some of our most significant plants and the surrounding communities. With the objective to reduce water consumption by 5% by 2018 compared to 2016, the programme of judicious water management launched in 2013 has been continued.

The reduction in water usage also reduces the risk of service interruptions in areas where the authorities struggle to provide sufficient water of an acceptable standard. The companies of the Carraro Group are committed to improving their production processes in order to maintain the use of drinking water within sustainable limits in relation to the area in which they operate.

As envisaged by the Group policy, all production sites must prepare a monthly report on water usage to be submitted to the EH&S department of the Parent Company, and monitor water losses regardless of the size of the site or the availability of the local water supply.

According to the size of the site and the availability of water resources, local organisations are responsible for the implementation of solutions and practices aimed at more efficient water usage. The Group has already felt the benefits of these practices and further improvement activities are scheduled, taking in account differing local conditions. Such initiatives contribute to the achievement of efficiency targets at Carraro sites as regards the use of resources and confirm the sense of responsibility in the use of the resources offered by the region. At the Group's Indian plants, to cite one significant example, all water used for production processes and sanitation is collected and purified for use in other applications.

Water withdrawn (by source)	unit of measurement	2017	2016
Public water suppliers	m ³	143,182	140,268
Other - specify (well)		5,286	5,865
Total water usage		148,468	146,133

Note: the data does not include the Argentinian plant

Most water withdrawn is used in mechanical production processes and, to a lesser extent, coating systems and to wash components prior to assembly.

In 2017, despite increased production volumes and revenues, total water usage remained substantially stable (+1.6%).

Thanks to specific plans to monitor and improve the efficiency of water usage launched in 2015, which involved the main production processes, the Group successfully reduced the amount of water used in relation to production volume, consequently reducing the total amount of water discharged into public sewage systems or water treatment plants.

The variation in water discharge volume is substantially in line with the increase in water use.

Water discharges by destination	unit of measurement	2017	2016
Public sewage system *	m ³	47,554	45,259
Other: waste water discharged to water treatment plants (**)	m ³	3,044	3,508
Total	m³	50,598	48,767

Note: the data does not include the Argentinian plant

* estimated data

** transfer to external treatment plants apart from the Indian site, which has an internal water purification system

4.

Human Resources



4.1

Employees

Industrial relations

Freedom of association is a human right ratified by the main international conventions and various state regulations. The Group has always guaranteed the freedom of association of its employees, establishing, in compliance with local regulations, practices and mutual roles, a constant dialogue with these counterparties.

Carraro has always engaged in open and transparent relations with Trade Unions and workers' representatives both at its Italian sites, where regulatory developments and a background of industrial relations has facilitated an admirable level of maturity in this regard, and at its plants in other countries, where the Group's companies have been open to interaction with emerging trade union organisations.

Depending on the countries in which the Group operates and their various regulations, working relations are regulated by national or corporate collective labour agreements or existing legislation.

The percentage of Group employees covered by collective labour agreements is over 50%.

The approach to industrial relations adopted by the Carraro Group is based on the respect of the mutual roles and positions and a constant commitment to constructive dialogue.

Notice times for organisational changes are those provided by local regulations or collective bargaining agreements, where present. In other cases, the Group adopts an approach based on dialogue and cooperation with trade unions.

One example of this is the national forum opened in 2016 for the Group's Italian companies, in line with the constant commitment to consolidating and strengthening the industrial relations system with trade unions. The forum involved various Amalgamated Unions and aimed to define standardised regulations to manage possible cases of structural imbalance in the workforce at the Group's sites and, specifically, Poggiofiorito plant.

Management of human resources

The management of human resources within the Group aims to demonstrate the capacity to attract and integrate different professional profiles in a company that requires a diverse range of skills, a factor that distinguishes Carraro from other companies in the region.

Furthermore, the global scale of the Group, in terms of the location of its own sites and those of its clients and suppliers, demands that Group employees and collaborators demonstrate sufficient willingness to interact with counterparties in different foreign companies as well as to work with colleagues from other countries and cultures in pursuit of shared goals.

The HR strategies of the Group must meet the demand for flexibility resulting from market demands concerning the distribution of work shifts in the production cycle, the need to entrust projects involving new processes or products to mixed Italian-international work groups and the need to appoint management or control roles to people to be seconded to another country, with the relative organisational repercussions in terms of travel and transfers.

When defining working hours, the Group also considers the personal needs of employees by providing flexibility (parental leave, flexible start and finish times, part time opportunities) within the limits of an efficient organisation, as part of its fundamental belief that promoting a reasonable work-life balance is an essential element for better professional performance.

Turnover within the Carraro Group

The variations in the workforce year on year predominantly and inevitably reflect the need to adapt production volumes to fluctuating demands on the target markets.

Other significant factors are strategies to reorganise and rationalise the distribution of production activities across the various sites; again, these are ultimately influenced by the development of the end markets.

TAB1: number of employees who have joined and left the Group by gender

		2017			2016		
	unit of measurement	M	F	Total	M	F	Total
Employees hired	no.	414	25	439	245	23	268
	%	94%	6%	100%	91%	9%	100%
	Turnover	17%	9%	16%	10%	8%	10%
Employees terminated	no.	386	28	414	475	23	498
	%	93%	7%	100%	95%	5%	100%
	Turnover	16%	10%	15%	20%	8%	19%

NOTE: the data provided includes inbound/outbound transfers of employees between Group companies.

Over the last three years, the total workforce has been progressively reduced as a result of an increased focus on the Group's more traditional business areas; in particular, this process has involved the sale of certain production units dedicated to non-core activities as opposed to the drive system and agricultural vehicle sectors in which the Group has historically operated.

The net variation in total workforce recorded in 2016 confirmed the rationalisation activities of remaining “core” companies.

The net variation recorded in 2017 indicates a trend reversal (+5.9% since the start of the year) due to the need to strengthen the workforce following the upturn in production volumes.

TAB2: number of employees who have joined and left the Group by age

		2017					2016				
	unit of measurement	<=30	31-40	31-40	<50	Total	<=30	31-40	31-40	<50	Total
Employees hired	no.	349	58	21	11	439	205	32	25	6	268
	%	79%	13%	5%	3%	100%	76%	12%	9%	2%	100%
	Turnover	47%	7%	3%	2%	16%	26%	4%	4%	1%	10%
Employees terminated	no.	263	72	30	49	414	213	119	73	93	498
	%	64%	17%	7%	12%	100%	43%	24%	15%	19%	100%
	Turnover	35%	8%	5%	10%	15%	27%	15%	11%	21%	19%

Note:

- the data provided includes inbound/outbound transfers of employees between Group companies.
- employees who left the company aged > 50 include retirees.

TAB2: number of employees who have joined and left the Group by country

	2017		2016		2017	2016
	Total		Total		Turnover	
	no.	%	no.	%	%	%
Employees hired	439	100%	268	100%	16%	10%
Italy	51	12%	56	21%	4%	4%
India	295	67%	180	67%	27%	17%
China	72	16%	27	10%	34%	14%
Argentina	3	1%	1	0%	2%	1%
North America	0	0%	0	0%	0%	0%
Brazil	18	4%	4	1%	113%	33%
Employees terminated	414	100%	498	100%	15%	19%
Italy	87	21%	113	23%	7%	9%
India	239	58%	173	35%	22%	17%
China	51	12%	56	11%	24%	29%
Argentina	21	5%	150	30%	13%	81%
North America	2	0%	1	0%	50%	17%
Brazil	14	3%	5	1%	88%	42%

NOTE: the data provided includes inbound/outbound transfers of employees between Group companies.

Employees entering or leaving the Group represented by category reflect the general trend: the terminations of certain management positions are wholly ascribable to labour market logistics and personal situations.

The return rate of employees who have taken parental leave across the Group is 100%.

Number of employees entitled to parental leave, by gender

	2017			2016		
	M	F	Total	M	F	Total
Total	1,355	249	1,604	1,378	252	1,630

Number of employees who have taken parental leave, by gender

	2017			2016		
	M	F	Total	M	F	Total
Total	69	30	99	80	41	121

Return rate

	2017			2016		
	M	F	Total	M	F	Total
Total	100%	97%	99%	100%	100%	100%

4.2

Diversity

The Carraro Group operates in a multinational context, interacting with commercial partners through a team composed of employees from all of the countries in which the Group operates.

This context, characterised by employees of different genders, religions and cultures, represents both a challenge and an enormous benefit to be optimised and carefully managed, transforming it into a competitive advantage as well as a concrete representation of shared human values.

The Group has always adopted a philosophy open to the inclusion of different skills and personalities without the fear of losing its corporate identity, in the belief that such an approach enriches its intangible heritage by maintaining a firm stance against any form of discrimination.

The Group's commitment to diversity, equal opportunities and non-discrimination is unequivocally expressed by the Group's Code of Ethics, Diversity Policy and Human Rights Policy; one example of its implementation is the provision of a prayer room dedicated to Muslim workers operating at the offices of the Parent Company.

Non-discrimination is regulated by specific laws in Europe and Italy and has always been a fundamental characteristic of the philosophy of the Carraro Group. It is one of the founding principles of the Group's Code of Ethics and is reflected in the Human Rights Policy and Diversity Policy.

Thanks to this approach, the Group has been able to expand the scope of its commitment to non-discrimination to include external companies, entering into relationships with new clients and suppliers located in different countries and with different cultures to those in Italy, as well as acquiring or launching manufacturing organisations in distant continents with different histories and mentalities.

This route was only made possible by establishing relationships and absorbing human resources while rejecting all barriers of race, religion, nationality, personal beliefs, political opinions, health, gender, social status or cultural diversity.

Consequently, the Group continues to be committed to promoting the development of the skills and abilities of every employee, promoting a working environment and conduct that prevents all direct or indirect forms of discrimination.

The principle of non-discrimination is also applied at the highest level of corporate governance; indeed, the Board of Directors is composed of both male and female Directors, while the selection and appointment criteria for its members, contained in Article 21 of the Bylaws, provides that the election mechanism must ensure that the least represented gender (male or female) comprises one third ("Full quota") or, when applicable, one fifth ("Reduced quota") of appointed directors.

In 2016 and 2017, no incidents of discrimination were reported or recorded.

Gender has no bearing on the determination of salaries and wages. Any possible differences in the average remuneration of men and women are linked to diverse situations of professional seniority and role within the organisation, with a remuneration structure that varies from country to country.

In particular, as regards India it is important to note that the female contingent, which for the employee category represents 12% and is predominantly composed of new hires with executive duties, is not comparable with the male contingent, which differs in terms of roles covered and professional seniority.

The ratio of average gross pay for men and women² in the Group as a whole varies according to country, ranging from 0.69 in China and 1.36 in India in 2017 (0.73 and 1.25 respectively in 2016).

More specifically, women represent 9.3 % of the total workforce of the Group (9.5% in 2016) and mainly fall into the clerical workers and middle manager categories (71 % in 2016 and 2017), of which they represent approximately one third, and with a more significant concentration in administrative and commercial departments, where tasks of a technical nature are assigned mostly to male personnel with expertise in the mechanical sector.

In this regard, given the industrial context in which the Group operates, the male presence is prevalent and constant over time with a higher average seniority that results in higher salaries.

Gross Annual Salary: ratio of men / women by qualification subdivided by location

	2017				2016			
	Italy	India	China	South America	Italy	India	China	South America
Senior Managers	1.15	N/A	N/A	N/A	1.18	N/A	N/A	N/A
Executives and Officers	1.11	N/A	N/A	N/A	1.13	N/A	N/A	N/A
Clerical staff	1.23	3.74	1.33	1.23	1.21	2.78	1.33	1.14
Factory workers	1.07	1.07	0.96	N/A	1.09	1.24	0.98	N/A
Total	0.99	1.36	0.69	0.99	1.02	1.25	0.73	1.23

Note: the table does not include data from Carraro North America Inc. and Carraro International, which are not relevant due to the low number of employees.

The percentage of female members of staff over the total number of employees is in line with companies of a similar dimension operating in the mechanical manufacturing sector, with fewer women in the manual and technical category and a higher percentage employed in commercial and administrative roles.

Distribution by age is fairly even overall.

TAB2: Number of employees by age (excluding external workers)

	unit of measurement	2017				2016			
		M	F	Total	% by age	M	F	Total	% by age
<=30	no.	691	52	743	27.3%	733	54	787	29.2%
31-40		777	87	864	31.7%	720	92	812	30.2%
41-50		545	99	644	23.6%	553	94	647	24.0%
>50		434	40	474	17.4%	407	39	446	16.6%
Total at 31.12		2,447	278	2,725	100.0%	2,413	279	2,692	100.0%

² Ratio of total gross remuneration for all professional levels to total employees of both genders.

TAB3: Average age of employees

	2017	2016
Average age	39	38

The breakdown by educational level reflects the demand of Group companies as regards the required level of education and gender distribution of the workforce, with a significant presence of men engaged in roles related to production processes, both in Italy and abroad.

Higher qualifications and educational levels are required in the technical and product research, development and design sectors, as well as in the management of production processes and other specialised areas such as the finance, IT, legal, fiscal, administrative and commercial development sectors.

TAB4: Number of employees by educational level

		2017				2016			
	unit of measurement	M	F	Total	% by educational level	M	F	Total	% by educational level
University or equivalent	no.	426	126	552	20.3%	417	123	540	20.1%
High school/college diploma		1,009	87	1,096	40.2%	1,045	86	1,131	42.0%
Primary/secondary school		1,012	65	1,077	39.5%	951	70	1,021	37.9%
Total		2,447	278	2,725	100.0%	2,413	279	2,692	100.0%

The presence of employees with disabilities in Italian companies is partially regulated by law.

TAB5: Number of employees with disabilities

	2017	2016
No. of employees with disabilities	63	63

TAB6: Number of employees by seniority

		2017				2016			
	unit of measurement	M	F	Total	% by seniority	M	F	Total	% by seniority
<= 5	no.	754	74	828	30.4%	952	100	1,052	39.1%
6 - 10		790	96	886	32.5%	615	77	692	25.7%
11 - 20		523	83	606	22.2%	500	78	578	21.5%
21 - 30		297	21	318	11.7%	251	19	270	10.0%
> 30		83	4	87	3.2%	95	5	100	3.7%
Total		2,447	278	2,725	100.0%	2,413	279	2,692	100.0%

Seniority is linked to turnover, particularly in operational roles; turnover is more pronounced in foreign companies located in emerging countries (China and India), where growth and professional relocation rates are higher due to the significant demand for specialised personnel.

4.3

Protection of Human Rights

Protection of Human Rights

Relations with employees are managed in accordance with national legislation and international conventions on human rights. In this regard, all executive personnel, or those responsible for the management of human resources, are constantly informed on matters of compliance with local employment legislation.

In all of its international companies, the Carraro Group focuses on the management of human resources and, in particular, the respect for human rights, through both direct supervision by local management and supervision by the main departments of the Parent Company.

No incidents of child labour, enforced labour, discrimination or failure to respect human and employees' rights have been recorded at Carraro sites.

To identify and, where possible, prevent the risks associated with breaches of human rights in all of its offices and operating areas, the Group:

- has included in its Code of Ethics a specific reference to respect for human rights;
- regularly notifies all employees and collaborators of its human rights principles through the available channels (direct written notification and through company noticeboards, email, Intranet and the company website);
- raises awareness among its employees through the training programme developed to promote the knowledge and understanding of the Code of Ethics and, in the case of Italian associate companies, the Organisational Model pursuant to Legislative Decree no. 231/2001;
- promotes the assumption of responsibility by its suppliers in this regard and requires all new suppliers to comply with the principles of conduct set forth by the Code of Ethics.

Any grievances associated with human rights are sent to the inbox of the Supervisory Bodies of the Italian companies and, as regards the Group, the inbox of the Supervisory Body of Carraro S.p.A., established in order to address notifications regarding possible breaches to the human rights set forth in the Group's Code of Ethics.

This mechanism has been put in place in order to constantly monitor the implementation of these principles.

Human rights training is integrated into a broader employee training programme on the content of the Code of Ethics and the Organisational Model 231.

The training schedule in Italy is directed mainly at clerical workers, executives and managers, while at the Group's international companies it is directed at managers (plant and department managers). Training is provided at the time of hiring and whenever significant changes are made to the Codes.

The programme is structured with appropriate online courses with teaching materials and learning assessment questionnaires.

TAB1: number of employees who have received human rights training

	unit of measurement	2017	2016
Italy		413 (*)	369 (*)
Abroad	no.	31 (**)	31 (**)
Total		444	400

(*) complete data as at 31.12 of each year; data includes courses carried out in previous years (updated on 15.02.2018)

(**) complete data as at 31.12 of each year; data includes courses carried out in previous years. Training for foreign employees focuses on the principles and content of the Group's Code of Ethics.

TAB2: total number of human rights training hours

	unit of measurement	2017	2016
Italy		826 (*)	738 (*)
Abroad	Hours (°)	62 (*)	62 (*)
Total		888	800

(*) complete data as at 31.12 of each year; data includes courses carried out in previous years.

(°) each training courses lasts approximately two hours on average.

4.4

Employee Services

Employee services

Carraro pays particular attention to the working and living conditions of its employees in Italy and abroad, offering appropriate financial and social support mechanisms where demand is greatest.

As regards the services offered to employees, no distinction is made according to contract type (part-time/full-time) but benefits vary according to geographic area and applicable regulations.

The main services provided by the Group are:

- The company canteen, open during the day and at night depending on timetables and shifts, which ensures that all employees at its industrial plants have access to a service at their place of work, reducing the number of journeys made outside the plant;
- For companies in India and China, the collective transport service to and from work, paid for by the company, established to minimise transportation costs by other means;
- Flexible working hours and other part-time solutions offered to employees in Italy and certain foreign companies (Brazil and North America) to provide support for workers in terms of their social and family lives;
- Life and Health insurance policies, offered in Italy and in many of the Group's international companies;
- Welfare programmes, financial support in the case of illness and other minor benefits offered to employees of the company in China;
- At the offices of Carraro S.p.A. and Carraro Drive Tech S.p.A. in Campodarsego, certain benefits have been established for Muslim workers such as a dedicated prayer room and a selection of dishes to meet their dietary customs.

4.5

Workplace Safety

The importance of a management approach to production processes that establishes among its fundamental objectives the principle of providing adequate conditions of health and safety in the workplace was recognised by the Group's owners and directors long before the creation and development of the increasingly complex legislation that regulates it.

Over the years, significant resources have been spent on risk analysis and the study of useful solutions to mitigate their effects while building a shared culture of safety.

The Group's expansion, characterised until the 1990s by production units located in Italy, into new countries and continents with the acquisition and operation of plants in different nations posed a significant challenge to the Group's ability to interpret and fulfil local legal safety requirements and export the principles and concepts of good management which were well-established at its Italian sites.

In the last decade, this process led to the decision to adopt a management system that, inspired by the best international practices, could be applied to all Italian and foreign companies as a standardised approach, even in the presence of different legislative systems.

The founding principles of the EH&S Management System of the Carraro Group are:

- Focus on sustainable health and safety;
- Responsibility and engagement at all levels;
- Inspiration from the leading international technical guidelines;
- Identification of periodic objectives;
- Measurement of results with the judicious use of reference KPIs;
- Performance of periodic and systematic audits;
- Notification of outcomes, results and corrective measures to stakeholders;
- Continuous improvement cycle;
- Constant monitoring;
- Regular reports to management.

Responsibility and engagement are indispensable tools for the creation of a corporate culture characterised by safety and respect for the environment.

Each local organisation prepares an annual internal audit plan that involves the managers responsible for all business units in the quarterly performance of EH&S audits in its areas of responsibility and, periodically, in other areas. The audit plan aims to assess the efficiency of the organisation as regards the implementation of internal controls such as programmes, procedures, policies, operating practices and organisation.

The EH&S Management System enables the Carraro Group to fulfil the objective of respecting different local compliance requirements and meet global standards.

The EH&S Management System for the Group as a whole is coordinated and monitored by the EH&S department of the Parent Company.

The certifications acquired from independent bodies are confirmation of the management's commitment and its correct approach to health, safety and the environment.

Name	Area	Company/office	Registered office	Country
OHSAS 18001:2007	Workplace safety	Carraro SpA Divisione Agritalia	Rovigo	Italy
ISO 14001	Environmental protection	Carraro Drivetech S.p.A.	Campodarsego (PD)	Italy
		Carraro SpA Divisione Agritalia	Rovigo	Italy
		SIAP S.p.A.	Maniago (PN)	Italy
		Carraro India Ltd. (axle plant)	Ranjangaon (Pune)	India
		Carraro China Drive Systems Co.	Qingdao	China

With a view to promoting a culture of safety as well as ensuring compliance respect with local legislation in each nation, the Carraro Group shares its objectives and intentions with workers, who are the first to benefit from adequate conditions of workplace health and safety.

In Italy, workplace health and safety regulations envisage the representation of workers and their direct involvement in training programmes.

In other countries, the Group applies the same approach and maintains an open dialogue with workers' representatives on the most significant aspects of health and safety.

As at 31.12.2017, the Group as a whole was comprised of 3,156 people (2,979 as at 31.12.2016), of which 59 (61 as at 31.12.2016) operate mainly in non-production organisations (commercial, financial and planning sectors), where health and safety risks are not particularly significant. For this reason, workers at the offices of Carraro International, Carraro North America and Carraro Technologies are not represented by committees that deal with aspects and programmes on the subject of health and safety in the workplace.

Each local organisation has a EH&S committee that meets at least once a quarter and is chaired by the Plant Manager. The aim of the Committee is to manage, coordinate and monitor the progress of EH&S initiatives, providing staff who are able to define the regulations and responsibilities applicable to each level of the organisation.

		2017	2017	2017	2016	2016	2016
	unit of measurement	M	F	Total	M	F	Total
% of employees represented	%	98.4%	95.9%	98.1%	98.1%	96.5%	98.0%

The accident statistics for the last two years demonstrate a positive trend and are low in number, with an index of 11.4 in 2017 (8.39 in 2016) against 5.9 million hours worked in the Group in 2017 (5.8 million in 2016). The total number of accidents recorded is 36 in 2017 (25 in 2016), of which 100% referred to men and none of which were fatal.

The most common types of injury are trauma and bruising associated above all with the handling of loads and the use of manual equipment in machining, assembly and storage areas.

The absenteeism rate is significantly low at 0.08 (0.06 in 2016).

The Lost Work Injury Rate (LWIR) used to measure accidents reported a value of 1.21 compared to a target of 0.60 for 2017 (0.85 compared to a target of 0.80 in 2016).

Tab1: Occupational accidents and illness rates

	2017			2016		
	Europe	Asia	Americas	Europe	Asia	Americas
a) Number of fatalities	0	0	0	0	0	0
b) Accident rate	21.3	0	31.9	13.2	2.7	19.5
c) Occupational illness rate	0	0	0	0	0	0
d) Rate of days lost to accident	0.20	0	0.22	0.14	0.01	0.09
e) Absenteeism rate (%) ³	0.2	0	0.2	0.1	0	0.1
F) Number of injuries	30	0	6	17	4	4
- of whom women	0	0	0	0	0	0

Note: composition of rates

b) Accident rate: (total no. accidents/total no. employees) * 1,000

c) Occupational illness rate: (total no. cases occupational illness / total no. hours worked) * 200,000

d) Rate of days lost to accident (total no. days of absence due to accident / total no. hours worked) * 1,000

e) Absenteeism rate: ratio between the total days of absence owing to accident and the total days worked in the same period, expressed as a percentage.

³ The absenteeism rate is related only to the number of days lost due to accident.

4.6

Training

The Carraro Group considers the provision of training its employees as an essential factor to the growth of the company; the development of specialised skills and abilities in general is fundamental to the Group's capacity to compete and provide its clients with technical solutions in line with their needs both in terms of quality and innovative content.

Training is an important process that Carraro aims to optimise from the very beginning of an employee's professional career, accompanying its collaborators throughout their career paths.

Themes covered by the training programmes vary according to the needs of the company and are constantly updated. Training is driven by the needs of the organisation and the various departments, as well as the fulfilment of any requirements and needs that may arise due to specific conditions.

Furthermore, in order to develop technical expertise, reduce integration times for new employees and stimulate the recruitment of new resources, for a number of years the Group has promoted relations with technical schools and universities in order to offer work experience programmes and combined school-work initiatives.

One initiative worthy of particular note is the "Academy" training programme launched by Carraro S.p.A. Divisione Agritalia in October 2017, which aims to educate and recruit young graduates with specific technical skills in the agricultural vehicle industry.

Training activities are organised in order to respond to the needs of the workforce according to each department. Most training activities focus on research and development in the technical, engineering, testing, prototypes and plant production sectors, while other training sessions are provided for specialised areas such as administration, tax, customs and IT.

Training on the topics of occupational and environmental health and safety is provided constantly by internal and external training providers.

As regards delivery methods, most training is classroom-based or "on the job"; the latter particular refers to employees operating in the production line.

The most significant initiatives include:

- provision of a permanent Training Centre at the plant of Carraro India Ltd., aimed at training newly recruited production personnel;
- the "Agritalia Academy" project, developed in the final quarter of 2017 at the offices of the Agritalia business unit of Carraro S.p.A. and aimed at providing preliminary training to a group of technicians to be employed by the Agritalia Research and Development department.

Total hours of training by type of activity

	unit of measur ement	2017		2016	
		Total	%	Total	%
Technical training (*)		17,878	65.2%	21,642	71.3%
Other training (**)	h - %	9,558	34.8%	8,731	28.7%
Total		27,436	100%	30,373	100%

(*) production, quality, engineering, IT, administration/tax

(**) management, health, safety and the environment, Carraro Values

Average hours of training by gender and professional category

		2017			2016		
	unit of measurement	M	F	Total	M	F	Total
Managers and clerical workers	h	15	13	14	25	12	22
Factory workers		7	5	7	7	4	7
Total		9	11	9	10	9	10

The data provided does not include companies in Luxembourg, the United States of America and Brazil as these are not significant compared to the rest of the Group.

5.

Economic and Social Impact



5.1

Distribution of Value

Each business activity generates an economic chain with repercussions on the various categories of stakeholders distributed predominantly in the region where the business is located. Company performance is measured on the basis of the income statement which expresses the added value generated and distributed to stakeholders in various forms.

- Remuneration to employees (staff costs)
- Remuneration to suppliers for goods and services (operating costs for purchase of goods and services)
- Remuneration to financial institutions (interest and commission to banks and other lenders)
- Remuneration to Local Authorities (social charges, taxes and duties)
- Remuneration to investors (dividends)

Value added income statement

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED		<i>(Euro/000)</i>	
	31.12.2017	31.12.2016	31.12.2016 ^(#)
Economic value generated by the Group	609,430	591,454	561,036
Revenue	606,021	593,747	557,594
Other income	5,480	3,439	3,354
Net financial income and expenses	3,023	2,200	2,168
Value adjustments and income from financial assets/investments	(1,830)	(227)	(227)
Exchange rate differences	(1,958)	(1,836)	(1,404)
Value adjustments for tangible and intangible assets	(1,306)	(5,869)	(449)
Economic value distributed by the Group	566,284	568,187	527,871
Operating costs	462,078	454,698	426,678
Remuneration to collaborators	67,706	74,300	64,756
Remuneration to lenders	11,670	13,644	12,222
Remuneration to investors (dividends)	-	-	-
Remuneration to Local Authorities*	24,830	25,545	24,215
Economic value retained by the Group	43,146	23,267	33,165
Depreciation and amortisation	20,021	21,554	20,041
Bad debts provision	443	495	362
Provisions	9,011	10,306	9,593
Net Income	13,671	(9,088)	3,169

^(*) social contributions and taxes

^(#) Net consolidated data of the Group Elettronica Santerno S.p.A. provided for uniformity with the data as at 31.12.2017

In 2017, the Group generated an economic value of EUR 609,430 thousand, compared to EUR 591,454 thousand in 2016.

In the course of 2017, EUR 566,284 thousand was distributed to stakeholders, compared to EUR 527,871 thousand distributed in 2016. In particular, a total of EUR 67,706 thousand was distributed to employees through the payment of salaries and wages, and EUR 462,078 thousand to suppliers through the payment of operating costs (raw materials, cost for services, etc.).

The Board of Directors proposed to the Shareholders' Meeting the distribution in 2018 of a dividend of 0.17 Euro per share.

Public contributions

In relation to the volume and nature of its annual investments into research and development, in the last two years the Group has benefited from certain contributions provided by the Italian Ministry for Industry (2015 MS01_00021 Sustainable Mobility Tender), specifically in reference to the Group's participation in a project with other companies to construct a hybrid-powered passenger vehicle.

Contributions and grants for Research and Development projects

Description	Beneficiary company	31.12.2017 (Euro)	31.12.2016 (Euro)
Contributions for R&D projects	Carraro S.p.A.	198,463.03	176,437.50
Total		198,463.03	176,437.50

5.2

Region

The presence in different areas of the Group's business units, seven out of eleven of which are considered industrial sites, has a significant impact on the surrounding region due to a number of factors:

- the need for a direct and indirect workforce able to adequately cover the required work shifts, which can only be satisfied by local resources, including resources in coordination, supervision and control roles;
- the need to support a supply chain centred, where possible, on local suppliers both for raw materials and direct and indirect production components;
- the need to engage local suppliers to provide a series of continuous services to support the operation of the machines and the plant itself (maintenance, controls, fuel, cleaning and similar services);
- the need to rely on a network of specialist technical, administrative, legal and fiscal consultancy services with specific local expertise able to support the Group's activities and ensure compliance with local regulations.

The economic impact of these elements on the region is clearly represented in the value added income statement of the Group, which indicates that approximately 70% of the economic value generated is distributed to suppliers of goods and services while 12% is distributed to the workforce in the form of remuneration and social contributions.

From this point of view, the contribution of the Carraro Group to the development of the region relates particularly to the employment, within the parameters of possibility offered by the local labour market, of people living close to the site, who constitute the majority of the workforce of each company both in terms of operational and managerial roles.

The Group is also aware that the creation of a suitable working environment, including the provision of favourable access conditions to workplaces, is one of the key objectives for the management of human resources, particularly in view of the company's predicted performance.

According to this approach, ease of access to the workplace is considered in the recruitment process and represents a significant contribution to the economic development of the areas in which the Group's sites are located.

Furthermore, when financially viable and if logistical conditions allow, individual plants in Italy and abroad aim to facilitate access to the workplace by offering employees a collective transportation service to and from work.

In particular, an extensive daily bus service between the site and the main city is provided free of charge for the two plants of Carraro India Ltd., benefiting approximately 850 employees operating various shifts and requiring the use of 13 buses.

A similar service between the Carraro China Ltd. plant and the main residential areas of the region is provided to employees in China.

These initiatives offer numerous advantages to workers and the region:

- lower emissions;
- less road traffic congestion in areas with high demographic density, generated by a more rational use of collective transportation as opposed to private vehicles;
- improved safety in employees' daily commute;
- reduction in commute times with subsequent advantages in terms of quality of life;
- a direct financial benefit for employees.

In all of its operating sites, the Carraro Group identifies Managers and Senior Managers based on the following criteria:

- in Italy:

Managers are identified in Italy according to contractual classification: this concerns all employees covered by the Collective Labour Agreement for Industrial and Service Managers.

- abroad:

Senior Managers (Officers) refer to:

- the General Manager or Plant Manager of the foreign operating site;
- certain departmental or office Managers who report directly to the General or Plant Manager.

Except in specific cases, a preference is generally afforded to members of the local community in the recruitment and selection of new employees, including for managerial positions. Over time, this approach has led to the creation of an organisational structure that, particularly in terms of managerial positions in foreign companies, has a significant representation of local personnel balanced by certain resources from the Parent Company or other Associated Companies in Italy, strengthening the links within the Group and promoting the integration of its members.

The conviction that cultural differences enrich the Group's resources and strengthen its identity has led the Management to continue this approach and place maximum confidence in local management: overall, in 2017 over 80% of the Group's Senior Managers worked in their native country.

To develop skills and broaden professional experience, the Group also promotes the growth of its managers and officers through international mobility.

% Senior managers hired from local communities (*)	unit of measurement	2017			2016		
		Men	Women	Total	Men	Women	Total
Italy	%	100%	100%	100%	100%	100%	100%
India		67%		67%	67%		67%
Brazil		50%		50%	100%		100%
Argentina		50%		50%	25%		25%
China		50%		50%	50%		50%
Total (°)		87%	100%	87%	83%	100%	83%

(*) The data provided does not include companies in Luxembourg and the United States of America as these are not significant compared to the rest of the Group.

(°) the percentage for each geographic area represents the number of local Senior Managers out of the total number of Senior Managers.

In the definition of its procurement and investment practices, the supplier selection process and the establishment of purchasing conditions for the goods and services of the Group are regulated by the values and criteria of competitiveness, objectivity, respectability, correctness, impartiality, fair pricing and quality of the goods or services, assessing the service guarantees and the range of offers in general.

Procurement and investment processes must be driven by the aim to achieve the maximum competitive advantage for the Group and ensure fairness and impartiality towards every supplier in possession of the necessary prerequisites.

The mission of the Group is to create sustainable value over time through the production of drive systems and agricultural vehicles, achieved through the sale of products of an appropriate quality for their intended purpose and characterised by competitiveness and the high level of service required by the Group's international clientèle.

In order to achieve its strategic objectives, the Group operates as part of a complex supply chain in which every component meets the same requirements of technological capacity, quality, efficiency and ethics upon which the Group bases its business activities.

The suppliers of goods and services are an essential component of this supply chain; their contractual relations with the Carraro Group are subject to an initial assessment at the time of purchase and are regularly monitored. The commercial relationship is based on a shared understanding of fundamental principles and client-supplier dialogue, supported by specific tools.

The assessment is carried out through the analysis of a series of suitability requirements in relation to:

- technological and production capacity;
- overall quality of processes and products;
- possession of quality certificates according to ISO standards;
- corporate and financial position;
- respect for the Code of Ethics of the Carraro Group.

To perform the analysis, data and documents are collected and a direct audit is carried out at the supplier's offices.

The quality guidelines are defined by the Supplier Quality Manual, which aims to provide the criteria, expectations and quality characteristics required by the Group and indicate the methods and tools required for the production of products that meet the standards of the Carraro Group.

The Manual applies to suppliers of all of the Group's plants, regardless of local legislation.

In terms of communication, an IT platform and relative procedures have been adopted and made available to suppliers, enabling the efficient exchange of data, information and documents; the data flow takes place through an online system (Carraro Private Network) developed specifically for the online management of purchases and relations with counterparties.

Finally, when assessing a supplier the Group also considers its willingness to subscribe to the principles of the Carraro Code of Ethics, including compliance with existing laws, loyalty, professional rigour and correctness and, more specifically, respect for the environment, human rights and workers' rights.

From this point of view, conduct inspired by the principles of the protection of human rights in terms of employee relations, working conditions and the repudiation of child labour, which goes against the principles and regulations and is never admissible, are considered.

Acceptance of these criteria is a fundamental necessity for the establishment and maintenance of supplier relations. Any conduct that differs from these principles may result in the termination of the business relationship or be a precluding factor for further collaboration.

The production activities of the Carraro Group require the support of a significant number of industrial firms located in different parts of the world, characterised by a significant presence in the geographic areas in which the Group's production plants are located.

To meet its demand, the Group maintains a satellite network of providers of direct and indirect goods, with a significant economic impact both on the regions in which the Carraro plants are located, with EUR 397 million of direct and indirect purchases, (340 million in 2016), EUR 52 million of outsourced mechanical services (47 million in 2016) and EUR 41 million of other services (48 in 2016).

The chain of suppliers supports the Group's industrial activities in terms of quality, service efficiency and flexibility, guaranteeing the standards of performance, innovation and prompt service that the market expects from Carraro products, in line with the commitments undertaken with clients.

The breakdown of the Group's suppliers by geographic area, product category and certification is provided below.

	2017	2016
Suppliers of direct goods by geographic area (*)	% Turnover	% Turnover
EMEA	61.0%	60.4%
NAFTA	0.3%	0.2%
LATAM	1.7%	2.8%
APAC	37.0%	36.6%
TOTAL	100.0%	100.0%

(*) the data refer to the main suppliers represented according to the corporate group they belong to

	2017	2016
Suppliers of indirect goods and services by geographic area	% Turnover	% Turnover
EMEA	72.2%	76.3%
NAFTA	2.2%	2.6%
LATAM	1.4%	1.1%
APAC	24.2%	20.0%
TOTAL	100%	100%

	2017	2016
Suppliers by product category	% Turnover	% Turnover
Casting	26%	29%
Steel	31%	31%
Components	43%	40%
TOTAL direct materials	100%	100%

Suppliers by certification	2017	
	No. Suppliers	%
Certificate UNI ISO 9001	144	54 %
Certificate UNI ISO 14001	46	17 %
Certificate OHSAS 18001	21	8 %
ISO/TS 16946; EN/AS 9100; QS 9000ISO/TS 16949; EN/AS 9100; QS 9000	54	20 %
	265	100%

The Group has adopted a strategy to localise the supply chain to the region in which operational sites are located, with a view to simplifying logistics management and containing related costs, reducing supply times and developing an efficient supply chain in each region in which the Carraro Group operates.

A significant proportion of supplies are sourced in close proximity to major plants, taking into account the diverse availability of certified suppliers in the various regions. This approach is confirmation of the aim of the Carraro Group to integrate with the local manufacturing network and develop a robust network of business relationships with local companies.

Proportion of spending by major operating plants for purchases from local suppliers	unit of measurement	31.12.2017	31.12.2016
Italy		71%	70%
India		76%	78%
China	%	69%	65%
Brazil		23%	40%
Argentina		21%	31%

Note:

- percentages are calculated on the basis of the purchase invoices for direct materials for the production of components at all of the Group's production plants.
- the term "local suppliers" refers to suppliers of materials and services located in the same country as the plant.

5.3

Social Initiatives

Indirect economic impacts

The Carraro Group has shaped the history of Italy's Veneto region, where the production plants of the parent company Carraro S.p.A. are located, since the 1950s, thanks to its significant presence initially in the agricultural sector and later as a major industrial enterprise.

The main international production plants in China, India and Argentina have been operating for ten to twenty years, with subsequent effects on the local economy.

Beyond the purely economic perspective and from the point of view of social initiatives in the region, for a number of years Carraro S.p.A. and Carraro Drivetech S.p.A. have promoted initiatives which aim to support:

- training and education, with the launch of educational plant visits organised with some of the leading technical and professional institutions of the region;
- the arts, with financial support provided to the annual concert programmes of the Associazione Amici della Musica di Padova;
- other activities, such as sponsoring local sports teams and volunteer organisations.

Leading representatives of the Group, including company directors, are members of trade or industry associations or social or cultural associations, such as:

Association	Position	Carraro Representative	Role in the Group
Confindustria Padua	Member of the Chairman's Committee	Enrico Carraro	Chairman of the Board of Directors of Carraro S.p.A.
Confindustria	Member of the General Committee	Enrico Carraro	Chairman of the Board of Directors of Carraro S.p.A.
ASSIOT - Associazione Italiana Costruttori Organi di Trasmissione e Ingranaggi	Chairman	Tomaso Carraro	Vice Chairman of the Board of Directors of Carraro S.p.A.
Fondazione Antonveneta	Chairman of the Governing Committee	Mario Carraro	Director of Carraro Drive Tech S.p.A.
Amici della Musica di Padova	Chairman	Mario Carraro	Director of Carraro Drive Tech S.p.A.

ASSIOT is an association that represents manufacturers of drive systems and gears.

Fondazione Antonveneta is an organisation founded with the aim of promoting and supporting cultural, artistic, scientific, educational, social or social care-related initiatives in the region of Triveneto.

Associazione Amici della Musica di Padova is a body created to promote the culture of music in the region through the organisation of concerts and the promotion of musical research projects.

5.4

Anti-Corruption / Anti-Collusion

Integrity and transparency are considered essential principles of conduct by the Carraro Group in the performance of its business affairs: in this regard, the Group has adopted a series of rules of conduct that refuse any form of corruption in relations with its stakeholders. The fundamentals of these rules of conduct are formalised in some of the documents of the integrity protection system of the Carraro Group:

- the Group Code of Ethics;
- the Anti-Corruption Policy;
- the Organisational, Management and Control Model adopted by Italian companies.

Relations between the Group and private and public third parties must comply with the ethical standards and applicable laws; favouritism, collusive practices of corruption or solicitation of personal advantages for oneself or others are explicitly prohibited.

All forms of undue pressure, action or behaviour that may in some way influence the performance of the business activities of certain parties or otherwise impede free market competition are prohibited.

The promotion, including to companies outside the Group, of the principles of conduct aimed at guaranteeing integrity in business relationships, as well other ethical guidelines and internal training programmes, are fundamental tools for the prevention of corruption and the promotion of a culture based on transparency in all aspects of the business.

When assessing corruption risks, the Group considers the type of counterparty (public or private), the market sector and the scale of the clientèle.

Operational areas considered in the assessment of corruption risks predominantly relate to purchases of goods and services, investments, management of human resources, relations with public entities, sales and the management of cash flows.

As Carraro does not generally supply entities belonging to Local Authorities, relations with public entities are mainly institutional in nature (compliance, tax and customs, authorisations, controls, inspections, payment of contributions, taxes and duties). Relations with private entities refer to active supply contracts with medium-sized firms and groups and are generally guided by ethical conduct, and passive supply contracts with companies of varying dimensions, where technical capacity and quality are determining factors in the establishment and continuation of business relations.

In this context, in line with the principles expressed by the Code of Ethics and the Anti-Corruption Policy, the procedures for selecting and retaining suppliers consider the integrity aspects to be as important as the other parameters considered in the supplier assessment process.

The management of cash flows is subject to control mechanisms related to the purchase and sales process according to defined authorisation levels.

Directors and Statutory Auditors took part in an anti-corruption induction programme as part of an initiative to increase the training on the Code of Ethics and the 231 Models.

Similarly, Group employees were notified of the anti-corruption regulations through a specific training programme that involved all executives, clerical staff and managers of the Italian companies and the officers of international companies. This programme is provided to all newly employed personnel and is regularly updated according to the adjustment phases of the Code of Ethics.

The principles of anti-corruption and other principles of ethical conduct are disclosed to employees by email, publication on company noticeboards and the Intranet and are freely available on the Group website.

	31.12.2017		31.12.2016	
	no.	%	no.	%
Directors and Statutory Auditors who have been informed of the anti-corruption principles adopted by the Group	10	100 %	10	100 %

	31.12.2017		31.12.2016	
	no.	%	no.	%
Directors and Statutory Auditions who have completed training on the principles of anti-corruption	10	100 %	10	100 %

	31.12.2017		31.12.2016	
	no.	%	no.	%
Employees of the Carraro Group who have been informed of the anti-corruption principles adopted by the Group				
Italy	1,408	100%	1,289	100%
Abroad	265	15.2%	262	15.5% (^)
Total	1,673	53.0%	1,551	52.2%

(^) corresponding to 100% of managers, executives, officers and clerical workers at the Group's foreign companies.

	31.12.2017		31.12.2016	
	no.	%	no.	%
Employees of the Carraro Group who have completed training on the principles of anti-corruption (Code of Ethics)				
Italy	413 (*)	29.3% (°)	369 (*)	28.6% (°)
Abroad	31 (*)	1.8% (°)	31 (*)	1.8% (°)
Total	444	14.1%	400	13.4%

(°) corresponding to 100% of employees subject to training on the Code of Ethics, specifically all managers, executives and clerical workers at Italian companies and departmental managers at foreign companies.

(*) cumulative data as at 31.12 of each year; data includes courses carried out in previous years.

The Group's anti-corruption principles are communicated to suppliers in the context of the disclosure of the Code of Ethics; the disclosure concerns suppliers connected to the Carraro Private Network platform and all new suppliers as part of the evaluation process aimed at establishing the business relationship.

Moreover, for the most important suppliers in terms of volume, trading frequency and strategic position, a special “partnership” programme has been developed that provides the possibility of establishing closer relations on mutually preferential terms and with a broad sharing of economic objectives and ethical principles.

During 2016 and 2017 no cases of incidents determined by phenomena of corruption were recorded, and no significant monetary or non-monetary sanctions were imposed on any of the Group’s entities for non-compliance with laws and regulations.

The Code of Ethics and the Anti-Corruption Policy clearly define the principles of neutrality of the Group’s position as regards political movements and associations and prohibits all forms of funding, grants and contribution.

Any position, concrete action or commitment may be assumed by any employee or collaborator of the Carraro Group purely on a personal basis, without involving any entity of the Group in any direct or indirect way.

For this reason, no forms of contribution of any kind to political parties or other similar institutions have been made.

5.5

Product Quality

Being a leading player in the *field of drive systems for construction and agricultural machinery* requires a high level of reliability in the products offered and, as a consequence, absolute attention to quality in all of its aspects. To achieve this, since the 1980s Carraro has adopted a systematic approach aimed at Total Quality.

The approach begins with the design and industrial quality of the materials, components and processes, aiming to achieve a level of product reliability able to guarantee safety and durability both as components in more complex products or as finished items.

The products in the *drivelines* range (gears, axles and drive systems) are designed and produced to be integrated as components or subsystems in a finished product, typically an off-highway vehicle, and in some cases light commercial vehicles.

The products in the *vehicles* range (agricultural tractors for special use) are designed and manufactured for direct use according to specific customer and legal requirements.

In both cases, quality is aimed providing services that are constantly in line with the required standards, directly or indirectly guaranteeing customer safety and respect for the environment.

The level of commitment shown by Carraro in the pursuit of high quality standards is evidenced by the number of human resources dedicated to product and process management and control activities, according to an organisational system that numbered 254 resources as at 31 December 2017, distributed as follows:

Department	Position	Company/office	Dedicated resources (FTE)
Quality	Head offices of the Group	Carraro S.p.A.	4
After-Sales Quality and Services	Region	Italy, China, USA, Brazil, India	26
Operations Quality	Region	Italy, China, India, Argentina	205
Purchase Quality	Region	Italy, China, USA, India	19
Total			254

Independently of the requests expressed by its clients, Carraro adopts best practices and complies with all regulations on the subject of user safety, product quality and environmental impact.

This approach includes the application of instruments such as DFMEA in the development phase and PFMEA in the production phase according to AIAG standards (user safety, product quality), operational safety according to ISO standards (user safety), the quality management system according to standard ISO9001 and the environmental management system according to standard ISO14001

Carraro operates in accordance with European legislation on chemical compliance (REACH, ROHS) and regulations regarding Conflict Minerals (section 1502 - Dodd-Frank Wall Street Reform and Consumer Protection Act), with a specific procedure aimed at ensuring compliance at every stage of the supply chain.

As regards products in the *vehicles* range, the environmental impact of a product throughout its life-cycle is assessed by the Agritalia business unit during the design and production phases, paying particular attention to product specifications in terms of fuel consumption, drag and noise. In this context, technical solutions are studied considering the following objectives:

- elimination of hazardous substances (with reference to the restrictions imposed by REACH and ROHS);
- increasing efficiency during use;
- reduction of polluting emissions according to the requirements of the end market;
- reduction of noise emissions in line with the required levels.

In terms of product safety, products are designed according to the applicable laws or legislations as regards industrial standards for road safety, operational safety, workplace safety and environmental safety. A specific product safety review is carried out during the project development phase to ensure constant improvement.

The design phase considers the various aspects of operational functionality in terms of safety, including:

- instructions for use and information (operating manual, service manual and service bulletins);
- applicable law;
- usage limits;
- operator experience;
- operator training;
- working conditions;
- physical properties of the machine.

An indispensable step in the risk assessment of each safety index is the systematic identification of the potential dangers and hazardous events for all types and phases of production and use, including assembly, preparation, use on the road and in the field, cleaning, servicing and maintenance.

The machines for which Carraro's drive systems are intended and the agricultural vehicles produced by Carraro are subject to defined external regulations in terms of safety and environmental protection. In this regard, Carraro has voluntarily adopted quality standards aimed at ensuring compliance with these requirements.

The use of agricultural and construction machinery, which represents the main operating sectors of the Group, has significant implications for user safety and environmental impact due to the conditions of application (inaccessible off-road terrain, vehicle mass, movement and lifting of material) and the presence of potentially hazardous substances (exhaust fumes, fuel, lubricants for mechanical parts).

Due to the rigorous nature of applicable laws and quality standards, the Group is constantly committed to complying with the reference limits and pursuing objectives of continuous improvement as regards its industrial transformation processes and customer service.

To ensure this high level of compliance with safety and quality controls, the Group has created an ad hoc structure with technical instruments in order to perform its own tests in this area.

In 2016 and 2017, no significant sanctions were imposed for non-compliance with laws and regulations for the supply and use of products or services.

All products in the *drivelines* and *vehicles* ranges are developed and manufactured according to the practices indicated by the adopted quality standards and in compliance with all applicable regulations on the subject of safety and environmental impact.

As regards products in the *vehicles* range, safety improvement impacts are also assessed in the planned testing phase, both during the manufacturing processes managed by a quality department and through separate and independent audit programmes managed by the customer service department. The methods used in the testing phase are:

- FMEA Design according to AIAG Standards
- FMEA Process according to AIAG Standards
- PVV Plan
- Field Test
- Bump Track Test
- Homologation
- HARA (Hazard Risk Analysis)
- Functional Safety ISO 25119
- ISO 14121
- Safety and Fire Prevention Audit
- Audit Plan

Appendix

6.1 Association of material topics to GRI-G4

Association of material topics and GRI G4 aspects

THEMES RELEVANT TO LEGISLATIVE DECREE NO. 254/2016, Article 3, Paragraph 1	MATERIAL TOPICS IDENTIFIED IN THE CARRARO GROUP	GRI G4 CATEGORIES AND ASPECTS OF REFERENCE	BOUNDARIES FOR MATERIAL TOPICS	
			INTERNAL IMPACTS	EXTERNAL IMPACTS
	Value of the Brand and reputation	Non-GRI material aspect	Group	
Themes relating to Employees	Corporate welfare and health and safety in the workplace	Health and Safety in the Workplace	Group	
Themes relating to Employees	Diversity, equal opportunities and inclusion	Diversity and equal opportunities	Group	
Social themes	Management of the supply chain and use and optimisation of local suppliers	Economic performance: procurement practices Freedom of association and collective bargaining	Group	Suppliers
Social themes	Product safety and quality	Consumer health and safety	Group	Suppliers
Themes related to the fight against corruption	Anti-corruption	Anti-corruption	Group	
Themes relating to Employees	Well-being and work- life balance	Employment	Group	
Social themes	Focus on technology and product innovation	Non-GRI material aspect – N.A.	Group	
Environmental themes	Reduction of energy consumption and greenhouse gas emissions	Energy Emissions	Group	Suppliers
Themes related to the fight against corruption	Ethics and integrity in business management processes	Compliance (Environmental) Compliance (Social)	Group	
Environmental themes	Reduction in waste produced and adoption of responsible waste disposal methods	Effluents and waste	Group	Suppliers
Social themes	Community development	Economic performance Market presence	Group	

6.2 GRI Content Index

The following table presents the GRI Content Index with reference to the “In Accordance-core” option, as foreseen by the GRI-G4 Guidelines. Any omissions are reported as notes to the individual indicators, if required.

GENERAL STANDARD DISCLOSURES		
	Indicator	Page
STRATEGY AND ANALYSIS		
G4-1	Declaration of the highest authority of the decision-making process on the importance of sustainability for the organisation and its strategy	5-6
ORGANISATIONAL PROFILE		
G4-3	Name of the organization	21
G4-4	Primary brands, products, and services	33
G4-5	Location of the organization’s headquarters	23
G4-6	Number of countries where the organization operates	23-24
G4-7	Nature of ownership and legal form	24-25
G4-8	Markets served	31-32
G4-9	Scale of the organisation	17; 26
G4-10	Characteristics of the workforce	26-27
G4-11	Percentage of total employees covered by collective bargaining agreements	107
G4-12	Description of the organisation’s supply chain	146-147
G4-13	Significant changes during the reporting period regarding the Group’s size, structure, ownership or its supply chain	25
G4-14	Report whether and how the precautionary approach or principle is addressed by the organization	39-40
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	40
G4-16	Memberships of industry association and national or international advocacy organizations	151
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES		
G4-17	Entities included in the Group's consolidated financial statements and indication of any entities not covered by the Sustainability Report	11
G4-18	Process for defining the Sustainability report content and the Aspect Boundaries	41
G4-19	Identified material aspects	42-43
G4-20	Material aspects within the Group	167
G4-21	Material aspects outside the Group	167
STAKEHOLDER ENGAGEMENT		
G4-24	Stakeholder groups engaged by the organization	44-45
G4-25	Basis for identification and selection of stakeholders with whom to engage	44-45
G4-26	Approach to stakeholders engagement	44-45
G4-27	Key topics and concerns raised through stakeholder engagement and relative responses	44-45
REPORT PROFILE		
G4-28	Reporting period	11
G4-30	Reporting cycle	11
G4-31	Contacts	171
G4-32	GRI Content Index	168-170
G4-33	External assurance	175-177
GOVERNANCE		
G4-34	Governance structure of the organisation, including the committees of the highest governance body Presence of other committees responsible for social and environmental decisions	57-59
ETHICS AND INTEGRITY		
G4-56	Values, standards, codes of conduct and codes of ethics	49-51

SPECIFIC STANDARD DISCLOSURE

Indicator	Page/Notes	Omissions
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ECONOMIC INDICATORS

Material aspect: Market presence

DMA	General disclosures on the management approach	143	
G4-EC1	Direct economic value generated and distributed	139	
G4-EC6	Proportion of senior management hired from the local community at significant locations of operation	144	

Material aspect: Procurement practices

DMA	General disclosures on the management approach	145	
G4-EC9	Proportion of spending on local suppliers at significant locations of operation	147	

ENVIRONMENTAL INDICATORS

Material aspect: Energy

DMA	General disclosures on the management approach	81	
G4-EN3	Energy consumption within the organisation	82-83	
G4-EN6	Reduction of energy consumption	83-84	

Aspect: Water

DMA	General disclosures on the management approach	101	
G4-EN8	Total water withdrawal by source	101	

Material aspect: Emissions

DMA	General disclosures on the management approach	91	
G4-EN15	Direct greenhouse gas emissions (Scope I)	91	
G4-EN16	Energy indirect greenhouse gas emissions (Scope II)	92	
G4-EN17	Other indirect greenhouse gas emissions (Scope III)	93	
G4-EN19	Reduction of greenhouse gas emissions	92	
G4-EN20	Emissions of ozone-depleting substances	93-94	
G4-EN21	NOx, SOx and other significant emissions	94	

Material aspect: Effluents and waste

DMA	General disclosures on the management approach	97; 101	
G4-EN22	Total water discharges by quality and destination	101-102	
G4-EN23	Total weight of waste by type and disposal method	97-98	

Material aspect: Compliance

DMA	General disclosures on the management approach	87	
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	87	

SOCIAL INDICATORS

SUBCATEGORY: Appropriate working practices and conditions

Material aspect: Employment

DMA	General disclosures on the management approach	123	
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	123	

Material aspect: Health and Safety in the Workplace

DMA	General disclosures on the management approach	127-128	
G4-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	128	
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	129 The absenteeism rate is related only to the number of days lost due to accident	

Material aspect: Diversity and equal opportunities

DMA	General disclosures on the management approach	113	
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	65; 114-115	

SUBCATEGORY: Human Rights

Material aspect: Non-discrimination

DMA	General disclosures on the management approach	113	
G4-HR3	Total number of incidents of discrimination and corrective actions taken	113 In 2016 and 2017, no incidents of discrimination were reported or recorded.	

SUBCATEGORY: Company

Material aspect: Anti-corruption

DMA	General disclosures on the management approach	155	
G4-SO5	Confirmed incidents of corruption and actions taken	157 In 2016 and 2017, no incidents of corruption were recorded.	

Aspect: Public policies

G4-SO6	Total value of political contributions by country and recipient/beneficiary	157 During 2016 and 2017, no forms of contribution of any kind to political parties or other similar institutions were made	
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Aspect: Compliance

G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	157 During 2016 and 2017, no significant monetary or non-monetary sanctions were imposed for non-compliance with laws and regulations.	
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SUBCATEGORY: Product responsibility

Material aspect: Compliance

DMA	General disclosures on the management approach	162	
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	162 In 2016 and 2017, no significant sanctions were imposed for non-compliance with laws and regulations for the supply and use of products or services.	

The Chairman



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**INDEPENDENT AUDITOR'S REPORT
ON THE CONSOLIDATED NON-FINANCIAL STATEMENT PURSUANT TO ARTICLE 3,
PARAGRAPH 10 OF LEGISLATIVE DECREE No. 254 OF DECEMBER 30, 2016 AND
ART. 5 OF CONSOB REGULATION N. 20267**

**To the Board of Directors of
Carraro S.p.A.**

Pursuant to article 3, paragraph 10, of the Legislative Decree no. 254 of December 30, 2016 (hereinafter the "Decree") and to article 5 of the CONSOB Regulation n. 20267, we have carried out a limited assurance engagement on the Consolidated Non-Financial Statement of Carraro S.p.A. and its subsidiaries (hereinafter the "Carraro Group" or the "Group") as of December 31, 2017 prepared on the basis of article 4 of the Decree, and approved by the Board of Directors on March 29, 2018 (hereinafter the "NFS").

Responsibility of the Directors and the Board of Statutory Auditors for the NFS

The Directors are responsible for the preparation of the NFS in accordance with articles 3 and 4 of the Decree and the "G4 Sustainability Reporting Guidelines" established in 2013 by GRI – Global Reporting Initiative (hereinafter "GRI G4 Guidelines"), which they have identified as reporting framework.

The Directors are also responsible, within the terms established by law, for such internal control as they determine is necessary to enable the preparation of NFS that is free from material misstatement, whether due to fraud or error.

The Directors are moreover responsible for defining the contents of the NFS, within the topics specified in article 3, paragraph 1, of the Decree, taking into account the activities and characteristics of the Group, and to the extent necessary in order to ensure the understanding of the Group's activities, its trends, performance and the related impacts.

Finally, the Directors are responsible for defining the business management model and the organisation of the Group's activities as well as, with reference to the topics detected and reported in the NFS, for the policies pursued by the Group and for identifying and managing the risks generated or undertaken by the Group.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the compliance with the provisions set out in the Decree.

Auditor's Independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our auditing firm applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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Auditor's responsibility

Our responsibility is to express our conclusion based on the procedures performed about the compliance of the NFS with the Decree and the GRI G4 Guidelines. We conducted our work in accordance with the criteria established in the *"International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information"* (hereinafter "ISAE 3000 Revised"), issued by the *International Auditing and Assurance Standards Board (IAASB)* for limited assurance engagements. The standard requires that we plan and perform the engagement to obtain limited assurance whether the NFS is free from material misstatement. Therefore, the procedures performed in a limited assurance engagement are less than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures performed on NFS are based on our professional judgement and included inquiries, primarily with company personnel responsible for the preparation of information included in the NFS, analysis of documents, recalculations and other procedures aimed to obtain evidence as appropriate.

Specifically we carried out the following procedures:

1. Analysis of relevant topics with reference to the Group's activities and characteristics disclosed in the NFS, in order to assess the reasonableness of the selection process in place in light of the provisions of article 3 of the Decree and taking into account the adopted reporting standard.
2. Analysis and assessment of the identification criteria of the consolidation area, in order to assess its compliance with the Decree.
3. Comparison between the financial data and information included in the NFS with those included in the consolidated financial statements of the Reno De Medici Group.
4. Understanding of the following matters:
 - business management model of the Group's activities, with reference to the management of the topics specified by article 3 of the Decree;
 - policies adopted by the entity in connection with the topics specified by article 3 of the Decree, achieved results and related fundamental performance indicators;
 - main risks, generated and/or undertaken, in connection with the topics specified by article 3 of the Decree.

Moreover, with reference to these matters, we carried out a comparison with the information contained in the NFS and the verifications described in the subsequent point 5, letter a).

5. Understanding of the processes underlying the origination, recording and management of qualitative and quantitative material information included in the NFS.

In particular, we carried out interviews and discussions with the management of Carraro S.p.A. and with the employees of Carraro Drive Tech S.p.A., Carraro India Pvt Ltd and Siap S.p.A. and we carried out limited documentary verifications, in order to gather information about the processes and procedures which support the collection, aggregation, elaboration and transmittal of non-financial data and information to the department responsible for the preparation of the NFS.

In addition, for material information, taking into consideration the Group's activities and characteristics:

- at the parent company's and subsidiaries' level:
 - a) with regards to qualitative information included in the NFS, and specifically with reference to the business management model, policies applied and main risks, we carried out interviews and gathered supporting documentation in order to verify its consistency with the available evidence;
 - b) with regards to quantitative information, we carried out both analytical procedures and limited verifications in order to ensure, on a sample basis, the correct aggregation of data.
- for the following companies and sites, Carraro S.p.A. (Campodarsego e Rovigo), Carraro Drive Tech S.p.A. (Campodarsego), Carraro India Pvt Ltd (Punè) and Siap S.p.A. (Maniago), which we selected based on their activities, their contribution to the performance indicators at the consolidated level and their location, we carried out site visits, during which we have met their management and have gathered supporting documentation with reference to the correct application of procedures and calculation methods used for the indicators.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of the Carraro Group as of December 31, 2017 is not prepared, in all material aspects, in accordance with articles 3 and 4 of the Decree and the GRI G4 Guidelines.

Other Matter

The data for the year ended December 31, 2016 presented for comparative purposes in the NFS have not been subject to a limited or to a reasonable assurance engagement.

DELOITTE & TOUCHE S.p.A.

Signed by
Gianna Adami
Partner

Padua, Italy
April 16, 2018

This report has been translated into the English language solely for the convenience of international readers.

