







Carraro Group Annual Review 2019



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Mattia Balsamini

The complete version of the Annual Report 2019 is available on line carraro.com/ar19en



Letter from the Chairman

Dear Shareholders,

The financial year that has just ended vindicated our decisions in previous years to optimise our structure in order to maintain adequate levels of profitability in all market conditions. 2019 ended with a turnover of 548.8 million Euros, down on 2018's figure of 624.1 million. But despite this drop in volumes, we still had a good result in terms of margins, with a net profit of over 8 million Euros thanks to our improved industrial structure and supply chain.

Markets In 2019 the Group's sectors felt the effects of a general slow-down in the global economy, with clear effects in India, a fast-growing market for us, as well as in Europe and North America. Equally important are the effects of certain geopolitical tensions, as well as new tariffs, although these have only affected our sales very slightly.

In different ways, all these phenomena have influenced the choices of many of our customers, who have wisely decided to lower their stocks, bringing forward already planned orders (destocking). The effects of this were felt in both agricultural machinery and construction equipment.

Research and development Despite facing a slow-down in sales in 2019, we continued to invest heavily in R&D, with a view to strengthening our global engineering structure on the one hand, and speeding up the launch of new projects in line with tomorrow's market demands on the other.

One of the first important milestones came in June, with the opening of the new Research and Development Centre in Campodarsego. This hosts all the development work on Carraro's transmission systems, from design and prototyping to testing for

ease of assembly, functionality and reliability. The 100 technicians from the engineering department at the Group's headquarters work here.

At the end of the year, we signed a long-term loan contract with the European Investment Bank (EIB) to the tune of 50 million Euros, aimed at supporting the Group's research and development projects. This loan will allow us to make significant investment over the next few years and race ahead in electronics, hybrid and electric traction systems and digitalisation of industrial processes.

Improving our R&D structure and our capacity to invest in innovation goes hand in hand with various new strategic projects of ours, some of which are in the testing phase.

I would like to take the example of our electrification solutions for building sites, presented at Bauma in Munich, the most important trade fair in the world for construction equipment. These electrified axles and transmissions can better respond to the new demands of the building sites of tomorrow, reducing emissions, noise and consumption. Or we might take the innovative Powertrain Mild Hybrid for specialist tractors, presented at Agritechnica in Hanover, the most important international event for agricultural mechanisation. This solution optimises fuel consumption, saving space and costs, to the particular benefit of specialist tractors.

Both these big innovations take us further down the path we set off on in 2018, when we presented the Carraro Hybrid tractor (the first vehicle of its kind for specialist crops) at EIMA in Bologna. They are the fruit of our expertise, honed over more than 25 years, in designing and supplying transmission systems for material handling (forklifts) using electric traction.

Customers Relations with our long-standing customers, who have shown their trust in us for over 20 years, remained excellent in 2019. Our long-term contracts with them show what a reliable, quality partner they consider us to be. Carraro China's Gold Medal from Caterpillar and Carraro do Brasil's Partner Supplier prize from John Deere are a testament to this.

At the same time, the year that has just ended spawned exciting opportunities with new and important players, both in our sectors and other fields.

The best example of all is the contract we signed with Valtra at Agritechnica, for producing their new ranges of specialist tractors for orchards and vineyards. This was an important milestone that testifies to the design and manufacturing capacity of Carraro Agritalia, which already works with John Deere, Massey Ferguson and Claas.

Also, in December, we signed a strategic partnership with INEOS

Automotive, for an overall value of 420 million Euros, for supplying front and rear axles for its new 4x4, the Grenadier. This is a wonderful opportunity to further expand our traditional skills to cover automotive applications, and get into a sector that has always been very challenging, thereby improving in terms of quality, time-to-market and logistical efficiency.

Operations 2019 was also a very positive year from the point of view of our global production platform.

The year saw investment in modernising and digitally connecting plants, with a view to the future and Industry 4.0, which will allow us to vastly improve our performance at them.

We should not forget, though, that 2019 was also the 20th anniversary of the beginning of our work in India, a country in which we now have 1,400 workers. This was a special event, a very important moment to be shared with our people on site.

In the course of this event, we laid the foundations of a new production area, to accompany our existing ones in Ranjangaon (near Poona), which will allow us to significantly increase our production capacity in the area, with a particular focus on portal axles, for compact tractors with engines with up to 75 horsepower. This product is already gaining favour among all the main Indian makers of agricultural machinery.

Carraro's social responsibility The year 2019 also saw a range of work linked to corporate social responsibility, evidence of our concern for sustainable growth. Guiding the Group down this path is its CSR Committee, with the essential support of the CSR Champions at every plant.

This is not the time to go into detail on our projects, so for more information on the topic, I recommend you see the Sustainability Report signed by Tomaso Carraro in his role as Chief CSR Officer.

People I cannot end this letter without mentioning once again all Carraro's people, who work together side by side every day to reach shared goals and enable us to achieve excellence in our markets.

Our group now has more than 3,000 staff, more than half of them outside of Italy. Over the years we have evolved an international character, which has now reached its peak and allows us to operate with a real "local-for-local" approach in our markets. That is why we put people from the different countries we work in at the head of each of our offices. That is what we have chosen to do in order to better understand our customers and provide the right answers to their varying needs.

It also allows us to make the most of our talent all round the world, in the awareness that the Group's future rests on all Carraro's people seeing themselves as one global team, working together to create value for their customers with a view to the long-term.

Enrico Carraro

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Chairman

As I write this letter, the whole world is facing a serious challenge: tackling the global spread of the Covid-19 virus. There has been no pandemic like it in modern times, and it is already taking a heavy toll on both human life and the global economy.

Our Group has experienced it right from its beginnings in China, where our site in Tsingtao stood out for its organisation and response capacity. Following the instructions of local governments and internal protocols, we have quickly ensured the safety of our headquarters and all our workers. At the same time, we have managed to continue supporting our customers thanks to smart working.

It has been a dramatic formative experience, one that has seen us enact similar and effective plans of action at each of our sites around the world, once the pandemic spread everywhere.

We have stopped some of our production for the moment, as have many of our partners. But we're working, often hand in hand with our customers and suppliers, to restart as soon as possible, obviously in the utmost safety.

2020 was shaping up to be a great year for our Group, with some markets showing strong growth and a range of new products coming in.

Now things have changed. But faced with the big impact of Covid-19 on both the global economy and on our work, we know that our sectors, agriculture and infrastructure, are crucial to mankind. This is something very positive that, despite the big reduction in turnover in the first period, bodes well for a restart as early as the second half of the year.

My thanks are due to all the Group's staff and their families, who from the very first moment have set themselves to tackling this heavy burden. They have shown dedication, a spirit of sacrifice and an admirable sense of responsibility. All together, once more, we will get over this and we will capitalise on this experience and become even stronger than we were before.

General Information

Board of Directors

In office until the approval of the 2020 financial statements (Appointments, Shareholders' Meeting of 14.05.2018)

Enrico Carraro

Chairman

Tomaso Carraro Deputy Chairman

Alberto Negri

CEO

Riccardo Arduini

Director

Fabio Buttignon 1/2

Director*

Virginia Carraro

Director

Enrico Gomiero

Director

Marina Manna 1/2/3

Director*

Marina Pittini 1/2

Director*

- ¹ Members of the Control, Risks and Sustainability Committee
- ² Members of the Appointments and Remuneration Committee
- ³ Members of the Supervisory Board
- * Independent directors

Board of Statutory Auditors

In office until the approval of the 2020 financial statements (Appointments, Shareholders' Meeting of 14/05/2018)

Carlo Pesce

Chaiman

Saverio Bozzolan Regular Auditor

Stefania Centorbi

Regular Auditor

Gabriele Andreola Alternate Auditor

Barbara Cantoni

Alternate Auditor

Independent Auditors

from 2016 to 2024

Deloitte&Touche Spa

Parent Company Finaid Spa

Under the terms of Consob Communication no. 97001574 of 20 February 1997, we state that:

the Chairman, Mr Enrico Carraro, the Deputy Chairman Mr Tomaso Carraro and the Chief Executive Officer, Mr Alberto Negri, have been given individual powers of legal representation and use of the corporate signature in relations with third parties and in court; they carry out their work within the limits of the powers conferred on them by the Board of Directors in the meeting of 14 May 2018, in accordance with applicable legal constraints, in terms of matters which cannot be delegated by the Board of Directors and of responsibilities reserved for the Board itself, as well as the principles and limits provided for in the Company's Code of Conduct. In addition, the director Enrico Gomiero has specific powers linked to his role as Chief Financial Officer.

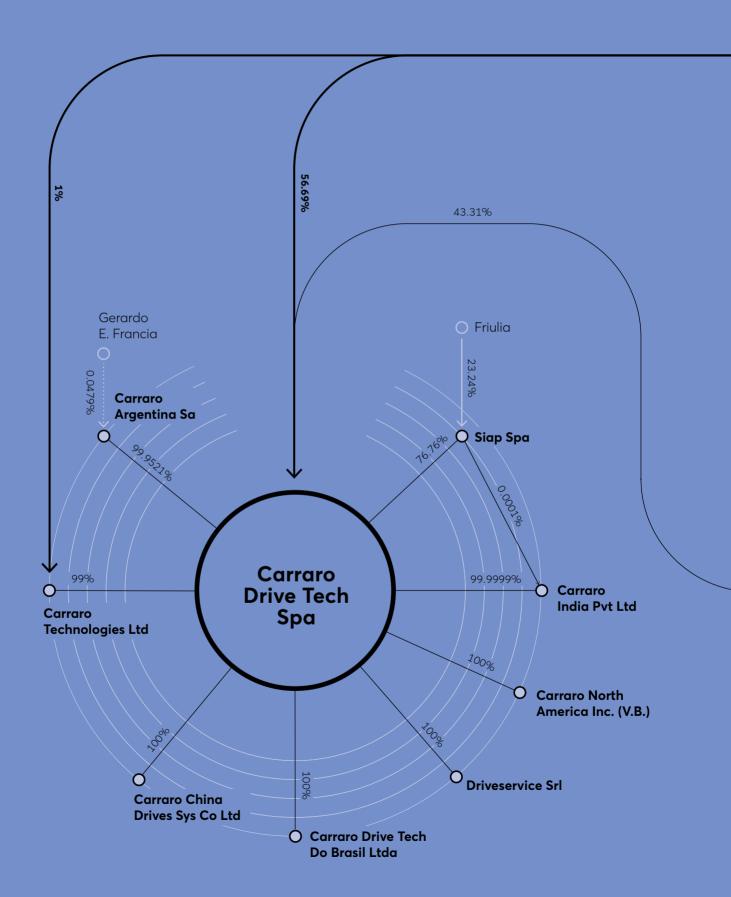
Carraro Spa Headquarters

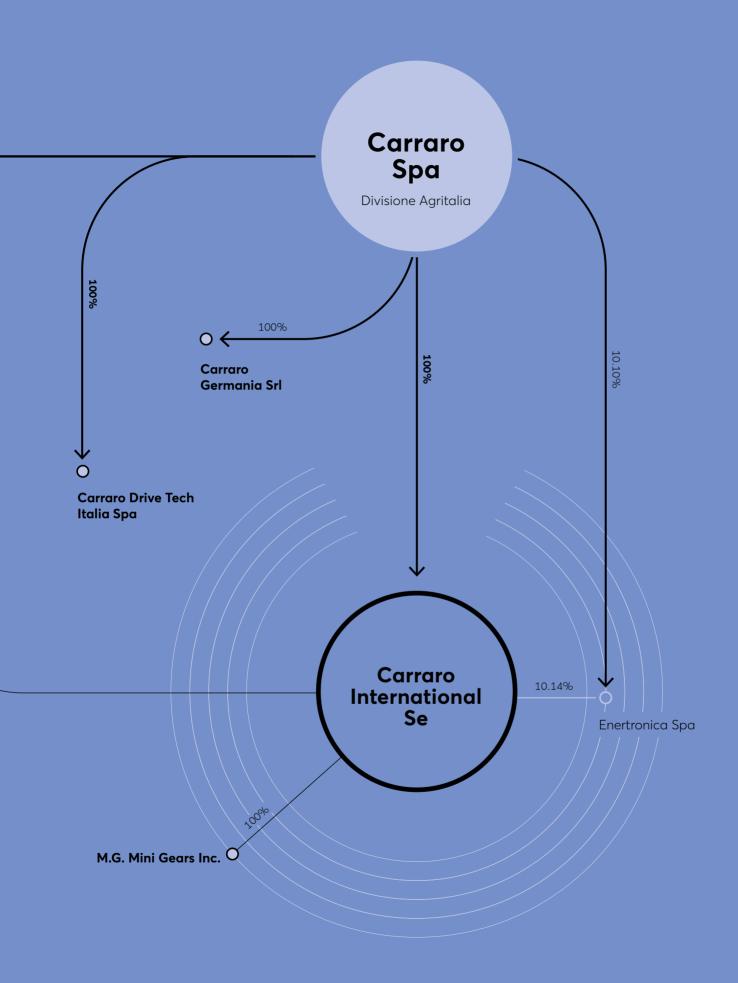
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fully paid-up.
Tax Code, VAT and
Registration Number
in the Padua Companies
Register 00202040283 –
REA No. 84033

DISCLAIMER

This document contains forward-looking statements, in particular in the section "Expected business outlook 2019", in relation to future events and the operating, economic and financial results of the Carraro Group. These forecasts have by their very

nature a component of risk and uncertainty, as they depend on the occurrence of future events and developments. The actual results may differ, even significantly, from those announced in relation to a multiplicity of factors.





Amounts in Euro/000

Consolidated Income Statement as at 31/12/2019

	31.12.19	%	31.12.18	%		Changes
					31.12.19	31.12.18
Revenues from sales	548,846	100%	624,115	100%	-75,269	-12.06%
Purchases of goods and materials (net of changes in inventories)	-337,631	-61.52%	-382,216	-61.24%	44,585	11.66%
Services and Use of third-party goods and services	-77,835	-14.18%	-97,077	-15.65%	19,242	19.82%
Personnel costs	-91,835	-16.73%	-92,895	-14.88%	1,060	1.14%
Amortisation, depreciation and impairment of assets	-20,235	-3.69%	-20,623	-3.30%	388	1.88%
Provisions for risks	-7,359	-1.34%	-6,188	-0.99%	-1,171	-18.92%
Other income and expenses	8,111	1.48%	5,601	0.90%	2,510	44.81%
Internal construction	469	0.09%	567	0.09%	-98	-17.28%
Operating costs	-526,315	-95.89%	-592,831	- 94.99%	66,516	11.22%
Operating profit/loss (Ebit)	22,531	4.11%	31,284	5.01%	-8,753	-27.98%
Income and expenses from equity investments	280	0.05%	1,517	0.24%	-1,237	-81.54%
Other financial income	934	0.17%	2,136	0.34%	-1,202	-56.27%
Financial costs and expenses	-10,790	-1.97%	-12,786	-2.05%	1,996	15.61%
Net gains/losses on foreign exchange	74	0.01%	-1,377	-0.22%	1,451	105.37%
Value adjustments of financial assets	-2,234	-0.41%	-1,205	-0.19%	-1,029	85.39%
Income (expenses) from hyperinflation	-359	-0.07%	-1,023	-0.16%	664	64.91%
Gains/losses on financial assets	-12,095	-2.20%	-12,738	-2.04%	643	5.49%
Profit/loss before taxes	10,436	1.90%	18,546	2.97%	-8,110	-43.73%
Current and deferred income taxes	-1,640	-0.30%	-5,374	-0.86%	3,734	69.48%
Net profit/loss	8,796	1.60%	13,172	2.11%	-4,376	-33.22%
Profit/loss pertaining to minorities	-675	-0.12%	-985	-0.16%	310	31.47%
Group consolidated profit/loss	8,121	1.48%	12,187	1.95%	-4,066	-33.36%
Ebitda*	42,660	7.77%	51,858	8.31%	-9,198	-17.74%

^{*} for the breakdown, please refer to the Summary of financial year section, which describes the alternative performance indicators.

Amounts in Euro/000

Consolidated Statement of Financial Position as at 31/12/2019

	31.12.19	31.12.18
Property, plant and equipment	158,785	150,721
Intangible fixed assets	52,544	54,701
Real estate investments	695	695
Investments	1,506	7,248
Financial assets	7,774	8,656
Deferred tax assets	20,389	20,714
Trade receivables and other receivables	4,181	4,951
Non-current assets	245,874	247,686
Closing inventory	123,212	118,409
Trade receivables and other receivables	94,243	116,816
Financial assets	2,048	3,319
Cash and cash equivalents	76,120	35,617
Current assets	295,623	274,161
Total assets	541,497	521,847
Share Capital	41,453	41,453
Reserves	8,153	15,332
Foreign currency translation reserve	6,476	-1,274
Profit/loss for the year	8,121	12,187
Minority interests	9,101	9,376
Shareholders' equity	73,304	77,074
Financial liabilities	194,096	186,379
Trade payables and other payables	115	270
Deferred tax liabilities	1,899	2,411
Provision for severance indemnity and retirement benefits	9,769	9,656
Provisions for risks and liabilities	3,746	4,203
Non-current liabilities	209,625	202,919
Financial liabilities	17,861	18,037
Trade payables and other payables	219,247	198,230
Current tax payables	5,331	7,864
Provisions for risks and liabilities	16,129	17,723
Current liabilities	258,568	241,854
Total shareholders' equity and liabilities	541,497	521,847

Analysis of Net Working Capital at 31/12/2019

Amounts in Euro/000

	31.12.19	31.12.18
Trade Receivables **	58,315	78,904
Closing inventory	123,212	118,409
Trade Payables ***	-150,169	-160,888
Net Working Capital of operations	31,358	36,425

^{**} For details of the item please refer to Note 12 of the Consolidated Financial Statements
*** For details of the item please refer to Note 17 of the Consolidated Financial Statements

The Carraro Group

Carraro is an international Group, leader in transmission systems for off-highway vehicles and specialised tractors, with Headquarters in Italy in Campodarsego (Padua).

Carraro Spa is not subject to management and coordination activities under the terms of Art. 2497 *et seq* of the Italian Civil Code. The controlling shareholder Finaid S.p.A. does not perform any activity of management and coordination in relation to Carraro.

To date the Group's activities are 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

Agriculture

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

In **Europe**, the market seems to have entered a recessionary phase. During 2019, sales of specialised tractors (vineyard-orchard) also followed this trend, albeit performing better than the other segments. It is to be expected that a period of medium-high sales levels, as in the two previous years, will be followed by one with lower levels. The reduction in demand in Europe is due to the gradual increase in the price of new models due to significant and costly R&D activities and the changes to the structure of the machines required by increasingly stringent European Regulations, such as those relating to "Functional Safety" (which sets mandatory safety standards for the design and production of vehicle safety systems) and the introduction of the "Emission Stage V" for engines, which sets new emissions limits. 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, though, the first signs of a reversal of the trend saw a drop in the stock of unsold tractors with manufacturers and on the sales network. Forecasts indicate a possible recovery of volumes to pre-crisis levels in the medium term.

In **North America**, 2019 was overall positive for the agricultural sector, albeit with modest progress compared to the previous year, more so for tractors and less for harvesters. The demand trend was strongly impacted by the so-called "tariff war" with China, which is one of the major export destinations for American agricultural commodities. Given the scale and maturity reached by the market,

forecasts for 2020 suggest a slight decline compared to 2019 is to be expected.

China closed 2019 with a noticeable drop in demand caused by the persistence of the recession in the agricultural sector, due to the loss of a significant share of state contributions. This drop affected the various sizes of vehicles with a particular impact on tractors below 100 hp, while the machines above 200 hp have essentially held steady, even if volumes remain very limited. There are no indications of a possible reversal of the trend. In this context, the Central Government decided to postpone entry into force of the "China IV" emission standards for all Off-Highway vehicles. Its introduction would have further depressed sales due to the higher price caused by the transposition of these updated regulations.

After 2018's record sales volumes, the **Indian market** showed a significant slowdown in 2019, both in relation to internal demand and exports. In a period of constant growth, a period of slowdown is natural; in the second half of the year 2019 the not particularly good monsoon season – always important for Indian agriculture – and the credit crisis, affected by the non-performing loans of some banks, also had an impact.

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 years-long 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 of the previous year, 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.

There was stagnant and very low demand in **Turkey** throughout 2019. The contraction in investment in new buildings continues to negatively impact domestic vehicle sales and local producers are essentially sustaining themselves with exports.

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 invest-

ments in construction. In the last part of the year, however, there were signs of a slowdown, which had the effect of increasing stocks in dealers' networks. Given the maturity reached by the market, forecasts for 2020 suggest a slight decline is to be expected.

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 view of the significant infrastructure investments planned, it is reasonable to assume that the volumes achieved will remain stable in the coming years.

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. Nevertheless, industry players remain cautiously optimistic in the medium term, given the continuation of mandatory major infrastructure investments currently underway in the country, leading to an increase in demand for new machinery.

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 potential. In particular, R&D investments in 2019 increased over the previous year, amounting to 4.12% of turnover (3.6% in 2018).

Transmission systems and gearboxes

In 2019 the Group focused on the development of new products, in line with the previous year.

It has been a year of change in the agricultural segment due to developments in the **T100** product family in all its versions, from the basic version to the most advanced electronically controlled transmission, which will be fitted on Agritalia's new range of Stage V special tractors from 2021. Both the new **T100 EVO 5-speed** and the **T100 CVT**, which represents Carraro's debut in hydrostatic continuous variation technology, are in the prototyping phase, ahead of approval in 2020-2021. The new version of the **T75** has also been developed and is in production. It will be on the compact vehicle of Carraro Tractors, which was much praised during the latest trade fairs. In the high power range, the **T230** transmission has been tested under real working conditions in China. A technical proposal for the application of the new **T200 PHI-PR** (transmission for 200 hp tractors for open field applications) is being analysed, also for the Chinese market.

Field testing continued on the **T100 CTS**, in the "narrow vineyard" configuration, for Carraro Tractors applications. In 2021 a new "wide vineyard" configuration will also be tested in open field conditions with pulled tools (ploughs, harrows, etc.).

As regards construction equipment, the production process for

the **TCH 90** transmission has been stabilised and consolidated. The TCH-90 acts as a forerunner for technical proposals to be made to important players in the compact construction machinery market.

In addition, in the earthmoving sector, 2019 saw Carraro's en-

try into the electrified drivelines sector, thanks in part to the Hybrid and Mild Hybrid Vehicle initiatives. In particular, the **e-T200** transmission has been developed, with suitable characteristics to be combined with a family of electric motors selected by some customers. Two new electronically controlled products (**FLS3.2** and **TB172/2**), have also been developed and will go into production in 2020, for wheeled excavators and compact loaders of the 6 ton class.



In the automotive sector, the Carraro team began designing **axle versions for**

the off-road application thanks to the important new agreement signed with the customer INEOS. The complexity of the new product has led R&D specialists to develop new design and calculation criteria, which will be confirmed during 2020 in the joint testing between Carraro and the University of Padua.

Axle range evolution

The project to standardise axles launched in 2018 continued in 2019 with a particular focus on reducing the number of components (synergy between sub-groups and functions), greater unity in technical decision-making, and cost containment. In particular, with the completion of the **CL1** family from 9000 to 18000 Nm and the release of the designs of the new independent suspended axles **SI CL1** and **CL2**, the top performance of one of Carraro's hallmark products has been guaranteed and is increasingly appreciated by major world players. The family of portal axles, in production since 2017 with the **20.08P**, has been expanded with the size 20.**07P**, mainly for the Indian market, and the development of the larger **20.10P** for a new application for an important customer.

Tractors

2019 saw the completion of all the activities necessary for the laboratory verification of the engines that will cover the versions of the stage V portfolio. The compact technical solutions required

for exhaust gas treatment have been validated, confirming the compliance of the product under development with the requirements agreed with OEM customers. Drawings have also been finalised for the production of the first durability-build tractors, which are scheduled for the second half of 2020 and are necessary for the validation of the Stage V project.

Mock-up activities have been started to define interior cab ergonomics and the style of the vehicle (interior, bonnet and roof).

At the end of 2019, the Stage V durability builds with power below 75 hp were completed in readiness for the approval phase scheduled for the first quarter of 2020.

The new range of Alpine tractors was completed and production started in July. At the same time, designs were finalised and functional/structural tests were completed on a new independent suspended axle for this range, with production to start in the second half of 2020.

The Compact 75 range has been brought up to commercial preproduction with very positive feedback received from the market during major demonstration events such as Enovitis 2019 and Agritechnica 2019. The Carraro Compact V75 model was also among the



finalists in the **Tractor Of The Year 2020** competition, in the Best of Specialized category (for orchard, vineyard, mountain and hill tractors). The drawings for the start of production scheduled for the second quarter of 2020 have been completed.

Research and development on vehicle **electrification** focused on the development of software control strategies for the "Ibrido" (hybrid) tractor, alongside validation and field testing.

The know-how acquired through this project and the need to reduce polluting

emissions have contributed to significant progress in research into electrified powertrains, which was presented at Bauma 2019, in Munich. The first 48V mild-hybrid powertrain presented at Agritechnica 2019 was produced in the third quarter.

In the fourth quarter, the design and engineering of a first Mild-Hybrid tractor went forward and it is expected to be built in the second quarter of 2020.

Finally, 2019 saw the launch of the first 3-cylinder diesel engines under the Carraro brand, presented at Agritechnica 2019. They are TIIIA, TIIIB, Stage V and ChinaIV emissions compliant.





Summary of Financial Year 2019

Foreword

To better understand the figures relating to the 2019 financial year, adjusted figures will be provided. Specifically, the adjusted figures take into account transactions not connected to ordinary management such as extraordinary restructuring activities with regard to the Carraro Argentina company.

The following alternative performance indicators will also be used, which may in turn be adjusted to take account of transactions not related to ordinary operations:

- > 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 Debt determined in accordance with the provisions of paragraph 127 of the recommendations contained in the Esma document no. 319 of 2013, implementing Regulation (EC) 809/2004, deducted, where applicable, non-current receivables and financial assets, in addition to the effects deriving from the first application of Ifrs 16.

Performance

Turnover in 2019 amounted to 548.846 million euros, down 12.06% compared to the turnover for the previous year (624.115 million euros).

The drop in volumes is mainly attributable to the slowdown in the global economy, which impacted on both the important new Indian market, and to a lesser extent historical ones such as North America and Europe. In addition, 2019 was a year of significant uncertainties caused by continuous frictions on tariffs between the United States and China, as well as by the unknowns and tensions generated by Brexit. These factors led to significant de-stocking initiatives (lowering of the stock level with an impact on component purchases) by some customers, in particular in the Drivelines Business Area. The Agritalia sector saw a drop in the number of tractors sold due – in addition to the above factors – to some delays in the application of EU incentives in markets in the Mediterranean area. The last quarter has shown timid signs of a recovery in orders, especially in the Drivelines Business Area, which will have benefits for the coming year.

Once again in 2019, the Group recorded a good consolidated result in terms of margins and net profit, helped by significant actions to improve industrial activities and optimise the supply chain.

Today's fixed costs structure means the Group could absorb even significant drops in volumes while guaranteeing adequate profitability, and is also well positioned to seize upon market accelerations and turn them into an immediate and effective improvement in earnings.

The Group's commitment to expanding its range of new products and models remains unchanged. And this commitment is consistently valued by customers, who see Carraro as a key partner for the development of future platforms. In particular, major commercial agreements were signed in 2019, which will give the Group fresh impetus for growth from 2021 onwards.

In terms of financial management, the year was characterised by a significant reduction in the net financial position (net debt), which was especially marked in the last quarter thanks to a number of advances received from customers of the Agritalia division for the Bunkering business (storage of engines that will be used in production in the coming years).

For the relevant figures, please refer to the next paragraph.

The year ended with a contraction in volumes for the reasons explained above, which led to an overall drop in demand in the global market. This was amplified in particular by the aforementioned de-stocking of the main customers (especially in North America and India).

Turnover in 2019 amounted to 548.846 million euros compared to 624.115 million euros in the previous year (-12.06%).

Despite this, the Group showed a good result in terms of margins, thanks to improvement actions on the industrial structure and supply chain. This was negatively impacted by the extraordinary restructuring costs incurred by the Carraro Argentina subsidiary, described below.

Ebitda as at 31 December 2019 came to 42.660 million euros (7.77% of turnover), down 17.74% compared to 51.858 million euros (8.3% of turnover) in 2018. 2019 Ebit amounted to 22.531 million euros (4.11% of turnover), down 27.98% compared to 31.284 million euros (5.01% of turnover) in 2018.

In percentage terms there was only a slight decrease in margins thanks to operational optimisation, as mentioned in the introduction. Once non-recurring effects were taken out, the adjusted Ebitda and Ebit fell compared to the previous year, both in absolute terms and as a percentage of turnover. As mentioned above, margins remained generally good, thanks to the Group's ability to absorb the drop in volumes.

Group	31.12.2019	% of turnover	31.12.2018	%of turnover
Ebitda	42,660	7.8%	51,858	8.3%
Adjusted Ebitda	43,961	8.0%	54,045	8.7%
Ebit	22,531	4.1%	31,284	5.0%
Adjusted Ebit	23,832	4.3%	33,471	5.4%

The table shows Ebit and Ebitda adjusted to take account of non-recurring items such as the 1.3 million euros restructuring costs of the Argentine subsidiary in 2019 in 2018 the same item amounted to 2.2 million euros.

Net financial expenses amounted to 9.856 million euros (1.8% of turnover), an increase compared to 10.650 million euros (1.7% of turnover) in 2018. The figure for 2018 notably included the one-off effect of 1.931 million euros resulting from the reduction in fees relating to the Bank Agreement, which ended in February 2018. In comparable terms, therefore, financial expenses as at 31 December worsened by approximately 1.1 million euros due to the different debt mix. There was an increase in the cost of debt in the Indian subsidiary, where debt rose from 13 million euros in 2018 to 17 million euros in 2019, with a peak during the year of 20 million euros.

India also has higher interest rates than Europe.

Again in 2019, the effect of hyperinflation accounting for the Argentinian subsidiary was recognised in the financial statements, which had an impact on several items and entailed total hyperinflation expenses of 0.359 million euros (0.07% of turnover). In 2018, these expenses amounted to 1.023 million euros (0.2% of turnover), recognised under financial expenses. For the appropriate detailed analysis, reference should be made to the specific paragraph of the Notes to the Financial Statements.

Foreign exchange gains totalled 74 thousand euros (0.01% of turnover), a clear improvement on the previous year (losses of 1.377 million euros, 0.22% of turnover) thanks to the policies of balancing commercial flows ("natural hedging") and hedging transactions.

Taxes for the period amounted to a total of 1.640 million euros (0.3% of turnover) compared to 5.374 million euros (0.9% of turnover) in the previous year. This significant difference is due to the recognition in 2019 of certain non-recurring items, such as the effect of the tax credit scheme for research and development activities under the 2015 Stability Law.

Consolidated net profit amounted to 8.121 million euros (1.5% of turnover), down compared to the 2018 profit, which amounted to 12.187 million euros (1.95% of turnover). Net of the effects of non-recurring operations and after the related tax effect (-390 thousand euros in 2019 and -765 thousand euros in 2018), adjusted net profit decreased compared to the previous year as shown in the table below.

Group	31.12.2019	% of turnover	31.12.2018	% of turnover
Net profit/(loss)	8,121	1.5%	12.187	1,9%
Adjusted Net profit/(loss)	9,032	1.6%	13.605	2,2%

The consolidated net financial position at 31 December 2019 was negative for 123.617 million euros, a clear improvement compared to 31 December 2018 (negative for 156.581 million euros). This change was especially marked in the last quarter thanks to a number of advances received from customers of Agritalia for the Bunkering business (storage of engines that will be used in production in the coming years).

Consolidated shareholders' equity as at 31 December 2019 was equal to 73.304 million euros (77.074 million euros in 2018). The change was also affected by changes in the translation reserve.

As at 31 December 2019, all the financial parameters envisaged by the banking contracts and by the bond issue regulations were complied with. Please note that the parameters of the bond issue are of the Incurrence Covenants type.

Euro/000

2019

2018

Net Revenues

548,846

624,115

Operating Income

22,531

31,284

Net Income

8,121

12,187

Shareholders' Equity

73,304

77,074

ROI

4.16%

5.99%

ROE

11.08%

15.81%

Gross Investments

23,998

27,980

R&D

22,618

22,385

Managers and Employees at 31/12

729

702

R&D/Sales

4.12%

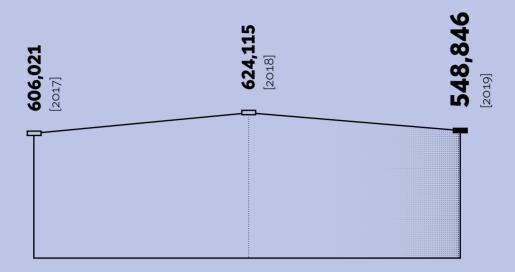
3.6%

Workers at 31/12

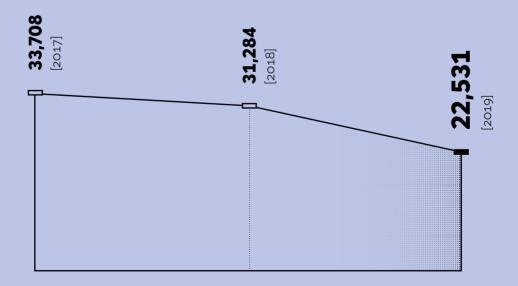
2,363

2,564

Consolidated Sales Revenues



Consolidated Ebit



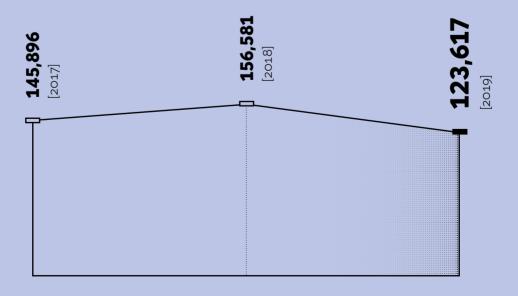
Amounts in Euro/000

Consolidated Net Income



Consolidated Net Financial Position

debt balance



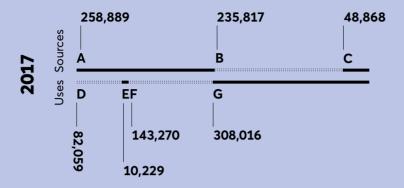
Amounts in Euro/000

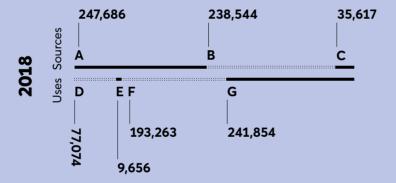
Carraro Group Investments

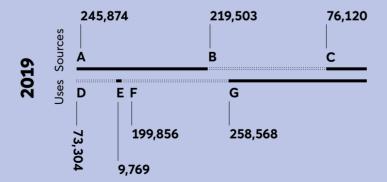
gross of revenues from disposals



Consolidated Equity Structure







- A Fixed assets B Working capital C Liquidity
- D Shareholders' equity
- E Sever, Indem F M/L terms payables
- G Short-term payables

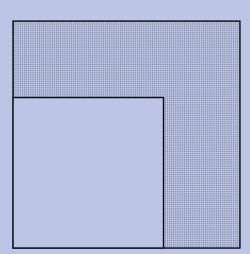
Breakdown by Sector of Application

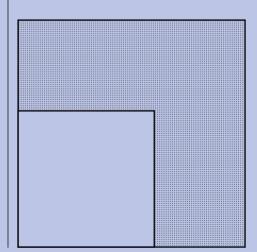


Agriculture

Construction Equipment

44.1% 36.0%







Material Handling

4.8%



Automotive

2.3%



Railways and Transport

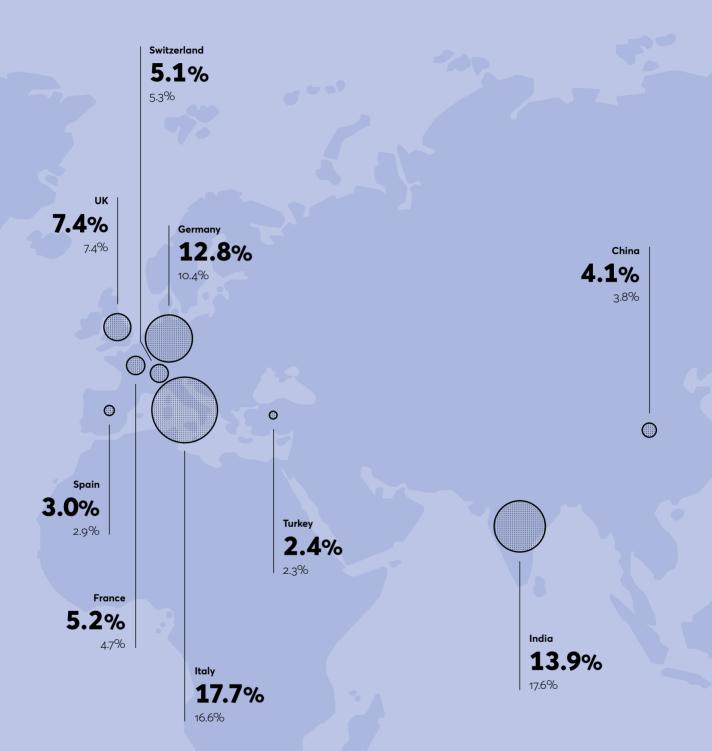
0.4%

Other

12.4%

Main Markets





Drivetech

Summary Data and Graphs

Euro/000

2019

2018

Net Income

13,070

17,334

Net of minority interests

R&D

2,395

2,188

Total Italy

16.82%

16.36%

Turnover by Geographical Area

Net Revenues

454,485

518,429

Shareholders' Equity

104,773

105,704

Workforce at 31/12

2,596

2,787

Managers/Employees

493

482

Workforce Breakdown

Operating Income

25,256

34,243

Adjusted for the effect of exchange differences

Gross Investments

18,406

20,988

Total Foreign Countries

83.18%

83.64%

Turnover by Geographical Area

Workers

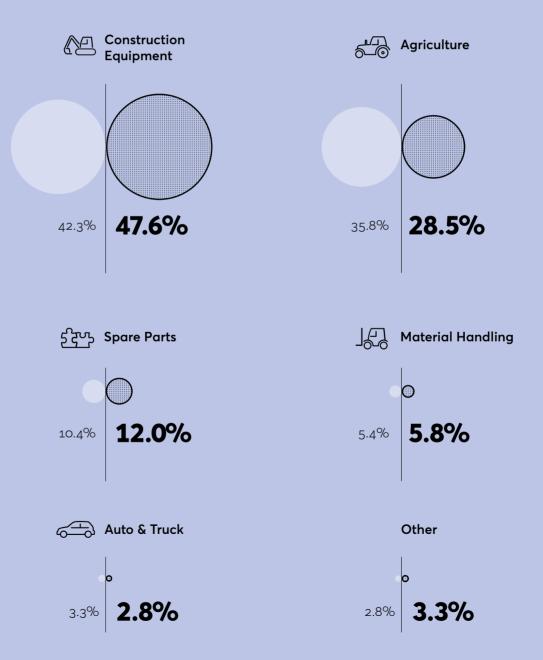
2,103

2,305

Workforce Breakdown

onnts in Euro/ooo

Breakdown by Sector of Application



Annual Review 2019

Agritalia

Summary Data and Graphs

Euro/000

2019

2018

Net Income

993

1,118

Net of minority interests

R&D

8,747

9,110

Total Italy

36.75%

34.44%

Turnover by Geographical Area

Net Revenues

118,091

132,960

Shareholders' Equity

-22,279

6,577

Workforce at 31/12

324

315

Managers/Employees

101

93

Workforce Breakdown

Operating Income

1,057

1,125

Adjusted for the effect of exchange differences

Gross Investments

1,443

1,640

Total Foreign Countries

63.25%

65.56%

Turnover by Geographical Area

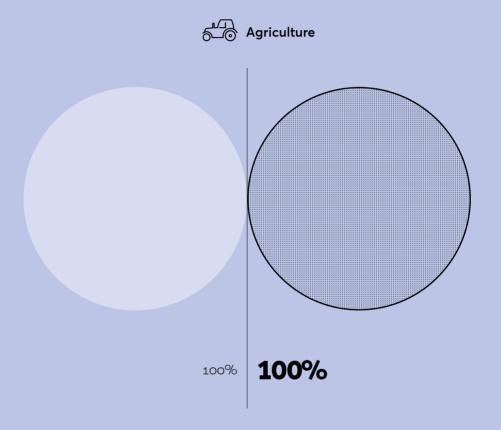
Workers

223

22

Workforce Breakdown

onnts in Euro/ooo



Significant Events in Financial Year 2019

The most significant events that occurred during the year are summarised below.

During the first half, in order to speed up the development of the Group's activities in China, it has been decided to end the joint venture Agriming Agriculture Equipment Co. Ltd., begun in June 2017, by selling the 49% of its share capital held by Carraro International SE to Shandong Juming Machinery Co. Ltd. The dissolution of the Joint Venture was finalised in August.

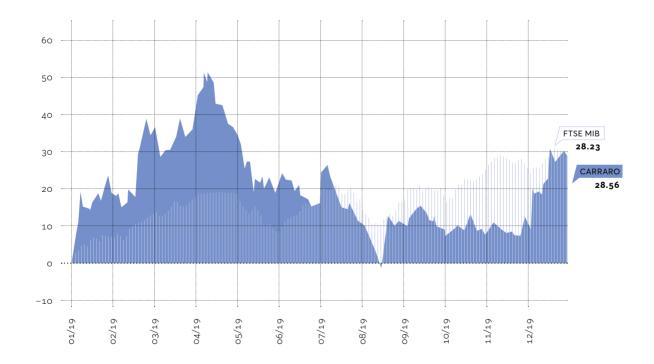
In December a strategic supply agreement was signed with Ineos Automotive. The deal, worth a total of more than 420 million euros over more than 10 years, provides for Carraro to supply front and rear axles for the new 4x4 "Grenadier" off-road vehicle that will enter the market in 2021. The agreement will give the Carraro Group the opportunity to significantly increase the volumes of its special axles for commercial vehicles, minivans and off-road vehicles.

Also in December, a 7-year loan contract worth 50 million euros was signed with the European Investment Bank to support the Group's Research and Development projects, disbursed in 2020. This loan will guarantee Carraro 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.

Share Performance

In the first few months of 2019, the share price continued to outperform the Ftse Mib index thanks to the positive result in 2018, before falling in the second half of the year due to the deterioration of the outlook in the agricultural and construction equipment market. In December the stock made gains thanks to the announcement of positive commercial and financial projects (see the chapter on significant events during the year).

The official average price of 2019 was 2.07 euros, with a maximum listing at 2.62 euros on 12 April 2019 and a minimum listing at 1.71 euros on 16 August 2019.



Highlights

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 Group'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. Although the financial-market turbulence caused by the Coronavirus emergency has led to a sharp and widespread fall in share prices, leading to a significant reduction in the market value of the Company's shares compared to 31 December 2019, the present value is higher than that implicit in consolidated shareholders' equity at 31 December 2019.

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.





Mattia Balsamini

In the 2019 versions of our Annual Review and Sustainability Report, we chose to break up the narration with scenes from everyday life at Carraro. This time we used a series of images taken by photographer Mattia Balsamini, a young Italian talent, well travelled and immersed in the visual arts.

During his studies at the Brooks Institute in California, where he specialised in commercial photography,
Mattia got invaluable experience working at the studio of renowned photographer David LaChapelle. Having obtained a bachelor's degree with honours, he returned to Italy to pursue his career, also teaching photography on the Interactive Media for Interior Design master's programme at IUAV University of Venice.

For the Carraro Group, Mattia undertook a truly special work of artistic research, assembling photographs and fragments of everyday life at the company. He took portraits of some of our employees at Maniago, Rovigo and Campodarsego. These faces were chosen at random, based on their similarities and differences, representing their spirit rather than their bodies, going beyond names and professional roles. He also looked into our spaces in a completely new way. His artistic research aimed to bring to light unique perspectives and details of our factories, offices and work spaces. He played with contrast, both in colour and in black and white.

He found a way to tell our story without words.

