

**CARRARO INTERNATIONAL S.E.**

Registered office in Campodarsego, Padua (Italy) – Via Olmo 37

Share Capital 13,500,000.00 euros, fully paid-up.

Tax Code 92198680289 and VAT no. 04861850289

Registration on the Padua Register of Companies no. 445723

Company subject to the management and coordination of Carraro S.p.A.**FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019****DIRECTORS' REPORT ON OPERATIONS**

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<b>BOARD OF DIRECTORS</b>	<b>ENRICO CARRARO</b>	Chairman
In office until approval of the 2020 financial statements	<b>TOMASO CARRARO</b>	Deputy Chairman
(Appointments, Shareholders' Meeting of 16.04.2018)	<b>ENRICO GOMIERO</b>	Chief Executive Officer
	<b>SERGIO MARUSSO</b>	Director
	<b>FRANCESCO SECCHIERI (1)</b>	Director
	<b>FRANCESCO SABATTINI (1)</b>	Director
	<b>FABRIZIO PINATO (1)</b>	Director
	(1) Members of the Internal Auditing Committee	
<b>INDEPENDENT AUDITORS</b>	<b>Deloitte &amp; Touche S.p.A.</b>	
from 2018 to 2026		
<b>PARENT COMPANY</b>	<b>Carraro S.p.A.</b>	

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## INCOME STATEMENT AS AT 31.12.2019

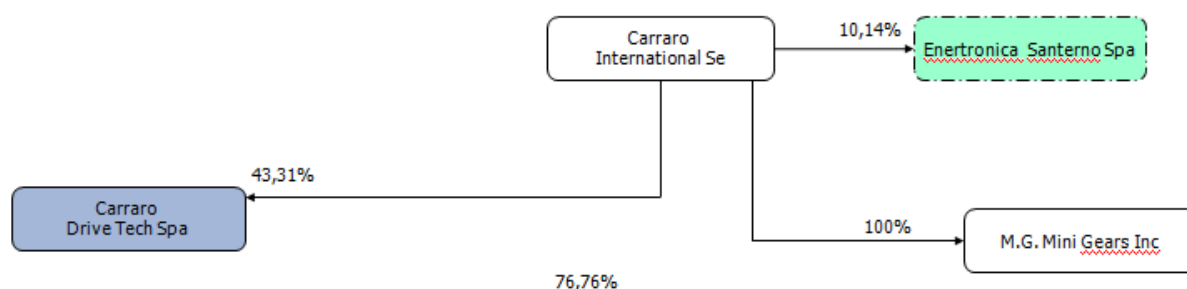
<i>(amounts in euros)</i>	<b>31.12.19</b>	<b>%</b>	<b>31.12.18</b>	<b>%</b>	<b>Changes</b>	
					31.12.19 /31.12.18	
<b>REVENUES FROM SALES</b>	<b>344,179</b>	<b>100.00%</b>	<b>435,849</b>	<b>100.00%</b>	<b>-91,670</b>	<b>-21.03%</b>
Purchases of goods and materials (net of changes in inventories)	-	0.00%				
Services and Use of third-party goods and services	-817,312		-1,111,938	-255.12%	294,626	26.50%
Personnel costs	-263,734	-76.63%	-307,098	-70.46%	43,364	14.12%
Amortisation, depreciation and impairment of assets	-68,975	-20.04%	-12,069	-2.77%	-56,906	
Provisions for risks	-	0.00%			-	
Other income and expenses	-232,470	-67.54%	-325,715	-74.73%	93,245	28.63%
Internal construction	-	0.00%			-	
<b>OPERATING COSTS</b>	<b>-1,382,491</b>	<b>-401.68%</b>	<b>-1,756,820</b>	<b>-403.08%</b>	<b>374,329</b>	<b>21.31%</b>
<b>OPERATING PROFIT/(LOSS) (EBIT)</b>	<b>-1,038,312</b>	<b>-301.68%</b>	<b>-1,320,971</b>	<b>-303.08%</b>	<b>282,659</b>	<b>21.40%</b>
Income and expenses from equity investments	5,407,626	1571.17%	9,441,789	2166.30%	-4,034,163	-42.73%
Other financial income	8,150,639	2368.14%	9,858,896	2262.00%	-1,708,257	-17.33%
Financial costs and expenses	-7,509,092	-2181.74%	-8,427,172	-1933.51%	918,080	10.89%
Net gains/(losses) on foreign exchange	-127	-0.04%	-2,055	-0.47%	1,928	93.82%
Value adjustments of financial assets	-2,234,088		-491,819	-112.84%	-1,742,269	
<b>GAINS/(LOSSES) ON FINANCIAL ASSETS</b>	<b>3,814,958</b>	<b>1108.42%</b>	<b>10,379,639</b>	<b>2381.48%</b>	<b>-6,564,681</b>	<b>-63.25%</b>
<b>PROFIT/(LOSS) BEFORE TAXES</b>	<b>2,776,646</b>	<b>806.74%</b>	<b>9,058,668</b>	<b>2078.40%</b>	<b>-6,282,022</b>	<b>-69.35%</b>
Current and deferred income taxes	45,056	13.09%	-24,062	-5.52%	69,118	
<b>NET PROFIT/(LOSS)</b>	<b>2,821,702</b>	<b>819.84%</b>	<b>9,034,606</b>	<b>2072.88%</b>	<b>-6,212,904</b>	<b>-68.77%</b>
<b>EBITDA*</b>	<b>-984,267</b>	<b>-285.98%</b>	<b>-1,308,901</b>	<b>-300.31%</b>	<b>324,635</b>	<b>24.80%</b>

\* for the breakdown, please refer to the "Summary of financial year" section, which describes the alternative performance indicators.



**STATEMENT OF FINANCIAL POSITION AS AT 31.12.2019**

<i>(amounts in euros)</i>	<b>31.12.19</b>	<b>31.12.18</b>
Property, plant and equipment	34,280	-
Intangible fixed assets	-	414
Real estate investments	-	-
Investments	39,608,421	45,117,022
Financial assets	88,225,296	88,653,409
Deferred tax assets	21,822	-
Trade receivables and other receivables	10,100	30,103
	<b>127,899,919</b>	<b>133,800,948</b>
<b>NON-CURRENT ASSETS</b>		
Closing inventory	-	-
Trade receivables and other receivables	194,575	152,614
Financial assets	33,165,003	59,763,727
Cash and cash equivalents	37,735,908	13,211,150
<b>CURRENT ASSETS</b>	<b>71,095,486</b>	<b>73,127,491</b>
<b>TOTAL ASSETS</b>	<b>198,995,405</b>	<b>206,928,439</b>
Share Capital	13,500,000	13,500,000
Reserves	2,230,504	3,326,007
Profit/loss for the year	2,821,702	9,034,606
<b>SHAREHOLDERS' EQUITY</b>	<b>18,552,206</b>	<b>25,860,613</b>
Financial liabilities	176,759,262	176,452,130
Trade payables and other payables	-	-
Deferred tax liabilities	-	34,881
Provision for severance indemnity and retirement benefits		
Provisions for risks and liabilities		
<b>NON-CURRENT LIABILITIES</b>	<b>176,759,262</b>	<b>176,487,011</b>
Financial liabilities	3,033,029	3,675,966
Trade payables and other payables	596,613	601,456
Current tax payables	54,295	303,393
Provisions for risks and liabilities		
<b>CURRENT LIABILITIES</b>	<b>3,683,937</b>	<b>4,580,815</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>198,995,405</b>	<b>206,928,439</b>

## CORPORATE STRUCTURE AS AT 31.12.2019



### Legenda:

-  Società Controllate
-  Società Collegate

Carraro International belongs to the Carraro Group, a leading international group in transmission systems for off-highway vehicles and specialised tractors, with Headquarters in Italy in Campodarsego (Padua). Carraro International is directly controlled by the parent company Carraro S.p.A.

Carraro Group's activities are currently divided into two Business Areas:

#### - Drive systems

Through the subsidiaries Carraro Drive Tech and SIAP, the Group designs, manufactures and sells transmission systems (axles, transmissions and drives) mainly for agricultural 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.

#### - Tractors

Through Divisione Agritalia, the Group designs and manufactures specialised 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 specialised “Carraro Tractors” range; Agritalia also provides engineering services for the design of innovative tractor ranges.

## Reference markets of the Carraro Group

### Agriculture

2019 saw a slowdown in sales of agricultural machinery globally, albeit with different trends in the various areas of the world. During the last quarter there were some signs of a change in the trend.

In **Europe**, the market seems to have entered a recessionary phase. During 2019, sales of specialised (vineyard and orchard) tractors also followed this trend, mainly due to the progressive increase in price of new models following the significant and costly R&D activities and changes to the structure of the machines imposed by the introduction of increasingly stringent European regulations, and there are currently no indications of a reversal of this trend in 2020.

In the **Turkish market**, both political and economic instability led to a sharp drop in sales; in the latter part of the year, the first signs of a turnaround in this trend became evident.

In **North America**, for the agricultural sector, 2019 was a positive year overall, albeit with modest progress compared to the previous year due to the so-called "duty war" with China.

**China** closed 2019 with a sharp drop in demand caused by the continuing recession in the agricultural sector due to the disappearance of a significant part of state subsidies and there are no indications of any reversal of this trend. In this context, the Central Government decided to postpone entry into force of the "China IV" emission standards for all Off-Highway vehicles.

After a 2018 characterised by record sales volumes, in 2019 the **Indian market** showed a significant slowdown, both in terms of domestic demand and exports due to the not particularly positive trend of the monsoon, always an important element for Indian agriculture, and the credit crisis, due to problems with a number of banks.

In **Brazil**, 2019 initially recorded a stable level of sales, mainly due to the de-stocking of vehicles with Tier 1 engines already produced, followed by a significant slowdown caused by persistent market stagnation. In **Argentina**, the recessionary trend continued without any evident change in sight.

### **Construction equipment**

After two years of record growth in sales volumes of construction and mining machinery, demand in 2019 slowed down, especially in the second half of the year, due to the low growth rate of the economy in various areas of the world. The year therefore closed with an overall contraction compared to 2018.

In **Europe**, after a first half with higher sales volumes than in the same period in 2018, the second half of the year was characterised by a reversal of this trend and there are currently no indications of any change in 2020.

Stagnant demand in **Turkey** continued throughout 2019 due to the contraction in investment in new construction.

Good levels of demand characterised 2019 in **North America**, both in the Utility as well as larger machine sector, thanks to the overall growth of the economy, with positive effects on new investments in construction, even though there were some signs of a slowdown in the latter part of the year.

2019 in **China** closed with sales volumes for construction equipment at a good level and substantially in line with those of the previous year thanks to the postponement of the entry into force of the "China IV" emission level regulations.

In 2019, the **Indian market** recorded a substantial deceleration in sales of construction equipment compared to the previous year, due to both the impact of the credit crisis (already mentioned for the agricultural sector) and the slowdown in the ambitious infrastructure plans launched by the central government.

In **Brazil**, the main market in South America, 2019 confirmed a recovery in demand for new vehicles thanks to the unblocking of certain investments in the construction sector, albeit remaining at modest levels in absolute terms.

### **Research and Innovation: the Group's key success factor**

Commitment to R&D continued, still focussed on developing innovative transmission systems and specialised tractors aimed at markets with greater growth potential.

## **Summary of financial year 2019**

The following alternative performance indicators will also be used:

- *EBITDA: the sum of operating profit/(loss) of the income statement, amortisation, depreciation and impairment of fixed assets*
- *EBIT: earnings before tax taxes and financial income and expenses, with no adjustments;*
- *Net Working Capital: difference between Trade Receivables, Net Inventories and Trade Payables in the balance sheet;*
- *Net financial position: ESMA Net Financial Debt determined in accordance with paragraph 127 of the recommendations contained in the ESMA document no. 319 of 2013, implementing Regulation (EC) 809/2004, after deducting, where applicable, non-current receivables and financial assets, as well as the effects deriving from the application of the newly applied International Accounting Standard IFRS 16.*

## **Performance**

Carraro International provides financial, treasury and consulting services to subsidiaries, affiliates and to the parent company, in accordance with the approved policies and the strategic needs of the Carraro Group. The Company in particular, via its permanent establishment in Luxembourg, works to provide financial resources to the Carraro Group's European companies, whereas the Asian and South American companies source their funds from the local markets, utilising the strategic consulting services provided by Carraro International. In addition, Carraro International coordinates the factoring activities of the Italian operating companies and the exchange rate risk hedging policies for all Group companies.

Following 2018, which saw Carraro International engaged in the complete reorganization of the debt structure, both in terms of amounts and duration, 2019 saw the Company, through its Luxembourg branch, engaged in financing activities for the Italian group companies, with a broadening of the range of stakeholders, and the revision of conditions, both in terms of maturity and amount, as well as the launch of a series of functional analyses to strengthen and improve the efficiency of treasury management and related services.

With regard to funding, the Company continued to seek alternative forms of financing for future years.

In particular Carraro International entered into negotiations with the European Investment Bank in 2019, signing in December a 7-year loan contract worth 50 million euros, whose financial funding was disbursed in 2020, aimed at supporting the Group's Research and Development projects which will allow further boost to innovation activities, with particular reference to the most strategic business areas.

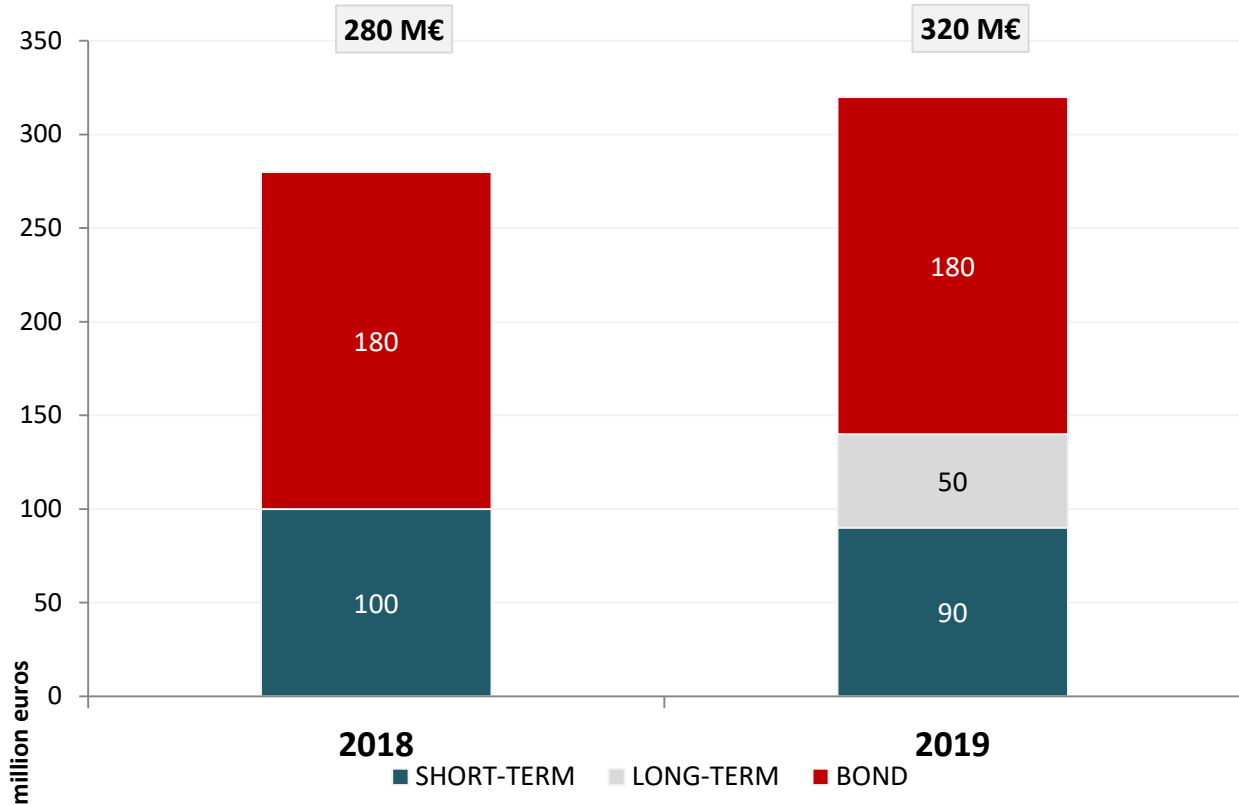
.In more detail, thanks to this, three areas will be given priority over the next few years:

- electrification and hybridisation of off-highway vehicles with the aim of designing and manufacturing new traction systems for agricultural tractors and construction equipment, as well as specialised tractors in hybrid versions.
- highly efficient transmission systems, including the new family of continuously variable transmissions for tractors with up to 120 horsepower and renewed transmissions for construction equipment machinery with a specific focus on a market with strong potential such as India.
- digitisation, i.e. evolution of the Group's information infrastructure with a 4.0 approach, capable of supporting both product design and industrialisation, speeding up processes, preventing errors and maximising automation.

Noteworthy is the essential role played by International in obtaining a number of soft loans in Friuli Venezia Giulia for a Group company.

The main data relating to credit facilities is summarised in the following tables:

## CARRARO INTERNATIONAL - CREDIT LINES GRANTED

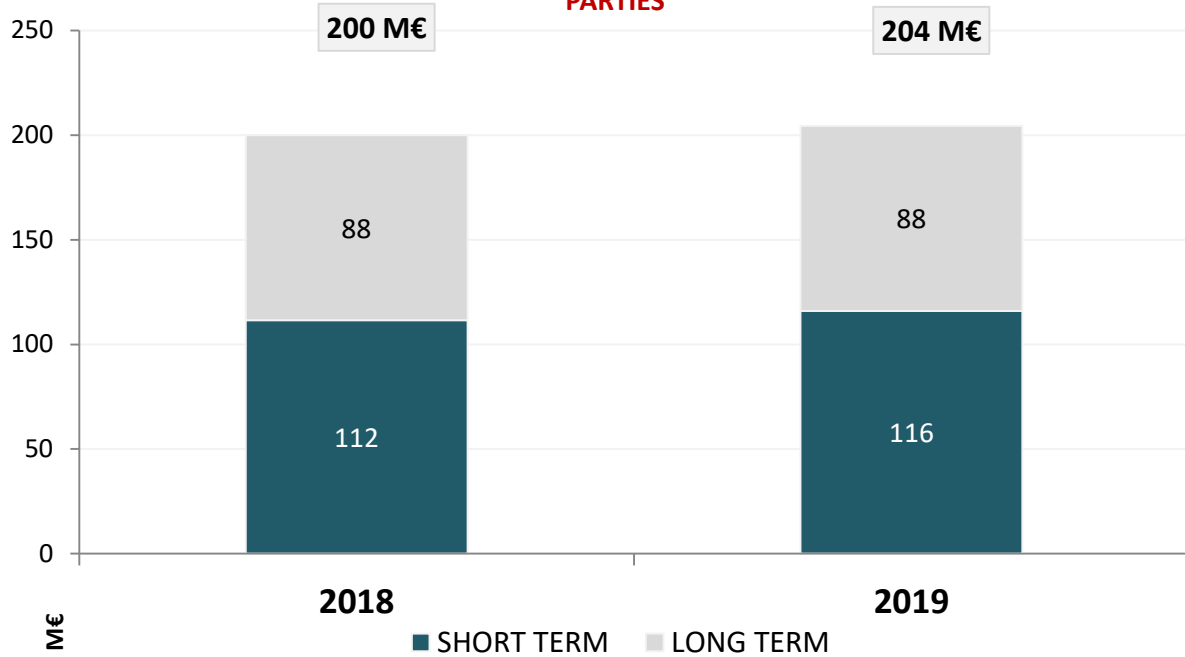


The credit lines granted, amounting to 280 million euros in December 2018, of which 180 million a bond issue, as at December 31, 2019 totalled 320 million euros, of which 90 million short term and 50 long-term from the EIB.

The short term decreased by 20 million as a result of the partial cancellation of Banca Popolare di Milano's RCF line and increased by 10 million thanks to the new line with LuxSan Paolo IMI Luxembourg. At the end of December 2019, only the bond loan was in use.

These resources will be used to fund the Group's European companies, and investments are divided between short-term and long-term:

**CARRARO INTERNATIONAL - INVESTMENTS FOR GORUP AND RELATED PARTIES**

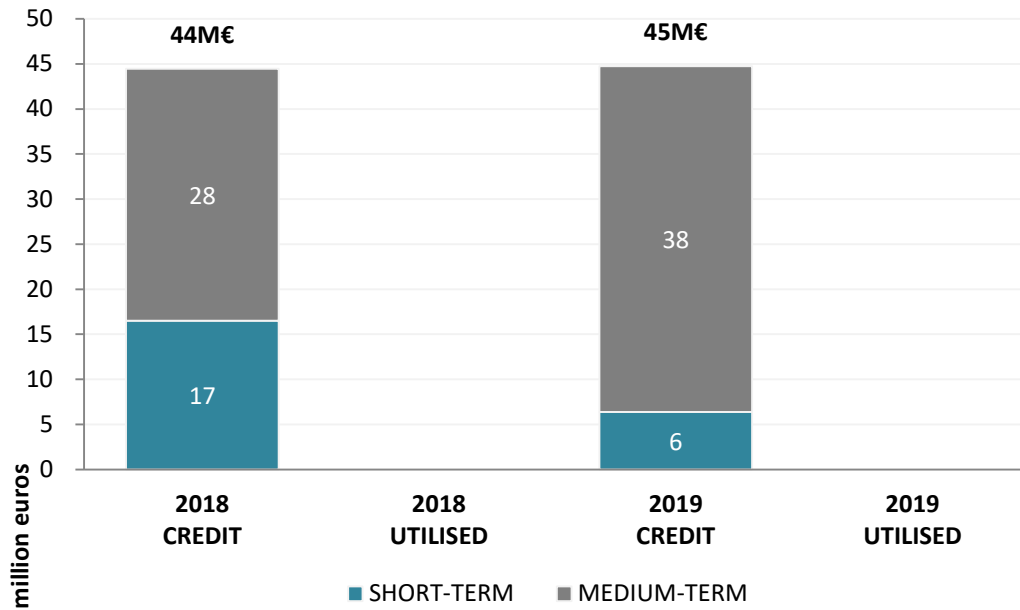


The resources raised in this way were used to secure loans to the Group's European companies, amounting to 88 million euros medium/long term and 116 million euros short term, substantially in line with December 31, 2018 (88 million euros medium/long term and 112 million euros short term).

As already explained, the preceding analysis only relates to the Group's European companies, as the foreign companies procure funds from the local market, utilising the strategic coordination and consulting services of Carraro International. The following diagrams show the trend in lines of credit granted by the principal local banks for the Group's largest non-European companies, Carraro China and Carraro India.

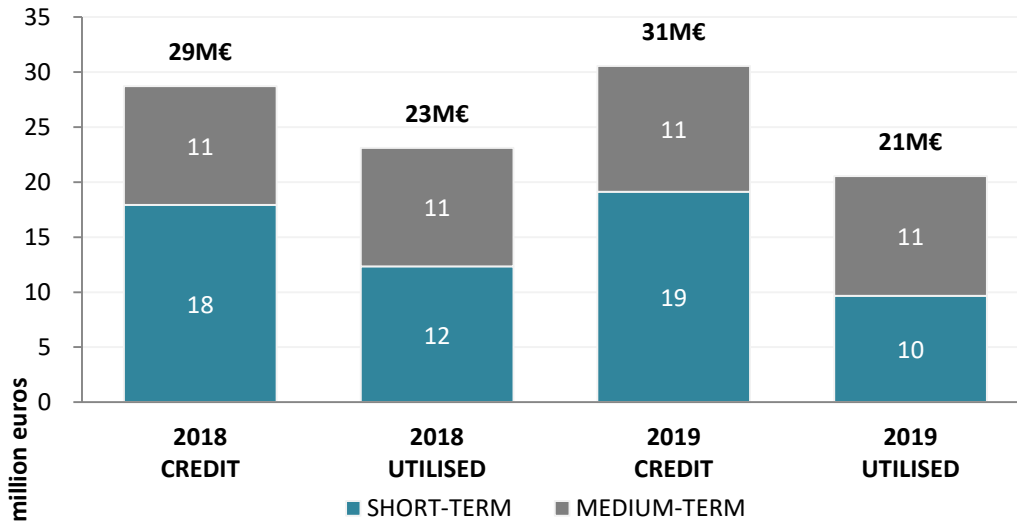


### CARRARO CHINA - CREDIT LINES



Carraro China also had credit lines at the end of 2019 with local banks only; no credit lines have been used.

### CARRARO INDIA - CREDIT LINES



Carraro India also has credit lines with major local banks and gross utilizations were substantially unchanged compared to the previous year.

## Analysis

2019 ended with a profit of 2.822 million euros, which was a decrease compared to the result of 9.035 million euros on 31 December 2018. The difference was affected by the lower distribution of dividends by subsidiaries, compared to the previous year and equity investment adjustment items, in particular relating to the exit from the Chinese Agriming joint venture.

Cash and cash equivalents on 31 December 2019 totalled 37.7 million euros compared to 13.2 million on 31 December 2018. The difference was due to the improved efficiency of centralised treasury management.

The breakdown in the net financial position from operations is shown in the table below:

<i>Net financial position (amounts in Euro thousands)</i>	<b>31.12.2019</b>	<b>31.12.2018</b>
Financial liabilities:	179,792	180,128
Financial assets:	-33,165	-59,764
Cash and cash equivalents:	-37,736	-13,211
Non-current loans and receivables	-87,194*	-87,563
Other non-current financial assets	-1,063	-1,091
<b>Net financial position of management</b>	<b>20,634</b>	<b>18,500</b>

\* the amount includes the effect of IFRS 16 for € 31.5 million.

As at 31 December 2019, the net financial position from operations was a debit balance of 20.63 million euros, worse than as at 31 December 2018 (18.5 million euros). The change was negatively impacted by the different mix of loans granted to affiliated companies according to the specific needs and the lower amount of dividends received.

## **SIGNIFICANT EVENTS DURING THE PERIOD**

Once the expectations relating to the Joint Venture Agriming Agriculture Equipment Co. Ltd. - created in June 2017 - had ceased to exist and in order to accelerate the development of the Group's activities in China, the Company decided to sell its investment in the above mentioned Joint Venture, equal to 49% of the share capital, to Shandong Juming Machinery Co. Ltd whose economic effects are commented in the specific paragraph.

As mentioned in the introduction, in December, a 7-year loan contract worth 50 million euros, whose funding was disbursed in 2020, was signed with the European Investment Bank to support the Group's Research and Development projects. This loan will guarantee the Carraro Group the support of its Research and Innovation activities, allowing investments of over 30 million euros per year over the next three years aimed at electrification and hybridisation of off-highway vehicles, development of highly efficient transmission systems and evolution of the Group's information infrastructure with a 4.0 approach, capable of supporting both product design and industrialisation, speeding up processes, preventing errors and maximising automation.

## **SUBSEQUENT EVENTS**

As is well known, the national and international scenario has been characterised since January 2020 by the spread of the Coronavirus and the consequent restrictive measures for its containment, implemented by the public authorities of the countries affected.

The virus spread within China in January 2020. The restrictive measures adopted also affected the Carraro Group's Chinese plant, causing a reduction in production capacity for about one month. However, as of March the plant has essentially resumed normal operations, with the expectation that the backlog that built up in the previous month will be worked through in a short amount of time.

Between the end of February and March, the virus gradually spread to other continents and Italy was particularly affected. On 22 March 2020, the Italian Government imposed a temporary freeze on all "non-essential" production activities until 3 April. The manufacture of agricultural and forestry machinery, trade in parts and accessories for motor vehicles, and the wholesale trade in agricultural supplies, was however deemed to be essential.

As a result of this decree, the production plants in Campodarsego, Maniago and Rovigo were closed, while the Poggiofiorito logistics hub (which supplies spare parts) remained operational.

In any case, this site continues to pay close attention to compliance with the medical and health regulations issued by the government and the authorities responsible for containing the spread of the Coronavirus. The directors will assess the benefits of keeping this logistical hub open, also taking into account procurement from its suppliers and its customers' level of operations.

At the same time, the plants in Pune (India), Buenos Aires (Argentina) and Caixas do Sul (Brazil) have been closed since 23 March, in view of similar measures taken by the respective local governments.

The continuing spread of the virus worldwide and the stringent measures taken by many governments to counter its further spread are affecting the prospects for future macroeconomic growth, which is likely to have repercussions on the Italian and international scenario. To offset the likely economic and financial repercussions, both domestically and internationally, many countries' governments have already taken steps to support businesses and the economy, while further measures are currently under discussion.

The events described above have been considered as non-adjusting events on the amounts reported in the 2019 financial statements, according to the definition provided by *IAS 10 §21*, as they occurred after the end of the financial year.

The directors monitor these uncertainties on a daily basis through a mitigation plan for the company's business, paying special attention to strategic procurement, close analysis of daily expenditure and investments, and non-stop monitoring of accounts receivable (customer sales and payments).

However, it is not currently possible to predict how this situation will evolve and the consequences it will have on the macroeconomic scenario, nor is it possible to determine the possible impacts that could result in adjustments to the carrying amounts of the Company's assets and liabilities.

In particular, these uncertainties could affect mainly, but not exclusively, the financial statement items subject to valuation, a description of which can be found in the section "Discretionary valuations and significant accounting estimates" in the notes.

## **GROUP BUSINESS PERFORMANCE AND OUTLOOK FOR 2020**

The first quarter of 2020 shows a potentially higher than expected orders portfolio, mainly thanks to the recovery of expected volumes in Asia (especially in India) and the reopening of the Chinese plant.

In addition to what is described in the "Subsequent events" section, above, the impact of the spread of the Coronavirus at national and international level – and consequently on business performance for the remainder of the year – remains unknown.

## **BALANCE SHEET AND FINANCIAL DATA**

### **Turnover**

The Company's turnover as at 31 December 2019 amounted to 344,179 thousand euros (435,849 thousand euros as at 31 December 2018). Carraro International provides financial consulting services to the Carraro Group companies. The breakdown of sales by main geographic area is shown in the following table.

<i>(amounts in euros)</i>	<b>31.12.19</b>	%	<b>31.12.18</b>	%
<b>Geographical Area</b>				
Italy	265,048	77%	335,670	77%
India	55,688	16%	78,298	18%
China	23,443	7%	16,555	4%
South America			5,326	1%
<b>Total</b>	<b>344,179</b>	<b>100%</b>	<b>435,849</b>	<b>100%</b>

### **Gains/(losses) on financial assets**

<i>(amounts in euros)</i>	<b>31.12.2019</b>	<b>31.12.2018</b>
<b>Income/expenses from equity investments</b>	<b>5,407,626</b>	<b>9,441,789</b>
Financial assets	6,251,718	6,488,777
Bank current accounts and deposits	-	8,362
Other cash and cash equivalents	-	-
Income other than the above	1,898,921	3,361,757
Changes in the fair value of derivatives, and on rates		
<b>Other financial income</b>	<b>8,150,639</b>	<b>9,858,896</b>
Financial liabilities	-6,301,957	-6,299,021
Bank current accounts and deposits	-69	-4,226
Expenses other than the above	-1,207,066	-2,123,925
Changes in the fair value of derivatives, and on rates		
<b>Financial costs and expenses</b>	<b>-7,509,092</b>	<b>-8,427,172</b>
Other net exchange rate differences	-127	-2,055
<b>Net gains/(losses) on foreign exchange</b>	<b>-127</b>	<b>-2,055</b>
Write-backs	-	60,330
Write-downs	-2,234,088	-552,149
<b>Value adjustments of financial assets</b>	<b>-2,234,088</b>	<b>-491,819</b>
<b>NET GAINS/(LOSSES) ON FINANCIAL ASSETS</b>	<b>3,814,958</b>	<b>10,379,639</b>

Income from equity investments, amounting to 5.407 million euros, refers entirely to dividends of the investee Carraro Drive Tech S.p.A. As at 31 December 2018 they amounted to 9.442 million euros, again for the subsidiary Carraro Drive Tech S.p.A.

Value adjustments of financial assets totalling -2.234 million euros refer to the effect on the income statement deriving from using the equity method of measuring the investment held in Enertronica Santerno S.p.A. (0,7 million euro) and the realisable value of the investment in Agriming Agriculture Equipment Co. Ltd (1,5 million euro).

(amounts in euros)

	31.12.19	% of turnover	31.12.18	% of turnover	Diff. %
<b>Net financial expenses</b>	<b>641,547</b>	<b>no.</b>	<b>1,431,724</b>	<b>no.</b>	<b>no.</b>

Net financial revenues went from a positive 1,432 thousand euros in the previous year to a positive 642 thousand euros as at 31 December 2019, due to the different mix of loans granted to the Group's European companies. The 2018 amount was also influenced by the non-recurring effect of 1.37 million euros resulting from the reduction of fees previously accounted for using the amortised cost method and relating to the Bank Agreement terminated in February 2018.

Financial revenues also include the fees paid on the bond issue which are absorbed throughout the amortisation period, in application of the amortised cost method.

### **Net profit/(loss)**

2019 ended with a profit of 2.822 million euros; the Company closed the year ending 31 December 2018 with a profit of 9.035 million euros.

(amounts in Euro thousands)

	31.12.19	% of turnover	31.12.18	% of turnover	Diff. %
<b>EARNINGS BEFORE TAX</b>	<b>2,777</b>	<b>no.</b>	<b>9,059</b>	<b>no.</b>	<b>no.</b>
Current and deferred income taxes	45	no.	-24	no.	no.
<b>NET PROFIT/(LOSS)</b>	<b>2,822</b>	<b>no.</b>	<b>9,035</b>	<b>no.</b>	<b>no.</b>

The profit/loss was negatively affected by the lower dividends from the subsidiary Carraro Drive tech SpA and the adjustments relating to equity investments in subsidiaries. It should be recalled that in 2018 the item was impacted by higher one-off financial expenses amounting to 1.365 million euros resulting from the reduction in fees previously recognised using the amortised cost method relating to the Bank Agreement (amount net of tax effect).

Taxes to 31 December 2019 amounted to 45 thousand euros compared to the -24 thousand euros at 31 December 2018.

### **Amortisation, depreciation and impairment of fixed assets**

(amounts in Euro thousands)

	31.12.19	% of turnover	31.12.18	% of turnover	Diff. %
<b>Amortisation, depreciation and impairment</b>	<b>54</b>	<b>15.7</b>	<b>12.1</b>	<b>2.8</b>	<b>n.r.</b>

Amortisation and depreciation for the year amounted to 54 thousand euros (15.7% of turnover), an increase compared to 2018 (12 thousand euros, 2.8% of turnover) due to the different accounting effect of application of IFRS 16.

### **Net financial position of management**

(amounts in Euro thousands)

	31.12.19	31.12.18
<b>Net financial position of management</b>	<b>-20,634</b>	<b>-18,500</b>

As explained in the introduction, the net financial position of operations as at 31 December 2019 was negative at -20.6 million euros, worse than as at 31 December 2018, when it was negative at -18.5 million euros.

## **PERSONNEL**

### **Workforce trend**

Figures as at 31.12.2019

	<b>31.12.2019</b>	<b>31.12.2018</b>
Executives	1	1
Clerical staff	1	1
<b>Total</b>	<b>2</b>	<b>2</b>

\*Unaudited amounts

All personnel are employed at the company's permanent establishment in the Grand Duchy of Luxembourg.

## **KEY RISKS AND UNCERTAINTIES TO WHICH CARRARO INTERNATIONAL IS EXPOSED**

*The Carraro Group's risk management system, in line with the most common, consolidated practices in this area, adopts a five-category classification:*

- **Strategic risks:** Relating to medium/long-term objectives and the influence of external economic factors that are hard to predict or only partially foreseeable or which cannot be influenced by the Group (for example the macroeconomic context, country risk, market or sector risk);
- **Financial risks:** risks of a financial nature (for example credit risk, liquidity risk, exchange and interest rate volatility, commodities prices, availability of funds);
- **Operational risks:** Linked to the efficiency and effectiveness of operating capacity, and connected to events that could adversely affect the creation of value (for example risks related to the supply chain, product development, industrialisation, human resources, information systems, health, safety and the environment, product quality);
- **Legal and compliance risks:** Related to the capacity to promptly comply with current laws and regulations, or associated to legal disputes and proceedings;
- **Planning and reporting risks:** Linked to the reliability of financial and planning information.

*The main risks identified for Carraro International are listed below.*

### **Strategic risks**

#### **Risks associated with the general economic conditions**

*The Company's financial and equity situation is influenced by various factors within the general macro-economic framework, such as changes in 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, which affect the financial results of Carraro International's subsidiaries.*

Significant macro-economic events, such as a generalised and significant increase in the prices of raw materials, a significant fall in demand in one of the key markets of the Group, enduring uncertainty and volatility of the financial and capital markets, falling interest rates and unfavourable changes in the exchange rates of the major currencies to which the Group is exposed are all negative factors for the Group's operations and future, as well as its economic results and its financial position.

*The dynamics in the global economy and international trade in 2019 were once again characterised by instability in some areas of the world.*

*As is known, starting from January 2020, the national and international scenario has been characterized by the spread of Coronavirus and the consequent restrictive measures for its containment put in place by the public authorities of the countries concerned. These circumstances, extraordinary in nature and extent, may generate direct and indirect repercussions, both for Carraro International and for the Group, with an extent that, in the current*

context of general uncertainty, is not foreseeable. The potential effects of this phenomenon cannot be determined to date and will be subject to constant monitoring throughout the year.

### **Risks related to the trends on the markets/industrial customers**

The market sectors in which the subsidiaries operate are influenced to varying degrees by boom and recession cycles, and the dynamics are gradually becoming less predictable. The ways in which our main customers absorb these fluctuations in demand and pass them on throughout the production chain significantly impact the production volumes that the Group is required to fulfil. This has an effect on the purchasing and stock management policies and by implication, on the working capital requirement and the capacity to adequately absorb fixed costs.

### **Country risk**

The subsidiaries operate in different countries and their degree of international exposure has gradually increased over the years. These markets show cyclical conditions of economic and political instability (for example in Turkey). This has affected, and may continue to negatively affect the subsidiaries' situation and results.

## **Financial risks**

### **Risks associated with funding requirements**

Carraro International's liquidity risk is mainly connected to the sourcing and maintenance of adequate funding to support the Group's industrial operations and its ability to service that funding through cash flow.

The raising of funds, consistent with the latest Group business plan, is intended to finance both working capital and investments in R&D and innovation, as well as investments in fixed assets necessary to ensure sufficient and technologically advanced production capacity. This requirement is directly proportional to the trend in customer orders and the resulting trend in the volume of business, and also to the Group's efforts in directing its research and innovation.

The management of finance, the need to fulfil funding requirements and to guarantee adequate cash flow for the Group, is the responsibility of Carraro International whose objective is to administer the available resources as efficiently as possible.

### **Risks of fluctuating interest rates**

The Company is indirectly exposed to exchange rate risks as a significant portion of the subsidiaries' sales, and some of their purchases, take place in currencies other than the functional currency, with companies in the euro area trading with non-euro area counterparties and vice versa.

Carraro International and the Group are also exposed to interest rate risks in relation to financial liabilities which are accepted either to fund core business, or, where applicable, to fund the Group's expansion through acquisitions. Changes in interest rates may have positive or negative effects on both the financial outcome and on cash flows.



**Credit risk**

*The Company is exposed to credit risk when a customer or counterparty in a financial transaction generates a financial loss by defaulting on a debt obligation; in the case of Carraro International this risk exists almost exclusively in relation to financial receivables.*

*In providing finance to the Group entities, the Company evaluates the cash flow forecasts, the financial equilibrium and the feasibility of the subsidiaries' industrial plans, in order to take the most appropriate decisions with regard to fundraising and agreeing on the repayment plans.*

*Receivables are recognised in the accounts net of any writedowns determined by assessing the counterparty's risk of insolvency based on the information available. Also see the contents of the Notes with reference to developments introduced by the application of IFRS 9 starting from previous year.*

## **STANDARDS USED IN PREPARING THE FINANCIAL STATEMENTS**

The present financial statements are drawn up in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board ("IASB") and endorsed by the European Union in accordance with Regulation no. 1606/2002 and with the provisions issued in implementation of Art. 9 of Italian Legislative Decree no. 38/2005. Furthermore, these financial statements are based on the assumption that the company is a going concern.

## **OTHER INFORMATION**

The Company does not hold own shares, nor shares in parent companies, not even through fiduciary companies or intermediaries. During the past year it has not carried out any operation in relation to such shares.

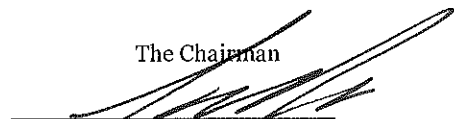
Transactions with related parties carried out during the period gave rise to relationships of a commercial, financial or advisory nature and were entered into at arm's-length conditions, in the economic interest of the individual companies involved in the transactions.

No transactions were carried out that were atypical or unusual with compared to normal business operations and the interest rates and terms applied to and by the companies in their reciprocal financial relationships are in line with market terms.

The Company did not directly incur in research and development expenses.

For detailed information, as required by Art. 2497-bis of the Civil Code, section 5, on transactions carried out with related parties, see the Explanatory Notes to the Individual Financial Statements.

The Chairman



Enrico Carraro