



Carraro Group
Sustainability Report 2018





Carraro Group
Sustainability Report
at 31.12.2018

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

Contents

7	Letter to Stakeholder	
10	Note on Methodology	
	1. Carraro and Sustainability	
18	1.1 Key Indicators	
22	1.2 The Group	
38	1.3 Markets, products and innovation	
48	1.4 Being sustainable	
58	1.5 Ethics, integrity and values	
	2. Governance	
66	2.1 Governance Model	
80	2.2 Risk management	
	3. Resources and the Environment	
92	3.1 Resources	
93	3.1.1 Materials	
95	3.1.2 Energy	
100	3.2 Environment	
102	3.2.1 Emissions	
107	3.2.2 Waste	
110	3.2.3 Water	
	4. Human Resources	
114	4.1 Employees	
120	4.2 Diversity	
126	4.3 Protection of Human Rights	
130	4.4 Employee services	
132	4.5 Workplace safety	
138	4.6 Training	
	5. Economic and Social Impact	
144	5.1 Distribution of value	
148	5.2 Territory	
156	5.3 Social initiatives	
160	5.4 Anti-Corruption/Anti-Collusion	
164	5.5 Product quality	
	6. Appendix	
170	6.1 Association of material topics to GRI Standards	
172	6.2 GRI Content Index	
178	6.3 Independent Auditors' Report	



Letter to stakeholder

For the second year, through this Report, we have the opportunity to tell you about the Carraro Group's activities—alongside the economic and financial reports—in the field of sustainability, conscious that our way of doing business has always given top priority to respect for people, the context and the environment in which we work on every continent, maintaining identical standards at all our sites.

102-14
Statement
from senior
decision-maker

This is not only an ethical choice, and even less one that only responds to regulatory requirements, but a choice dictated by the awareness that our company's competitiveness is closely linked to these subjects in the field of internal efficiency, as well as, and above all, development and in offering new products.

I also have the pleasure of signing this letter together with my brother Tomaso, deputy chairperson of the Group, who at the beginning of 2019, assumed the role of Chief Corporate Social Responsibility Officer, an important responsibility which once again stresses the company's attention to development that involves the right impact at every level.

The financial year that we have just ended shows that the Group is moving faster than in the forecasts. We can see this in the accounting data and record it also at the level of sustainability.

Therefore, we are growing and, above all, investing more than before, both in Research and Innovation and in the development of increasingly efficient industrial processes to be one step ahead of the reference markets, on a path of renewing our processes, which can only be sustainable at every level. A testament to this, for example, are a number of indicators and results achieved precisely in 2018:

- › the use in Italy of electricity deriving only from renewable sources,
- › the 21.6% reduction in water consumption,
- › the 3.4% reduction in waste produced.

However, it is, above all, in the R&D sector that our Group is investing considerably with a view to sustainability. Proof of this is the new series of transmissions designed for machines where energy saving is the driver of development and the new Carraro Hybrid, first in the world in the sector of specialised tractors, which has already won prizes at international events.

The involvement of every person in the Group will be crucial in achieving the sustainability objectives over the next few years. Precisely for this reason it is fundamental to continue in our programme of professional and cultural updating, with a constant commitment

which, during 2018, already saw us passing the target of 50,000 annual hours of training provided.

Again, on the subject of human capital, in this past financial year, the Carraro Academy training project came to an end. This led to the entry of many new young technical professionals to which must be added the more than 50 external workers who have settled in our Italian facilities.

As a testament to the attention that the Group pays both to its collaborators and to the communities in which it is present at every latitude, we also launched, at the end of 2018, a collaboration with the NGO Care&Share, which works for the emancipation of children in India through education projects, alongside the historical collaboration with Amici della Musica (Friends of Music) in Padua and—from 2018—that with Teatro Stabile del Veneto, demonstrating the support we also want to give to significant cultural projects.

As already established last year, the introduction letter of this Report cannot fail to make reference to the Values of our group, which are confirmed, as always, based on a vision of sustainability:

We are socially Responsible
We create Value in a sustainable way
We develop Talent to make the most of our human resources
We stimulate Innovation for the benefit of all
We Work Together to achieve common goals

Today, more than ever, these are the principles of our approach to business.
The future that we imagine starts here.



Enrico Carraro
Presidente



Tomaso Carraro
Chief CSR Officer

Note on Methodology

Reporting standards

With the 2018 Consolidated Non-Financial Statement (NFS), the second edition of this document, the Carraro Group notifies its stakeholders of its policies, management model and strategies as regards the environment, social topics, employees, respect for human rights and the fight against corruption, as well as reporting the main results achieved in terms of value creation in the medium and long term. This document fulfils the obligation deriving from Italian Legislative Decree no. 254 of 30 December 2016 (hereinafter ‘Decree 254’) and the amendments made by Italian Law no. 145 of 30 December 2018 on disclosing non-financial information, to which the Carraro Group is subject.

The Carraro Group’s NFS, published once a year, was prepared in conformity with the ‘GRI Sustainability Reporting Standards’ (GRI Standards) issued by the Global Reporting Initiative (GRI) in 2016, in accordance with the ‘Core’ option. We can note that, compared to the NFS 2017, the mandatory transition from the Sustainability Reporting Guidelines (version G4) to the new GRI reporting standard was implemented.

102-54
Claims of reporting in accordance with the GRI Standards

These standards establish that the information contained in this document must refer to aspects and topics which, on the one hand, influence the decisions made 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 Standards, the non-financial report included in this document reflects the principle of materiality, or relevance. In fact, relevant topics are identified through a materiality analysis and assessment, as described in Chapter 1, paragraph 1.4 ‘Being sustainable’. The topics identified 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. If 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 topics 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 standards and of Legislative Decree no. 254/2016.

In order to improve the accuracy or the completeness of the figures or of the methods of calculating the data being reported, when possible the previous year data were restated with the same criteria to maintain uniformity and comparability with those of the period. All restatements of data due to improvement of extraction and reporting systems are noted specifically in the document.

Economic and financial information refers to the 2017 and 2018 Financial Statements.

At the time of approval of the 2018 Financial Statements, on 6 March 2019, the Board of Directors approved the Statement, which was subsequently assessed by the CRSC.

The Consolidated Non-Financial Statement was subject to a limited audit (limited assurance engagement according to the criteria of the standard ISAE 3000 revised) by Deloitte & Touche Spa.

The Statement is available on the Carraro Group's website in the interest of disclosure and transparency to all stakeholders.

Period and scope of the report

All data and information contained in this document refer to the 1 January 2018 - 31 December 2018 financial year. In order to enable the comparability of the data over time and to assess the Group's performance, the data for financial year 2017 is presented. The scope of the report corresponds to the Consolidated Financial Statement at 31 December 2018 included in the Annual Financial Report 2018, 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 together 'Carraro Group'.

Reporting standards

For the purposes of the report, the GRI standards have been applied:

Relevance

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.

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 topics for the mechanical engineering and automotive sector, taking into account similar sustainability reports published by national and international groups in the sector or related industries.

Comprehensiveness

The number and nature of the reporting aspects and the scope of the Consolidated Non-Financial Statement are such to provide a comprehensive representation of the main economic, social and environmental impacts of the Group.

Balance between positive and negative aspects

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.

Frequency

The Consolidated Non-Financial Sustainability Statement is prepared annually and published on the same date as the Group's Consolidated Financial Statements.

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 are validated by the relevant company department managers and supported by documentary evidence such to confirm their existence, comprehensiveness and accuracy.

The Group has implemented and maintains an EH&S Management system that requires the definition of annual or multi-year objectives and their periodic monitoring, in particular as regards injury rates.

As regards the areas of future development in terms of sustainability, during 2018, the Group launched a process for the definition of a series of improvement objectives, with priority on material issues, in line with the medium/long-term business strategies and objectives which will be formalised by the end of 2019.

With reference to the operating aspects, the Group, through the Sustainability Operating Committee, prepared its own reporting Procedure for the preparation of the NFS approved by the Control, Risk and Sustainability Committee on 27 February 2019.

Among its work programmes, it also provided for a series of activities aimed at a gradual expansion of the stakeholder engagement process with a consequent update of the materiality matrix, at an in-depth study of the methods for assessing suppliers in relation to the sustainability indicators, and at the development of a specific training plan involving both employees and corporate bodies.

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

102-45
Entities included
in the consolidated financial
statements

Name	Registered office	Notes	31.12.2018	31.12.2017
Parent Company:				
Carraro Spa	Campodarsego (PD)		◇	◇
Italian subsidiaries				
Carraro Drive Tech Spa	Campodarsego (PD)		◇	◇
Siap Spa	Maniago (PN)		◇	◇
Driveservice Srl *	Campodarsego (PD)	(2)	◇	–
Foreign subsidiaries				
Carraro International SE	Campodarsego (PD)	(2),(3)	◆	◆
Carraro Deutschland Gmbh	Hattingen (Germania)	(1),(3)	◆	◆
Carraro Technologies India Pvt. Ltd. **	Pune (India)	(2)	◆	◆
Carraro Argentina SA	Haedo (Argentina)		◇	◇
Carraro China Drive System	Qingdao (Cina)		◇	◇
Carraro India Ltd.	Pune (India)		◇	◇
Carraro North America Inc.	Norfolk (Usa)	(2),(3)	◆	◆
Carraro Drive Tech Do Brasil	Santo André (Stato Di Sao Paulo)	(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)	◆	◆

Key

– entity not present at the reporting date

◇ entity included in NFS reporting

◆ entities not considered in the report in reference, wholly or in part, to Energy, Emissions, Water, Effluents and Waste because 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 €/Mln)

Notes

* For the purpose of bringing the logistical management of replacement parts back into the Business Area, the contract signed with third parties at the Monselice hub was terminated and, in February 2018, the reorganisation process already begun at the end of the previous year was completed, with the incorporation of a new company named Driveservice S.r.l., 100% controlled by Carraro Drive Tech Spa, with operating establishment in Poggiofiorito (CH), which began its business in September. The business unit consisting of the production unit located at the Poggiofiorito (CH) facility was contributed to the newly-incorporated Driveservice Srl.

** Thanks to an improvement of the reporting system, some 2017 data was restated

The basic reporting cycle is annual:

– 2018: financial year 1 January 2018 – 31 December 2018

– 2017: financial year 1 January 2017 – 31 December 2017, included for comparative purposes

102-50
Reporting period

102-51
Date of most
recent report

102-52
Reporting cycle



1

Carraro and Sustainability

1.1

Key Indicators

Key Figures 2018 (2017)

2018

← 2017



Revenues [Euro/mlin]

624.1

← 606.0



Facilities

8*

← 8

Italy, India, China, Brazil, Argentina



**Market
Capitalisation** [Euro/mlin]

135.4

← 311.5

* See the changes in the structure of the operating sites presented in the paragraph 'Group Structure at 31/12/2018'



The Group's People

3,266

← 3,156



R&D Centres

5

← 5
Italy, China, Argentina, India



Investments [Euro/mlin]

28

← 16

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 made up of the set of Italian and foreign companies controlled directly or indirectly by the holding company Carraro Spa.

102-1
Name of the
organisation

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

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.

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.



Drivelines & Components

→ *Carraro Drivetech*

Axles & Transmissions for AG&CE

→ *Siap*

Gears for off-highway & heavy-duty applications



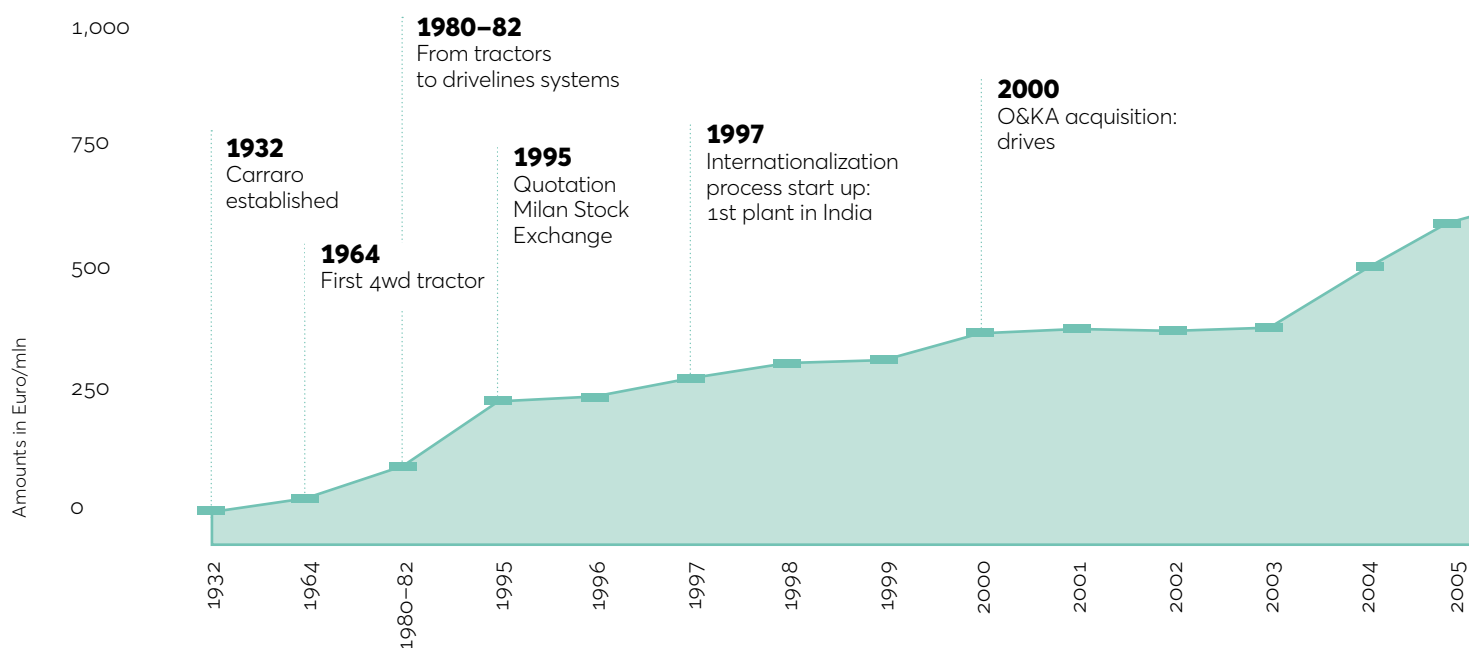
Vehicle engineering & contract manufacturing

→ *Carraro Agritalia*

Outsourcing solutions / Powertrains / Vineyard, orchard & open field tractors

History of the Group

Founded in 1932 by Giovanni Carraro, who introduced the first seed drills to the market and developed the first agricultural tractor under the ‘Tre Cavallini’ 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.



Key Milestones

1932 → 2018

Global footprint rationalization

2014

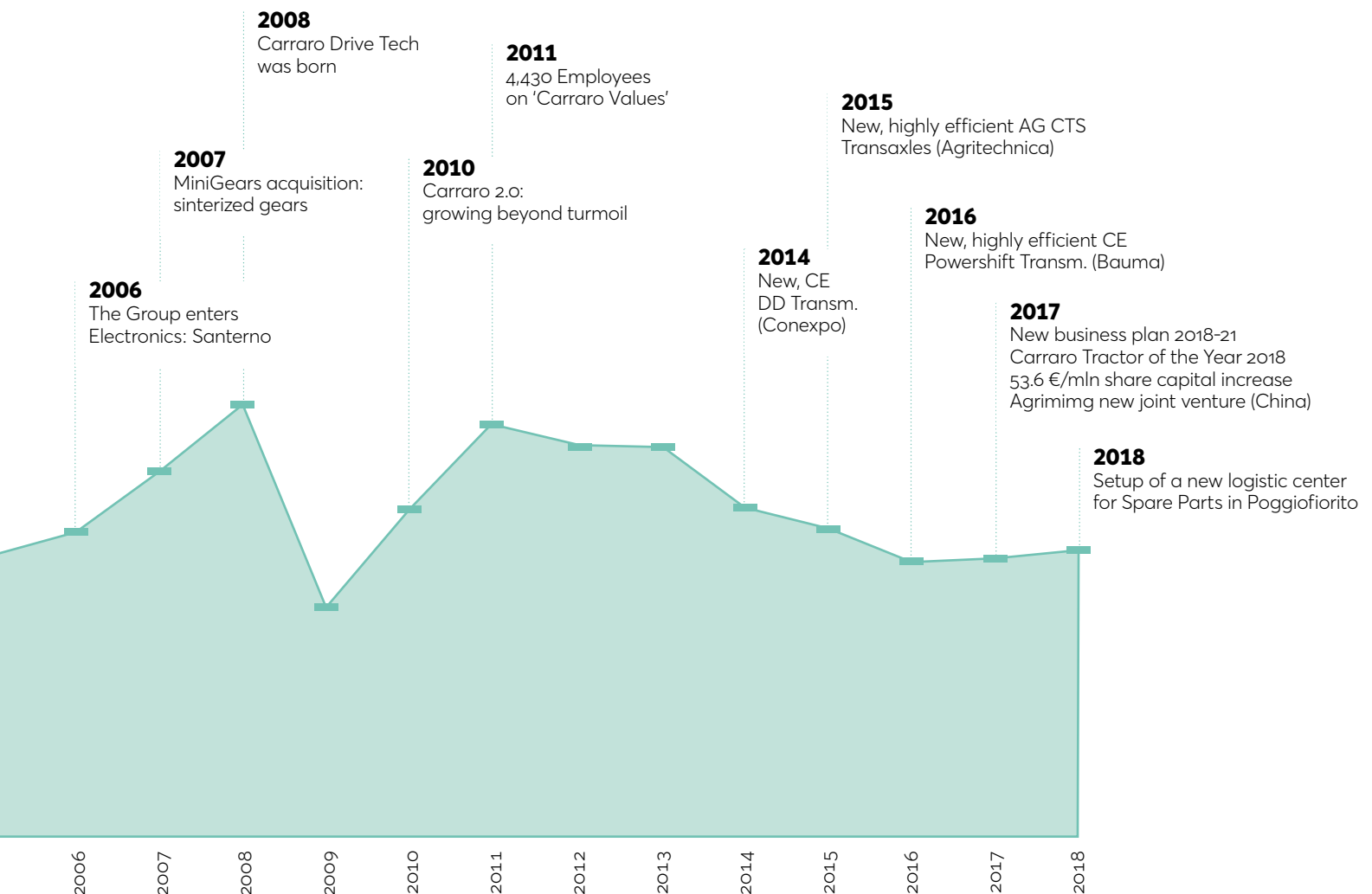
Sale of Padua and Suzhou Minigears Plants
Setup of a new production site in Brazil

2015

Vertical integration of Indian plants
Gorizia Plant shutdown
Sale of majority share of O&KA

2016

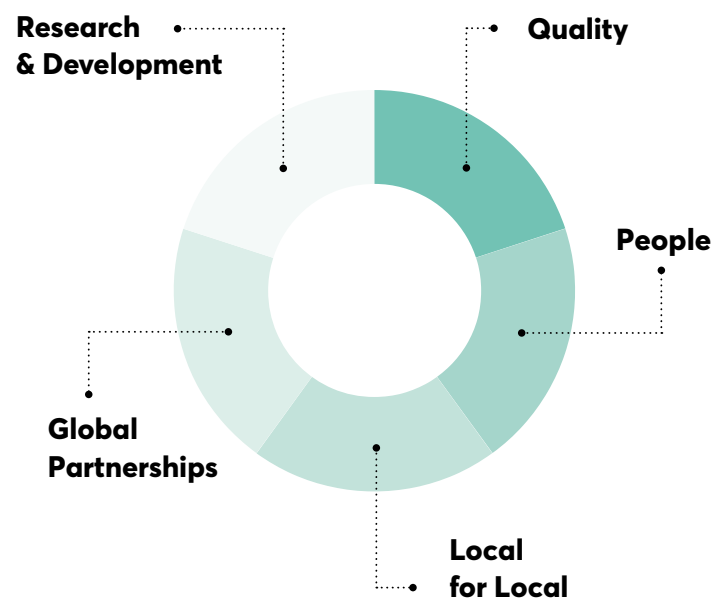
Sale of majority share of Elettronica Santerno



Success factors

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

Key Success Factors



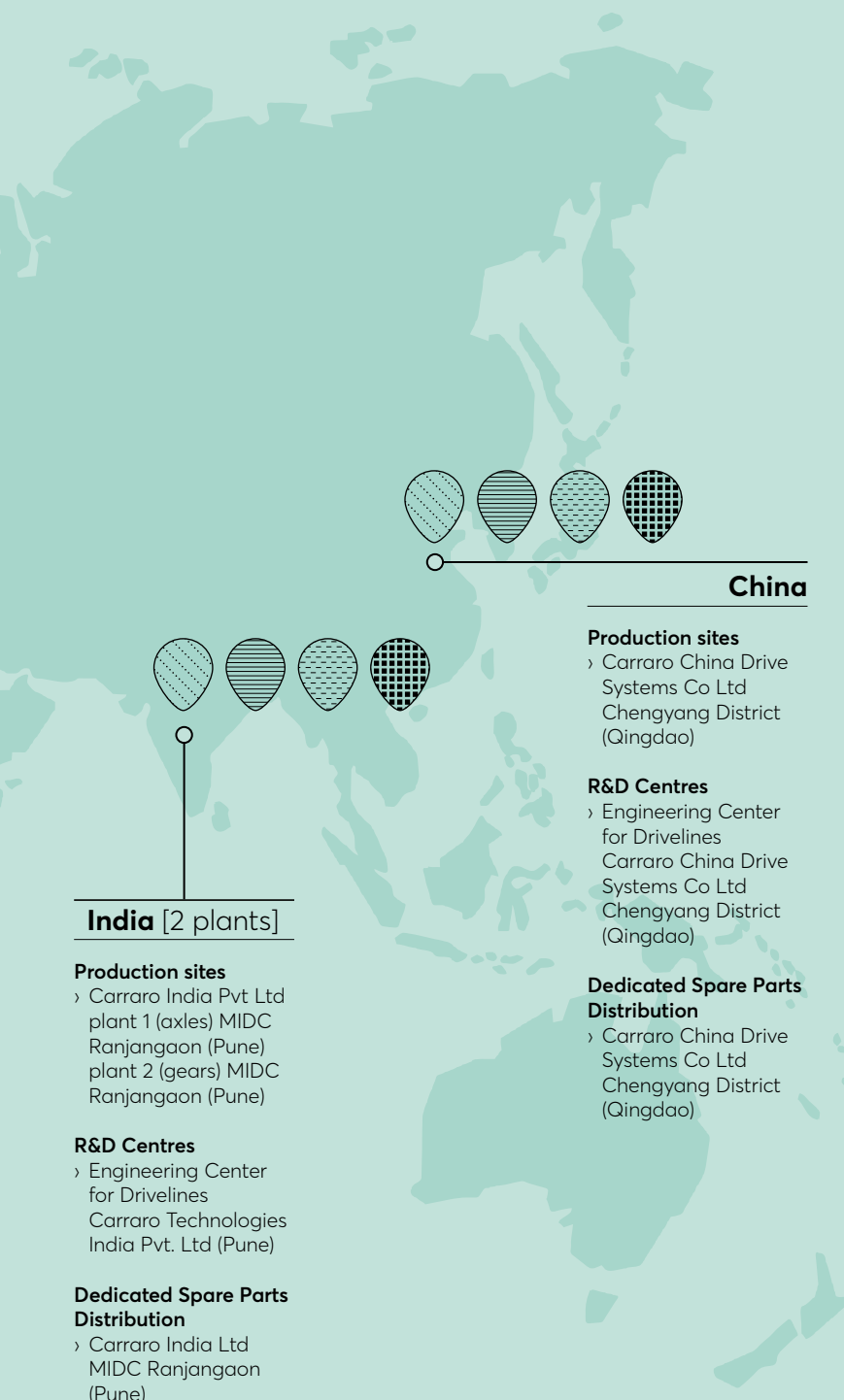
Global Presence

The headquarters is the registered office of the Italian Parent Company Carraro Spa, located in Campodarsego (Padua). At 31/12/2018, the Group also had the following operating facilities.



102-3
Location
of Headquarters

102-4
Location
of operations



Plants

Italy
Argentina
Brazil
China
India



Branches

Italy
United States
Brazil
China
India
Argentina



Engineering Centres

Italy
Argentina
China
India

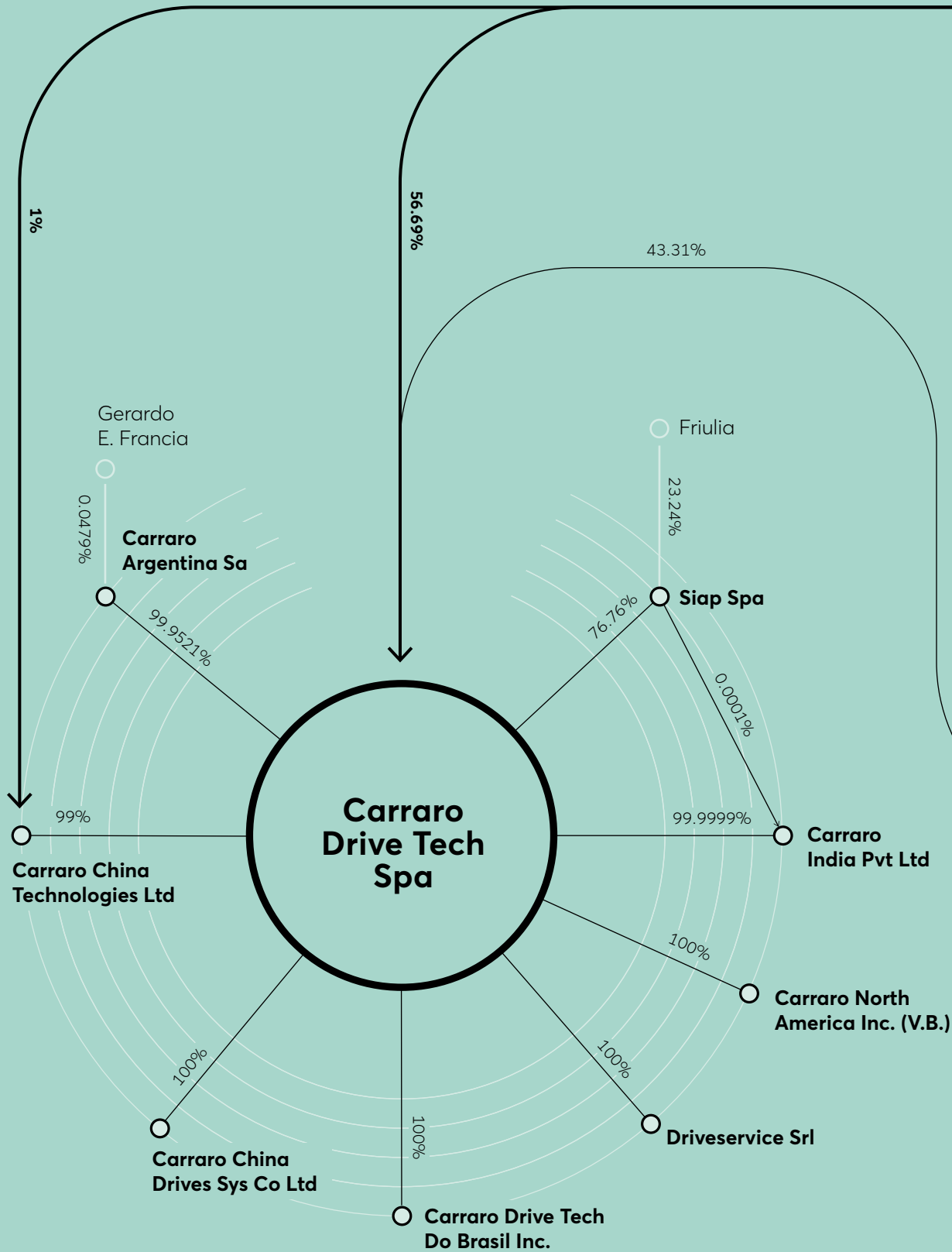


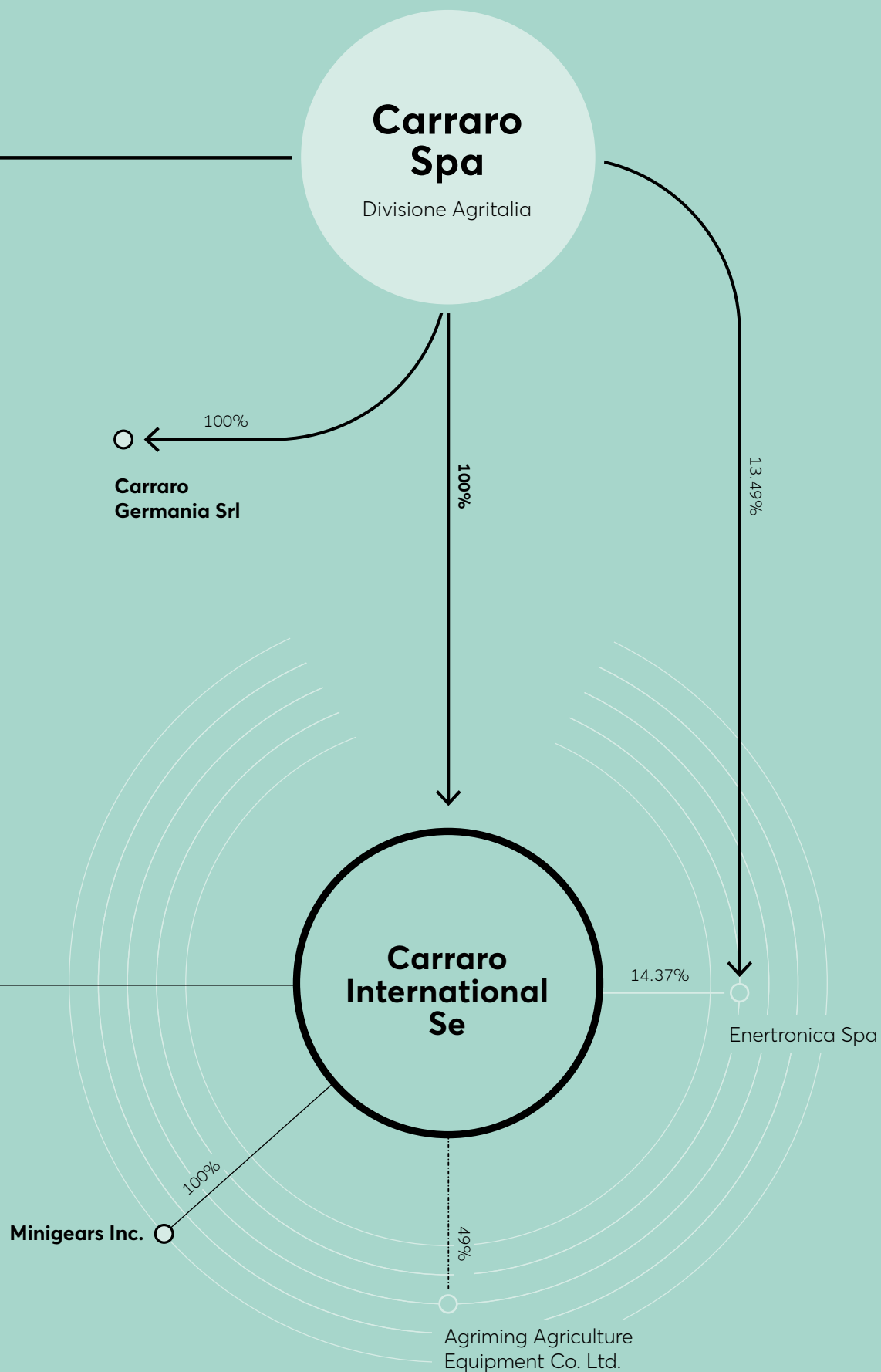
Spare Parts Centres

Italy
United States
Argentina
China
India

* see the changes in the structure of the operating sites presented in the paragraph 'Group Structure at 31/12/2018'

Group Structure at 31.12.2018





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

- › the departure from the consolidation scope of the Polish company FON Sa due to the sale of the same in 2017; as it was a non-operational entity, no data for the two reporting

periods is provided;

- › sale of the Poggiofiorito business unit:
- › 28/11/2017 (sale of machinery to Siap Spa)
- › 22/02/2018 (sale of the business to Driveservice Srl)

102-10
Significant
changes in the
organisation
and in its supply
chain

Ownership structure, economic and financial dimension

102-5
Ownership
and legal form

102-7
Scale of the
organization

Ownership structure

Carraro Spa is a joint-stock company registered in Italy at the Padua Companies Register and controlled by Finaid Spa. The Share Capital is established as € 41,452,543.60 fully paid up, divided into 79,716,430 ordinary shares with a par value of € 0.52 each.

The Parent Company Carraro Spa 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 in the Group it controls.

Market Capitalisation Value

On the basis of the market data (Borsa Italiana), the precise and average share price and capitalisation values of the Parent Company Carraro Spa are as follows:

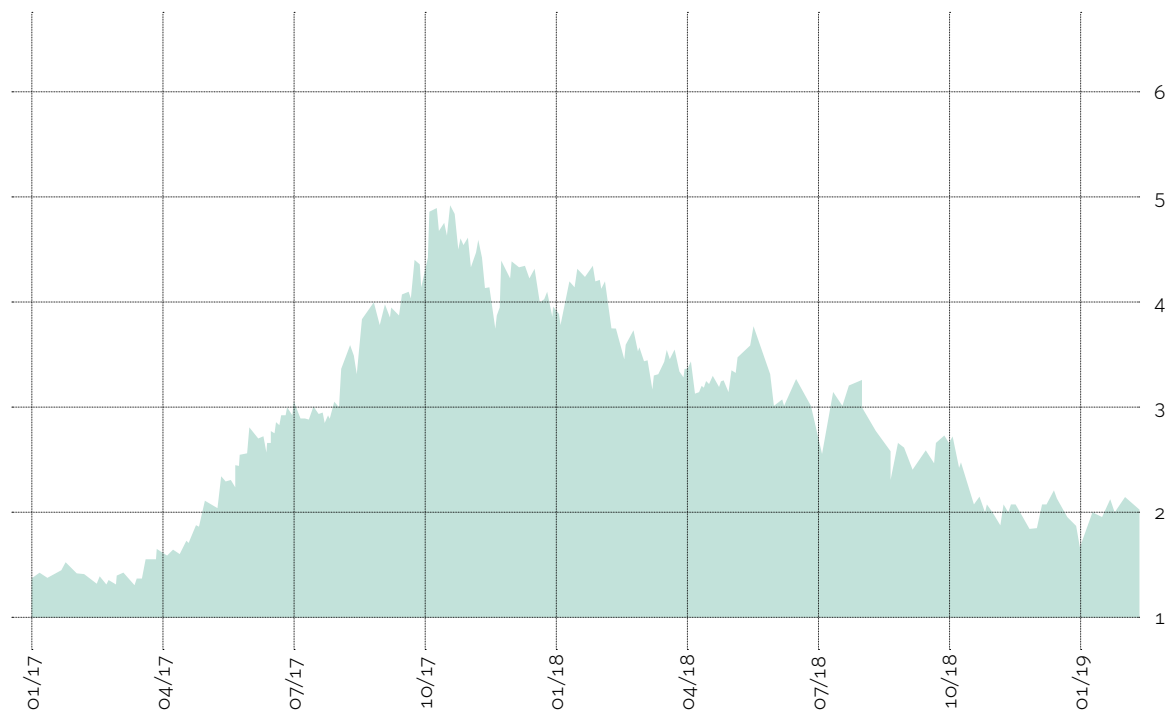
	2018	2017
Share price (€) *	1.698	3.908
Average share price *	2.929	2.967
Capitalisation at 31.12 (€/Mil) **	135.4	311.5
Average capitalisation of the year (€/Mil) **	233.5	236.5

* Source Bloomberg: quotation of the official prices extracted on 28/12/2018 (2018 data) and 29/12/2017 (2017 data)

** Gross of treasury shares

Share price

As regards share performance in the years considered (2017 and 2018), the following trend was observed:



Financial and economic data of the Group

The main consolidated financial and economic indicators are as follows:

	31.12.2018 (€/Mil.)	31.12.2017 (€/Mil.)
Revenues	624.1	606.0
Ebitda	51.9	55.0
Ebit	31.3	33.7
Net profit / (loss)	13.2	13.7
Investments	28.0	15.5
NFP	-156.6	-145.9
Shareholders' Equity	77.1	82.2

Human resources

102-8
Information on
employees and
other worker

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

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

The breakdown of the workforce by organisational level, gender, professional qualification and geographical 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 educational 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 divided by category:

Workforce by gender and qualification												
	2018						2017					
Workforce	M	%	F	%	Total	%	M	%	F	%	Total	%
Senior Managers	23	95.8%	1	4.2%	24	100%	24	96.0%	1	4.0%	25	100%
Executives and Officers*	78	92.9%	6	7.1%	84	100%	77	89.5%	9	10.5%	86	100%
Clerical Staff	397	67.4%	192	32.6%	589	100%	385	68.0%	181	32.0%	566	100%
Factory Workers	1,770	95.8%	77	4.2%	1,847	100%	1,806	95.8%	79	4.2%	1,885	100%
Total employees	2,268	89.2%	276	10.8%	2,544	100%	2,292	89.5%	270	10.5%	2,562	100%
External workers**	432	93.9%	28	6.1%	460	100%	417	96.8%	14	3.2%	431	100%
Apprentices**	254	96.9%	8	3.1%	262	100%	155	95.1%	8	4.9%	163	100%
Total workforce	2,954	90.4%	312	9.6%	3,266	100%	2,864	90.7%	292	9.3%	3,156	100%

Note

- › The 2017 data related to personnel was restated to align it with the new survey criterion, which requires counting apprentices and external workers separately.
- * 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.
- ** Approximately 20% of the Group's workforce consists of external workers and external apprentices who perform activities mainly in the production and logistics areas. This labour force, of which approximately 75% is located in India, enables a margin of flexibility in the organisation of the work, while the remainder, employed in Italy, makes it possible to absorb production peaks determined by market trends.

In 2018, the category 'workers' represented, with 1,847 people, 73% of total employees, compared to clerical staff (589 people, 23%), middle managers and officers (84 people, 3%) and executives (24 people, 1%).

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

Number of employees by gender and macro geographical area

Number of employees by gender type and macro geographical area												
	2018						2017					
Employees	M	%	F	%	Total	%	M	%	F	%	Total	%
Europe	1,070	84.3%	200	15.7%	1,270	100%	1,023	83.6%	200	16.4%	1,223	100%
Asia	1,080	94.2%	66	5.8%	1,146	100%	1,088	94.5%	63	5.5%	1,151	100%
Americas	118	92.2%	10	7.8%	128	100%	181	96.3%	7	3.7%	188	100%
Total at 31.12	2,268	89.2%	276	10.8%	2,544	100%	2,292	89.5%	270	10.5%	2,562	100%

Note

- › The 2017 data related to personnel was restated to align it with the new survey criterion, which requires counting apprentices and external workers separately.

Number of employees by contract type and macro geographical area

Number of employees by contract type and macro geographical area												
2018							2017					
Employees	T. det	%	T. ind	%	Total	%	T. det	%	T. ind	%	Total	%
Europe	12	0.9%	1,258	99.1%	1,270	100%	2	0.2%	1,221	99.8%	1,223	100%
Asia	152	13.3%	994	86.7%	1,146	100%	195	16.9%	956	83.1%	1,151	100%
Americas	0	0.0%	128	100%	128	100%	1	0.5%	187	99.5%	188	100%
Total at 31.12	164	6.4%	2,380	93.6%	2,544	100%	198	7.7%	2,364	92.3%	2,562	100%

Note

- › The 2017 data related to personnel was restated to align it with the new survey criterion, which requires counting apprentices and temporary workers separately.

The geographical distribution of Group employees reflects the number and size of the production plants located in the various geographical areas. The largest numbers are in Italy and in India.

In Italy, with the headquarters, the 3 production sites with the related R&D areas and the 2 spare part plants; in India, with the 2 Carraro India Ltd plants and the Carraro Technologies Ltd research centre.

Number of temporary employees by gender type and macro geographical area												
	2018						2017					
	M	%	F	%	Total	%	M	%	F	%	Total	%
External workers												
Europe	150	89.3%	18	10.7%	168	100%	182	97.3%	5	2.7%	187	100%
Asia	280	96.6%	10	3.4%	290	100%	235	96.3%	9	3.7%	244	100%
Americas	2	100.0%	0	0.0%	2	100%	0		0		0	
Total at 31.12	432	93.9%	28	6.1%	460	100%	417	96.8%	14	3.2%	431	100%

Number of apprentices employees by gender type and macro geographical area												
	2018						2017					
	M	%	F	%	Total	%	M	%	F	%	Total	%
Apprentices												
Asia	254	96.9%	8	3.1%	262	100%	155	95.1%	8	4.9%	163	100%

Number of employees by contract type (part-/full-time and permanent/temporary)

Number of employees by contract type (part-/full-time and permanent/temporary)							
Contract type	2018				2017		
	M	F	Total		M	F	Total
Temporary	Part time	0	0	0	0	0	0
Temporary	Full time	135	29	164	163	35	198
Temporary		135	29	164	163	35	198
Permanent	Part time	8	37	45	7	31	38
Permanent	Full time	2,125	210	2,335	2,122	204	2,326
Permanent		2,133	247	2,380	2,129	235	2,364
Total at 31.12		2,268	276	2,544	2,292	270	2,562

Note

The 2017 data related to personnel was restated to align it with the new survey criterion, which requires counting apprentices and external workers separately.

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 geographical areas of the globe.

102-6
Markets served

2018



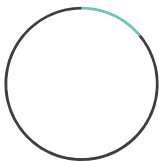
Construction Eq.

35%



Agricultural Eq.

47%



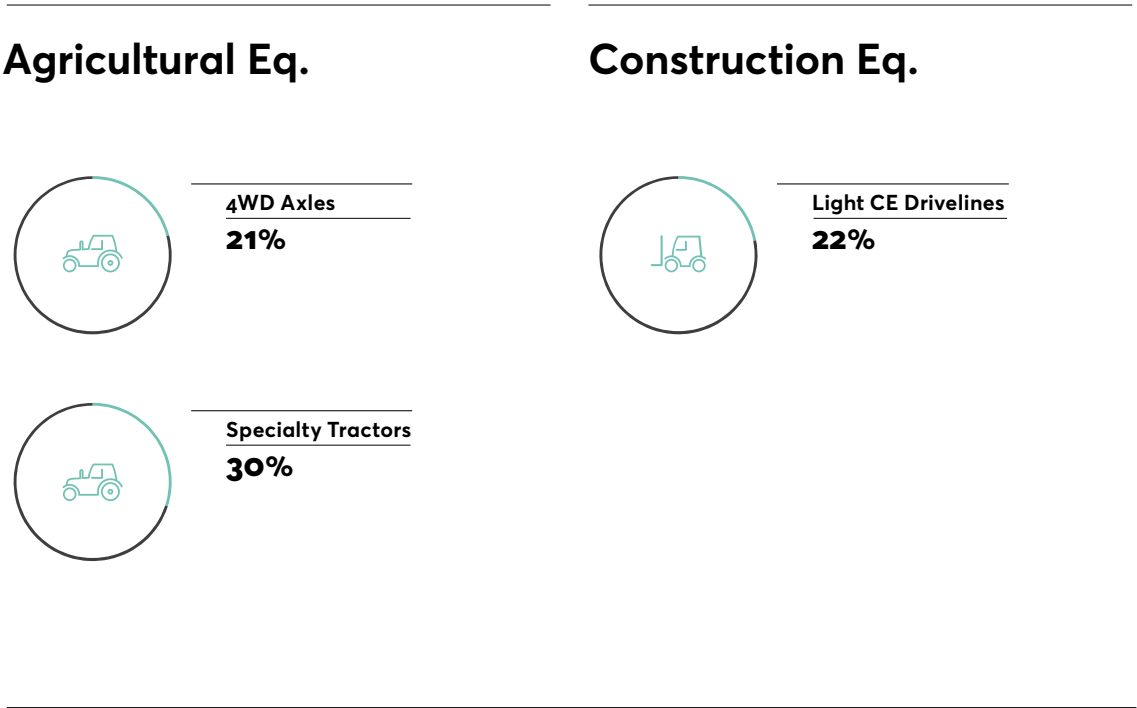
Other
14%



Material Handling
4%

Carraro Group market shares*

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:



* Estimated market shares

Types of markets served



**Agricultural
machinery**



**Construction
machinery**



**Material Handling
machinery**



**Commercial
road vehicles**

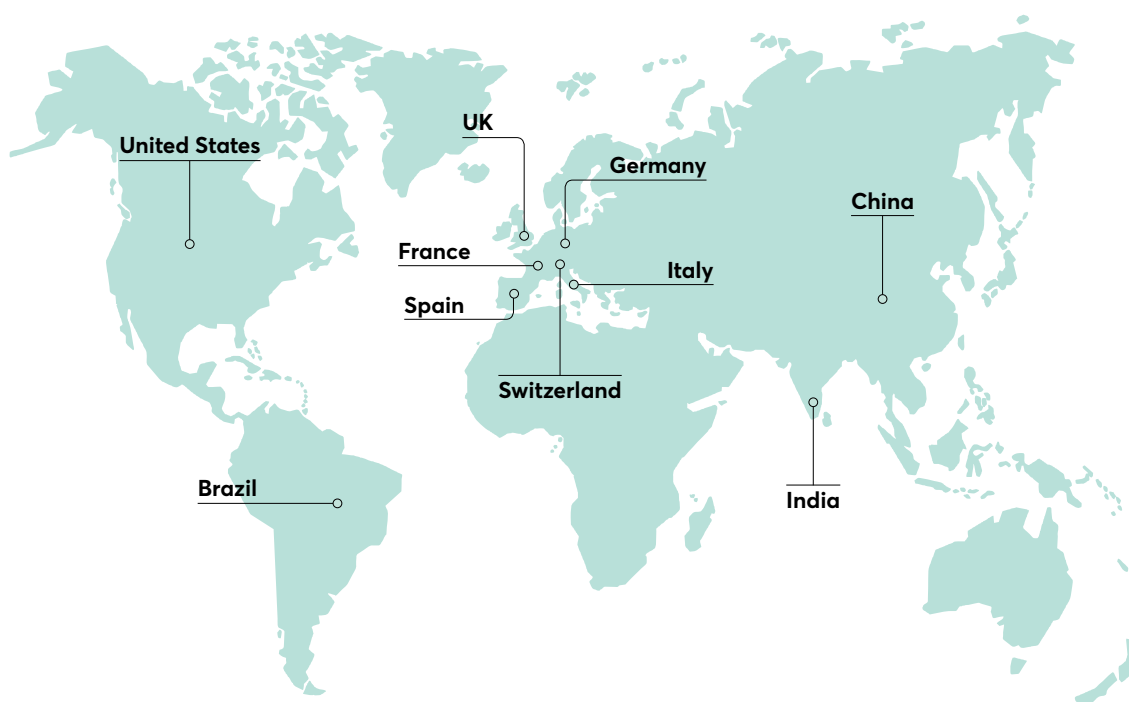
Sales by market segment	31.12.2018	% of total	31.12.2017	% of total
	€/ooo	at 31.12.2018	€/ooo	at 31.12.2017
Agriculture	293,991	47.11%	313,269	51.69%
Construction	219,069	35.10%	186,116	30.71%
Replacement parts	54,082	8.67%	52,000	8.58%
Material handling	27,801	4.45%	24,065	3.97%
Automotive	17,311	2.77%	15,875	2.62%
Railways & transport	1,261	0.20%	1,117	0.18%
Industrial applications	0	0.00%	1,020	0.17%
Renewable energies	9	0.00%	84	0.01%
Other	10,592	1.70%	12,474	2.06%
Total	624,115	100%	606,021	100%

Sales by geographic area	31.12.2018	% of total	31.12.2017	% of total
	Euro	at 31.12.2018	Euro	at 31.12.2017
Far East	133,907	21.46%	106,825	17.63%
North America	96,844	15.52%	92,637	15.29%
South America	34,028	5.45%	42,636	7.04%
Other EU Countries	193,864	31.06%	175,215	28.91%
Non EU Countries	61,816	9.90%	100,851	16.64%
Italy	103,656	16.61%	87,857	14.50%
Total	624,115	100%	606,021	100%

Note

› Following an improvement of the reclassification by geographical area, the 2017 data were restated.

Markets served by country



Brands, products and services

The value of Group's trademarks is founded on the consolidated presence of Carraro products in the agricultural and construction machinery sectors; the brand recognition originates from the company's link to agricultural vehicles, first as regards seed drills and then expanding and consolidating in the field of tractors, and later focusing on technologically-advanced components and drive systems.

The significance of the brand comes from its ability to represent Carraro with clients as a strategic supplier of products which are an expression of technology reliable over time and at the same time flexible in adapting to the characteristics of the applications to which they are destined. The Group's history confirms these characteristics that find expression and a summary in the proprietary trademarks.

The Management has always worked to keep close and constant this link between the products, their brands and the underlying technical content with continuity in maintaining the name and graphic symbols; with the objective of protecting them from the risk of counterfeiting rules and procedures have been prepared for their use both by internal personnel and by external partners (concessionaires or dealers). Other protection measures consist of monitoring instruments managed by the competent internal units or supplied by providers external to the organisation.

The historic 'Tre Cavallini' brand, 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' brand was joined by the modern Carraro brand, under which all of the Group's power transmission products and spare parts are marketed.

Main trademarks, products and services

Marchi

Carraro Spa

→ Research and Development

Carraro Drive Tech Spa

→ Axle and Drive Systems

Siap Spa

→ Drive system components

Carraro After Sales e Spare Parts

→ Replacement parts

Carraro Agritalia

→ Agricultural vehicles

Carraro Tractors

→ Carraro Tractors specialised tractors

Drive Service

→ Carraro Spare Parts logistics service

Products

Drive systems (axles, drive systems) for:

- construction machinery (backhoe loaders, wheel loaders, excavators, compactors)
- agricultural machinery (tractors, harvesters)
- transportation machinery (forklift trucks)
- telehandlers
- light commercial vehicles

Gears and components for:

- drive systems for agricultural and construction machinery
- drive systems for transportation and lifting machinery and commercial vehicles

Special agricultural vehicles

Services

Research and Development

Design and Engineering

Sale of Spare Parts

Post-Sales Service

There are no limitations or prohibitions in the sale of Carraro products, with the exception of cases of embargo applied by some countries or supranational authorities in relation to other countries.

Awards received for the level of service



Carraro Argentina among the best argentinian suppliers of CNH

This past 19 June 2018, on the occasion of the CNH Suppliers Excellence Awards 2018, Carraro Argentina was one of the finalists in the event at which an excellent level of service was recognised.

Research and innovation

Innovating means to be open minded 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, construction machinery and forklift trucks) and on-highway vehicles (light commercial and special vehicles), innovative products have been launched to meet concrete needs, such as 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' brand, is the result of the creative efforts of the Group in a range of specialised tractors which is particularly innovative in terms of design and technology, combining three different motors from 75 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 solutions for operating machines with torque converters, 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 dual-clutch 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 with electronic control (e.g. dual clutch) 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.

Research and Development Centres

The Group's Research and Development is carried out at the head offices of Carraro Spa as well as in the regional R&D Centres located in the main geographical areas in which the Group operates. The Research and Development Centre at the head offices of Carraro Spa 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 90 workers (83 in 2017) are employed at the complex, which includes offices, technical areas and a test area for a total of 3,820 square meters. During the year the structure was expanded with a further 2,889 square meters of available space which it is planned to fit out for use in 2019 for R&D, testing and prototype set-up activities.

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

		31.12.2018	31.12.2017	2018 notes
Human resources, R&D and prototyping	no. (FTE)	224	192	73% Italy, 27% abroad
Financial investment in R&D	€/Mil.	22.4	21.9	–
Financial investment in R&D (proportion of revenue)	%	3.59	3.61	–
Patents registered in various countries	num.	22	22	–
R&D Centres worldwide	num.	5	5	2 in Italy, 3 at foreign sites
Prototype development and test centres	num.	1	1	Italy

Recognitions in the Research and Development field

Carraro India wins the John Deere 'Supplier Award Ceremony'



This past 24 April 2018, in the prestigious JW Marriott hotel in Pune, the *John Deere India Supplier Conference 2018* was held in the presence of more than 500 guests, among the main John Deere suppliers.

During the 'Supplier Award Ceremony' Carraro India received an award in the category 'New Product Development'.

This award, received by Sudhendra Mannikar, Ashokkumar Rai and Swamy Viswanath, was assigned for the significant contribution made in the development and creation of the 4wd front axle in the *5E Tractor* project.

Carraro Tractors wins the ‘Foglia d’argento’ (Silver Leaf) for the Vigneto Largo Basso model with Pergola cabin.

On the occasion of Fieragricola 2018, Carraro Tractors won the ‘Foglia d’argento’ (Silver Leaf) for the Vigneto Basso model with Pergola cabin. Presented for the first time in June 2017, on the occasion of Enovitis, the Pergola cabin of the Vigneto Largo Basso represents the ideal solution for anyone who does not want to give up the comfort of the cabin in ‘pergola’ or ‘tendone’ cultivations. The environment can be conditioned or heated, the glass offers ample visibility thanks to the double rounding coupled with curved uprights and facilitates passing through the vegetation. Thanks to these characteristics the end user can obtain greater profits and operating efficiency, without however giving up on comfort.



The Carraro ‘Hybrid’ tractor given 2 AWARDS by FederUnacoma: EIMA 2018 Novità Tecnica (Technical Innovation) and EIMA Premio Blu (Blue Award) for attention to the environment

The innovation of the project, developed with the collaboration of 4e consulting, consists of creating a system that integrates a down-sized endothermic engine with a diesel cycle and an electric motor as propulsion systems of a 105HP vehicle with the main aim of enabling a rational use of the power supplied according to the different processing needs.

The auxiliary systems are managed by respective electric motors enabling a further rationalisation of uses.

The John Deere tractors of the 5R series receive the prestigious AE50 Award 2018

As stressed by John Deere, the manoeuvrability of this range of utility tractors – guaranteed by the presence of a Carraro 20.22 SI front axle with electronically-controlled independent suspensions – emerges among the more interesting factors recognised by the ASABE.



1.4

Being sustainable

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 de-

sign 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, which reduce and/or eliminate the use of hazardous substances, paints in particular.

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 that it is responsible for.

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 laid down 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/Operating unit	Registered office	Country
ISO 9001:2015	Quality	Carraro Drivetech Spa	Campodarsego (PD)	Italy
		Carraro Spa Divisione Agritalia	Rovigo	Italy
		Siap Spa	Maniago (PN)	Italy
		Carraro China Drive Systems Co	Qingdao	China
		Carraro Argentina SA	Haedo	Argentina
		Carraro India Ltd (axle plant and gear plant)	Ranjangaon (Pune)	India
		Carraro Technologies India Pvt Ltd	Viman Nagar (Pune)	India
IATF 16949:2016	Quality	Siap Spa	Maniago (PN)	Italy
		Carraro India Ltd (gear plant)	Ranjangaon (Pune)	India
OHSAS 18001:2007	Workplace safety	Carraro Spa Divisione Agritalia	Rovigo	Italy
ISO 14001	Environmental protection	Carraro Drivetech Spa	Campodarsego (PD)	Italy
		Carraro Spa Divisione Agritalia	Rovigo	Italy
		Siap Spa	Maniago (PN)	Italy
		Carraro India Ltd (axle plant)	Ranjangaon (Pune)	India
		Carraro China Drive Systems Co	Qingdao	China

Materiality analysis in Carraro

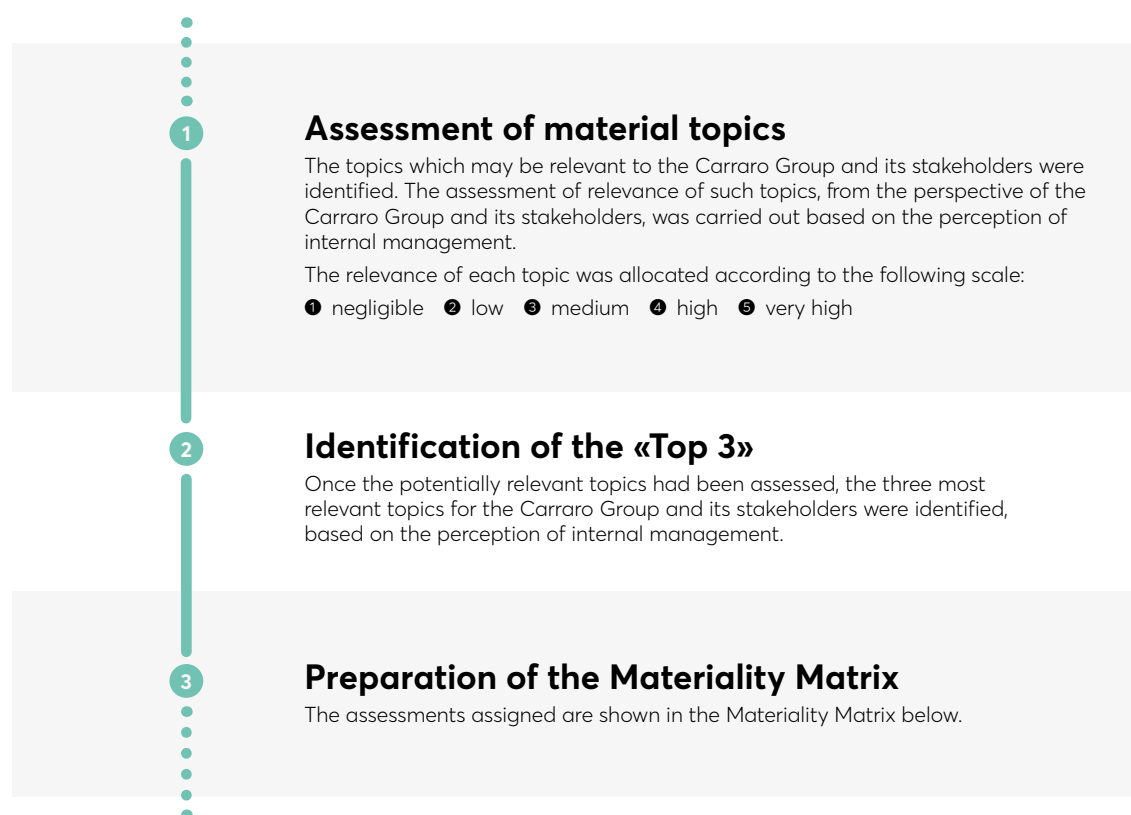
Since 2016, Carraro has implemented a process to define the non-financial aspects of the materiality analysis in relation to the Group and its stakeholders, taking into account different sources (company documents, sector studies, benchmarks in relation to clients, competitors and other leading players) according to the international guidelines of the GRI-G4 reporting standards and subsequently starting from the 2018 report adopting the GRI Standards issued in 2016.

The analysis involved the management through the exchange of information, meetings and interviews. The process described here is the subject of periodic assessment aimed at improving its ability to represent with sufficient breadth the orientation of the stakeholders.

The materiality principle was applied, searching, in the analysis of the Group's characteristic activities, for the factors related to sustainability among those relevant for the achievement of the strategic objectives. The indications collected in the management's assessments and in the benchmark analysis subsequently enabled them to be classified by priority level.

Materiality is a reference used to associate the commitment of employees and external stakeholders to the goals which reinforce the link between sustainability and business operations, as well as to define the reporting priorities in social and environmental contexts.

The analysis process, conducted in 2017 for the first time, developed through 3 steps:

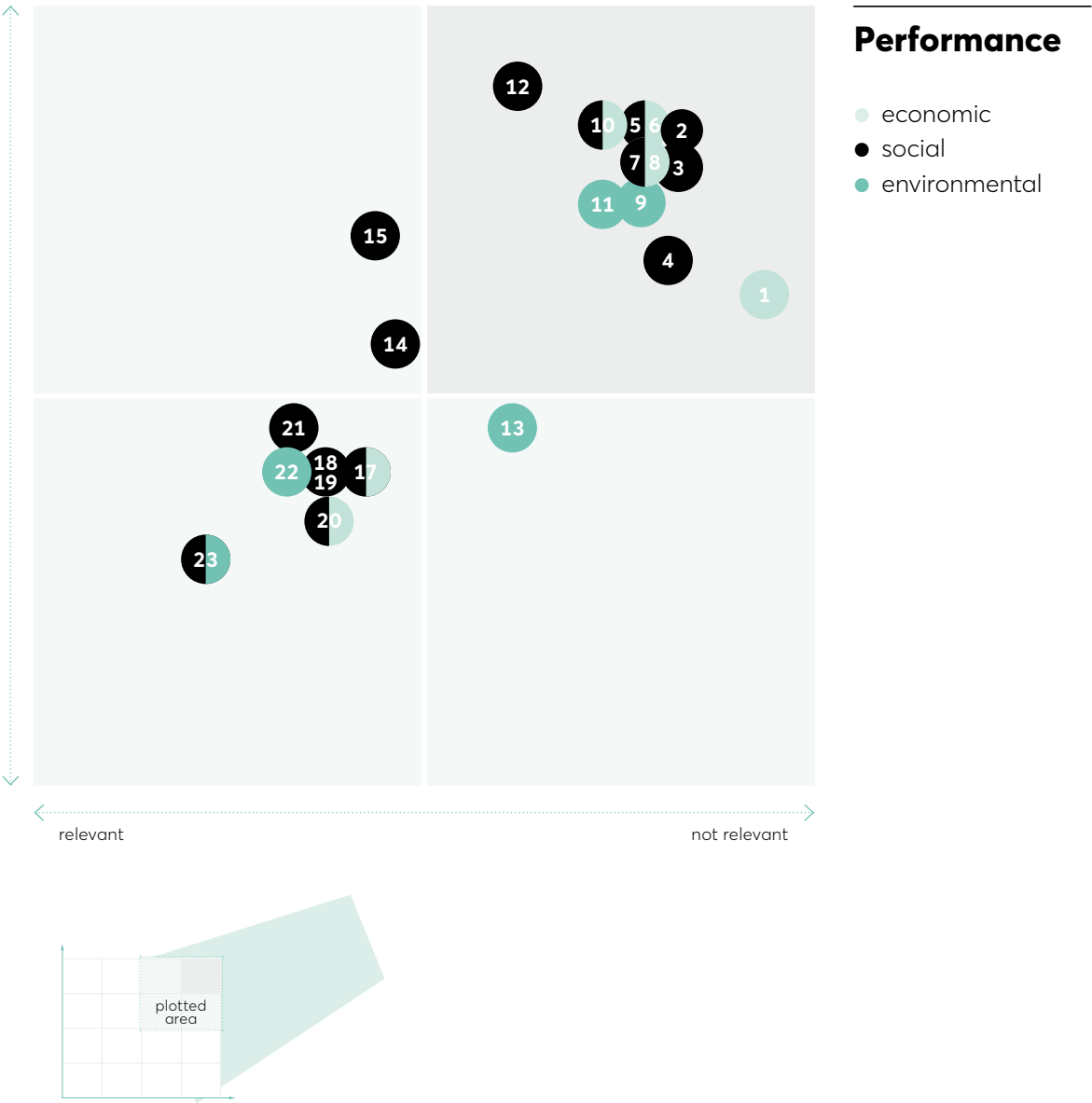


Aspects related to governance, legal compliance and economic performance (creation of sustainable value over time) are considered as prerequisites to the materiality analysis; such aspects are therefore included in the Sustainability Report but are not subject to specific evaluation and insertion in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

The result of the materiality analysis was examined by the Control, Risk and Sustainability Committee (CRSC) and approved by the Board of Directors. The results of the materiality analysis process carried out in 2017 were assessed as still valid for the 2018 Sustainability Report by both the CRSC and the BoD at the meeting held on 28.01.2019.

Carraro Materiality Matrix

The following table shows the relevant topics for the Carraro Group



- Step 3
- › Based on a benchmark analysis of the automotive sector and sustainability studies, 23 potentially relevant topics for the Carraro Group were identified.
 - › These topics were explored in more detail with the managers/representatives of 10 different areas/departments in order to determine their relevance.
 - › Stakeholder perception was evaluated based on the perception of internal management.
 - › The following slides show the details of the relevant topics represented in the matrix.

Relevant reporting topics for the Carraro Group

#	Relevant topic
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 reduction of 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 among stakeholders, also in reference to sustainability
15	Engagement, dialogue, customer satisfaction and quality services
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 procurement and use of materials
23	Attraction, development and retention of resources
Most relevant topics [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 support of local suppliers. Other environmental and social topics considered include the reduction of energy consumption and greenhouse gas emissions, the reduction of waste produced 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. In addition to ensure complete reporting of the requisites required by Italian Legislative Decree 254/2016 Art.3 (2), the data related to the use of water resources is reported.

**Table of connection between Materiality Matrix
and UN Sustainable Development Goals (SDGs)**

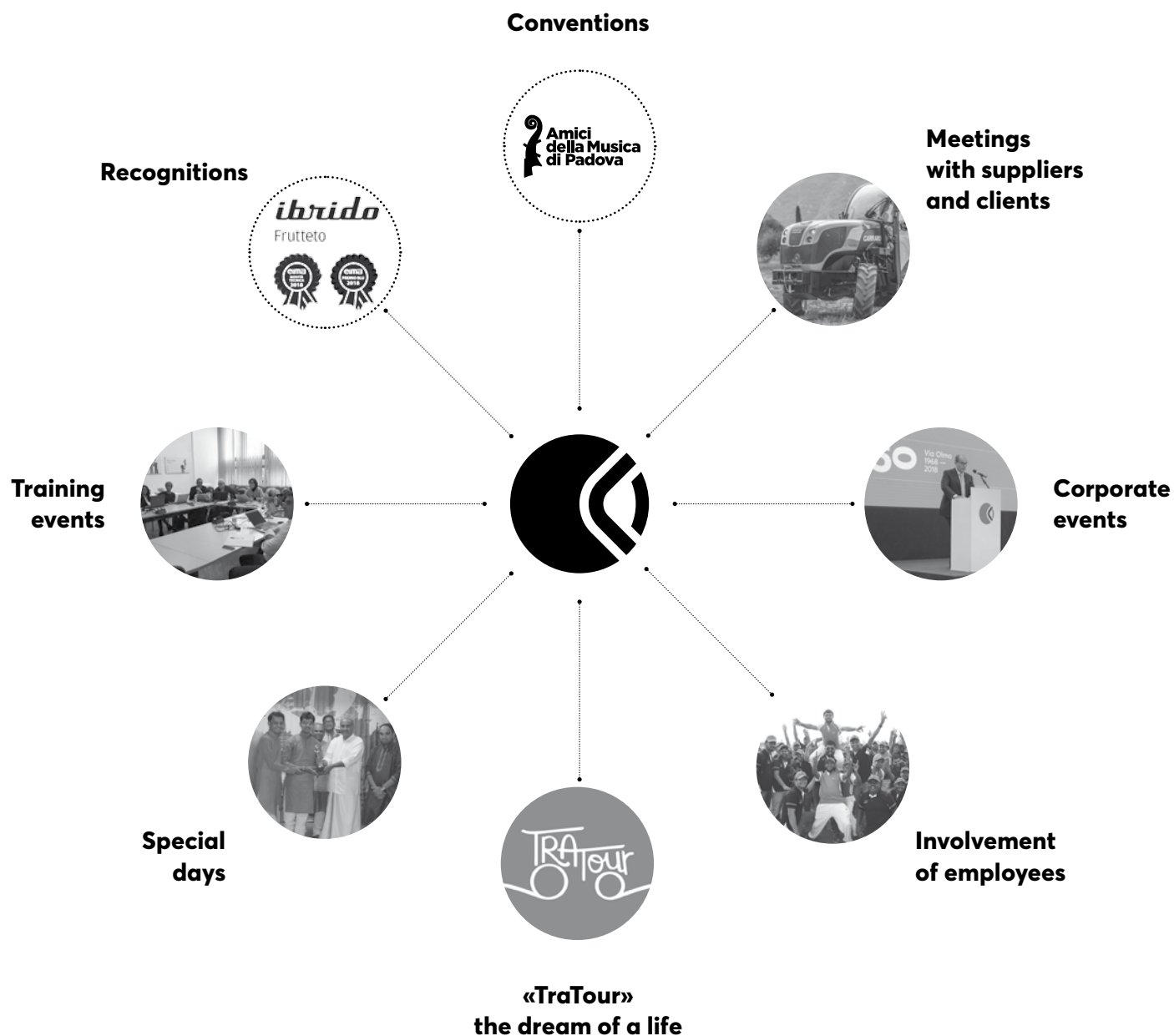
Many of the material aspects of the Carraro Group are aligned with 12 of the 17 Sustainable Development Goals (SDGs) defined in the context of the action programme of the 193 UN member countries.

Tema rilevante	<div>Health and Well-being</div> <div>Excellence in training</div> <div>Gender equality</div> <div>Clean water and hygiene</div> <div>Clean and accessible energy</div> <div>Dignified work and economic growth</div> <div>Industry, Innovation and Infrastructure</div> <div>Reducing inequalities</div> <div>Sustainable cities and communities</div> <div>Responsible consumption and production</div> <div>Acting for the climate</div> <div>Peace, justice and strong institutions</div>											
	3	4	5	6	7	8	9	10	11	12	13	16
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 reduction of 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 among stakeholders, also in reference to sustainability				◆	◆
15	Engagement, dialogue, customer satisfaction and quality services					
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 procurement and use of materials					◆
23	Attraction, development and retention of resources	◆		◆		

During 2018 the Sustainability Operating Committee (SOC) met with the aim of studying in depth the topics of the SDGs and set itself, during 2019, the objective of defining a plan of actions compatible with what is provided for in the 2030 Agenda for Sustainable Development. The analysis of the initiatives launched or that could be launched on the subject of sustainability, in correlation with the SDGs, involves several Group units and constitutes the main focus of the work programme of the SOC for the year 2019.

Already during 2018, the Carraro Group, both for the Italian facilities and for the foreign ones, developed a series of initiatives to promote Sustainable Development, as presented in this report, in the chapters Resources and the Environment, Human Resources and Ecological and Social Aspects.



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 Social Responsibility policies. 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.

102-40
List of stakeholder groups

102-42
Identifying and selecting stakeholders

102-43
Approach to stakeholder engagement

102-44
Key topics and concerns raised

Stakeholder engagement and interaction by stakeholder category

Stakeholder	Engagement/interaction
Employees	<ul style="list-style-type: none"> • Projects and/or initiatives for company welfare • Breach reporting system • Company Intranet • Internal newsletter • Insertion schemes for new employees • Company meetings to discuss results and future objectives • Training programmes
Trade unions and workers' representatives	<ul style="list-style-type: none"> • Regular discussions
Clients	<ul style="list-style-type: none"> • Regular meetings • Surveys/market research • Continuous dialogue through communication channels (e.g. e-mail, 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 days
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
Environment	<p>Support and engagement projects:</p> <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 for themselves or for others.

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 observe the principles and laws that regulate anti-competitive behaviour, operating on the markets fairly and correctly, ensuring the quality of its own products and observing 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 Italian Legislative Decree 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. Being responsible
2. Creating 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 giving or receiving 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;
- › fair 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 observe 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 Spa; 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 Chairperson and the Chief Executive Officer of Carraro Spa have the right to make any change of an exclusively formal nature, as long as the content remains largely unchanged;
- › the Board of Directors and the Oversight Committee of Carraro Spa must be promptly informed of any such amendments or additions proposed by the Chairperson or the Chief Executive Officer;
- › the Oversight Committee must notify the competent bodies of any breaches of the Code of Ethics. Furthermore, the Oversight Committee 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.

For the whole of 2018, in order to report illicit behaviour and conduct contrary to the ethics of the Group, specific e-mail addresses were made available for the submission of reports to bring such cases to the attention of the auditing body (Oversight Committee):

- › *Carraro Spa and foreign companies* info.odv@carraro.com;
- › *Carraro Drive Tech Spa* info.odv@carrarodrivetech.com;
- › *Siap Spa* info.odv@siapgears.com.

Starting from 2019, these addresses will gradually be replaced by a ‘whistleblowing’ reporting channel supported by a dedicated web portal entitled ‘CarraroWB’ and accessible through the Group’s website www.carraro.com.

102-17
Mechanisms
for advice and
concerns about
ethics

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 its own commitment and one required of its commercial partners, with 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 (web, private network).

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

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

419-1
Non-compliance
with laws and
regulations in
the social and
economic area

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 2018, no significant sanctions were imposed for failure to comply with laws or regulations in the economic and/or social field.



2.1

Governance model

Corporate Governance and Corporate Governance Code

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

102-18
Governance
structure

The Parent Company Carraro Spa 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 Oversight Committee 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 Statements.

The Board of Directors

The Board of Directors is the collegial body responsible for administering the Company, defining the strategic objectives of the Company and of the Group it heads, and governing its management. 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 responsibility as regards:

- › reviewing and approving strategic plans, the budget and major transactions as well as reviewing 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);

- › defining the nature and level of risk compatible with strategic objectives, in the context of medium to long-term sustainability;
- › verifying suitability of the general organisational and administrative structure of the Company and the Group;
- › assigning and revoking powers to the Chairperson, the Chief Executive Officer and assigning or revoking special powers of attorney to Company executives;
- › determining remuneration for the Managers of the various departments;
- › supervising the overall performance of Company and Group management;
- › assessing regularly the size, composition and performance of the Board and its Members;
- › providing guidance on the managerial and professional figures whose presence in the Board is deemed opportune;
- › defining the Corporate Governance rules and supervision of their compliance with the Code;
- › reviewing and approving the principles, limits and outcomes of financial risk management operations;
- › reviewing and approving 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 subcommittees:

- › 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 responsibilities.

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 annual 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 Chairperson 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 entrusted to the Chief Executive Officer Mr. Alberto Negri by the Board of Directors at the meeting of 14 May 2018, maintaining this role until the expiry of the mandate envisaged as the Shareholders' Meeting to approve the 2020 financial statements.

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

- › 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;
- › 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;
- › the adaptation of this system to the dynamics of the operating conditions and the legislative and regulatory framework;
- › 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 activ-

ities 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 Chairperson of the Board of Directors, the Chairperson of the Control, Risk and Sustainability Committee and the Chairperson of the Board of Statutory Auditors.

Internal Control and Risk Management System

The internal control and risk management system aims to ensure:

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

The internal control system for financial information adopted by Carraro Spa 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 Italian 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 Italian 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 and of the Code of Ethics (date of last resolution 28 January 2019).

The Carraro Spa Code of Ethics was subsequently adopted by all directly controlled subsidiaries to become the Carraro Group Code of Ethics, while all Italian subsidiaries adopted an Organisational Model pursuant to Italian 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 contrib-

ute to the Group's position as a global leader. Carraro has adopted the following Policies at Group level:

- › *Environmental, 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 eight manufacturing sites* in five different countries.

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 topics 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)

* See the changes in the structure of the operating sites presented in the paragraph 'Group Structure at 31/12/2018'

- 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 Spa.

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 incentive 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 set of Quality Procedures in line with the international standards that have been gradually issued by the relevant international bodies.

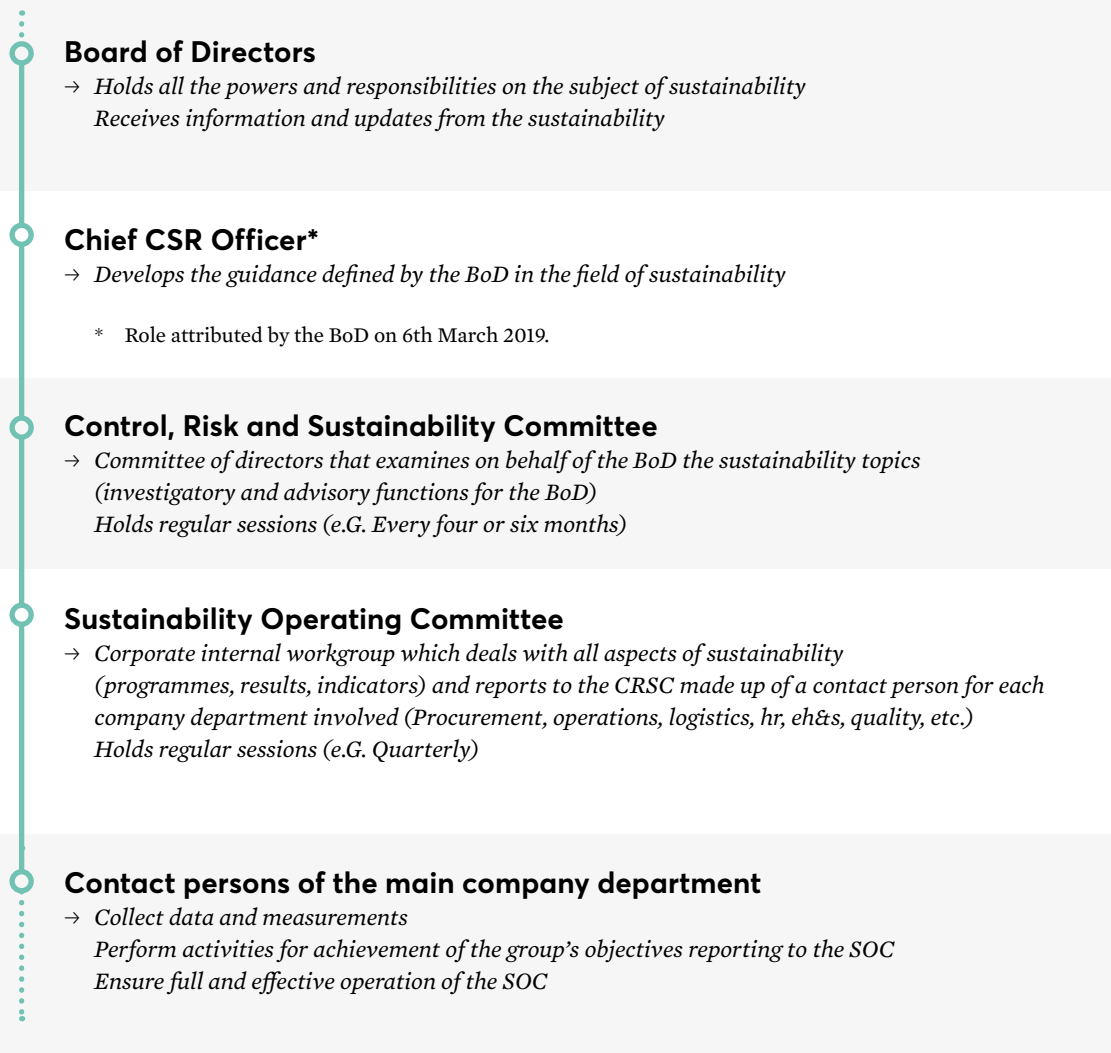
Process for delegation and management in the field of CSR

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 CSR Officer* (Director with delegated powers on sustainability):*
has the task of implementing the guidance defined by the BoD in the field of sustainability;
- › *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.

* Role attributed by the BoD on 6th March 2019.

'Sustainability' Governance



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 Chairperson and the Chief Executive Officer, according to the powers conferred by the Shareholders' Meeting and the delegated powers assigned.

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.

102-20
Executive-level
responsibility for
economic, envi-
ronmental, and
social topics

Chief CSR Officer*

The Chief CSR Officer, with the support of the Control, Risk and Sustainability Committee, proposes and coordinates the projects and initiatives in the field of social responsibility, monitors the action plans of the various operating units, and checks observance of the legislation on the subject also in relation to the disclosure obligations.

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;

* Role attributed by the BoD on 6th March 2019.

- › 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 topics 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(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 (Chairperson of the Board of Directors, Chief Executive Officer and Deputy Chairperson);
- › 6 members are non-executive directors.

Independence

- › Of the 6 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.

102-22
Composition
of the highest
governance
body and its
committees

405-1
Diversity of go-
vernance bodies
and employees

Board of Directors In office until the approval of the 2020 Financial Statements (Appointed at the Shareholders' Meeting of 14/05/2018)		Number of positions and the commitments of each members, including the nature of the appointment.				
Enrico Carraro	Chairperson					
Tomaso Carraro	Deputy Chairperson					
Alberto Negri	Chief Executive Officer					
Riccardo Arduini	Director					
Fabio Buttignon	Director* (1) (2)					
Virginia Carraro	Director					
Enrico Gomiero	Director					
Marina Manna	Director* (1) (2) (3)					
Marina Pittini	Director* (1) (2)					
(1) Members of the Control, Risk and Sustainability Committee; (2) Members of the Appointments and Remuneration Committee; (3) Members of the Oversight Committee * Independent Directors						
Board of statutory auditors In office until the approval of the 2020 Financial Statements (Appointed at the Shareholders' Meeting of 14/05/2018)						
Carlo Pesce	Chairperson					
Saverio Bozzolan	Regular Auditor					
Stefania Centorbi	Regular Auditor					
Gabriele Andreola	Alternate Auditor					
Barbara Cantoni	Alternate Auditor					
Broken down by age		≤30	31-40	41-50	>50	Total
Executives					3	3
Non-Executives		1			2	3
Independent					3	3
Total		1	0	0	8	9

Gender

The criteria used to select the members of the Board of Directors pursuant to Article 21 of the Bylaws require 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, three out of the nine 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, including 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 topics relevant to the 231 Organisational Model, by the Oversight Committee.

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.

102-11
Precautionary
Principle or
approach

The Carraro Group has defined a **Risk Management Procedure** with the purpose of governing the risk management process, providing methodological guidelines and a number of operational indications in support of them. The risk management process is organised into the following main activities:

Analysis and monitoring of the context

Fact-finding activity which aims at understanding the scenario in which the Group operates. This activity has the objective of identifying which factors, elements and/or forces

can have an effect on the ability to achieve the objectives planned in the period;

Definition of the Risk Response

Activity aimed at identifying the response to the risk (e.g. acceptance, reduction, transfer of the risk, etc.);

Identification and assessment of risks

The risk identification process is connected to the business strategies and the objectives defined in the three-year Strategic Plan and related periodical updates and aims to identify potential events that can compromise the achievement of the objectives. the risk assessment consists of determining, for every risk detected i) the probability of occurrence and ii) the impact expressed in terms of possible consequences, the product of which constitutes the assessment of the exposure to the risk;

Periodic review of the risks identified and assessed

Activity with the aim of keeping updated the identification and assessment of the exposure to risks with a view to evolution and the changing conditions of factors that can have an effect on the ability to achieve the objectives set for the period;

Continuity/improvement of the risk mitigation monitoring

Activities aimed at ensuring the continuity of operation of the mitigation monitoring, controls or instruments present and at implementing preventive or corrective actions so as to obtain better risk monitoring when the exposure is considered unacceptable.

During 2018, Carraro revised and updated, as part of a specific project, the assessment of business risks from the Group's perspective. At the same time the main operating sites each developed a risk analysis aimed at obtaining the related certification according to the ISO 9001:2015 standard.

Main risk categories to which the Carraro Group's risk management model refers

The Carraro risk management system, in line with the most widespread and consolidated practices on the subject, takes into consideration the risks according to a classification with five categories:

Strategic risks

Related to the medium/long-term objectives and the influence of external economic factors which can be foreseen with difficulty or only partially or which cannot be affected by the Group (e.g. macro-economic context, country risk, market or sector risk);

Financial risks

Of a financial nature (e.g. credit risk, liquidity risk, volatility of exchange rates and interest rates, commodity prices, availability of funds);

Operational risks

Associated with the effectiveness and efficiency of the operating capacity and connected with events that could have a negative impact on value creation (e.g. risks regarding the supply chain, product development, industrialisation, human resources, information systems, health, workplace safety and the environment, product quality);

Legal and compliance risks

Related to the ability to observe precisely laws and regulations in force or associated with the onset of disputes and lawsuits;

Planning and reporting risks

Associated with the reliability of the economic and financial information and planning.

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

Environmental and resource management risks

The Group operates across 8 manufacturing sites* located in 5 different countries and, therefore, has to deal with legislative frameworks, in environmental terms, which are different and in continuous evolution. The evolution of the legislative context is continuously monitored in order to pursue observance of the environmental requirements provided for in the local laws.

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.

With a view to minimising environmental risk, the Group pursues significant objectives on two fronts:

Resources

With particular reference to the use of materials and energy.

In the use of materials, the preference is orientated to:

- › the procurement of packaging materials and equipment, as far as possible recyclable and reusable
- › the use of reusable plastic or metal containers for the exchange of material with suppliers
- › the reduction of the metal waste produced in mechanical processing

In the use of energy, the Group has shown over the last few years growing attention to programmes aimed at reviewing energy consumption choices (study of alternative production systems, redirecting supply contracts, investment in lighting plants with low consumption) and more energy efficiency of consumption in production and technological processes.

* See the changes in the structure of the operating sites presented in the paragraph 'Group Structure at 31/12/2018'

Environment

With particular reference to questions related to emissions, waste and water.

Various initiatives are aimed at monitoring and, if possible, reducing greenhouse gas emissions (use of refrigeration plant gases, choice of suppliers of eco-sustainable energy, etc).

Since 2014, specific waste reduction programmes have been implemented, focusing particularly on non-recyclable waste.

Logics for the reduction of water consumption and more efficient use of water are required at the Group's production sites in order to confirm the sense of responsibility in exploiting the wealth offered by the territory.

Risks related to management of Human Resources

The Group's international dimension requires careful management of human resources aimed at making the most of these resources taking into account the strategic objectives. This translates into different risk aspects, namely:

- › Availability of a labour force and qualified resources: the Group monitors the labour market in the area and countries in which it operates. The activity of searching for and selecting personnel makes use of the support of employment agencies and the use of other specific channels;
- › Ability to implement adequate training: the level of training is a fundamental element for growth of the corporate assets because the development of skills is at the base of the factors for success with clients such as the proposal of innovative technical solutions with a high quality level. Various dedicated training initiatives are provided to workers on the basis of the unit they belong to, contingent specific conditions, and the importance of aspects such as workplace safety and the environment;
- › Retention of the personnel and attractiveness: the ability to attract and keep qualified resources is a factor of great significance in giving continuity to the effectiveness of the business activity. The Group proposes structured career paths, alignment of the economic offer to the market conditions on the basis of remuneration benchmarks and other initiatives and services to employees aimed at motivating and keeping the personnel (cafeteria, collective home-work transport, flexible working hours, etc).

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.

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 au-

tomatic and semi-automatic machinery, assembly of parts, movement of loads, use of high temperature furnaces and other related activities.

The commitment for the protection and promotion of health and safety in the workplace expresses itself in the Carraro Group's decision to adopt an EH&S Management System. This system is based on the best international practices and has been uniformly implemented at all production plants through mechanisms of responsibility and involvement as indispensable instruments for the creation of a corporate workplace safety culture.

Risks of corruption

The operational areas most significant in terms of risk of corruption are:

- › procurement of goods, services and investments in relation to which the procedures for selecting and maintaining suppliers consider the aspects concerning integrity as significant factors;
- › relations with public bodies: as Carraro does not generally supply entities belonging to a public administration, relations with public entities are mainly institutional in nature (tax and customs compliance, authorisations, controls, inspections, payment of contributions, taxes and duties);
- › sales, mainly made to medium-sized companies and groups, already oriented to ethical conduct;
- › management of human resources: the Group's employees have been informed of the anti-corruption regulations through a specific training programme that involves all managers, clerical staff and executives of the Italian companies and the officers of international companies;
- › management of cash flows, subject to control mechanisms related to the purchase and sales processes according to defined authorisation levels.

The Group has adopted a number of rules of conduct to prevent breaching of the anti-corruption rules, in particular:

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

Contain the fundamental principles of integrity and transparency and lay down the rules related to the explicit prohibition of favouritism, collusive practices of corruption or solicitation of personal advantages for oneself or for others.

Risks related to human rights

Attention to compliance with the laws and international standards on the subject of human rights is translated into oversight aimed at protecting employees first, through continuous monitoring of compliance with local legislation on the subject of workplace rules by managers or by personnel with responsibility for managing human resources.

For the labour force present in the supply chain, either permanent (e.g. Direct suppliers of the industrial activity) or occasional (e.g. services on contract), oversight is being put in place with the aim of reducing the risk of violation of human rights including in the selection and assessment criteria also the main sustainability parameters.

The prevention of risks related to breaches of human rights is transversally supported by specific calls to observe such rights in the Code of Ethics, which is distributed and made

known to employees and which suppliers are asked to accept as a requisite for being able to establish or maintain professional relationships with Carraro.

For better oversight of risks related also to human rights violations, starting from 2019, a specific ‘whistleblowing’ reporting channel will be available, and it will be supported by a dedicated web portal entitled ‘CarraroWB’ and accessible through the Group’s website www.carraro.com.

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.

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 Group’s key markets, 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 prospects, its economic results, its financial position and its ability to have a positive impact on its ecological and social environment.

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 including the indirect effects on the ecological and social impacts of its business.

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 oper-

ates 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; these impact on, and could negatively affect, the Group's financial situation and economic performance. Also, in this case, the result could be less ability to distribute economic benefits in the communities and territories in which the Group operates.

Risks associated with protectionist laws present in various countries in terms of customs and embargoes

The Group is exposed to the risk of suffering the effect of protectionist policies in the countries where it operates, introduced through changes in customs duties. In other cases, the risk may come from constraints or prohibitions introduced by international agreements that limit free trade conditions (e.g. embargoes).

To deal with the set of the aforementioned risks, the Group maintains constant attention:

- › to the trends in macro-economic variables, with particular regard to those related to the sectors of procurement of raw materials and final destination of the products (agricultural, public works and construction);
- › to the orientations of government decisions which, in the various countries, can have effects in the outlet markets;
- › to the evolution of protectionist policies;

through the collection of information and forecast data carried out by its central and local commercial and fiscal offices, in order to adopt any measures needed to mitigate their potential negative effects.



3

Resources and the Environment

3.1

Resources

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:

- › the preference for recyclable and reusable products in the procurement of packaging materials and equipment;
- › the use of plastic or metal containers for the exchange of materials with suppliers, reducing the use of non-reusable wooden or cardboard containers;
- › 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.

Direct materials used	u.m.	2018	2017	change % 18 vs 17
		weight	weight	
Cast iron	tonnes	71,873	67,027	+7.2%
Steel	tonnes	32,751	29,801	+9.9%
Mixed components	tonnes	11,290	11,429	-1.2%
Tractors components	tonnes	4,058	4,583	-11.4%
Total at 31.12	tonnes	119,973	112,839	+6.3%

Note

› For the purpose of providing an increasingly precise presentation of the materials acquired, during 2018 the 2017 data were restated. Besides this, during the year the analysis of the categories of direct materials was refined, introducing the category Tractor Components, previously included in 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 2018 compared to the previous year is in line with the increase in production and sales volumes in the year under review.

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 Energy Management department;
- › analysis of regulatory systems and public incentive schemes;
- › 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 Spa 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, also in 2018 the use of electricity coming 100% from renewable sources continued.

302-1
Energy consumption within the organisation

Energy Consumption

Energy consumption within the organisation			
	u.m.	2018	2017
Diesel (Generators)	GJ	11,842	10,558
Motor fuels	GJ	19,343	14,970
Natural gas (Methane)	GJ	197,818	173,537
Butane	GJ	100,470	117,247
Propane	GJ	20,695	18,202
Liquefied petroleum gas (LPG)	GJ	296	383
Total fuel consumed, coming from non-renewable sources	GJ	350,464	334,897
Electricity	GJ	159,461	163,187
Steam	GJ	16,525	14,858
Total energy purchased for internal use		175,986	178,045
Electricity	GJ	-715	-895
Total energy sold		-715	-895
Total energy consumption within the organisation	GJ	525,735	512,047

Notes

- › Thanks to an improvement in the reporting system, the accuracy and reliability of the data on some energy sources used within the organisation improved. To guarantee comparability, some 2017 data was restated.
- › To convert the quantity of steam purchased into the unit of measurement of energy (GJ), estimates quantified according to the best criteria available and capable of providing the most precise and exhaustive picture possible were used. Specifically, the conversion factors were taken from TLV Calculator Tool and ThermExcel Conversion Table.
- › Conversion factors for all fuels used 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:

Natural gas

Required for the steel heat treatment process, co-generation, heating for civil use and painting processes;

Diesel

Required for electricity generation;

Propane and butane

Required for the steel heat treatment process;

LPG

Used for non-process purposes at the facility in China up to December 2018;

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;

Steam

Used in the facility in China for the coating line, for the heating system in winter and for the use of hot water in company bathroom facilities.

The 2.8% increase in energy consumption within the organisation derives from a number of factors:

- › the increased use of natural gas and propane is linked to the usage intensity of heat treatment systems;
- › the greater use of fuel for motor vehicles is mainly related to the increased company car fleets;
- › the reduction in consumption of butane, used in the heat treatment systems at the plant in Argentina, reflects the drop in local production volumes;
- › the increase in the use of combustible diesel relates to a greater use of energy produced by generators in the Pune (India) facilities owing to interruptions to the supply of electricity from the national grid;
- › the 2% reduction of the consumption of electricity is attributable to the sharp reduction in energy consumed at the Poggiofiorito site following works for converting the facility, which took most of 2018.

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:

- › Lighting: mercury vapour and neon lights have been replaced with LED lighting at all Italian production plants and at the Pune plant in India.
- › Production of compressed air: at the Carraro Drive Tech Spa 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.
- › Co-generation plants: at the Siap Spa 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.
- › Recovery of flare gases: at the Siap Spa 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.

In 2018, the compressors at the Rovigo facility were replaced, supplementing the plans implemented up to 2017.

The reduction in energy consumption is monitored through the use of appropriate tools ('continuous monitoring').

302-4
Reduction in
energy consumption

Year 2018					
Reduction plan	Programmes aimed at reducing energy consumption – 2018	u.m.	year before reduction programmes	Energy consumption prior to reduction plans	Estimated amount of annual reductions
Production of compressed air	Replacement of compressors at the Rovigo facility	GJ	2017	1,944	132

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.

In 2018, no significant sanctions were imposed on Group companies for failure to comply with environmental laws or regulations.

307-1
Non-compliance
with environ-
mental laws and
regulations

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, butane, LPG, diesel, petrol), 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)	tonnes of CO ₂ eq,	
	2018	2017
From non-renewable sources	19,698	19,015
Natural gas (methane)	10,108	8,878
Diesel	832	737
Butane	5,986	6,986
Propane	1,233	1,085
LPG	18	23
Motor fuels	1,327	1,018
Other (GHG-Freon)	194	288

305-1
Direct (Scope 1)
GHG emissions

Notes

- › Data presented without considering any offsetting instruments
- › Conversion factors are taken from DEFRA and ACRIB
- › Thanks to an improvement in the reporting system, the accuracy and reliability of the data on some energy sources used within the organisation improved. To guarantee comparability, some 2017 data was restated.

The data provided consider the emissions comprised of CO₂ equivalent deriving from the use of methane gas, diesel, butane, LPG 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 2018 increased by 3.3%, mainly due to an increase in the use of natural gas, used mostly for the steel heat treatment process, in co-generation plants, heating for civil use and the painting stages.

Indirect greenhouse gas emissions (Scope 2)

Emissions per Plant calculated according to the Gross location-based method		
Gross Location-Based	tonnes of CO ₂ eq.	
	2018	2017
Electricity	23,256	23,491
Steam	855	807
Total indirect emissions (Scope 2)	24,110	24,298

305-2
Energy indirect
(Scope 2) GHG
emissions

Notes

- › Thanks to an improvement in the reporting system, the accuracy and reliability of the data on some energy sources used within the organisation improved. To guarantee comparability, some 2017 data was restated.
- › The conversion factors used are taken from Terna and DEFRA. The emissions are expressed in tonnes of CO₂; however, the percentage of methane and nitrous oxide has a negligible effect on total greenhouse gas emissions (CO₂ equivalents), as can be seen in the technical literature of reference.

Emissions per Plant calculated according to the Gross market-based method		
Gross Market-Based	tonnes of CO ₂ eq.	
	2018	2017
Electricity	15,682	14,571
Steam	855	807
Total indirect emissions (Scope 2)	16,537	15,378

Notes

- › Thanks to an improvement in the reporting system, the accuracy and reliability of the data on some energy sources used within the organisation improved. To guarantee comparability, some 2017 data was restated.
- › The conversion factors used are taken from Terna and DEFRA. The emissions are expressed in tonnes of CO₂; however, the percentage of methane and nitrous oxide has a negligible effect on total greenhouse gas emissions (CO₂ equivalents), as can be seen in the technical literature of reference.

The increase in CO₂ emissions is directly attributable to the production increase recorded at the Indian facility.

The impact of CO₂ emissions, using the Gross market-based methodology, at the Italian facilities is zero thanks to the supply received, already starting from 2017, entirely from renewable sources.

Plans for reducing greenhouse gas emissions

From the point of view of direct emissions (Scope 1), we are continuing:

- › the monitoring programme, launched starting from 2015, of refrigeration plant gases to enable correct operation of the refrigerator circuits.
- › the activity 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 – Location Based), replacement of the air compressors at the Rovigo facility led to a reduction, in terms of emissions, of 13.2 tCO₂.

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.

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.

In order to improve our logistics management, during 2018, the new company Carraro Driveservice S.r.l. was set up. Through this, Carraro intends to improve a number of processes namely:

- › transport management (TMS tool, loading optimisation, private fleet);
- › management of internal handling (insourcing the incoming and outgoing handling activity);
- › optimisation of packaging for the Spare Parts area (Poggiofiorito / Agri2).

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 return 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.

305-3
Other indirect
(Scope 3) GHG
emissions

Indirect energy emissions produced outside the organisation by emission source (Scope 3)	tonnes of CO ₂ eq.	
	2018	2017
From renewable sources	34,442	30,825
Inbound/outbound transport of goods*	32,587	29,031
Work trips by air**	1,855	1,794
Total indirect emissions	34,442	30,825

* For emissions related to inbound/outbound goods transport, the calculation was further refined estimating, as well as the stretches by sea and over land, also the transport of goods by air, restating the 2017 data.

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

The increase in the volume of emissions generated in 2018 is directly related to the more intensive logistic flow of purchases and sales, in line with the increase in sales during the period.

Emissions of ozone-depleting substances

Ozone-depleting substances by type			
	u.m.	2018	2017
CFC-11 eq	tonnes	0.00212575	0.00083875

Notes

- › Thanks to an improvement in the reporting system, the accuracy of the data within the organisation and the coverage of the indicator improved. To guarantee comparability, some 2017 data was restated.
- › The conversion factors are taken from the Handbook for the Montreal Protocol on Substances that Deplete the Ozone Layer, UNEP Ozone Secretariat United Nations Environment Programme, 2016

305-6
Emissions of
ozone-depleting
substances (ODS)

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 (NO_x and PM) and coating systems (VOCs).

NO _x and other significant emissions			
	u.m.	2018	2017
NO _x	Kg	23,726	23,574
Volatile organic compounds (VOC)	Kg	7,543	7,191
Particulate matter (PM)	Kg	15,453	10,711

Notes

- › The data do not include the Argentinian plant
- › Kilograms of NO_x and particulate matter were estimated based on the analysis carried out and the operating hours of each emission source
- › Thanks to an improvement in the reporting system, the accuracy and reliability of the data improved. To guarantee comparability, some 2017 data was restated.

305-7
Nitrogen oxides
(NO_x), sulfur
oxides (SO_x), and
other significant
air emissions

The commitment of the Carraro Group to reducing 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.

The increase in Particulate Matter must be considered mainly in relation to the production increase recorded at the Indian facility.

3.2.2 Waste

Waste management

With an annual production of over 2 million items across 8 manufacturing sites*, the Group produces approximately 13,600 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 11.6% reduction in recyclable waste and a 26.9% reduction in non-recyclable waste since their introduction (data for 2014-2018).

Carraro's efforts continued in 2018 with all local production units engaged in the implementation of solutions aimed at reusing materials. 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 metallic waste generated by the machining processes.

In another context, again in line with the same objectives, at the Maniago site, compared to 2017, a further suction system was installed for the abatement of oil vapours, with a consequent recovery of oil, otherwise dispersed, and a reduction in emissions.

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

Type of waste	u.m.	2018	2017
Exhaust oil	t	308	254
Cleaning water	t	826	953
Oil emulsions	t	1,508	1,401
Other	t	1,203	1,887
Hazardous waste	t	3,845	4,495
Paper and cardboard	t	348	220

306-2
Waste by type
and disposal
method

* See the changes in the structure of the operating sites presented in the paragraph *Group Structure at 31.12.2018*.

Wood	t	1,712	1,458
Mixed packaging	t	1,050	670
Other	t	6,662	7,249
Non-hazardous waste Total	t	9,772	9,597
Total	t	13,617	14,092

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.

The increase in non-hazardous waste is related to the trend in sales, while the decrease in hazardous waste (-14.5%) was determined, above all, by reduced use of the plants, owing to the drop in production of the Argentinian facility, and the gradual reduction of industrial activity at the Poggiofiorito site, owing to its transformation into a logistics unit.

Waste disposal method	u.m.	2018	2017
Reuse	t	0	0
Recycling	t	119	112
Incineration	t	2,065	1,938
Landfill	t	1,661	2,445
Total hazardous waste	t	3,845	4,495
Reuse	t	4,887	5,552
Recycling	t	3,904	3,342
Incineration	t	926	663
Landfill	t	55	40
Total non-hazardous waste	t	9,772	9,597
Total	t	13,617	14,092

Note

› Thanks to an improvement of the reporting system, some 2017 data was restated.

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 3.4% decrease in waste produced occurred thanks to an improvement in the reuse of non-hazardous waste, above all, at the Campodarsego and Argentinian facilities.

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.

Percentage of hazardous waste shipped at the international level	2018	2017
	0%	0%

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.

Type of source	u.m.	2018	2017
Surface water*	m ³	0	0
Ground water	m ³	0	0
Rain water**	m ³	0	0
Rain water from other organisations	m ³	0	0
	m ³	110,165	143,182

303-1
Water withdrawal
by source

Other (well)	m ³	6.188	5.286
Total	m³	116,352	148,468

* Including water from marshes, rivers, lakes and oceans

** collected directly and stored by the organisation

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 2018, total water usage declined (-21.6%) thanks to a rearrangement of a part of the water plant at the Divisione Agritalia site (Rovigo).

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.

Water discharges by destination			
	u.m.	2018	2017
Public sewage system*	m ³	46,866	47,554
Other: waste water discharged to water treatment plants**	m ³	3,244	3,044
Total	m³	50,110	50,598

* data from the periodic reading of water meters

** data extracted starting from the waste form for Italian companies and internal survey for the Chinese company.

The Indian site does not send waste for external treatment because it has its own purification plant

Note

The data does not include the Argentinian plant.

306-1
Water discharge
by quality and
destination



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.

Seventy-five percent of Group employees is covered by collective labour agreements.

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.

Human resources management

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.

102-41
Collective
bargaining
agreements

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.

Activity with and for Carraro employees



India, Traditional Day As usual, at the end of October, in the period in which the Diwali holiday is also celebrated, Carraro Technologies organised the 'Traditional day' event. On this occasion, all the personnel dressed up in traditional costumes, decorating the offices with pride to celebrate their roots.

The day is full of entertaining activities, interesting games and some creative group activities.

An unusual, but very effective, way of living in full the Carraro value 'We Work Together'.

India, Cricket tournament More than 500 employees attended the event held on 3 February 2018, supporting with determination and enthusiasm their colleagues who were playing.

The teams taking part distinguished themselves for the strong team spirit and for the excellent sporting skills. The senior managers and the women also took part in the tournament, making the event more interesting and exciting.



China, Carraro China Value Autumn Season At the beginning of December all the Carraro China workers were involved in a series of activities with the objective of creating a team. More specifically the colleagues of every department challenged each other over six weeks in basketball, soccer, badminton and ping-pong matches, ending up with an enjoyable running race and a number of tests of ability / general culture.

Italy, Carraro Global Meeting 2018 'We know how to do it!'

During the day on 16 May 2018, the participants were able to have a real all-round Carraro Experience, going from a morning session focused on data and key strategy concepts to a decidedly dynamic afternoon session.



Turnover in 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.

401-1
New employee
hires and em-
ployee turnover

Number of employees who have joined and left the Group by gender						
	2018			2017		
	M	F	Total	M	F	
Employees hired	197	25	222	136	16	152
%	89%	11%	100%	89%	11%	100%
Turnover	8.7%	9.1%	8.7%	5.9%	5.9%	5.9%
Employees terminated	218	22	240	168	16	184
%	91%	9%	100%	91%	9%	100%
Turnover	9.6%	8.0%	9.4%	7.3%	5.9%	7.2%

Note

› Thanks to an improvement in the collection system it was possible to eliminate from the calculation the movements of employees joining/leaving among the Group Companies; the 2017 data was thus restated.

Over the last three years, the number of employees has gradually fallen, 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 change in the employees in the workforce recorded in 2018 confirmed the strategy of rationalising on the remaining 'core' companies.

Analysing instead the change in the Group's workforce, there emerges a turnaround with growth, both in 2017 (+5.9%) and in 2018 (+3.5%), associated with the need to strengthen the structure induced by the recovery of business volumes recorded.

Number of employees who have joined and left the Group by age										
	2018					2017				
	<=30	31-40	41-50	>50	Total	<=30	31-40	41-50	>50	Total
Employees hired	106	72	28	16	222	91	45	10	6	152
%	48%	32%	13%	7%	100%	60%	30%	7%	4%	100%
Turnover	21.0%	7.9%	4.3%	3.3%	8.7%	15.6%	5.2%	1.6%	1.3%	5.9%
Employees terminated	69	83	28	60	240	69	56	15	44	184
%	29%	35%	12%	25%	100%	38%	30%	8%	24%	100%
Turnover	13.7%	9.2%	4.3%	12.3%	9.4%	11.8%	6.5%	2.3%	9.3%	7.2%

Notes

› Thanks to an improvement in the collection system it was possible to eliminate from the calculation the movements of employees joining/leaving among the Group Companies; the 2017 data was thus restated.
› Employees who left the company aged > 50 include retirees.

Number of employees who have joined and left the Group by country						
	2018		2017		2018	2017
	Total		Total		Turnover	
	n°	%	n°	%	%	%
Employees hired	222	100%	152	100%	8.7%	5.9%
Italy	129	58%	29	19%	10.2%	2.4%
India	47	21%	34	22%	5.0%	3.6%
China	36	16%	69	45%	16.9%	32.9%
Argentina	2	1%	3	2%	1.9%	1.8%
North America	0	0%	0	0%	n.a.	n.a.
Brazil	8	4%	17	11%	50.0%	106.3%
Employees terminated	240	100%	184	100%	9.4%	7.2%
Italy	82	34%	57	31%	6.5%	4.7%
India	55	23%	45	24%	5.9%	4.8%
China	33	14%	48	26%	15.5%	22.9%
Argentina	62	26%	21	11%	57.4%	12.5%
North America	0	0%	2	1%	n.a.	n.a.
Brazil	8	3%	11	6%	50.0%	68.8%

Note

› thanks to an improvement in the collection system it was possible to eliminate from the calculation the movements of employees joining/leaving among the Group Companies; the 2017 data was thus restated.

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.

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,

406-1
Incidents of
discrimination
and corrective
actions taken

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.

During 2018, one case of alleged discrimination was reported, but no support or confirmation was found, and it was therefore groundless.

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.

The ratio between gross average remuneration of men and women in the Group as a whole varies according to the country and the professional qualification. In particular, as regards the ratio between remuneration levels related to people employed in India (0.36 in 2018), it is important to note that the female component, which represents 7% of the category, is made up of more recent recruitments with operational duties, while the male component has a higher average seniority and occupies more qualified roles. The low number of women in India also reflects a condition of the labour market typical of the country, in close relation to its social structure.

In China and South America, this ratio (respectively 0.80 and 0.71 in 2018) is more balanced owing to a larger number of women in the more qualified roles and higher average seniority of women compared to India.

In general, women represent 9.6 % of the total workforce of the Group (9.3% in 2017) and mainly fall into the clerical worker category, 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 engineering 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 which results in higher salaries.

Gross Annual Salary: ratio of men's / women's basic salaries by qualification divided by geographical area								
	2018				2017			
	Italy	India	China	South America	Italy	India	China	South America
Senior managers	0.85	–	–	–	0.87	–	–	–
Executives and Officers	0.92	–	–	–	0.90	–	–	–
Clerical staff	0.82	0.36	0.80	0.71	0.82	0.36	0.67	0.81
Factory workers	0.90	0.78	1.02	–	0.90	0.85	1.04	–

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.

Remuneration: ratio of total remuneration of women / total remuneration of men by qualification	2018
	Italy
Senior managers	0.78

Executives and Officers	0.88
Clerical staff	0.82
Factory workers	0.87

Note

› The data on Total Remuneration is available only for the Italian companies and for the year 2018.

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.

405-1
Diversity of the
governance
bodies and the
employees

Number of employees by age band								
	2018				2017			
	M	F	Total	% by age band	M	F	Total	% by age band
<=30	459	46	505	19.9%	540	45	585	22.8%
31-40	818	88	906	35.6%	773	86	859	33.5%
41-50	544	100	644	25.3%	545	99	644	25.1%
>50	447	42	489	19.2%	434	40	474	18.5%
Total	2,268	276	2,544	100%	2,292	270	2,562	100%

Note

› The 2017 data related to personnel was restated to align it with the new survey criterion, which requires counting apprentices and external workers separately

Number of employees by professional category and age band											
	2018						2017				
	<=30	31-40	41-50	>50	Total	% by prof. cat.	<=30	31-40	41-50	>50	% by prof. cat.
Senior managers			9	15	24	0.9%			10	15	1.0%
Executives and Officers		11	34	39	84	3.3%		11	30	38	3.1%
Clerical staff	58	221	228	82	589	23.2%	63	211	222	77	22.4%
Factory workers	447	674	373	353	1,847	72.6%	522	637	382	344	73.6%
Total	505	906	644	489	2,544	100%	585	859	644	474	100%

Note

› The 2017 data related to personnel was restated to align it with the new survey criterion, which requires counting apprentices and external workers separately

Average age of employees	2018	2017
Average age	40	40

Note

› The 2017 data related to personnel was restated to align it with the new survey criterion, which requires counting apprentices and temporary workers separately

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.

Number of employees by educational level								
	2018				2017			
	M	F	Total	% by age band	M	F	Total	% by age band
University or equivalent	441	124	565	22.2%	421	120	541	21.1%
High school /college diploma	1,000	93	1,093	43%	1,009	87	1,096	42.8%
Primary /secondary school	827	59	886	34.8%	862	63	925	36.1%
Total	2,268	276	2,544	100%	2,292	270	2,562	100%

Note

› The 2017 data related to personnel was restated to align it with the new survey criterion, which requires counting apprentices and external workers separately

Number of employees with disabilities	2018	2017
	64	63

Number of employees by seniority								
	2018				2017			
	M	F	Total	% by age band	M	F	Total	% by age band
<= 5	580	74	654	25.7%	599	66	665	26%
6 – 10	732	73	805	31.6%	790	96	886	34.6%
11 – 20	531	99	630	24.8%	523	83	606	23.7%
21 – 30	314	26	340	13.4%	297	21	318	12.4%
> 30	111	4	115	4.5%	83	4	87	3.4%
Total	2,268	276	2,544	100%	2,292	270	2,562	100%

Note

› The 2017 data related to personnel was restated to align it with the new survey criterion, which requires counting apprentices and external workers separately

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, e-mail, 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 Oversight Committee of Carraro Spa, established in order to address notifications regarding possible breaches to the human rights set forth in the Group's Code of Ethics. Gradually, from 2019, for this type of complaint a dedicated portal ('CarraroWB') will be made available; this will be accessible through the Group's website.

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 231 Organisational Model.

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.

Number of employees who have received human rights training				
	2018		2017	
Italy	396*	31.2%	404*	33.1%
Other countries	25**	2.0%	25**	1.9%
Total	421	16.5%	429	16.7%

* Progressive figure referred to 31/12 of the year of reference, which includes the number of employees who took the course starting from 2016 (figure updated to 27/02/2019).

** Progressive figure referred to 31/12 of the year of reference, which includes the number of employees who took the course starting from 2014 (course on the principles and other contents of the Group's Code of Ethics).

Note

› Thanks to a refinement of the calculation methodology which provides for the exclusion of employees whose employment relationship came to an end in the period of reference, the 2017 data was restated.

The difference in the number of employees who had taken the course at 31/12/2018 compared with the previous period is due exclusively to the turnover recorded during the year.

Total number of human rights training hours*	2018	2017
Italy	792**	808**
Other countries	50**	50**
Total	842	858

* Each training course lasts approximately two hours on average

** Progressive figure referred to 31/12 of the year of reference which includes the number of employees who took the course starting from 2016 (figure updated to 27/02/2019) and from 2014 (for foreign employees). Employees whose employment relationship came to an end in the period of reference are excluded.

Nota

› Thanks to a refinement of the calculation methodology which provides for the exclusion of employees whose employment relationship came to an end in the period of reference, the 2017 data was restated.

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 the costs of using employee's own vehicles;
- › 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;
- › Forms of Life insurance or permanent disability insurance for some grades in Italy, India, Argentina and the Usa, and extended to all personnel in China;
- › Supplementary health cover for all Italian, Brazilian, Indian and US personnel. Partially in Argentina;
- › Welfare programmes and other minor benefits offered to employees of the company in China;
- › Supplementary complementary pension plans in the U.Sa and China;
- › At the offices of Carraro Spa and Carraro Drive Tech Spa in Campodarsego, certain benefits have been established for Muslim workers, such as a dedicated prayer room and a selection of dishes compatible with their dietary customs.

401-2
Benefits provided to full-time employees that are not provided to temporary or part-time employees

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	Sede	Paese
OHSAS 18001:2007	Workplace safety	Carraro Spa Divisione Agritalia	Rovigo	Italy
ISO 14001	Environmental protection	Carraro Drivetech Spa	Campodarsego (PD)	Italy
		Carraro Spa Divisione Agritalia	Rovigo	Italy
		Siap Spa	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 31.12.2018, the Group as a whole was comprised of 3,266 people (3,156 as at 31.12.2017), of which 61 (59 as at 31.12.2017) 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.

	2018			2017		
	M	F	Total	M	F	Total
% of employees represented	98,4%	96,1%	98,2%	98,4%	95,9%	98,1%

403-1
Workers representation in formal joint management-worker health and safety committees

The injury statistics for the last two years demonstrate a positive trend and are low in number, with an index of 1.34 in 2018 (1.54 in 2017) against about 4.6 million hours worked in the Group both in 2018 and in 2017. The total number of accidents recorded is 31 in 2018 (36 in 2017), of which 97% 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 0.05%, compared to 0.09% in 2017.

403-2
Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities

Employees: Occupational injuries and illness rates						
	2018			2017		
Rates	Europe	Asia	Americas	Europe	Asia	Americas
Numer of fatalities	0	0	0	0	0	0
of whom men	0	0	0	0	0	0
of whom women	0	0	0	0	0	0
Injury rate (%)	2.43	0.17	3.93	3.06	0.00	3.90
men	2.74	0.17	4.08	3.60	0.00	4.03
women	0.68	0.00	0.00	0.00	0.00	0.00
Occupational illness rate (%)	0.00	0.00	0.00	0.00	0.00	0.00
men	0.00	0.00	0.00	0.00	0.00	0.00
women	0.00	0.00	0.00	0.00	0.00	0.00
Rate of days lost to injury (%)	19.75	3.25	52.67	44.79	0.00	49.38
men	22.73	3.41	54.70	52.73	0.00	51.05
women	2.72	0.00	0.00	0.00	0.00	0.00
Absenteeism rate (%)	0.08%	0.01%	0.21%	0.18%	0.00%	0.20%
men	0.09%	0.01%	0.22%	0.21%	0.00%	0.20%
women	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%
Numebr of injuries	24	2	5	30	0	6
of whom men	23	2	5	30	0	6
of whom women	1	0	0	0	0	0

Notes

› Composition of rates:

Injury rate: (total no. injuries / hours worked) * 200,000

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

Rate of days lost to injury: (total no. days of absence due to injuries / total no. hours worked by employees) * 200,000.

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

› The rates shown in the table refer to the production plants

› 2017 data on injury rates were restated following an improvement of the reporting process

Rates of injuries and illnesses in the workplace for all workers whose work or workplace is controlled by the organisation (excluding employees)						
	2018			2017		
Rates for external workers	Europe	Asia	Americas	Europe	Asia	Americas
Numer of fatalities	0	0	0	0	0	0
of whom men	0	0	0	0	0	0
of whom women	0	0	0	0	0	0
Injury rate	1.81	0.00	0.00	2.41	0.00	0.00
men	1.90	0.00	0.00	2.49	0.00	0.00
women	0.00	0.00	0.00	0.00	0.00	0.00
Numer of injuries	3	0	0	3	0	0
of whom men	3	0	0	3	0	0
of whom women	0	0	0	0	0	0

During 2018, one case of injury, which occurred in Carraro Spa, with prognosis of more than 40 days, caused the supervisory authorities to impose a number of prescriptions, which the company complied with, to impose minor administrative sanctions and to begin proceedings under the terms of Italian Legislative Decree 81/2008 and Italian Legislative Decree 231/2001.

In this regard, it is important to note that the injured person did not suffer permanent injuries and returned to working regularly at the end of the convalescence period.

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.

Topics 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.

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 from the final quarter of 2017 at the offices of the Agritalia business unit of Carraro Spa and aimed at providing preliminary training to a group of technicians to be employed by the Agritalia Research and Development department;

- › the requalification programme organised during 2018 for the personnel of the Poggio-fiorito facility made necessary by the project to convert the business activity at that site.

These initiatives, gradually fully implemented, made it possible, in the context of a training activity intensification plan, to develop in 2018 a significantly higher number of hours than in the previous year. The content regarded, in particular, training of a technical nature for the collaborators of the Italian facilities.

Total hours of training by type of activity provided to the Group's workforce	2018		2017	
	Total	%	Total	%
Technical training*	36,117	71.9%	17,878	65.2%
Other training**	14,107	28.1%	9,558	34.8%
Total	50,223	100%	27,436	100%

* Production, logistics, quality, engineering, IT, administration/tax, industrial innovation.

** Management, health, safety and the environment, Carraro Values.

Average hours of training by gender and professional category provided to the Group's workforce	2018			2017		
	M	F	Total	M	F	Total
Managers and clerical workers	26	16	23	14	14	14
Factory workers	13	21	13	7	5	7
Total	15	18	15	8	11	9

Notes

- › The data includes foreign apprentices and external workers
- › The 2017 data on average hours of training by gender and professional category provided to the Group's workforce was restated following an improvement of the reporting process

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.



50 years of Via Olmo - 1968-2018

On Friday 12 October all the more than 600 collaborators of Via Olmo took part in a convivial lunch and a special training afternoon. During the lunch Enrico Carraro, Tomaso Carraro, Alberto Negri and Mario Carraro took turns on stage, with speeches that recalled some fundamental steps of the Group and at the same time led to looking forward towards the future.

Supply Chain Web Meeting 2018: towards a Culture of Innovation

The third edition of the Supply Chain Web Meeting was held at the end of October in Carraro Agritalia. This appointment is very important for aligning the Carraro Logistics team at the global level. This year, in particular, the title of the event was 'Creating a Culture of



Innovation' and as is traditional it began with an overview of what is happening at each of the Group's facilities before moving on to share ideas and projects with the objective of taking a step forward in the future. The contributions of all participants were really very interesting and valid, expressing contents of quality and ideas both very innovative and very pragmatic.



Let's get ready for the industry of tomorrow

Two special training days for more than 600 collaborators of Carraro Spa and Drive Tech Spa at the Campodarsego headquarters. The initiative was designed to create a new awareness on the scenarios of a world in rapid evolution – above all from the digital point of view – which, in an exponential way, is having repercussions on the business processes.



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)

201-1
Direct economic
value generated
and distributed

Economic value generated and distributed (euro/ooo)	2018	2017
Economic value generated by the Group	628,196	609,430
Revenues	624,115	606,021
Other incomes	5,601	5,480
Net financial income and expenses	1,113	3,023
Value adjustments and income from financial assets/investments	312	(1,830)
Exchange rate differences	(1,377)	(1,958)
Value adjustments for tangible and intangible assets	(1,568)	(1,306)
Economic value distributed by the Group	589,781	566,284
Operating costs	487,774	462,078
Remuneration to collaborators	66,314	67,706
Remuneration to lenders	12,786	11,670
Remuneration to investors (dividends)	– ²	– ¹
Remuneration of the public administration*	22,907	24,830
Economic value retained by the Group	38,415	43,146
Depreciation and amortisation	19,006	20,021
Bad debts provision	49	443
Provisions	6,188	9,011
Net profit/(loss)	13,172	13,671

* Social contributions and taxes

¹ The Shareholders' Meeting of 14 May 2018 resolved to distribute dividends for an amount of € 13,105,205. These dividends were paid entirely in financial year 2018.

² On 6 March 2019, the BoD proposed to the Shareholders' Meeting to distribute dividends for 2019 for an amount of € 10,363,136 (0.13 euro per share).

In 2018, the Group generated an economic value of € 628,196 thousand, compared to € 609,430 thousand in 2017.

In the course of 2018, € 589,781 thousand was distributed to stakeholders, compared to € 566,284 thousand distributed in 2017. In particular, a total of € 66,314 thousand was distributed to employees through the payment of salaries and wages, and € 487,774 thousand to suppliers through the payment of operating costs (raw materials, cost for services, etc.).

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			
Public contributions (amounts expressed in €)	Beneficiary company	2018	2017
Contributions for R&D projects	Carraro Spa	345,828	198,463

5.2

Territory

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 area 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 co-ordination, 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 more than 77% of the economic value generated is distributed to suppliers of goods and services while 11% 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 local area 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 in terms of both operational and managerial roles.

The Group is also aware that the creation of a suitable working environment, including the provision of favourable conditions of access to workplaces, is one of the key objectives for the management of human resources, also in view of the expected business 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 most of the employees operating various shifts and requiring the use of over 20 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:

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 2018 over 93% 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.

Percentage of Senior Managers hired from local communities						
	2018			2017		
	M	F	Total	M	F	Total
Italy	100%	100%	100%	100%	100%	100%
India	67%		67%	67%		67%
Brazil	50%		50%	50%		50%

Argentina	50%	50%	50%	50%
Cina	100%	100%	50%	50%

Note

- › 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 present in that geographical area.

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 of achieving 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 counter-parties.

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.

With its demand the Group keeps active a satellite network of suppliers of direct and indirect goods, with a significant economic impact, not only on the areas in which the Carraro plants are located.

In 2018 the expense for raw materials purchased amounted to € 372 million (€ 389 million in 2017).

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.

Turnover of direct material suppliers by geographical area	2018	2017
EMEA	58.0%	63.6%
APAC	40.7%	34.6%
NAFTA	0.3%	0.2%
LATAM	1.0%	1.5%
Total	100.0%	100.0%

Notes

- › The data is extracted from the managerial system in use
- › The 2017 data on supplier spending was restated following an improvement of the reporting process.

Turnover of indirect goods suppliers by geographical area	2018	2017
EMEA	58.7%	57.7%
APAC	35.7%	34.4%
NAFTA	0.1%	0.1%
LATAM	5.6%	7.8%
Total	100.0%	100.0%

Note s

- › The data is extracted from the managerial system in use
- › The 2017 data on supplier spending was restated following an improvement of the reporting process.
- › Data referred to indirect production materials.

Turnover of suppliers by product category (direct materials)	2018	2017
Cast Iron	26.9%	24.3%
Mixed components	25.4%	23.2%
Steel	33.4%	29.7%
Components for tractors	14.3%	22.9%
Total	100%	100%

Notes

- › The data is extracted from the managerial system in use
- › The 2017 data on supplier spending were restated to align them with the new survey criterion which allows for the identification of a new product category.

Details of Certified Suppliers	2018	2017
ISO 9001 certification	62.8%	60.5%
ISO 14001 certification	18.8%	20.7%
OHSAS 1 8001 certification	8.4%	8.0%
IATF16949 certification	8.0%	8.9%
ISO 50001 certification	0.2%	0.3%
ISO 45001 certification	0.2%	0.3%
Other certifications	1.6%	1.3%
Total	100%	100%

Notes

- › The data is extracted from the managerial system in use
- › The 2017 data on supplier spending was restated following an improvement of the reporting process

The Group has adopted a strategy to localise the supply chain to the area 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 area 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.

204-1
Proportion of
spending on
local suppliers

Spending by major operating plants for purchases from local suppliers	2018	2017
Italy	75.6%	77.1%

India	78.3%	82.1%
China	79.3%	76.8%
Brazil	70.7%	61.6%
Argentina	20.8%	28.1%

Notes

- › 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 2017 data on supplier spending was restated following an improvement of the reporting process
- › 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 Spa are located, since the 1950s, thanks to its significant presence initially in the agricultural sector and later as a major industrial enterprise.

102-13
Membership
of associations

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 Spa and Carraro Drivetech Spa 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 sporting and cultural initiatives, as well as local volunteer organisations.

Starting from the end of 2018, the Group is launching other social initiatives in favour of the areas in which it operates.

- › 'Amici della Musica di Padova'. Discounts on subscriptions for Carraro collaborators
- › Discounts on entry ticket for EIMA in Bologna (7 – 11 November 2018)
- › Special prices for Teatro Verdi in Padua and Teatro Goldoni in Venice

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
Assindustria Veneto Centro	Deputy Chairperson	Enrico Carraro	Chairperson of the Board of Directors of Carraro Spa
Confindustria	Member of the General Committee	Enrico Carraro	Chairperson of the Board of Directors of Carraro Spa

ASSIOT Associazione Italiana Costruttori Organi di Trasmissione e Ingranaggi	Past President	Tomaso Carraro	Deputy Chairperson of the Board of Directors of Carraro Spa
Fondazione Antonveneta	Chairperson of the Governing Committee	Mario Carraro	Director of Carraro Drive Tech Spa
Amici della Musica di Padova	Chairperson	Mario Carraro	Director of Carraro Drive Tech Spa

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.



From the factory to the dealer: discovering the Carraro tractor

Between March and June 2018, the Carraro Tractors Team organised a new training programme aimed at the Carraro Dealer Network focusing on the new range of IIIB tractors. All places were taken for the 5 training sessions, with the presence of 32 dealers from all over Italy and also from some European countries.

Carraro Technology Day

During the 25 September 2018 event organised at the International Tractors Ltd facility, Carraro exhibited various technologies, such as the Carraro CTS driveline, Power Reverser, suspension axles and portal axles.

On 28 September, in Faridabad at the “Knowledge Management Centre” of Escorts Ltd, the Carraro CTS agricultural transmission, plus some suspension axles and portal axles were exhibited. The TCB80 SPS transmission for earthmoving machinery was also on display.



Carraro Worldwide Spare Partners Meeting

This past 20 and 21 September 2018, the traditional “Worldwide Spare Partners Meeting” event was held in Bardolino, bringing together the entire Carraro Spare Parts distribution network. It was two days full of activities, classroom time for updates on results and targets, as well as team-building activities that created relationships and motivation. More than 40 distributors from 33 different countries, together with the Carraro team, took an active part in the event, for a total of more than 80 participants.



More than 1000 people at SIAP for Open Factory

A really special autumn Sunday for the SIAP facility, which welcomed many visitors on the occasion of the 2018 edition of Open Factory, the event dedicated to industrial and manufacturing tourism. A very large number of employees brought their families and a very large number of outside guests wanted to discover for themselves this Carraro Group centre of excellence for gearing.

For the third consecutive year, the Group decided to join this excellent initiative, and for the third time, our facility was the most visited of all the 50 firms involved around the country with more than 1000 people over 5 hours.

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 e-mail, publication on company noticeboards and the Intranet and are freely available on the Group website.

Directors and Statutory Auditors who have been informed of the anti-corruption principles adopted by the Group	31.12.2018		31.12.2017	
	n°	%	n°	%
	12	100%	10	100%

Directors and Statutory Auditors who have completed training on the principles of anti-corruption	31.12.2018		31.12.2017	
	n°	%	n°	%
	12	100 %	10	100 %

Employees of the Carraro Group who have been informed of the anti-corruption principles adopted by the Group	31.12.2018		31.12.2017	
	n°	%	n°	%
Italy	1,268	100%	1,221	100%
Other countries	274	8.8%*	265	15.2%*
Total	1,710	52.4%	1,673	53.0%

* Corresponding to 100% of managers, executives, officers and clerical workers at the Group's foreign companies.

Note

› The 2017 data related to personnel was restated to align it with the new survey criterion, which requires counting apprentices and external workers separately.

Employees of the Carraro Group who have completed training on the principles of anti-corruption (Code of Ethics)	31.12.2018		31.12.2017	
	n°	%	n°	%
Italy	396*	31.2%**	404*	33.1%**
Other countries	25*	2.0%**	25*	1.9%**
Total	421	16.5%	429	16.7%

-
- ** 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.
- * Progressive figure referred to 31/12 of the year of reference which includes the number of employees who took the course starting from 2016 (figure updated to 27/02/2019) and from 2014 (for foreign employees)

Note

Thanks to a refinement of the calculation methodology which provides for the exclusion of employees whose employment relationship came to an end in the period of reference, the 2017 data was restated.

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 2018, 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.

205-3
Confirmed incidents of corruption and actions taken

419-1
Non-compliance with laws and regulations in the social and economic area

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 Spa	4
After-Sales Quality and Services	local	Italy, China, USA, Brazil, India	28
Operations Quality	local	Italy, China, India, Argentina	200
Procurement Quality	local	Italy, China, India	20
Total			252

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 develop-

ment 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 2018, 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

Awards acquired in the quality field



Carraro in Asia

In July 2018, Caterpillar reconfirmed:

- › Carraro China as Gold Medal supplier;
- › Carraro India as Bronze Medal supplier.



6 **Appendix**

6.1

Association of material topics to GRI Standards

Topics relevant to Italian legislative decree no. 254/2016, Article 3(1)	Material topics identified in the Carraro Group	GRI standards topics	Scope of impact	
			Where the impacts occurred	Type of impact
Na	Value of the Brand and reputation	Na	Carraro Group	Generated by the Group
Topics relating to Employees	Corporate welfare and health and safety in the workplace	403 Health and safety in the workplace	Carraro Group Workforce (*)	Generated by the Group
Topics relating to Employees	Diversity, equal opportunities and inclusion	405 Diversity and equal opportunities 406 Non-discrimination	Carraro Group	Generated by the Group
Social topics	Management of the supply chain and use and optimisation of local suppliers	201 Economic performance 204 Procurement practices	Carraro Group Suppliers and commercial partners	Generated by the Group and connected with the Group's activities
Social topics	Product safety and quality	419 Compliance (Social)	Carraro Group Clients	Generated by the Group
Topics related to the fight against corruption	Anti-corruption	205 Anti-corruption	Carraro Group	Generated by the Group
Topics relating to Employees	Well-being and work-life balance	401 Employment	Carraro Group	Generated by the Group
Social topics	Focus on technology and product innovation	Na	Carraro Group	Generated by the Group
Environmental topics	Reduction of energy consumption and greenhouse gas emissions	302 Energy 305 Emissions	Carraro Group Suppliers and commercial partners	Generated by the Group and connected with the Group's activities
Topics related to the fight against corruption	Ethics and integrity in business management processes	307 Compliance (Environmental) 419 Compliance (Social)	Carraro Group	Generated by the Group
Environmental topics	Reduction in waste produced and adoption of responsible waste disposal methods	306 Effluents and waste	Carraro Group	Generated by the Group
Social topics	Community development	201 Economic performance 202 Presence on the market	Carraro Group	Generated by the Group

* The Group will carry out an analysis concerning the relevance of workers who are not employees, in order to consider the possibility to gather data from the employers of workers who are not employees and the suppliers who work in the Group's plants and/or the control of the Group, taking into consideration the quality and the accuracy of those data over which the Group has no direct control.

103-1
Explanation
of the material
topic and its
Boundary

6.2

GRI Content Index

The GRI table with reference to the option ‘In Accordance-core’ is presented below, as provided for in the GRI Standards of the Global Reporting Initiative. Any omissions are reported as notes to the single indicators, where provided for.

General disclosures

GRI standards		Disclosure	Page / notes
Organisational profile			
GRI-102: general disclosures (2016)	102-1	Name of the organisation	23
GRI-102: general disclosures (2016)	102-2	Activities, brands, products, and services	42
GRI-102: general disclosures (2016)	102-3	Location of headquarters	28-29
GRI-102: general disclosures (2016)	102-4	Location of operations	28-29
GRI-102: general disclosures (2016)	102-5	Ownership and legal form	32-33
GRI-102: general disclosures (2016)	102-6	Markets served	39-40
GRI-102: general disclosures (2016)	102-7	Scale of the organisation	20-21; 32-33
GRI-102: general disclosures (2016)	102-8	Information on employees and other workers	34-36
GRI-102: general disclosures (2016)	102-9	Supply chain	152-154
GRI-102: general disclosures (2016)	102-10	Significant changes to the organization and its supply chain	31
GRI-102: general disclosures (2016)	102-11	Precautionary Principle or approach	81-88
GRI-102: general disclosures (2016)	102-12	External initiatives	54-55
GRI-102: general disclosures (2016)	102-13	Membership of associations	157-159
Strategy			
GRI-102: general disclosures (2016)	102-14	Statement from senior decision-maker	7-8
Ethics and Integrity			
GRI-102: general disclosures (2016)	102-16	Values, principles, standards, and norms of behavior	59-61
Governance			
GRI-102: general disclosures (2016)	102-18	Governance structure	67-70
GRI-102: general disclosures (2016)	102-19	Delegating authority	73-74
GRI-102: general disclosures (2016)	102-20	Executive-level responsibility for economic, environmental, and social topics	75-76

GRI-102: general disclosures (2016)	102-22	Composition of the highest governance body and its committees	77-78
Stakeholder engagement			
GRI-102: general disclosures (2016)	102-40	List of stakeholder groups	57
GRI-102: general disclosures (2016)	102-41	Collective bargaining agreements	115
GRI-102: general disclosures (2016)	102-42	Identifying and selecting stakeholders	57
GRI-102: general disclosures (2016)	102-43	Approach to stakeholder engagement	57
GRI-102: general disclosures (2016)	102-44	Key topics and concerns raised	57
Reporting practices			
GRI-102: general disclosures (2016)	102-45	Entities included in the consolidated financial statements	14
GRI-102: general disclosures (2016)	102-46	Defining report content and topic Boundaries	51
GRI-102: general disclosures (2016)	102-47	List of material topics	52-53
GRI-102: general disclosures (2016)	102-48	Restatements of information	12; 14; 34-36; 41; 94; 96; 102-106; 108; 117-118; 123-124; 128; 135-136; 140; 152-154; 162-163
GRI-102: general disclosures (2016)	102-49	Changes in reporting	52
GRI-102: general disclosures (2016)	102-50	Reporting period	14
GRI-102: general disclosures (2016)	102-51	Date of most recent report	14
GRI-102: general disclosures (2016)	102-52	Reporting cycle	14
GRI-102: general disclosures (2016)	102-53	Contact point for questions regarding the report	182
GRI-102: general disclosures (2016)	102-54	Claims of reporting in accordance with the GRI Standards	11; 173
GRI-102: general disclosures (2016)	102-55	GRI content index	173-177
GRI-102: general disclosures (2016)	102-56	External assurance	179-181

Topic-specific standards

Economic indicators			
Material aspect: Economic performance			
GRI-103: Management Approach (2016)	103-1	Explanation of the material topic and its Boundary	171
	103-2	The management approach and its components	149-150
	103-3	Evaluation of the management approach	149-150
GRI-201: Economic performance (2016)	201-1	Direct economic value generated and distributed	145
Material aspect: Presence on the market			
GRI-103: Management Approach (2016)	103-1	Explanation of the material topic and its Boundary	171
	103-2	The management approach and its components	149-151
	103-3	Evaluation of the management approach	149-151
GRI-202: Presence on the market (2016)	202-2	Proportion of senior management hired from the local community	150-151

Material aspect: Procurement practices			
GRI-103: Management Approach (2016)	103-1	Explanation of the material topic and its Boundary	171
	103-2	The management approach and its components	151-153
	103-3	Evaluation of the management approach	151-153
GRI-204: Procurement practices (2016)	204-1	Proportion of spending on local suppliers	153-154
Material aspect: Anti-corruption			
GRI-103: Management Approach (2016)	103-1	Explanation of the material topic and its Boundary	171
	103-2	The management approach and its components	161-162
	103-3	Evaluation of the management approach	161-162
GRI-205: Anti-corruption (2016)	205-3	Confirmed incidents of corruption and actions taken	163 During 2018 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.
Environmental indicators			
Material aspect: Energy			
GRI-103: Management Approach (2016)	103-1	Explanation of the material topic and its Boundary	171
	103-2	The management approach and its components	95-96
	103-3	Evaluation of the management approach	95-96
GRI-302: Energy (2016)	302-1	Energy consumption within the organization	96-97
GRI-302: Energy (2016)	302-4	Reduction of energy consumption	97-98
Material aspect: Emissions			
GRI-103: Management Approach (2016)	103-1	Explanation of the material topic and its Boundary	171
	103-2	The management approach and its components	102
	103-3	Evaluation of the management approach	102
GRI-305: Emissions (2016)	305-1	Direct (Scope 1) GHG emissions	102-103
GRI-305: Emissions (2016)	305-2	Energy indirect (Scope 2) GHG emissions	103-104
GRI-305: Emissions (2016)	305-3	Other indirect (Scope 3) GHG emissions	105
GRI-305: Emissions (2016)	305-5	Reduction of GHG emissions	104
GRI-305: Emissions (2016)	305-6	Emissions of ozone-depleting substances (ODS)	105
GRI-305: Emissions (2016)	305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	105-106

Material aspect: Effluents and waste			
GRI-103: Management Approach (2016)	103-1	Explanation of the material topic and its Boundary	171
	103-2	The management approach and its components	107; 110
	103-3	Evaluation of the management approach	107; 110
GRI-306: Effluents and waste (2016)	306-1	Water discharge by quality and destination	111
GRI-306: Effluents and waste (2016)	306-2	Waste by type and disposal method	107-109
Material aspect: Compliance			
GRI-103: Management Approach (2016)	103-1	Explanation of the material topic and its Boundary	171
	103-2	Approach to management of the topic	101
	103-3	Explanation of the material topic and its Boundary	101
GRI-307: Environmental compliance (2016)	307-1	Non-compliance with environmental laws and regulations	101
Social indicators			
Material aspect: Employment			
GRI-103: Management Approach (2016)	103-1	Explanation of the material topic and its Boundary	171
	103-2	The management approach and its components	115-116; 131
	103-3	Evaluation of the management approach	115-116; 131
GRI-401: Employment (2016)	401-1	New employee hires and employee turnover	117-118
GRI-401: Employment (2016)	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	131
Material aspect: Health and Safety in the Workplace			
GRI-103: Management Approach (2016)	103-1	Explanation of the material topic and its Boundary	171
	103-2	The management approach and its components	133-134
	103-3	Evaluation of the management approach	133-134
GRI-403: Health and Safety in the Workplace (2016)	403-1	Workers representation in formal joint management-worker health and safety committees	134-135
GRI-403: Health and Safety in the Workplace (2016)	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	135-136 The absenteeism rate is related only to the number of days lost due to injuries
Material aspect: Diversity and equal opportunities			
GRI-103: Management Approach (2016)	103-1	Explanation of the material topic and its Boundary	171
	103-2	The management approach and its components	121-122
	103-3	Evaluation of the management approach	121-122
GRI-405: Diversity and equal opportunities (2016)	405-1	Diversity of governance bodies and employees	77-78; 123-124

Material aspect: Non-discrimination			
GRI-103: Management Approach (2016)	103-1	Explanation of the material topic and its Boundary	171
	103-2	The management approach and its components	121-122
	103-3	Evaluation of the management approach	121-122
GRI-406: Non-Discrimination (2016)	406-1	Incidents of discrimination and corrective actions taken	121-122 During 2018, one case of alleged discrimination was reported, but no support or confirmation was found, and it was therefore groundless.
Material aspect: Compliance			
GRI-103: Management Approach (2016)	103-1	Explanation of the material topic and its Boundary	171
	103-2	The management approach and its components	61-62; 161-163
	103-3	Evaluation of the management approach	61-62; 161-163
GRI-419: Socio-economic Compliance (2016)	419-1	Non-compliance with laws and regulations in the social and economic area	61-62; 163 During 2018, no cases of non-compliance with regulations and laws in the social and economic area were recorded
Material topics not related to specific disclosures of the GRI standards			
Material aspect: Value of the Brand and reputation			
GRI-103: Management Approach (2016)	103-1	Explanation of the material topic and its Boundary	171
	103-2	The management approach and its components	42-43
	103-3	Evaluation of the management approach	42-43
Material aspect: Focus on technology and product innovation			
GRI-103: Management Approach (2016)	103-1	Explanation of the material topic and its Boundary	171
	103-2	The management approach and its components	44-46
	103-3	Evaluation of the management approach	44-46



Enrico Carraro
Presidente



Tomaso Carraro
Chief CSR Officer

6.3

Independent Auditors' Report



Deloitte & Touche S.p.A.
Via N. Tommaseo, 78/C int.3
35131 Padova
Italia

Tel: +39 049 7927911
Fax: +39 049 7927979
www.deloitte.it

**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. 20267/2018**

**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 "Decree") and to article 5 of the CONSOB Regulation n. 20267/2018, we have carried out a limited assurance engagement on the Consolidated Non-Financial Statement of Carraro S.p.A. and its subsidiaries (hereinafter "Carraro Group" or "Group") as of December 31, 2018 prepared on the basis of art. 4 of the Decree, and approved by the Board of Directors on March 6, 2019 (hereinafter "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 *Global Reporting Initiative Sustainability Reporting Standards* (hereinafter "GRI Standards"), established in 2016 by *Global Reporting Initiative* (GRI), 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.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Palermo Parma Roma Torino Treviso Udine Verona

Sede Legale: Via Tortona, 25 - 20144 Milano | Capitale Sociale: Euro 10.326.220,00 i.v.
Codice Fiscale/Registro delle Imprese Milano n. 03049560166 - R.E.A. Milano n. 172039 | Partita IVA/IT 03049560166

Il nome Deloitte si riferisce a una o più delle seguenti entità: Deloitte Touche Tohmatsu Limited, una società inglese a responsabilità limitata ("DTTL"), le member firm aderenti al suo network e le entità a esse correlate. DTTL e ciascuna delle sue member firm sono entità giuridicamente separate e indipendenti tra loro. DTTL (denominata anche "Deloitte Global") non fornisce servizi ai clienti. Si invita a leggere l'informativa completa relativa alla descrizione della struttura legale di Deloitte Touche Tohmatsu Limited e delle sue member firm all'indirizzo www.deloitte.com/about.

© Deloitte & Touche S.p.A.



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 Standards. 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 (*"reasonable assurance engagement"*), 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 art. 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 Carraro 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) of this report.

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

We carried out interviews and discussions with the management of Carraro S.p.A. and with the employees of Siap S.p.A., Driveservice S.r.l., 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 companies Carraro S.p.A. (Campodarsego), Slap S.p.A. (Maniago), Driveservice S.r.l. (Poggiofiorito), which we selected based on the 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, 2018 is not prepared, in all material aspects, in accordance with article 3 and 4 of the Decree and the GRI Standards.

DELOITTE & TOUCHE S.p.A.

Signed by
Gianna Adami
Partner

Padova, Italy
March 21, 2019

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

102-53
Contact point
for questions
regarding the
report

General Informations

Carraro Spa **Headquarters**

Via Olmo, 37
35011 Campodarsego
(Padova), Italy
T +39 049 9219111
F +39 049 9289111
webinfo@carraro.com
www.carraro.com

People are at the core of our Sustainability Report, as usual. For such reason, this year we have chosen to accompany the report of our CSR 2018 activities with the Carraro faces drawn by the pencil of the artist Martina Zena.

Born in Bentivoglio (Bologna) in 1989, Martina has joined classical studies with a training course at the Accademia di Belle Arti in Bologna and with the multidisciplinary contaminations of the international breath of Fabbrica. In this way she had the opportunity to grow up step by step from a classic technical base to a rich experimentation.

Starting from a world closely related to painting, today she fits into the graphic field and its traditional techniques, design, fashion, the relationship with music and gesture becomes more and more evident through live performances, and the approach to the illustration has taken the shape of attention to animation. The hybridization of different expressive fields is a constant element of her work.

Design
Bunker
bnkr.it

Illustrations
Martina Zena
martinazena.com

Typeset in
Averta
Intelligent Design, 2015
Mercury
Hoeftler & Co., 1999

Print
Grafiche Rebecchi
Ceccarelli
Modena