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

Carraro Group
Sustainability Report 2019

Consolidated Non-Financial Statement pursuant
to Italian Legislative Decree 254/2016
I am writing this introductory letter to the 2019 Sustainability Report at a historic period of time that cannot go unmentioned.

The start of 2020 has been marked in every respect by the spread of Covid-19, better known as Coronavirus, an emergency that has swept across the entire world.

We watched the initial phase of what seemed to be a relatively confined epidemic unfold first-hand at our plant in Qingdao, China, which acted swiftly in order to ensure operational continuity while focusing first and foremost on the health and safety of our workers. Nearly all employees at the site began to work from home (smart working), and our personnel in Qingdao restructured the organization of the production phases in order to guarantee correct social distancing.

When the epidemic became a pandemic affecting the entire world, albeit at different levels and intensities, each of us had to change our behaviours in both our private and professional lives. In the same way, our plants have had to adapt the organization of working activities and production areas.

This emergency which, while alarming, should be temporary in nature - although this is difficult to quantify at the time of writing - is leading us to confront new norms that could guide us in the true challenge of our times - balancing the economic and social growth of our planet with respect for our (limited) natural resources and human welfare: in a nutshell, sustainable growth.

First of all it has made us understand that the environment does not adapt to human activity; rather, our actions must mould around the planet and the urgent need to share resources at a global level. When we refer to ‘sustainable growth’ in the industry, we aren’t talking merely about the production phase but rather a comprehensive overview of all activities within the business, starting with product development which, from the outset, must take into account the scarcity of resources (such as our major investments in the electrification of powertrains aimed at improving transmission system efficiency with a focus on reducing energy consumption).

Secondly, we have seen first-hand how future sustainability is unavoidably linked to the use and development of technologies. In this time of forced isolation, smart working and new communications technologies (Skype, video chats, video conferences, etc.), for example, are proving indispensable to our activities and will become even more so in enabling
a more sustainable work organization in the future (consider the fall in pollution and consumption due to the reduced need for work commutes or business trips, including overseas, as well as the more rational use of our time).

Furthermore, at production level we have necessarily altered work shifts and separated production areas; in a more sustainable future this approach should be maintained and developed through the adoption of increasingly advanced automation systems managed through fully-integrated IoT systems.

This should not lead to a reduction in the number of human resources employed at our sites, but rather the drastic alteration of our way of working. It should also represent an opportunity to improve ‘how’ we move our activities forward.

Coming back to the key topics discussed in this Report, our Group has implemented a CSR programme aimed at sustainable growth for several years but 2019 marked a step up in our activities in this regard.

We have created an organization that, stemming from the Group’s CSR Committee and with the invaluable support of CSR Champions of each site, involved a vast pool of collaborators. As well as stimulating, developing and monitoring sustainability practices, this new organization has also implemented several initiatives.

Consider the ambitious commitment to substantially reduce the use of plastic, starting with our Italian sites. Or indeed, the ‘Share the Culture’ project which progressively enables our collaborators to share books, audio CDs and DVDs with co-workers. Or the ‘distance adoption’ initiative in India with the Care&Share non-governmental organization aimed at disadvantaged children. Or still, the many computers no longer used by Carraro and donated to schools and associations in Italy and abroad. Or, finally, our ‘Volunteer Day’. These are just a few of the key activities implemented in the last few months, but there are many more to follow.

In 2020 we will continue our efforts to consolidate CSR culture in the company and, to this end, a percentage of the MBO schemes aimed at senior management will be linked to ESG (Environmental, Social and Governance) targets. During the year, in line with the values of the Carraro Group, we will continue to place our human resources at the centre of our analyses, in terms of occupational health and safety (long an integral part of our business approach), welfare and well-being, while also considering inclusion, the gender pay gap and human rights in general. We pursue this approach not only in our plants but also in the communities where they are located.

Indeed, the creation of a sustainable future is only possible by focusing first on people and the contexts in which we operate, both now and tomorrow.

Tomaso Carraro  
Deputy Chairman  
Chief CSR Officer
Note on Methodology
Reporting standards

With the 2019 Consolidated Non-Financial Statement (NFS), the third edition of this document, the Carraro Group notifies its stakeholders of its policies, strategies and management model 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, which are applicable to the Carraro Group.

The Carraro Group’s NFS, published once a year, was prepared in conformity with the 2018 edition of the ‘GRI Sustainability Reporting Standards’ (GRI Standards) issued by the Global Reporting Initiative (GRI) in 2016, in accordance with the ‘Core’ option. As regards the standard GRI 403: Occupational Health and Safety, the most recent version issued in 2018 has been adopted.

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 environmental 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 ‘Acting sustainably’. 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 me-

* The terms ‘Carraro Group’, ‘Carraro’ and ‘Group’ used in this Report are equivalent.
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 was specifically implemented in order to meet the requirements of the GRI Standards and Legislative Decree no. 254/2016.

When it was possible to improve the accuracy or the completeness of the figures or of the methods of calculating the data being reported, the data of the previous year were restated with analogous criteria to maintain uniformity and comparability with those of the period. All restatements of data due to the development of the extraction and reporting systems are noted specifically in the document.

Economic and financial information refers to the 2018 and 2019 Financial Statements.

At the time of approval of the 2019 Financial Statements, on 17 March 2020, the Board of Directors approved the Statement, which was subsequently examined and assessed by the Control, Risk and Sustainability Committee.

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 01 January 2019 - 31 December 2019 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 2018 is presented. The scope of the report corresponds to the Consolidated Financial Statement at 31 December 2019 included in the Annual Financial Report 2019, 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 principles
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 ac-
count 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 an EH&S Management System for some time that requires the definition of annual or multi-year objectives and their periodic monitoring, in particular as regards injury rates. With a view to continuous improvement, the EH&S Management System is subject to periodic review depending on the results achieved and in relation to changes to the reference standards.

As regards the development of concrete actions on the topic of sustainability, during the reporting period Carraro has acted on various fronts, both in terms of achieving the targets set for 2019 and launching new initiatives.

The new initiatives include the establishment of a new Sustainability Operating Committee, headed by the Chief CSR Officer, with a more agile and limited composition aimed at pursuing more effective action and coordination when defining objectives and launching concrete sustainability projects.

With regard to concrete actions, based on the proposal of the Sustainability Operating Committee a number of projects have been defined for the Group in three specific contexts: the reduction of plastic in non-industrial contexts, the protection of apiculture biodiversity and support for the local area through volunteer initiatives. During the year it launched a series of activities aimed at pursuing these goals:

- a roadshow at Italian and international sites to discuss the topics in question;
- the identification of representatives at each site to promote the projects;
In the context of ensuring more widespread involvement of stakeholders who interact with the Group, in the second half of 2019 a stakeholder engagement initiative was conducted, aimed at the main categories of interest (Italian and foreign employees and strategic suppliers), through targeted questionnaires focusing on material aspects, the results of which were reflected in the updated Materiality Matrix.

Moreover, certain supplier evaluation methods were developed in relation to sustainability indicators, with the launch of a pilot project on a sample of suppliers of Siap Spa focusing on the environment and occupational health and safety.

With reference to the disclosure of sustainability topics within the Group, an online training course was developed, aimed at employees in all of the Group’s companies and its administrative bodies, which will be implemented in 2020.

In its work schedules for 2020, the Group not only focuses on implementing the aforementioned projects but also provides for a series of activities aimed at expanding the stakeholder engagement process, integrating sustainability indicators into supplier evaluation methods and implementing the employee training programme developed in 2019.
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.

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Parent Company:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carraro Spa</td>
<td>Campodarsego (PD)</td>
<td>◇</td>
<td></td>
<td>◇</td>
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<tr>
<td><strong>Italian subsidiaries</strong></td>
<td></td>
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<tr>
<td>Carraro Drive Tech Spa</td>
<td>Campodarsego (PD)</td>
<td>◇</td>
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<tr>
<td>Siap Spa</td>
<td>Maniago (PN)</td>
<td>◇</td>
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</tr>
<tr>
<td>Driveservice Srl</td>
<td>Campodarsego (PD)</td>
<td>(2)</td>
<td></td>
<td>◇</td>
</tr>
<tr>
<td>Carraro Drive Tech Italia Spa</td>
<td>Campodarsego (PD)</td>
<td>(1),(3)</td>
<td>◆</td>
<td>–</td>
</tr>
<tr>
<td><strong>Foreign subsidiaries</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Carraro International SE</td>
<td>Campodarsego (PD)</td>
<td>(2),(3)</td>
<td>◆</td>
<td>◆</td>
</tr>
<tr>
<td>Carraro Germania Srl</td>
<td>Campodarsego (PD)</td>
<td>(1),(3)</td>
<td>◆</td>
<td>–</td>
</tr>
<tr>
<td>Carraro Technologies India Pvt. Ltd.</td>
<td>Pune (India)</td>
<td>(2)</td>
<td></td>
<td>◆</td>
</tr>
<tr>
<td>Carraro Argentina SA</td>
<td>Haedo (Argentina)</td>
<td>◇</td>
<td></td>
<td>◇</td>
</tr>
<tr>
<td>Carraro China Drive System</td>
<td>Qingdao (China)</td>
<td>◇</td>
<td></td>
<td>◇</td>
</tr>
<tr>
<td>Carraro India Ltd.</td>
<td>Pune (India)</td>
<td>◇</td>
<td></td>
<td>◇</td>
</tr>
<tr>
<td>Carraro North America Inc.</td>
<td>Norfolk (USA)</td>
<td>(2),(3)</td>
<td>◆</td>
<td>◆</td>
</tr>
<tr>
<td>Carraro Drive Tech Da Brasil</td>
<td>Santo André (Sao Paulo State)</td>
<td>(3)</td>
<td></td>
<td>◆</td>
</tr>
<tr>
<td>Mini Gears Inc</td>
<td>Virginia Beach (USA)</td>
<td>(1),(3)</td>
<td>◆</td>
<td>◆</td>
</tr>
<tr>
<td>Gear World North America Inc.</td>
<td>Virginia Beach (USA)</td>
<td>(1),(3)</td>
<td>◆</td>
<td>◆</td>
</tr>
<tr>
<td>Mini Gears Property</td>
<td>Virginia Beach (USA)</td>
<td>(1),(3)</td>
<td>◆</td>
<td>◆</td>
</tr>
</tbody>
</table>

**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)

The basic reporting cycle is annual:
- 2019: tax year 01 January 2019 – 31 December 2019
- 2018: tax year 01 January 2018 – 31 December 2018, included for comparative purposes
1 Carraro and Sustainability
1.1

Key Indicators
Key Figures 2019 (2018)

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>548.8</td>
<td>624.1</td>
</tr>
<tr>
<td><strong>Facilities</strong></td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td><strong>Market Capitalisation</strong></td>
<td>177.8</td>
<td>135.4</td>
</tr>
</tbody>
</table>

Italy, India, China, Brazil, Argentina
The Group’s People

3,092
← 3,266

R&D Centres

5
← 5
Italy, China, Argentina, India

Investments [Euro/mln]

24
← 28
1.2

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 Italian and foreign companies controlled directly or indirectly by the holding company Carraro Spa.

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 vehicles 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**

→ **Carrao 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 → 2019

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 Santero

2007
MiniGears acquisition: sinterized gears

2008
Carraro Drive Tech was born

2009

2010
Carraro 2.0: growing beyond turmoil

2011
4,430 Employees on ‘Carraro Values’

2014
New, CE DD Transm. (Conexpo)

2015
New, highly efficient AG CTS Transaxles (Agritechnica)

2016
New, highly efficient CE Powershift Transm. (Bauma)

2017
New business plan 2018-21
Carraro Tractor of the Year 2018
53.6 €/mln share capital increase
Agriming new joint venture (China)

2018
Setup of a new logistic center for Spare Parts in Poggiofiorito

2019
Expansion of the main R&D Center for Drivelines in Campodarsego

Sustainability Report 2019
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.
Global Presence

The headquarters is the registered office of the Italian Parent Company Carraro Spa, located in Campodarsego (Padua). As of 31/12/2019, the Group also had the following operating facilities.

**United States**

- Dedicated Spare Parts Distribution
  - Carraro Drive Tech Spa Rockford (Illinois) (external logistics centre)

**Argentina**

- Production sites
  - Carraro Argentina Sa Haedo, Buenos Aires

- R&D Centres
  - Engineering Center for Drivelines Carraro Argentina Sa Haedo (Buenos Aires)

- Dedicated Spare Parts Distribution
  - Carraro Argentina Sa Haedo (Buenos Aires)

**Brazil**

- Production sites
  - Carraro Drive Tech do Brasil Ltda Caxias do Sul

**Italy [3 plants]**

- Headquarters
  - Carraro Spa Campodarsego (Pd)

- Production sites
  - Carraro Drive Tech Spa Campodarsego (Pd)
  - Carraro Spa Divisione Agritalia Rovigo
  - Siap Spa Maniago (Pn)

- Other logistical bases
  - Siap Spa Gorizia

- R&D Centres
  - Engineering Center for Tractors Carraro Spa Divisione Agritalia Rovigo
  - Engineering Center for Drivelines Carraro Spa Campodarsego (Pd)

- Dedicated Spare Parts Distribution
  - Carraro Drive Tech Spa Agriz, Rovigo
  - Driveservice Srl Poggiofiorito (Ch)
Plants
Italy
Argentina
Brazil
China
India

Engineering Centres
Italy
Argentina
China
India

Spare Parts Centres
Italy
United States
Argentina
China
India

Production sites
- Carraro China Drive Systems Co Ltd
  Chengyang District (Qingdao)

R&D Centres
- Engineering Center for Drivelines
  Carraro China Drive Systems Co Ltd
  Chengyang District (Qingdao)

Dedicated Spare Parts Distribution
- Carraro China Drive Systems Co Ltd
  Chengyang District (Qingdao)
Changes to Group size, structure, ownership or supply chain in the last two financial years refer exclusively to:

- 22/02/2018 (sale of former Poggiofiorito business unit to Driveservice Srl)
- 12/11/2019 Constitution of Carraro Drivetech Italia Spa

102-10 Significant changes to the organization and its supply chain
Ownership structure, economic and financial dimension

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:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share price (€) *</td>
<td>2.230</td>
<td>1.698</td>
</tr>
<tr>
<td>Average share price *</td>
<td>2.071</td>
<td>2.929</td>
</tr>
<tr>
<td>Capitalisation at 31.12 (€/Mil) **</td>
<td>177.8</td>
<td>135.4</td>
</tr>
<tr>
<td>Average capitalisation of the year (€/Mil) **</td>
<td>165.1</td>
<td>233.5</td>
</tr>
</tbody>
</table>

* Source Bloomberg: quotation of the official prices extracted on 30/12/2019 (2019 data) and 28/12/2018 (2018 data)
** Gross of treasury shares
**Share price**

As regards share performance in the years considered (2018 and 2019), the following trend was observed:

![Share price graph]

**Financial and economic data of the Group**

The main consolidated financial and economic indicators are as follows:

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td></td>
<td>(€/Mil.)</td>
<td>(€/Mil.)</td>
</tr>
<tr>
<td>Revenues</td>
<td>548.8</td>
<td>624.1</td>
</tr>
<tr>
<td>Ebitda</td>
<td>42.7</td>
<td>51.9</td>
</tr>
<tr>
<td>Ebit</td>
<td>22.5</td>
<td>31.3</td>
</tr>
<tr>
<td>Net profit / (loss)</td>
<td>8.1</td>
<td>13.2</td>
</tr>
<tr>
<td>Investments</td>
<td>24.0</td>
<td>28.0</td>
</tr>
<tr>
<td>NFP</td>
<td>-133.8</td>
<td>-156.6</td>
</tr>
<tr>
<td>Shareholders’ Equity</td>
<td>73.3</td>
<td>77.1</td>
</tr>
</tbody>
</table>
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 organizational 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 organizational 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:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
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<th>2018</th>
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<tbody>
<tr>
<td></td>
<td>M</td>
<td>%</td>
<td>M</td>
<td>%</td>
</tr>
<tr>
<td>Workforce</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior Managers</td>
<td>26</td>
<td>100.0%</td>
<td>23</td>
<td>95.8%</td>
</tr>
<tr>
<td>Middle Management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>and Officers*</td>
<td>72</td>
<td>90.0%</td>
<td>78</td>
<td>92.9%</td>
</tr>
<tr>
<td>Clerical Staff</td>
<td>417</td>
<td>67.8%</td>
<td>397</td>
<td>67.4%</td>
</tr>
<tr>
<td>Factory Workers</td>
<td>1,758</td>
<td>95.9%</td>
<td>1,770</td>
<td>95.8%</td>
</tr>
<tr>
<td>Total employees</td>
<td>2,273</td>
<td>89.0%</td>
<td>2,268</td>
<td>89.2%</td>
</tr>
<tr>
<td>External Workers**</td>
<td>324</td>
<td>93.4%</td>
<td>432</td>
<td>93.9%</td>
</tr>
<tr>
<td>Apprentices**</td>
<td>179</td>
<td>94.2%</td>
<td>254</td>
<td>96.9%</td>
</tr>
<tr>
<td>Total workforce</td>
<td>2,776</td>
<td>89.8%</td>
<td>3,122</td>
<td>90.4%</td>
</tr>
</tbody>
</table>
Note
* 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 17% 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 80% is located in India, enables a margin of flexibility in the organization of the work, while the remainder, employed in Italy, makes it possible to absorb production peaks determined by market trends.

In 2019, the ‘workers’ category represented, with 1,834 people, 72% of total employees, compared to clerical staff (615 people, 24%), middle managers and officers (80 people, 3%) and executives (26 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

<table>
<thead>
<tr>
<th>Number of employees by gender type and macro geographical area</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>[Table showing number of employees by gender and geographical area]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total at 31.12</td>
<td>2,273</td>
<td>2,555</td>
</tr>
</tbody>
</table>

### Number of employees by contract type and macro geographical area

<table>
<thead>
<tr>
<th>Number of employees by contract type and macro geographical area</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>[Table showing number of employees by contract type and geographical area]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total at 31.12</td>
<td>108</td>
<td>2,544</td>
</tr>
</tbody>
</table>

The geographical distribution of Group employees reflects the number and size of the production plants located in the various geographical areas.

The most significant presence is in Italy and 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 external workers by gender type and macro geographical area

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th></th>
<th></th>
<th>2018</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>M</td>
<td>%</td>
<td>F</td>
<td>Total</td>
<td>M</td>
<td>%</td>
</tr>
<tr>
<td>Europe</td>
<td>90</td>
<td>87.4%</td>
<td>13</td>
<td>103</td>
<td>150</td>
<td>89.3%</td>
</tr>
<tr>
<td>Asia</td>
<td>234</td>
<td>96.3%</td>
<td>9</td>
<td>243</td>
<td>280</td>
<td>96.6%</td>
</tr>
<tr>
<td>Americas</td>
<td>0</td>
<td>0%</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>100.0%</td>
</tr>
<tr>
<td>Total at 31.12</td>
<td>324</td>
<td>93.4%</td>
<td>23</td>
<td>347</td>
<td>432</td>
<td>93.9%</td>
</tr>
</tbody>
</table>

### Number of apprentices employees by gender type and macro geographical area

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th></th>
<th></th>
<th>2018</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>M</td>
<td>%</td>
<td>F</td>
<td>Total</td>
<td>M</td>
<td>%</td>
</tr>
<tr>
<td>Asia</td>
<td>179</td>
<td>94.2%</td>
<td>11</td>
<td>190</td>
<td>254</td>
<td>96.9%</td>
</tr>
<tr>
<td>Total at 31.12</td>
<td>179</td>
<td>94.2%</td>
<td>11</td>
<td>190</td>
<td>254</td>
<td>96.9%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th></th>
<th></th>
<th>2018</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>M</td>
<td>F</td>
<td>Total</td>
<td>M</td>
<td>F</td>
<td>Total</td>
</tr>
<tr>
<td>Temporary</td>
<td>86</td>
<td>22</td>
<td>108</td>
<td>135</td>
<td>29</td>
<td>164</td>
</tr>
<tr>
<td>Permanent</td>
<td>2,182</td>
<td>221</td>
<td>2,403</td>
<td>2,125</td>
<td>210</td>
<td>2,335</td>
</tr>
<tr>
<td>Total at 31.12</td>
<td>2,273</td>
<td>282</td>
<td>2,555</td>
<td>2,268</td>
<td>276</td>
<td>2,544</td>
</tr>
</tbody>
</table>
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.

Sales by market segment

2019

Construction Eq. 36%

Agricultural Eq. 44%

Other 15%

Material Handling 5%
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:

### Agricultural Eq.
- *4WD Axles*
  - 20%
- *Specialty Tractors*
  - 15%

### Construction Eq.
- *Light CE Drivelines*
  - 21%

*Estimated market shares*
### Sales by market segment

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>242,260</td>
<td>44.14%</td>
<td>297,297</td>
<td>47.63%</td>
</tr>
<tr>
<td>Construction</td>
<td>197,668</td>
<td>36.02%</td>
<td>217,593</td>
<td>34.86%</td>
</tr>
<tr>
<td>Spare parts</td>
<td>54,587</td>
<td>9.95%</td>
<td>54,255</td>
<td>8.69%</td>
</tr>
<tr>
<td>Material handling</td>
<td>26,240</td>
<td>4.78%</td>
<td>27,801</td>
<td>4.45%</td>
</tr>
<tr>
<td>Automotive</td>
<td>12,634</td>
<td>2.30%</td>
<td>17,311</td>
<td>2.77%</td>
</tr>
<tr>
<td>Railways &amp; transport</td>
<td>2,200</td>
<td>0.40%</td>
<td>1,261</td>
<td>0.20%</td>
</tr>
<tr>
<td>Industrial applications</td>
<td>0</td>
<td>0.00%</td>
<td>1,020</td>
<td>0.16%</td>
</tr>
<tr>
<td>Renewable energies</td>
<td>67</td>
<td>0.01%</td>
<td>9</td>
<td>0.00%</td>
</tr>
<tr>
<td>Other</td>
<td>13,190</td>
<td>2.40%</td>
<td>7,568</td>
<td>1.21%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>548,846</td>
<td>100.00%</td>
<td>624,115</td>
<td>100%</td>
</tr>
</tbody>
</table>

### Sales by geographic area

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Far East</td>
<td>98,906</td>
<td>18.02%</td>
<td>134,010</td>
<td>21.47%</td>
</tr>
<tr>
<td>North America</td>
<td>77,317</td>
<td>14.09%</td>
<td>96,737</td>
<td>15.50%</td>
</tr>
<tr>
<td>South America</td>
<td>32,903</td>
<td>5.99%</td>
<td>37,649</td>
<td>6.03%</td>
</tr>
<tr>
<td>Other EU Countries</td>
<td>185,086</td>
<td>33.72%</td>
<td>193,863</td>
<td>31.06%</td>
</tr>
<tr>
<td>Non EU Countries</td>
<td>57,578</td>
<td>10.49%</td>
<td>58,211</td>
<td>9.33%</td>
</tr>
<tr>
<td>Italy</td>
<td>97,056</td>
<td>17.68%</td>
<td>103,645</td>
<td>16.61%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>548,846</td>
<td>100.00%</td>
<td>624,115</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Note**

Following an improvement of the reclassification by geographical area, the 2018 data were restated.
Brands, products and services

The value of the 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 which are expressed and summarised in the proprietary trademarks.

The Management has always aimed to maintain this close and constant link between the products, their brands and the underlying technical content, ensuring continuity by maintaining the name and logos, 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 organization.

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

<table>
<thead>
<tr>
<th>Trademarks</th>
<th>Products</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carraro Spa</td>
<td>Drive systems (axles, drive systems) for:</td>
<td>Research and Development</td>
</tr>
<tr>
<td>Carraro Drive Tech Spa</td>
<td>gears and components for:</td>
<td>Design and Engineering</td>
</tr>
<tr>
<td>Siap Spa</td>
<td>Special agricultural vehicles</td>
<td></td>
</tr>
<tr>
<td>Carraro Agritalia</td>
<td></td>
<td>Sale of Spare Parts</td>
</tr>
<tr>
<td>Carraro Tractors</td>
<td></td>
<td>Post-Sales Service</td>
</tr>
<tr>
<td>Drive Service</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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.
Recognitions in the Research and Development field

**Carraro Compact V75 finalist at Tractor Of The Year 2020**
The Carraro Compact V75 was one of the finalists for the Tractor of the Year 2020, in the Best of Specialized category (for orchard, vineyard, mountain and hill tractors).

**Carraro VLB 75 COMPACT awarded in the Novità Tecniche Agrilevante 2019 (New Agriculturally-relevant Techniques competition)**
At the Agrilevante trade show held in Bari in October, the Carraro VLB 75 COMPACT was awarded in the ‘Mentions’ category for New Techniques at the exhibit.
Research and innovation

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

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

As part of the progressive consolidation of the current Carraro range, which includes gears, axles and drive systems for off-highway applications (agricultural, 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 ShiftTM), 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.

**Engineering 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 Engineering 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 97 workers (90 in 2018) are employed at the complex, which includes offices, technical areas and a test area for a total of 6,200 square meters.

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Human resources, R&amp;D and prototyping</td>
<td>num. (FTE)</td>
<td>249</td>
<td>224</td>
</tr>
<tr>
<td>Financial investment in R&amp;D</td>
<td>€/Mil.</td>
<td>22.6</td>
<td>22.4</td>
</tr>
<tr>
<td>Financial investment in R&amp;D (proportion of revenue)</td>
<td>%</td>
<td>4.12</td>
<td>3.59</td>
</tr>
<tr>
<td>Patents registered in various countries</td>
<td>num.</td>
<td>20</td>
<td>22</td>
</tr>
<tr>
<td>R&amp;D Centres worldwide</td>
<td>num.</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Prototype development and test centres</td>
<td>num.</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>
Recallings in the Research and Development field

**Carraro at Bauma 2019**
Our new range of drives in the construction equipment sector has been extremely well received. At this year’s Bauma show, the Group was able to present important new developments in the e-mobility field for the first time, with electric products able to respond to the new requirements of future construction sites thanks to 25 years of consolidated expertise in the development and supply of drive systems for electric traction material handing systems. In this context, interest in the eTB172 compact drive system, an evolution of the hydrostatic version, and the more innovative e48.16M axle, has been remarkable.

**Agritalia: launch of the new Alpine Massey Ferguson range**
Agritalia is celebrating an important step in the growth of the “Utility” sector. The MF3700 Alpine model promises the green revolution of the FASTi of the previous MF3600 thanks to its more modern design, the division into two versions and the repositioning of the range in the medium-high segment.

**Extension of the Group Research and Development Centre opens in Campodarsego**
The extension of the Carraro R&D hub opened in June offers numerous advantages, including:
- 80% increase in potential testing capacity
- greater synergy between facilities
- greater efficiency with shorter test times
- optimisation of test replicability
- even higher safety standards

**Graduation Ceremony at Carraro Technologies India**
A new step in the Carraro Design Engineer Certification for Design Engineers at Carraro Technologies India, in collaboration with Vishwakarma University in Pune.

**Agritechnica 2019: a truly special year for Carraro**
The new Carraro Compact V, one of four finalists in the Tractor of the Year 2020 award in the “Best of Specialized” category, was presented at the Agritechnica show, while important recognitions were received by the two main new products in the Carraro range: the CVT Powersplit and the unique Mild Hybrid powertrain for specialised tractors.
Sustainable products and processes

Sustainability of raw materials

The aspects relative to the sustainable management of the Group’s products are considered in relation to the nature and type of materials used.

The raw materials and purchased finished components are made predominantly from cast iron and steel and, due to the type and nature of the production departments and markets of origin, are mainly generated through the recycling and reuse of the basic elements with only limited production using virgin materials.

In terms of finished products, relative to the end of their product lifecycle, in the drive-train sector products are mainly manufactured from cast iron and steel, with a limited use of plastic and electronic materials, while accessory materials (e.g. lubricant) are easily separated from the product. These characteristics mean that the finished products of the Carraro Group are particularly suited to the circular economy as, being made of metal, they can be recycled and reused. In this context, Carraro has launched a refurbishment programme for suitable products returned by customers (‘Carraro Reman’), repairing the products and reselling any spare parts at discounted rates.

Similar considerations to those for drive systems are given to the agricultural vehicle sector, also taking into account the greater presence of plastic, glass (cabins), rubber (tyres) and electric or electronic materials (cables and instruments) whose dismantlement at the end of the product lifecycle requires greater effort. The recycling, repair and reuse programmes in the vehicle sector are managed by the major clients on behalf of whom they are manufactured and distributed under their relative brands.

Product sustainability on the market

As already broadly discussed in the Research and Innovation chapter, the Carraro Group designs its products with a view to constantly improving their efficiency and reliability, with a consequent reduction in emissions and, thus, greater sustainability.

This is evidenced by

› Direct Drive solutions for operating machines with torque converters, able to improve efficiency by 12%
› the ECOlogy Mode system, which enables considerable reductions in power absorption
› the new drive systems for dual-clutch tractors (Twin ShiftTM), which improve comfort and productivity
Sustainable processes

To adequately supply its production lines, both in terms of flows from suppliers and in-tra-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 500 direct suppliers and 200 OEM (original equipment manufacturer) 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.

With a view to improving its logistical management, the company Carraro Driveservice S.r.l. constituted in 2018 for the distribution of spare parts from the Poggiofiorito (CH) and Rovigo (Agri2) sites has enabled the more efficient management of the shipping process for spare parts.

The improvements made in 2019 include the optimisation of packaging in the Spare Parts division (Poggiofiorito/Agri2) with the use of more lightweight wooden pallets with equivalent load capacity.
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.

<table>
<thead>
<tr>
<th>Name</th>
<th>Area</th>
<th>Company/Operating unit</th>
<th>Registered office</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISO 9001:2015</td>
<td>Quality</td>
<td>Carraro Drivetech SpA</td>
<td>Campodarsego (PD)</td>
<td>Italy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Carraro Drivetech SpA (Spare Parts Division)</td>
<td>Rovigo</td>
<td>Italy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Carraro SpA Divisione Agritalia Sicap SpA</td>
<td>Rovigo</td>
<td>Italy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Carraro China Drive Systems Co. Carraro Argentina SA</td>
<td>Maniago (PN)</td>
<td>Italy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Carraro Drivetech Do Brasil Carraro India Ltd. (axle plant and gear plant) Carraro Technologies India Pvt. Ltd</td>
<td>Qingdao</td>
<td>China</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Haedo</td>
<td>Argentina</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Jixian</td>
<td>China</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Caxias do Sul</td>
<td>Brazil</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Ranjangaon (Pune)</td>
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<td>Viman Nagar (Pune)</td>
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| IATF 16949:2016 | Quality | Siap Spa Carraro India Ltd. (gear plant) | Maniago (PN) | India |
| | | | Ranjangaon (Pune) | India |

| OHSAS 18001:2007 | Workplace safety | Carraro Spa Divisione Agritalia | Rovigo | Italy |

| ISO 14001 | Environmental protection | Carraro Drivetech SpA Carraro SpA Divisione Agritalia Sicap SpA Carraro India Ltd (axle plant) Carraro China Drive Systems Co | Campodarsego (PD) | Italy |
| | | | Rovigo | Italy |
| | | | Maniago (PN) | Italy |
| | | | Ranjangaon (Pune) | India |
| | | | 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 and with reference to GRI 403: Occupational Health and Safety, subsequent updates issued in 2018.

The analysis involved company management through the exchange of information, meetings and interviews. In 2019 the analysis was revised and integrated with a direct stakeholder engagement initiative aimed at the main groups of interest, specifically Italian and foreign employees and strategic suppliers, through a targeted questionnaire on material aspects. The results, along with those obtained from management and the industry benchmarks, were reflected in the updated Materiality Matrix, which classified the topics in order of priority.

The materiality principle was applied, aiming to identify, in the analysis of the Group’s characteristic activities, the factors related to sustainability among those relevant for the achievement of the strategic objectives.

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 was developed in three stages:

1. Identification of potentially relevant topics
   Potentially relevant topics for the Carraro Group and its stakeholders were identified on the basis of the indications provided by an industry benchmark.

2. Evaluation of most relevant topics
   The assessment of relevance of such topics, from the perspective of the Carraro Group and its stakeholders, was carried out based on the indications collected from employees and strategic suppliers and the perception of internal management. The relevance of each topic was allocated according to the following scale:
   - 1 negligible
   - 2 low
   - 3 medium
   - 4 high
   - 5 very high

3. Preparation of the Materiality Matrix
   The assessments assigned are shown in the Materiality Matrix below.

Aspects related to governance, legal compliance and economic performance (creation of sustainable value over time) are considered as prerequisites to the materiality analysis; such aspects are therefore included in the Sustainability Report but are not subject to specific evaluation and insertion in the Materiality Matrix.
The results of the materiality analysis process updated in 2019 were examined and approved for the 2019 Sustainability Report by both the CRSC and the BoD at the meeting held on 28/01/2020.

With respect to the previous materiality matrix (2018), the new material topics are:

- Sustainable products and processes;
- Engagement, dialogue, customer satisfaction and quality services;
- Training and skills development;
- Protection of human and workers’ rights;
- Conversely, two topics became less relevant to stakeholders compared to the 2018 materiality matrix:
  - Community development;
  - Management of the supply chain and use and optimisation of local suppliers.

**Carraro Materiality Matrix**

The following table shows the relevant topics for the Carraro Group

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**Relevant reporting topics for the Carraro Group**

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![Diagram showing the Carraro Materiality Matrix]
The top of the materiality matrix shows, on the one hand, certain elements closely associated with human resources such as corporate welfare and occupational health and safety and, on the other, an aspect to which the Carraro Group, in line with its business strategy, has always given primary attention: product safety and quality. Nonetheless, the importance of environmental topics such as the reduction in waste produced and adoption of responsible waste disposal methods, the reduction in energy consumption and greenhouse gas emissions, and social topics such as ethics and integrity in business management processes and anti-corruption is reaffirmed.

In terms of innovation and the market, attention is given to technology and product innovation and customer engagement and feedback. Still on the topic of human capital, particular focus was given to well-being and work-life balance, training, diversity, equal opportunities and inclusion; similarly the value of the brand, reputation and the ability to develop sustainable products and processes were also considered relevant.

Furthermore, 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.

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<th>Material topic</th>
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<td>Well-being and work-life balance</td>
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<td>Diversity, equal opportunities and inclusion</td>
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<td>Reduction in water consumption and waste management</td>
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<td>Responsible procurement and use of materials</td>
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<td>17</td>
<td>Management of the supply chain and use and optimisation of local suppliers</td>
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<td>18</td>
<td>Performance management and employee remuneration</td>
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<td>Dialogue and internal communication</td>
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<td>20</td>
<td>Attraction, development and retention of resources</td>
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<td>21</td>
<td>External relations and transparent communications among stakeholders, also in reference to sustainability</td>
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<td>22</td>
<td>Community development</td>
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<td>23</td>
<td>Internal control and risk management procedures</td>
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In 2019 the Sustainability Operating Committee (SOC) implemented, planned and coordinated the activities required for the completion of the projects identified at Group level and at individual sites, in line – where possible – with the SDGs established by the 2030 Agenda for Sustainable Development.
Being sustainable

- Corporate events
- Training events
- Recognitions
- Involvement of employees
- Conventions
- Special days
**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.

Stakeholder engagement and interaction by stakeholder category

<table>
<thead>
<tr>
<th>Stakeholder and category</th>
<th>Engagement/interaction</th>
</tr>
</thead>
</table>
| Employees                | • 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 | • Regular discussions |
| Clients                  | • 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 | • Regular meetings  
                          | • Carraro Private Network  
                          | • Quality assessment audits/visits  |
| Shareholders and the financial community | • 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 | • Projects to support social initiatives  
                          | • Open factory days  |
| Local authorities, Public Administration, regulatory bodies and trade associations | • Meetings with representatives of local institutions  |
| Schools and universities | • Site visits  
                          | • Collaborations with schools and the academic community  |
| Media                    | • Company website  
                          | • Interviews with company management  
                          | • Press releases  
                          | • Events, trade fairs  |
| Environment              | Support and engagement projects:  
                          | • 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;
- Organizational 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 organizations;
- 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
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.

Since 2019, the reporting of unlawful behaviour or conduct in breach of the Group’s ethics can be made through two alternative communications channels, one paper-based and the other electronic, sent for review to the control body (Oversight Committee) which include specific applications to protect the identity of the whistleblower and the confidentiality of the alleged incident. The electronic whistleblowing channel (‘CarraroWB’ online portal) can be accessed from the Group website at the following addresses:

The ethical position and philosophy of the Carraro Group in relation to suppliers are characterised by principles of clarity and transparency in confirming compliance with general ethical principles, including as regards human rights, a commitment which has been adopted by the Group and is required of its commercial partners.

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 objectives 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 objectives, acting in full compliance with the law and applicable regulations.

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

The Group promotes rules of conduct in line with the principles of legality, loyalty, cor-
rectness 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 2019, no significant sanctions were imposed for failure to comply with laws or regulations in the economic and/or social field.
Governance
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 organization’s decision-making processes in pursuit of corporate objectives in the interests of all Group stakeholders.

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 Financial Reporting Manager, the Oversight Committee, the Internal Audit department and the Independent Auditors.

Shareholders’ Meeting

The Shareholders’ Meeting expresses the wishes of shareholders in relation to the objectives assigned by the Articles of Association; 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 Articles of Association of the Shareholders’ Meeting, in accordance with the Corporate Governance Code.

In particular, in accordance with the Articles of Association 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 con-
text of medium to long-term sustainability;
› verifying suitability of the general organizational 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 Mem-
bers;
› 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 manage-
ment operations;
› reviewing and approving related-party transactions.

The Articles of Association 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 share-
holder withdrawal and amendments to the Articles of Association for changes to regula-
tions.

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

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

Executive Director responsible for the internal control and risk management system
The role of the Executive Director responsible for the internal control and risk management system was appointed to the Chief Executive Officer Mr. Alberto Negri by the Board of Directors at the meeting of 14 May 2018, maintaining such role until the expiry of the mandate provided by the Shareholders’ Meeting to approve the 2020 financial statement.
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 activities or which have otherwise come to its knowledge, in order that the Committee (or Board) may take appropriate action.

It also has the right to request that the Internal Audit department carry out audits of specific operating areas and compliance with internal rules and procedures in the performance of company activities, promptly notifying the same to the 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 Articles of Association 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 Organizations 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.

**Organizational 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 Organizational Model pursuant to Italian Legislative Decree no. 231/2001, formalising and incorporating an existing organizational 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 Code of Ethics of Carraro Spa was subsequently adopted by all directly controlled subsidiaries to become the Code of Ethics of the Carraro Group, while the main Italian subsidiaries adopted an Organizational Model pursuant to Legislative Decree no. 231/2001.

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

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

**Sustainability policies and actions**

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

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

Over the years, Group Management has defined objectives to:

› implement a systematic monitoring, control and coordination system of all 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)
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 safely, 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:

› organizational 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.
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.

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

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

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

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

The Sustainability Operating Committee (SOC) is a small internal corporate body formed of seven representatives of the Group's main departments and headed by Chief CSR Officer, which handles 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 and coordinating 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.

**Extended Sustainability Operating Committee**

An extended workgroup of the SOC that handles the main sustainability topics and promotes the skills acquired and CSR directives adopted by senior management. It represents the link with operating departments, is composed of a representative for each company department involved (procurement, operations, logistics, HR, EH&S, quality, etc.), and holds periodic meetings (e.g. once every six months).

**Contact persons of the main company departments**

The representatives of the main company departments in each of the Group's operating facility oversee, within their area of competence, the implementation of CSR activities aimed at achieving the established sustainability objectives and organise the data collection, measurements and information necessary for the data streams to senior management and for the purpose of drafting the Sustainability Report (NFS).

**CSR Champions**

For each major operating facility, two collaborators are selected and assigned the role of promoting the culture of sustainability, of identifying initiatives and or monitoring the progress of the projects launched at Group level and, if applicable, within individual companies, reporting directly to the Chief CSR Officer and the Sustainability Operating Committee.

The governance structure and relative processes for the delegation of powers and sustainability management is as follows:

**Board of Directors**
- the Board of Directors is responsible for risk management and the definition of CSR strategies
- receives information from the Control, Risk and Sustainability Committee (CRSC)
- approves the annual Sustainability Report (NFS, Non-Financial Statement)

**Chief CSR Officer**
- implements the guidance defined by the BoD in the field of sustainability

**Control, Risk and Sustainability Committee (CCRS)**
- Committee of Directors that examines on behalf of the BoD the sustainability topics (investigatory and advisory functions for the BoD)
- holds regular sessions (e.g. quarterly)
Appointment and composition of the Board of Directors

The selection and appointment criteria for members of the Board of Directors are listed in the Articles of Association and reflect the conditions to protect diversity defined by current legislation.

During the appointment process of the Board of Directors, each list of candidates must contain and expressly identify at least one person in line with the independence requirements envisaged by the auditors pursuant to Article 148, paragraph 3 of the Consolidated Law on Finance, or two in the event that the Shareholders’ Meeting determines that the number of directors shall be more than seven, pursuant to Article 147-ter, paragraph 4 of the Consolidated Law on Finance.

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**
- 4 members are executive directors (Chairman of the Board of Directors, Chief Executive Officer and Deputy Chairman and Chief Financial Officer);
- 5 members are non-executive directors.

**Independence**
- Of the 5 non-executive directors, 3 are independent directors.

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

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

<table>
<thead>
<tr>
<th>Board of Directors</th>
<th>Number of positions and the commitments of each members, including the nature of the appointment.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enrico Carraro</td>
<td>Chairman</td>
</tr>
<tr>
<td>Tomaso Carraro</td>
<td>Deputy Chairman</td>
</tr>
<tr>
<td>Alberto Negri</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>Riccardo Arduini</td>
<td>Director</td>
</tr>
<tr>
<td>Fabio Buttignon</td>
<td>Director* (1) (2)</td>
</tr>
<tr>
<td>Virginia Carraro</td>
<td>Director</td>
</tr>
<tr>
<td>Enrico Gomiero</td>
<td>Director</td>
</tr>
<tr>
<td>Marina Manna</td>
<td>Director* (1) (2) (3)</td>
</tr>
<tr>
<td>Marina Pittini</td>
<td>Director* (1) (2)</td>
</tr>
</tbody>
</table>

(1) Members of the Control, Risk and Sustainability Committee
(2) Members of the Appointments and Remuneration Committee
(3) Members of the Supervisory Body
* 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)

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlo Pesce</td>
<td>Chairperson</td>
</tr>
<tr>
<td>Saverio Bazzolan</td>
<td>Auditor in charge</td>
</tr>
<tr>
<td>Stefania Centorbi</td>
<td>Auditor in charge</td>
</tr>
<tr>
<td>Gabriele Andreola</td>
<td>Alternate Auditor</td>
</tr>
<tr>
<td>Barbara Cantoni</td>
<td>Alternate Auditor</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2019</th>
<th>Executives</th>
<th>Non Executives</th>
<th>Indipendents</th>
<th>Total</th>
<th>% by age</th>
</tr>
</thead>
<tbody>
<tr>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0.0%</td>
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<tr>
<td>31-40</td>
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<tr>
<td>41-50</td>
<td>4</td>
<td>1</td>
<td>3</td>
<td>8</td>
<td>88.9%</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>9</td>
<td>100%</td>
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<table>
<thead>
<tr>
<th>2019</th>
<th>Executives</th>
<th>Non Executives</th>
<th>Indipendents</th>
<th>Total</th>
<th>% by gender</th>
</tr>
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<tbody>
<tr>
<td>M</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>6</td>
<td>66.7%</td>
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<td>F</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>33.3%</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>9</td>
<td>100%</td>
</tr>
</tbody>
</table>

Gender
Based on current regulations, the protection of diversity refers to gender. The criteria used to select the members of the Board of Directors pursuant to Article 21 of the Articles of Association 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 Organizational 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, in correlation with the process to define strategies and ensure their implementation in the business plans. In particular, the organizational 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 (CRSC), which is responsible for supporting the Board of Directors on topics related to internal control and risk management system (ICRMS);
› 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;
› Director with Delegated powers on the subject of sustainability (Chief CSR Officer), who works alongside the CRSC to support the Board of Directors in the determination of the level of compatibility of the Group’s risk profile, with a business approach that is sustainable in the medium and long term, in line with the identified strategic objectives;
› the Risk Owner, who for each of the main company departments is responsible for ensuring, in conjunction with operational 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 and in accordance with the guidelines issued by the Board of Directors for the ICRMS.

The Carraro Group has defined a Risk Management Procedure with the objective of governing the risk management process, providing methodological guidelines and a num-
ber 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;

**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;

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

**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 (ERM 2018), the assessment of business risks from the Group’s perspective. At the same time the main operating facilities each developed a risk analysis aimed at obtaining the certification according to the ISO 9001:2015 standard.

In 2019 Carraro developed an ESG risk analysis integrated into the ERM 2018, aimed at completing the risk profile of the Group by defining a framework that considers long-term business and sustainability aspects within a single system.
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);

*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;

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

*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

— Operating risks

Environmental and resource management risks
The Group operates across eight manufacturing sites located in five different countries and, therefore, has to deal with legislative frameworks, in environmental terms, which are different and in continuous evolution. The evolution of the various legislative contexts 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.

As part of its focus on climate change and 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

As regards the use of energy, over the last few years the Group has shown 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.

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.).

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.

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.

Product sustainability

The risks relative to the sustainable management of the Group’s products are considered in relation to the nature and type of materials used.

Given the nature of the products, the most significant materials directly used in production processes 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. In general, these types of material are derived increasingly from recycled rather than virgin material (extracted minerals, oil-derived components, natural rubber).

With regard to finished products in the drivelines segment, the composition of materials refers almost exclusively to cast iron and steel, as well as indirect materials such as lubricants that can be separated from the product, which are nearly entirely recyclable. For the agricultural vehicles segment, notwithstanding the type of the main structural components (cast iron and steel), the recyclability of the finished product is impacted by the presence of other components (electric cables and electronic instruments, tyres, glass cabins) within the more complex structure, and by the fact that the recycling or reuse programmes are managed by our main customers, on behalf of whom the vehicles are manufactured.

Risks associated with climate change

Under the weight of the conclusions reached by the scientific community, the issue of climate change and its possible effects is progressively establishing itself as a topic of growing significance within international organizations, national authorities, politicians and, finally, public debate.

Confronted with concerning signs manifesting in unpredictable changes in weather – the causes of which seem to have been identified (greenhouse gas emissions, global warming) – the possible consequences on the planet’s natural balance, the availability of natural resources and the seasonal trend and its effect of agricultural, mining and production activities in general, are still being studied.

The context of uncertainty that this creates has led to the emergence of new risk factors or, at least, a different breakdown of those currently identified, developing in a direction that is still difficult to track and even more difficult to quantify, even approximately.

Having acknowledged this situation, the Group has set itself the task of collecting and aggregating all of the information as it becomes available, conducting an analysis to enable the profile of risks related to its areas of business to be adjusted to new horizons in reference to its activities in the agricultural and construction equipment sectors.
However, as already illustrated, as part of its actions to mitigate environmental risks the Group has developed its own code of conduct to such a level as to obtain international environmental certifications.

Furthermore, with regard to production processes the constant drive to improve energy efficiency is bringing benefits in terms of reducing the amount of energy used for the equivalent production, consequently reducing costs and emissions.

In terms of finished products, the momentum driven by increasingly stringent anti-pollution regulations for vehicles and the need of end customers to reduce consumption costs is directing the strategies of manufacturers like Carraro towards the development of innovative technical solutions in terms of energy absorbed by vehicle power transmission systems. This aspect represents not only a restriction but also an opportunity that must be seized by the Group going forward, continuing to direct itself towards research and development.

**Risks associated with the spread of epidemics**

As is well known, in January 2020 the Italian and international scenario was characterised by the spread of the Covid-19 virus and the resulting restrictive measures to contain it implemented by the public authorities of the affected countries. These circumstances, which are unprecedented in nature and scale, may have direct and indirect repercussions both in terms of the business and as regards ESG aspects to an extent that - in the current context of general uncertainty - is impossible to predict. The potential effects of this phenomenon cannot currently be determined and shall be constantly monitored throughout the coming year.

**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 depending on the department, specific contingent conditions, and the importance of aspects such as occupational and environmental health and safety and, more broadly, sustainability in relation to the nature of the business and the type of industrial processes;

› Staff retention and appeal: the ability to attract and retain qualified resources is a factor of great significance in ensuring the continuous effectiveness of the business activity. The Group offers structured career pathways and the alignment of financial conditions with those of the market based on remuneration benchmarks and other initiatives. Group companies expend significant resources on ad hoc services to meet certain primary needs of employees (cafeteria, collective transport to and from work, etc.);

› Well-being: the attractiveness of the job and staff retention also depend on the ability
to create working conditions that facilitate a reasonable work-life balance. In this sense, benefits in terms of flexi-time, part-time hours and, in certain circumstances, smart working are available.

› Diversity: the protection of diversity is a critical aspect for multinational corporations such as the Carraro Group due to the presence of human resources with very diverse languages, religions and education levels who are required to cohabit and collaborate in the same professional environment. From this perspective, staff recruitment criteria are neutral in terms of gender, religion and origin; furthermore, special attention is given to the specific needs (dietary and prayer) of Muslim workers.

**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, mitigating the 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 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 business relationships with Carraro.

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

**Risks associated with health and safety in the workplace**

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

The commitment for the protection and promotion of health and safety in the workplace expresses itself in the Carraro Group's decision to adopt and 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 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.

Quality standards and response and resolution times for issues raised by customers determine the ability to mitigate the risk of not providing an appropriate level of customer service, particularly in the post-sales phase; pursuing customer satisfaction objectives is essential to maintaining the Group’s competitive position on the market given the extremely close integration of its products with customers’ finished products where, in the case of power transmission systems, they constitute essential components.

Risks associated with the supply chain

In order to achieve its strategic objectives, Carraro operates as part of a complex supply chain in which its suppliers are required to meet the same requirements of technological capacity, quality, efficiency and ethics established by the Group. From this point of view, the inadequate management of strategic suppliers with reference to quality controls, delivery times and the required production flexibility gives rise to the risk of potential operational inefficiencies and the inability to meet customers’ needs.

To confront this risk, Carraro subjects its suppliers, particularly strategic ones, to an initial assessment and subsequent regular review. The assessment measures their adequacy in terms of technological and production capacity, overall quality of processes and products, quality possession of certificates according to ISO standards, corporate and financial position and respect for the Code of Ethics of the Carraro Group.

Risks associated with the local area

The presence in different geographic areas of the Group’s business units, which are considered industrial sites, has a significant impact on the surrounding area in terms of:

› the use of a direct and indirect workforce consisting of local resources for operating, coordination, supervision and control tasks;
› the use of a supply chain of local suppliers for raw materials, components required for production and indirect industrial and general services.

The economic impact of these elements on the local region is significant, quantifiable in a percentage of around 80% of the added value produced by each of the Group’s operating facilities.
From this perspective, the risk of generating a significant impact on the region and the local community in the case of the divestiture, closure or transfer of a facility, depending on its size, is moderate.

— **Risks associated with compliance**

**Compliance risks**

The compliance risks category, while generally applicable to all business activities, has particular connotations for Carraro with regards to the market sector, the type of product and the status of listed companies, and is broad and diverse, encompassing many very different aspects, including:

- compliance of technical product characteristics in terms of safety of use and engine emissions (for agricultural vehicles);
- chemical compliance of materials which, pursuant to various regulations, requires the presence, even if minimal, of certain chemical components in the materials used to be declared; the critical issue in this regard is the possibility to track these components throughout the supply chain;
- compliance with tax and customs regulations in the various countries where imported goods are sourced or towards which exported goods are directed;
- the compliance requested by companies issuing securities on the market, with reference to the requirements for governance, transparency and the disclosure of corporate data.

**Risks of corruption**

The operational areas which are broadly 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 public administration bodies, relations with public entities are mainly institutional in nature (tax and customs compliance, authorisations, controls, inspections);
- 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 codes of conduct to prevent the violation of the anti-corruption rules, in particular:

- the Group Code of Ethics,
- the Group Anti-Corruption Policy,
- the Organizational, 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.
— Strategic risks

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 operates in different countries and its exposure to their related risks has gradually increased over the years. On these markets, unstable economic-political conditions occur on a cyclical basis; 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 confront the risks described above the Group pays constant attention to the macro-economic variables of the raw materials supply sector, the product target sector (agriculture, public works, construction), governmental decisions in various countries that may affect new markets and the evolution of protectionist policies.
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.
Direct materials from third-party suppliers used in production

<table>
<thead>
<tr>
<th>Direct materials used</th>
<th>u.m.</th>
<th>2019</th>
<th>2018</th>
<th>change % 19 vs 18</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>weight</td>
<td>weight</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cast iron</td>
<td>tonnes</td>
<td>51,296</td>
<td>71,873</td>
<td>-28.6%</td>
</tr>
<tr>
<td>Steel</td>
<td>tonnes</td>
<td>23,536</td>
<td>32,751</td>
<td>-28.1%</td>
</tr>
<tr>
<td>Mixed components</td>
<td>tonnes</td>
<td>8,553</td>
<td>11,290</td>
<td>-24.2%</td>
</tr>
<tr>
<td>Tractors components</td>
<td>tonnes</td>
<td>4,306</td>
<td>4,058</td>
<td>+6.1%</td>
</tr>
<tr>
<td>Total at 31.12</td>
<td>tonnes</td>
<td>87,691</td>
<td>119,973</td>
<td>-26.9%</td>
</tr>
</tbody>
</table>

The reduced use of materials from third-party sources in 2019 compared to the previous year is explained by the fall in production and sales volumes in the last year which led to a reduction in purchases and the greater use of accumulated supplies.
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 organizational 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);
› the installation on the roof of the new Research and Development Centre at the Campodarsego facility of a new photovoltaic system in 2019.

Thanks to the dedication of appropriate organizational 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 2019 the use of electricity coming 100% from renewable sources continued.

As regards facilities outside Italy, the energy consumed derives from traditional sources while in certain cases (e.g. electricity in India), to guarantee the continuity of supply, it is self-produced by diesel generators.

— Energy consumption

Energy consumption within the organization

The table shows consumption relative to Scope 1 (energy derived from direct sources owned or controlled by the organization) and Scope 2 (energy derived from indirect sources resulting from the generation of acquired or purchased electricity, heat, air conditioning and steam consumed by the Group).

<table>
<thead>
<tr>
<th>Energy consumption within the organization</th>
<th>u.m.</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diesel (Generators)</td>
<td>GJ</td>
<td>14,893</td>
<td>11,842</td>
</tr>
<tr>
<td>Motor fuels</td>
<td>GJ</td>
<td>18,089</td>
<td>19,343</td>
</tr>
<tr>
<td>Natural gas (Methane)</td>
<td>GJ</td>
<td>194,398</td>
<td>197,818</td>
</tr>
<tr>
<td>Butane</td>
<td>GJ</td>
<td>89,715</td>
<td>100,470</td>
</tr>
<tr>
<td>Propane</td>
<td>GJ</td>
<td>17,459</td>
<td>20,695</td>
</tr>
<tr>
<td>Liquefied petroleum gas (LPG)</td>
<td>GJ</td>
<td>0</td>
<td>296</td>
</tr>
<tr>
<td>Total fuel consumed, coming from non-renewable sources</td>
<td>GJ</td>
<td>334,554</td>
<td>350,464</td>
</tr>
<tr>
<td>Electricity</td>
<td>GJ</td>
<td>156,516</td>
<td>159,461</td>
</tr>
<tr>
<td>Steam</td>
<td>GJ</td>
<td>14,632</td>
<td>16,525</td>
</tr>
<tr>
<td>Total energy purchased for internal use</td>
<td></td>
<td>171,148</td>
<td>175,986</td>
</tr>
<tr>
<td>Electricity</td>
<td>GJ</td>
<td>-418</td>
<td>-715</td>
</tr>
<tr>
<td>Total energy sold</td>
<td>GJ</td>
<td>-418</td>
<td>-715</td>
</tr>
<tr>
<td>Total energy consumption within the organization</td>
<td>GJ</td>
<td>505,284</td>
<td>525,735</td>
</tr>
</tbody>
</table>

Notes

› 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. For companies outside Italy the data has been estimated based on distances travelled and the average consumption by vehicle type. For Italian companies the calculation is based on the quantity of fuel charged by suppliers;

*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 reduction in total energy use in the organization (-3.9%) is shown by the general decrease in consumption, both of combustible fuels from non-renewable sources and other forms of energy, and is mainly determined by the reduction in production cycle volumes in 2019.

**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 and implemented 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.

The introduced innovations continue to contribute to the significant reduction in energy consumption and produced emissions year after year. Another measure to reduce energy consumption was the installation in 2019 of a photovoltaic system at the Campodarsego facility, which is due to enter into operation in 2020.

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. Compressors have also been replaced at the Rovigo plant;

› 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.

The reduction in energy consumption is monitored through the use of appropriate tools (‘continuous monitoring’).
3.2 Environment

Resources and the 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 organizations 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 2019, no significant sanctions were imposed on Group companies for failure to comply with environmental laws or regulations.

In 2019 the Siap Spa facility in Maniago launched a pilot data collection project involving a significant sample of strategic suppliers (around 80), with a view to extending the supplier assessment to also take into account - in addition to the previously established factors - environmental aspects and health and safety.

The data collected from suppliers regarded:

- the presence of a certified Environmental System (ISO 14001 or equivalent);
- the possession of the various environmental authorisations provided for by Italian law;
- the management of hazardous waste pursuant to Italian law;
- compliance with Italian occupational health and safety legislation with regard to the appointment of safety officers, the implementation of training plans, the presence of mandatory documentation, the use of internal operating procedures and instructions, machine and plant documentation;
- risk assessment according to the criteria established by Italian law;
- the possession of operating permits for plants and certificates of compliance (pursuant to Italian law);
› the presence of operating emergency plans;
› legal proceedings brought or penalties received for breaches to environmental or occupational health and safety regulations.

In 2019 the questionnaire return rate was approximately 30%.
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.

<table>
<thead>
<tr>
<th>Direct emissions by GHG (Scope1)</th>
<th>tonnes of CO₂ eq.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2019</strong></td>
<td><strong>2018</strong></td>
</tr>
<tr>
<td>From non–renewable sources</td>
<td></td>
</tr>
<tr>
<td>Natural gas (methane)</td>
<td>9,928</td>
</tr>
<tr>
<td>Diesel</td>
<td>1,045</td>
</tr>
<tr>
<td>Butane</td>
<td>5,345</td>
</tr>
<tr>
<td>Propane</td>
<td>1,040</td>
</tr>
<tr>
<td>LPG</td>
<td>0</td>
</tr>
<tr>
<td>Motor fuels</td>
<td>1,249</td>
</tr>
<tr>
<td>Other (GHG–Freon)</td>
<td>113</td>
</tr>
</tbody>
</table>
Notes
› Data presented without considering any offsetting instruments
› Conversion factors are taken from DEFRA and ACRIB

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

The fuel used by vehicles of non-Italian companies 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. For vehicles of Italian companies the calculation is based on the quantity of fuel charged by suppliers.

The production of CO₂ equivalent in 2019 recorded a decrease of 6.1% as a result of two factors: the lower consumption of butane used in the gear heat treatment process, linked to the general decline in volumes produced in 2019, and of vehicle fuel, following the renewal and downscaling of the company fleet of vehicles in 2018.

Indirect greenhouse gas emissions (Scope 2)

<table>
<thead>
<tr>
<th>Emissions calculated according to the ‘Gross Location–Based’ method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Location–Based</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Electricity</td>
</tr>
<tr>
<td>Steam</td>
</tr>
<tr>
<td><strong>Total indirect emissions (Scope 2)</strong></td>
</tr>
</tbody>
</table>

Note
› 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.

<table>
<thead>
<tr>
<th>Emissions calculated according to the ‘Gross Market–Based’ method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Market–Based</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Electricity</td>
</tr>
<tr>
<td>Steam</td>
</tr>
<tr>
<td><strong>Total indirect emissions (Scope 2)</strong></td>
</tr>
</tbody>
</table>

Note
› 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 reduction in CO₂ emissions is directly linked to the fall in production at non-Italian plants, particularly the facility in India, which use energy produced mainly from fossil fuels.

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.

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.

<table>
<thead>
<tr>
<th>Other indirect emissions by GHG (Scope 3)</th>
<th>tonnes of CO2 eq.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2019</td>
</tr>
<tr>
<td>Inbound/outbound transport of goods</td>
<td>19,246</td>
</tr>
<tr>
<td>Business trips by air</td>
<td>1,621</td>
</tr>
<tr>
<td>Total indirect emissions</td>
<td>20,867</td>
</tr>
</tbody>
</table>

Note
› Conversion factors are taken from DEFRA.

The lower volume of emissions generated in 2019 is attributable to multiple factors:
› a reduction in the logistical flow of purchases and sales in relation to the lower sales volumes;
› a significant reduction in air freight consignments of goods sold;
› a reduction in long-distance purchases mainly at the Carraro India Ltd. facility which increased the localisation of its supply procurement activities.

Emissions of ozone-depleting substances

<table>
<thead>
<tr>
<th>Emissions of ozone-depleting substances (ODS)</th>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>CFC-11 eq</td>
<td>u.m.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>tonnes</td>
<td>0.001628</td>
<td>0.002126</td>
</tr>
</tbody>
</table>

Note

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, heat treatment plants for gears, co-generation systems (NOx and PM) and coating systems (VOCs).
### NOx and other significant emissions

<table>
<thead>
<tr>
<th></th>
<th>u.m.</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>NOx</td>
<td>Kg</td>
<td>27,412</td>
<td>23,726</td>
</tr>
<tr>
<td>Volatile organic compounds (VOC)</td>
<td>Kg</td>
<td>31,605</td>
<td>7,543</td>
</tr>
<tr>
<td>Particulate matter (PM)</td>
<td>Kg</td>
<td>8,977</td>
<td>15,453</td>
</tr>
</tbody>
</table>

**Notes**

- The data do not include the Argentinian plant.
- Kilograms of NOx and particulate matter were estimated based on the analysis carried out and the operating hours of each emission source.

The general trend of these emissions reflects the effect of various concomitant factors that interact with non-standardised logics: the increase in nitrogen oxide (NOx) emissions is associated with the operational intensity of the heating systems (Campodarsego, Maniago and Rovigo facilities) and thermal treatment systems (Maniago and Indian facilities); the former are affected by the weather conditions during the winter months while the latter are influenced by the frequency of use in gear treatment processes. Another factor to underline is the frequency of use of the electricity generator at the Carraro India plant owing to the need to compensate for recurrent electricity outages on the local grid.

The variation in volatile organic compounds (VOC) is influenced, in general terms, by the production volumes and efficiency of systems based on their age; in the case in question, the variation in 2019 refers to the systems at the Group’s Italian facilities and is determined by the alignment of the calculation method to current Italian law.

The reduction in particulate matter is determined by the Indian factory, mainly due to the fall in production volume.
3.2.2 Waste

Waste management

With an annual production across eight manufacturing sites, the Group produces approximately 13,800 tonnes of industrial waste. 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.

The specific waste reduction programmes with particular reference to non-recyclable waste launched in 2014 led to immediate benefits in the following years, the results of which are relatively stable.

Carraro’s efforts continued in 2019 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.

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

<table>
<thead>
<tr>
<th>Type of waste</th>
<th>u.m.</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exhaust oil</td>
<td>t</td>
<td>256</td>
<td>308</td>
</tr>
<tr>
<td>Cleaning water</td>
<td>t</td>
<td>867</td>
<td>826</td>
</tr>
<tr>
<td>Oil emulsions</td>
<td>t</td>
<td>1,539</td>
<td>1,508</td>
</tr>
<tr>
<td>Other</td>
<td>t</td>
<td>1,172</td>
<td>1,203</td>
</tr>
<tr>
<td><strong>Hazardous waste</strong></td>
<td>t</td>
<td><strong>3,833</strong></td>
<td><strong>3,845</strong></td>
</tr>
<tr>
<td>Paper and cardboard</td>
<td>t</td>
<td>263</td>
<td>348</td>
</tr>
<tr>
<td>Wood</td>
<td>t</td>
<td>1,799</td>
<td>1,712</td>
</tr>
<tr>
<td>Mixed packaging</td>
<td>t</td>
<td>925</td>
<td>1,050</td>
</tr>
<tr>
<td>Other</td>
<td>t</td>
<td>6,980</td>
<td>6,662</td>
</tr>
<tr>
<td><strong>Non–hazardous waste</strong></td>
<td>t</td>
<td><strong>9,967</strong></td>
<td><strong>9,772</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>t</td>
<td><strong>13,800</strong></td>
<td><strong>13,617</strong></td>
</tr>
</tbody>
</table>
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 variation recorded in 2019 is mainly attributable to:

› an unprecedented campaign for the disposal of obsolete iron materials, components and products,
› an increase in the amount of mechanical process waste (iron filings) generated by the insourcing to internal departments of some of these activities previously carried out by external suppliers,

both phenomena refer to the Campodarsego facility; excluding these two factors, the total volume of waste would be substantially in line with the previous year.

<table>
<thead>
<tr>
<th>Waste disposal method</th>
<th>u.m.</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reuse</td>
<td>t</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Recycling</td>
<td>t</td>
<td>90</td>
<td>119</td>
</tr>
<tr>
<td>Incineration</td>
<td>t</td>
<td>2,208</td>
<td>2,065</td>
</tr>
<tr>
<td>Landfill</td>
<td>t</td>
<td>1,535</td>
<td>1,661</td>
</tr>
<tr>
<td><strong>Total hazardous waste</strong></td>
<td>t</td>
<td><strong>3,833</strong></td>
<td><strong>3,845</strong></td>
</tr>
<tr>
<td>Reuse</td>
<td>t</td>
<td>4,479</td>
<td>4,887</td>
</tr>
<tr>
<td>Recycling</td>
<td>t</td>
<td>4,617</td>
<td>3,904</td>
</tr>
<tr>
<td>Incineration</td>
<td>t</td>
<td>804</td>
<td>926</td>
</tr>
<tr>
<td>Landfill</td>
<td>t</td>
<td>67</td>
<td>55</td>
</tr>
<tr>
<td><strong>Total non-hazardous waste</strong></td>
<td>t</td>
<td><strong>9,967</strong></td>
<td><strong>9,772</strong></td>
</tr>
<tr>
<td>Total</td>
<td>t</td>
<td><strong>13,800</strong></td>
<td><strong>13,617</strong></td>
</tr>
</tbody>
</table>

Most scrap iron is sent for reuse, while paper, plastic and glass are recycled. Waste is transferred to authorised environmental operators. Non-recyclable or reusable waste is delivered to an authorised operator for incineration.

The variation in total waste only includes a slight increase in non-hazardous waste; in this regard, the most relevant factor is a higher volume of material sent for recycling. In this case, considering the different trends at the various plants, the most significant impact is attributable to the aforementioned aspects relative to the Campodarsego facility.

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.

In 2019 and 2018 no hazardous waste was transported internationally.
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 organizations 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.

<table>
<thead>
<tr>
<th>Type of source</th>
<th>u.m.</th>
<th>2019</th>
<th>%</th>
<th>2018</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal water</td>
<td>m³</td>
<td>129,000</td>
<td>81,991</td>
<td>64%</td>
<td>110,165</td>
</tr>
<tr>
<td>Other (well)</td>
<td>m³</td>
<td>5,204</td>
<td>0</td>
<td>0%</td>
<td>6,188</td>
</tr>
<tr>
<td>Total</td>
<td>m³</td>
<td>134,204</td>
<td>81,991</td>
<td>61%</td>
<td>116,352</td>
</tr>
</tbody>
</table>
Notes

› The data for the Argentinian facility only include water withdrawal from mains water supplies (or municipal water) in 2019, while withdrawal from ground wells is not included in the data for either year.
› Freshwater withdrawal data is estimated.
› The determination of areas subject to water stress is based on the Aqueduct Water Risk Atlas of the World Resources Institute.

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

The main overall variation is due to the fact that in 2019 the detection method for municipal water was completed, integrating the previous quantitative amounts with the withdrawals of the Argentinian facility (16,787 m³). Net of this factor, water consumption is generally stable with lower consumption in areas of water stress offset by more intensive use in other areas.

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

<table>
<thead>
<tr>
<th>Destination</th>
<th>u.m.</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total public sewage system*</td>
<td>m³</td>
<td>66,968</td>
<td>46,866</td>
</tr>
<tr>
<td>Waste water discharged to external water treatment plants**</td>
<td>m³</td>
<td>3,589</td>
<td>3,244</td>
</tr>
<tr>
<td>Waste water discharged to the surface***</td>
<td>m³</td>
<td>15,035</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>m³</td>
<td>85,592</td>
<td>50,110</td>
</tr>
</tbody>
</table>

* ‡ 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 for the Argentinian factory is only partially reported for 2019 and not present for 2018

The 2019 data has been integrated with the previously unavailable information relative to the transfer of water to the sewage system for Carraro Argentina SA (16,437 m³) and the volume of water dispersed into surface water for Carraro India Ltd.

Water discharge trends, excluding the aforementioned impact of the volumes in Argentina and India, follow similar dynamics to those indicated for water withdrawal.
Human Resources
4.1 Employees

Human Resources
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 organizations.

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 remainder, mainly consisting of clerical staff and middle managers, are hired on company or individual contracts pursuant to local regulations and market practices.

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 organizational 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.

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 organizational 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 organization, as part of its fundamental belief that promoting a reasonable work-life balance is an essential element for better professional performance.

**Turnover in the Carraro Group**

The variations in the workforce year on year generally 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.

<table>
<thead>
<tr>
<th>Number of employees who have joined and left the Group by gender</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>M</td>
<td>F</td>
</tr>
<tr>
<td>Employees hired</td>
<td>192</td>
<td>21</td>
</tr>
<tr>
<td>%</td>
<td>90%</td>
<td>10%</td>
</tr>
<tr>
<td>Turnover</td>
<td>8.4%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Employees terminated</td>
<td>187</td>
<td>15</td>
</tr>
<tr>
<td>%</td>
<td>93%</td>
<td>7%</td>
</tr>
<tr>
<td>Turnover</td>
<td>8.2%</td>
<td>5.3%</td>
</tr>
</tbody>
</table>

After a period during which the number of employees has gradually reduced, resulting from a focus on the Group’s more traditional business areas through the sale of various production units in sectors other than power transmission systems and agricultural vehicles, over the last two years the situation has stabilised.

The slight variation in total workforce in 2019 mainly reflects the resizing of the workforce at the Carraro Argentina SA facility.
### Number of employees who have joined and left the Group by age

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&lt;=30</td>
<td>31-40</td>
</tr>
<tr>
<td>Employees hired</td>
<td>114</td>
<td>69</td>
</tr>
<tr>
<td>%</td>
<td>54%</td>
<td>32%</td>
</tr>
<tr>
<td>Turnover</td>
<td>25.2%</td>
<td>7.1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees terminated</td>
<td>57</td>
<td>61</td>
</tr>
<tr>
<td>%</td>
<td>28%</td>
<td>30%</td>
</tr>
<tr>
<td>Turnover</td>
<td>12.6%</td>
<td>6.3%</td>
</tr>
</tbody>
</table>

**Note**

› Employees who left the company aged >50 include retirees.

### Number of employees who have joined and left the Group by country

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>%</td>
</tr>
<tr>
<td>Employees hired</td>
<td>213</td>
<td>100%</td>
</tr>
<tr>
<td>Italy</td>
<td>134</td>
<td>63%</td>
</tr>
<tr>
<td>India</td>
<td>44</td>
<td>21%</td>
</tr>
<tr>
<td>China</td>
<td>27</td>
<td>13%</td>
</tr>
<tr>
<td>Argentina</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>North America</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Brazil</td>
<td>8</td>
<td>4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees terminated</td>
<td>202</td>
<td>100%</td>
</tr>
<tr>
<td>Italy</td>
<td>83</td>
<td>41%</td>
</tr>
<tr>
<td>India</td>
<td>36</td>
<td>18%</td>
</tr>
<tr>
<td>China</td>
<td>36</td>
<td>18%</td>
</tr>
<tr>
<td>Argentina</td>
<td>36</td>
<td>18%</td>
</tr>
<tr>
<td>North America</td>
<td>1</td>
<td>0%</td>
</tr>
<tr>
<td>Brazil</td>
<td>10</td>
<td>5%</td>
</tr>
</tbody>
</table>

New hires and employees leaving the company in the different categories reflect the general trend; overall, the effect of employees dismissed due to the resizing of the Argentinian plant is offset by the increase recorded at Italian facilities.
4.2 Diversity

Human Resources
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 organizations in distant continents with different histories and mentalities.

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

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

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

In 2019 there were no reported cases of discrimination.

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 organization, 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 (0.35 in 2019), it is important to note that the female component, which represents 8% 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 0.83 and 0.90 in 2019) 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 10.2% of the total workforce of the Group (9.6% in 2018) 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.

<table>
<thead>
<tr>
<th>Gross Annual Salary: ratio of men's / women's basic salaries by qualification divided by geographical area</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>2019</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Senior Managers</td>
</tr>
<tr>
<td>Middle Management and Officers</td>
</tr>
<tr>
<td>Clerical Staff</td>
</tr>
<tr>
<td>Factory Workers</td>
</tr>
</tbody>
</table>

Notes

1. 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.
2. The excluded values are categories that do not include women, therefore it is not possible to calculate the ratio of women to men.
Remuneration: ratio of total remuneration of women / total remuneration of men by qualification

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Italy</td>
<td>India</td>
</tr>
<tr>
<td>Senior Managers</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Middle Management and Officers</td>
<td>0.86</td>
<td>–</td>
</tr>
<tr>
<td>Clerical Staff</td>
<td>0.84</td>
<td>0.35</td>
</tr>
<tr>
<td>Factory Workers</td>
<td>0.88</td>
<td>0.80</td>
</tr>
</tbody>
</table>

**Notes**

› Carraro North America Inc. and Carraro International are not included as they are not relevant due to the low number of employees.

› The excluded values are categories that do not include women, therefore it is not possible to calculate the ratio of women to men.

› The data for total remuneration for 2018 is only available for Italian companies.

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.

The average age of employees is 40 and the distribution by age bracket is fairly even.

**Number of employees by age band**

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>M</td>
<td>F</td>
</tr>
<tr>
<td>&lt;=30</td>
<td>410</td>
<td>43</td>
</tr>
<tr>
<td>31-40</td>
<td>876</td>
<td>90</td>
</tr>
<tr>
<td>41-50</td>
<td>538</td>
<td>100</td>
</tr>
<tr>
<td>&gt;50</td>
<td>449</td>
<td>49</td>
</tr>
<tr>
<td>Total</td>
<td>2,273</td>
<td>282</td>
</tr>
</tbody>
</table>

**Number of employees by professional category and age band**

<table>
<thead>
<tr>
<th></th>
<th>&lt;=30</th>
<th>31-40</th>
<th>41-50</th>
<th>&gt;50</th>
<th>Total</th>
<th>% by prof. cat.</th>
<th>&lt;=30</th>
<th>31-40</th>
<th>41-50</th>
<th>&gt;50</th>
<th>Total</th>
<th>% by prof. cat.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Managers</td>
<td>3</td>
<td>7</td>
<td>16</td>
<td>26</td>
<td>46</td>
<td>1%</td>
<td>9</td>
<td>15</td>
<td>34</td>
<td>39</td>
<td>84</td>
<td>3.3%</td>
</tr>
<tr>
<td>Middle Management and Officers*</td>
<td>6</td>
<td>36</td>
<td>38</td>
<td>80</td>
<td>111</td>
<td>3.1%</td>
<td>11</td>
<td>34</td>
<td>39</td>
<td>84</td>
<td>84</td>
<td>3.3%</td>
</tr>
<tr>
<td>Clerical Staff</td>
<td>59</td>
<td>231</td>
<td>235</td>
<td>90</td>
<td>615</td>
<td>24.1%</td>
<td>58</td>
<td>221</td>
<td>228</td>
<td>82</td>
<td>589</td>
<td>23.2%</td>
</tr>
<tr>
<td>Factory Workers</td>
<td>394</td>
<td>726</td>
<td>360</td>
<td>354</td>
<td>1,834</td>
<td>71.8%</td>
<td>447</td>
<td>674</td>
<td>373</td>
<td>353</td>
<td>1,847</td>
<td>72.6%</td>
</tr>
<tr>
<td>Total</td>
<td>453</td>
<td>966</td>
<td>638</td>
<td>498</td>
<td>2,555</td>
<td>100%</td>
<td>505</td>
<td>906</td>
<td>644</td>
<td>489</td>
<td>2,544</td>
<td>100%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Number of employees by educational level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td><img src="image" alt="Table of educational level distribution" /></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of employees by seniority</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td><img src="image" alt="Table of seniority distribution" /></td>
</tr>
</tbody>
</table>

Overall there are 64 employees with disabilities in the Carraro Group.
4.3

Protection of Human Rights

Human Resources
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 Organizational 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. In 2019, for this type of complaint a dedicated portal (‘CarraroWB’) has been made available and is 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 Organizational 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.

In 2019 no training was given on this topic; in 2020 a new training programme aimed at relevant employees has been launched followed the update to the Code of Ethics and the 231 Organizational Model.

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

<table>
<thead>
<tr>
<th>Number of employees who have received human rights training</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Italy</td>
</tr>
<tr>
<td>Other countries</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

* progressive figure referred to 31/12 of the year of reference, which includes the number of employees who took the course starting from 2016. Employees whose employment relationship came to an end in the period of reference are excluded.

** 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
> The calculation method used does not include employees who terminated the working relationship in the reference period.

The difference in the number of employees who had taken the course at 31/12/2019 compared with the previous period is due exclusively to the turnover recorded during the year.

<table>
<thead>
<tr>
<th>Total number of human rights training hours*</th>
<th>2019</th>
<th></th>
<th>2018</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>756**</td>
<td></td>
<td>792**</td>
<td></td>
</tr>
<tr>
<td>Other countries</td>
<td>46**</td>
<td></td>
<td>50**</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>802</td>
<td></td>
<td>842</td>
<td></td>
</tr>
</tbody>
</table>

* 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 and from 2014 (for foreign employees). Employees whose employment relationship came to an end in the period of reference are excluded.
4.4

Employee services

Human Resources
Employee services

Corporate welfare
Carraro has always paid particular attention to the working conditions of its employees, both in relation to production activities and also with a view to removing the main barriers to reaching the workplace, providing access to essential services such as the cafeteria or medical support, the availability of spaces for work-related use (car parks, changing rooms, boardrooms, staff or break areas) and offering economic and social support in Italy and abroad according to the various needs.

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;
› forms of Life insurance or permanent disability insurance for some grades in Italy, India, Argentina and the U.S.A. And extended to all personnel in China;
› supplementary health cover for all Italian, Brazilian, Indian and US personnel. Partially in Argentina;
› supplementary complementary pension plans in the U.S.A. and China.

Well-being and work-life balance
The Group’s focus on the working conditions of its employees is gradually being extended to personal aspects, following a philosophy that strives for efficient business performance while ensuring the creation of a satisfactory work-life balance.

The main services provided by the Group in this regard are:
› 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;
› welfare programmes and other minor benefits offered to employees of the company in 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.

**2019 Carraro India Cricket Tournament**
The Carraro annual cricket tournament has become an important sports event for our collaborators in India. More than 850 collaborators took part in the event, embracing the joy of team spirit to inspire, support and motivate their co-workers. The motto of this year's event was 'One Team – One Dream', underlining the importance of the Carraro Value 'We work together', because no dream is ever achieved alone.

**The first 20 years of Carraro India**
In September celebrations were held in Pune – Ranjangaon to mark Carraro’s 20 years in India. Mario Carraro, who, back in the 1990s, was the first to recognise the high potential of India, attended the event, taking to the stage to relive the key moments of a success story made possible only thanks to the ability to base business activities on a highly integrated cultural base.

**The Carraro Group awarded by Open Factory in the ‘Corporate and community welfare’ category**
A few days from the 2019 edition of Open Factory, the event organisers awarded the Carraro Group with the ‘Corporate and community welfare’ prize. The award recognises the valuable participation of thousands of Carraro collaborators in previous years, an expression of special affection, as well as the significant team work of hundreds of volunteers who over this years have made this success possible.

**Open Factory at the Campodarsego facility**
As part of Open Factory, held at the Campodarsego facility, the consignments warehouse was transformed into the ideal location for the choral version of the Fabricca show, written by Ascanio Celestini and based on Italy’s manufacturing tradition. The event produced by the Teatro Stabile del Veneto was performed by students at the local Scuola Teatrale di Eccellenza. Surrounded by a unique set of multicoloured axles, on the cement stage of our production facility, a truly magical performance unfolded.
Carraro China Value Season

In October the four traditional team building days of the ‘Carraro Value Season’ were held at Carraro China. All workers at the Qingdao facility were involved in various activities during their lunch break, working and playing as a team in the spirit of cooperation. This consolidates a team spirit and sense of positivity that will prove useful in everyday working life.
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 adopted system is designed to:

- meet the requirements of Italian legislation, which requires the assessment of risks for each type of activity and workplace, a certified risk mitigation strategy, the clear organizational definition of role and responsibilities for management and control, the presence of procedures, operating instructions, and emergency plans and teams, the use of adequate safety equipment, a regular training programme and the participation of workers’ representatives;
- establish a set of guidelines establishing principles and methods shared by all operating units in consideration of the standardisation of the manufacturing activities carried out.

The EH&S management system of the Carraro Group includes Corporate Policies (composed of twelve elements) which establish the minimum organizational requirements to implement effective assessment and risk prevention and control tools with a view to continuous improvement.

The founding principles of the EH&S Management System of the Carraro Group are:
- focus on sustainable health and safety;
› inspiration from the leading international technical guidelines;
› responsibility and engagement at all levels;
› identification and assessment of risks;
› 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.

The identification and assessment of risks is a process guided by the application of best practices in the sector, the industrial production expertise and knowledge of accidents of the company’s HSE officers and, where necessary for specialist technical aspects, by external professionals or specialist firms (e.g. measurement of risk parameters). These criteria are applied when designing protection and control systems, such as the allocation of duties to workers taking into account the physical and health characteristics of each employee in relation to the risks linked to the individual task or work station.

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

With regard to monitoring activities, each local organization 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 organization as regards the implementation of internal controls such as programmes, procedures, policies, operating practices and organization.

With reference to the health or occupational health monitoring system in each Group facility, team of first aiders with appropriate training are present; health checks are carried out by the company physician which reports to company managers regarding the suitability of the task. Joint, regular site visits to workplaces and workstations are organised with the company physician, workers’ representatives and the local EH&S department to analyse and assess any occupational health improvements.

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, as referred to in chapter 1.4 Being Sustainable (ref. International certificates achieved).

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.

Employees’ contribution to the correct functioning of the system is an essential element of the system itself, and is ensured through the presence of workers’ representatives within the organizational bodies and the assignment of responsibility to report critical situations (e.g. near misses).

The concrete participation of workers in H&S management is provided through annual meetings between workers’ representatives and managers, aimed at analysing any critical situations or implementing technical, training or informative improvement measures. With the organizations, EH&S committees are formally established, under the guidance of the Plant Manager, with the role of managing, coordinating and monitoring the progress of EH&S actions, providing appropriate staff able to define rules and responsibilities at each level of the organization, drafting, integrating and updating the improvement plans. The activity is coordinated by the local EH&S department. The responsibility for implementing the planned activities is defined locally, for all levels of the workforce.

With reference to H&S training for workers, each of the Group’s operating facilities defines a training programme each year, enabling employees to acquire the relative health and safety skills and expertise required to carry out their duties. The training programme consists of the following phases:

› identification of the tasks that require specific training or certifications;
› training delivery methods;
› learning assessment method;
› a calendar or plan that defines the users, training topics and time frames for the training programmes;
› documentation including the certification, attendance record, description of training.

Each time that an employee changes duties, the local EH&S department assesses the need for any specific training.

Initiative to promote health and safety outside the working environment have been adopted in Italy, through agreements defined in collaboration with trade unions and national health insurance companies (e.g. Metasalute), with policies also extended to include other members of the employee’s household.

For non-Italian facilities certain forms of insurance are provided in addition to those provided for by law, in the case of illness, invalidity or death, with agreements at company and individual level defined in line with local practices and based on the presence of public or private health providers operating in this field.

As at 31/12/2019, the Group as a whole was comprised of 3,092 people (3,266 as at 31/12/2018), of which 72 (61 as at 31/12/2018) operate mainly in non-production organizations (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.
The accident statistics for the last two years demonstrate a positive trend that, despite a slight percentage increase, are low in number, with an index of 1.82 in 2019 (1.34 in 2018) against 4.4 million hours worked in the Group in 2019 (4.6 million in 2018). The total number of accidents recorded is 40 in 2019 (31 in 2018), of which 98% 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.

<table>
<thead>
<tr>
<th>Occupational accidents and accident rate</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rates</td>
<td>Employees</td>
<td>Other workers*</td>
</tr>
<tr>
<td>Fatality rate from occupational accidents**</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Number of occupational injuries with serious consequences**</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Number of recordable occupational accidents**</td>
<td>40</td>
<td>8</td>
</tr>
<tr>
<td>Total hours worked</td>
<td>4,389,578</td>
<td>1,541,205</td>
</tr>
<tr>
<td>Fatality rate from occupational accidents</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Rate of occupational injuries with serious consequences</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Rate of recordable occupational accidents</td>
<td>1.82</td>
<td>1.04</td>
</tr>
</tbody>
</table>

* workers who are not subject to an employment contract but whose work and/or place of work are controlled by the organization (such as temporary workers of Italian companies, temporary workers and apprentices of foreign companies, workers for the main contractors operating at the Group’s Italian sites)

** commuting accidents are not included unless the transport was organised by the organization

Notes
- Index composition:
  - Fatality rate from occupational accidents: (number of fatalities from occupational accidents / number of hours worked) * 200,000
  - Occupational accident rate with serious consequences (not including fatalities): (number of occupational accidents with serious consequences / number of hours worked) * 200,000
  - Rate of recordable occupational accidents: (number of recordable occupational accidents / number of hours worked) * 200,000

- The rates shown in the table refer to the production plants
- Occupational accidents with serious consequences refers to accidents that resulted in more than 180 days of absence.
- The 2018 data has been calculated according to the new method envisaged by the GRI Standards (adopted for the 2019 NFS) for the purposes of comparison with the 2019 data. For 2018 data calculated with the old method, refer to the Group’s Consolidated Non-Financial Statement 2018, which is available at the Group’s website.

The main occupational dangers identified as representing a risk of accident with serious consequences include:
- manual load handling;
- use of equipment that may cause: cuts, abrasions, collision, crushing, fractures;
- possible contact between people and construction machinery (crushing, collision, fractures).

The risks relative to these types of accident are identified and evaluation in detail through specific technical analyses for each process, task and individual activity, considering:
- work shifts and times;
› workstation characteristics;
› the materials used.

To mitigate these risks, theoretical and practice training and learning programmes have been established, while with regard to equipment mechanical lifting equipment has been installed where necessary, protection systems are in place for operating machinery and all necessary PPE required for the various situations has been provided.

<table>
<thead>
<tr>
<th>Occupational injury and illness rates</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rates</td>
<td>Employees</td>
<td>Other workers*</td>
</tr>
<tr>
<td>Number of fatalities from occupational illness</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Number of recordable cases of occupational illness</td>
<td>○</td>
<td>○</td>
</tr>
</tbody>
</table>

* workers who are not subject to an employment contract but whose work and/or place of work are controlled by the organization (such as temporary workers of Italian companies, temporary workers and apprentices of foreign companies, workers for the main contractors operating at the Group’s Italian sites)

Occupational dangers that may constitute occupational illness risks mainly refer to those associated with manual handling of loads which affect the skeletal structure and, to a lesser extent, noise and the use of chemical products.

As these conditions can be generated from prolonged exposure to the risks typical of the workplace, the criteria used to identify these factors and the actions taken to mitigate them reflect those adopting to identify and reduce the aforementioned injury risks.

No cases of occupational illness have been recorded in the last three years.
4.6

Training

Human Resources
The Carraro Group considers the provision of training to 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 organization 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 in recent years 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.
and in 2019, in addition to the regular activities:
› the presence of participants in the Carraro Academy at the Training Center CNH Industrial in Turin for two training sessions dedicated to the Carraro TCH90 powershift transmission with electronic controller;
› attendance of the Carraro Agritalia Service Team at the two-week training course dedicated to over 60 technicians and inspectors operating the John Deere West Coast network, held in Tulare, California (USA).

Overall, the number of hours of training developed in 2019 confirms the commitment shown in the previous year with over 49,000 hours of training delivered, in line with the training intensification plan adopted. Training content was almost evenly split between technical and non-technical training.

<table>
<thead>
<tr>
<th>Total hours of training by type of activity delivered to Group employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Technical training*</td>
</tr>
<tr>
<td>Other training**</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

* production, logistics, quality, engineering, IT, administration/tax, industrial innovation
** management, health, safety and the environment, Carraro Values

Note
› The 2018 data related to training was restated to align it with the new survey criterion which excludes apprentices and temporary workers. For previously published data, refer to the Group’s Consolidated Non-Financial Statement 2018, which is available at the Group’s website.

<table>
<thead>
<tr>
<th>Average hours of training by gender and professional category delivered to Group employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Managers and clerical workers</td>
</tr>
<tr>
<td>h</td>
</tr>
<tr>
<td>Factory Workers</td>
</tr>
<tr>
<td>h</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Notes
› The 2018 data related to training was restated to align it with the new survey criterion which excludes apprentices and temporary workers. For previously published data, refer to the Group’s Consolidated Non-Financial Statement 2018, which is available at the Group’s website.
› The ‘Managers and clerical workers’ category includes Senior Managers, Middle Management, Officers and Clerical Staff

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.
Carraro Academy technicians at the Training Centre CNH Industrial, Turin
Two training sessions were held at the Training Centre CNH Industrial in Turin, focused on the Carraro TCH90 powershift transmission system with electronic controller for telehandlers. A new model from the Carraro range designed to meet the operational meets of various agricultural applications and improve performance.

From Rovigo to the West Coast: the perfect job for the Carraro Agritalia Service Team
In February the Carraro Agritalia Service Team held a two-week training course aimed at over 60 technicians and inspectors of the John Deere West Coast network. The training sessions covered various topics related to the product: the after-treatment system (DPF and SCR), power take-off (PTO), the hydraulic system, vehicle diagnostics, electronics and the engine.

The Carraro Group attends the 'Universities and new transversal skills' conference
An interesting and informative event held at the Padua Botanical Garden, bridging the gap between the business and academic worlds, centred on the topic of the new skills that enable businesses to employ the right people. The various initiatives, which highlighted the need to further promote the development of students’ soft skills from the very start of university, along with the indispensable technical skills, also provided the Carraro Group with an opportunity to share its experience through the presentation given by Fulvio La Conte, R&D Competence Director.

Carraro Academy Technical Training
The Autosur de Levante company in Spain hosted a Carraro Academy training session focused on the entire Carraro driveline range (transmission, front and rear axle) installed in construction machinery. The course was a key opportunity for growth and debate between the Academy professionals who convey Carraro’s technical expertise and the garages and customers who interact directly with end users.
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)

<table>
<thead>
<tr>
<th>Economic value generated and distributed (Euro/000)</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic value generated by the Group</td>
<td>555,737</td>
<td>628,196</td>
</tr>
<tr>
<td>Revenues</td>
<td>548,846</td>
<td>624,115</td>
</tr>
<tr>
<td>Other incomes</td>
<td>8,111</td>
<td>5,601</td>
</tr>
<tr>
<td>Net financial income and expenses</td>
<td>575</td>
<td>1,113</td>
</tr>
<tr>
<td>Value adjustments and income from financial assets/investments</td>
<td>(1,954)</td>
<td>312</td>
</tr>
<tr>
<td>Exchange rate differences</td>
<td>74</td>
<td>(1,377)</td>
</tr>
<tr>
<td>Value adjustments for tangible and intangible assets</td>
<td>85</td>
<td>(1,568)</td>
</tr>
<tr>
<td>Economic value distributed by the Group</td>
<td>519,262</td>
<td>589,781</td>
</tr>
<tr>
<td>Operating costs</td>
<td>424,588</td>
<td>487,774</td>
</tr>
<tr>
<td>Remuneration to collaborators</td>
<td>65,003</td>
<td>66,314</td>
</tr>
<tr>
<td>Remuneration to lenders</td>
<td>10,790</td>
<td>12,786</td>
</tr>
<tr>
<td>Remuneration to investors (dividends)</td>
<td>-</td>
<td>-1</td>
</tr>
<tr>
<td>Remuneration of the public administration*</td>
<td>18,881</td>
<td>22,907</td>
</tr>
<tr>
<td>Economic value retained by the Group</td>
<td>36,475</td>
<td>38,415</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>20,214</td>
<td>19,006</td>
</tr>
<tr>
<td>Bad debts provision</td>
<td>106</td>
<td>49</td>
</tr>
<tr>
<td>Provisions</td>
<td>7,359</td>
<td>6,188</td>
</tr>
<tr>
<td>Net profit/(loss)</td>
<td>8,796</td>
<td>13,172</td>
</tr>
</tbody>
</table>
In 2019, the Group generated an economic value of € 555,737 thousand, compared to € 628,196 thousand in 2018.

In the course of 2019, € 519,262 thousand was distributed to stakeholders, compared to € 589,781 thousand distributed in 2018. In particular, a total of € 65,003 thousand was distributed to employees through the payment of salaries and wages, and € 424,588 thousand to suppliers through the payment of operating costs (raw materials, cost for services, etc.).

**Public contributions**

In 2019 no grants or loans were received from public authorities.

<table>
<thead>
<tr>
<th>Contributions and grants for Research and Development projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public contributions (amounts expressed in €)</td>
</tr>
<tr>
<td>Contributions for R&amp;D projects</td>
</tr>
</tbody>
</table>
5.2

Territory

---

Economic and Social Impact
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 coordination, supervision and control roles;
› the need to support a supply chain centred, where possible, on local suppliers both for raw materials and direct and indirect production components;
› the need to engage local suppliers to provide a series of continuous services to support the operation of the machines and the plant itself (maintenance, controls, fuel, cleaning and similar services);
› the need to rely on a network of specialist technical, administrative, legal and fiscal consultancy services with specific local expertise able to support the Group’s activities and ensure compliance with local regulations.

The economic impact of these elements on the region is clearly represented in the value-added income statement of the Group, which indicates that more than 76% of the economic value generated is distributed to suppliers of goods and services while 12% is distributed to the workforce in the form of remuneration and social contributions.

From this point of view, the contribution of the Carraro Group to the development of the 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 Senior Managers and Officers 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*

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 organizational 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 2019 over 93% of the Group’s Senior Managers and Officers worked in their native country.

To develop skills and broaden professional experience, the Group also promotes the growth of its Senior Managers and Officers through international mobility.

| Percentage of Senior Managers and Officers hired from local communities |
|-----------------------------|-----------------------------|
|                             | 2019                        | 2018                        |
|                             | M   | F   | Total | M   | F   | Total |
| Italy                       | 100%| 100%| 100%  | 100%| 100%| 100%  |
| India                       | 67% | 67% | 67%   | 67% | 67% | 67%   |
| Brazil                      | 0%  | 0%  | 0%    | 0%  | 50% | 50%   |
| Argentina                   | 100%| 100%| 100%  | 50% | 50% | 50%   |
| China                       | 100%| 100%| 100%  | 100%| 100%| 100%  |
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 counterparties.
Finally, when assessing a supplier, the Group also considers its willingness to subscribe to the principles of the Carraro Code of Ethics, including compliance with existing laws, loyalty, professional rigour and correctness and, more specifically, respect for the environment, human rights and workers’ rights.

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

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

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

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 2019 the expense for raw materials purchased amounted to € 335 million (€ 372 million in 2018).

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.

<table>
<thead>
<tr>
<th>Turnover of direct material suppliers by geographical area</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMEA</td>
<td>62.5%</td>
<td>58.0%</td>
</tr>
<tr>
<td>APAC</td>
<td>36.7%</td>
<td>40.7%</td>
</tr>
<tr>
<td>NAFTA</td>
<td>0.2%</td>
<td>0.3%</td>
</tr>
<tr>
<td>LATAM</td>
<td>0.6%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Note
- The data is extracted from the managerial system in use

<table>
<thead>
<tr>
<th>Turnover of indirect goods suppliers by geographical area</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMEA</td>
<td>58.8%</td>
<td>58.7%</td>
</tr>
<tr>
<td>APAC</td>
<td>37.6%</td>
<td>35.7%</td>
</tr>
<tr>
<td>NAFTA</td>
<td>0.0%</td>
<td>0.1%</td>
</tr>
<tr>
<td>LATAM</td>
<td>3.7%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
Notes
› The data is extracted from the managerial system in use
› Data referred to indirect production materials

<table>
<thead>
<tr>
<th>Turnover of suppliers by product category (direct materials)</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cast Iron</td>
<td>23.5%</td>
<td>26.9%</td>
</tr>
<tr>
<td>Mixed components</td>
<td>23.0%</td>
<td>25.4%</td>
</tr>
<tr>
<td>Steel</td>
<td>28.2%</td>
<td>33.4%</td>
</tr>
<tr>
<td>Components for tractors</td>
<td>25.4%</td>
<td>14.3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Note
› The data is extracted from the managerial system in use

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.

<table>
<thead>
<tr>
<th>Spending by major operating plants for purchases from local suppliers</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>77.7%</td>
<td>75.6%</td>
</tr>
<tr>
<td>India</td>
<td>81.4%</td>
<td>78.3%</td>
</tr>
<tr>
<td>China</td>
<td>80.9%</td>
<td>79.3%</td>
</tr>
<tr>
<td>Brazil</td>
<td>60.3%</td>
<td>70.7%</td>
</tr>
<tr>
<td>Argentina</td>
<td>31.4%</td>
<td>20.8%</td>
</tr>
</tbody>
</table>

Notes
› Percentages are calculated on the basis of the purchase invoices for direct materials from third-party suppliers for the production of components at all of the Group’s production plants.
› The term ‘local suppliers’ refers to suppliers located in the same country as the plant.
5.3 Social initiatives
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.

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 organizations.

At the end of 2019, the Group launched other social initiatives in favour of the areas in which it operates:

› discounted tickets and season tickets for the Stagione Concertistica degli Amici della Musica for Carraro employees;
› discounted prices for the 2019/2020 season of the Teatro Stabile del Veneto at Teatro Verdi in Padua, Teatro Goldoni in Venice and Teatro Comunale Mario Del Monaco in Treviso for Carraro employees, as well as other minor initiatives.

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

<table>
<thead>
<tr>
<th>Association</th>
<th>Position</th>
<th>Carraro Representative</th>
<th>Role in the Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Confindustria Veneto</td>
<td>Chairperson</td>
<td>Enrico Carraro</td>
<td>Chairperson of the Board of Directors of Carraro Spa</td>
</tr>
<tr>
<td>Care &amp; Share Italia Onlus</td>
<td>Chairperson</td>
<td>Tomaso Carraro</td>
<td>Deputy Chairperson of the Board of Directors of Carraro Spa</td>
</tr>
</tbody>
</table>
Confindustria represents the largest business association in Italy. The Federazione del Veneto represents over 11,000 businesses with 320,000 employees throughout the region.

Care&Share Italia is an Italian non-governmental organization that has worked to support disadvantaged children in India for over 25 years.

Fondazione Antonveneta is an organization 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 organization of concerts and the promotion of musical research projects.

Carraro and Un’idea di India
(An idea of India)
A spin-off from the book Un’idea di India, the exhibition aims to represent a range of internal and external experiences and visions.

19/20 Concert Season
Discounted prices on season tickets and tickets for the 2019/2020 Amici della Music Season.

Theatre
Discounted prices for Teatro Verdi in Padua, Teatro Goldoni in Venice and Teatro Comunale Mario Del Monaco in Treviso.
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 Group Anti-Corruption Policy,
- the Organizational, 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 An-
ti-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.

As at 31/12/2019 all of the Group’s Directors and Statutory Auditors had been informed and received training on the anti-corruption principles adopted by the Group.

<table>
<thead>
<tr>
<th>Employees of the Carraro Group who have been informed of the anti-corruption principles adopted by the Group</th>
<th>31.12.2019</th>
<th>31.12.2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>n°</td>
<td>%</td>
</tr>
<tr>
<td>Italy</td>
<td>1,321</td>
<td>100%</td>
</tr>
<tr>
<td>Other countries</td>
<td>280</td>
<td>22.7%*</td>
</tr>
<tr>
<td>Total</td>
<td>1,601</td>
<td>62.7%</td>
</tr>
</tbody>
</table>

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

Note
› The percentages were recalculated based on Group employees.

<table>
<thead>
<tr>
<th>Employees of the Carraro Group who have completed training on the principles of anti-corruption (Code of Ethics)</th>
<th>31.12.2019</th>
<th>31.12.2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>n°</td>
<td>%</td>
</tr>
<tr>
<td>Italy</td>
<td>378*</td>
<td>28.6%**</td>
</tr>
<tr>
<td>Other countries</td>
<td>23*</td>
<td>1.9%**</td>
</tr>
<tr>
<td>Total</td>
<td>401</td>
<td>15.7%</td>
</tr>
</tbody>
</table>

** 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 and from 2014 (for foreign employees) and who are still employed at the end of the reporting period.

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 2019, no cases of incidents determined by phenomena of corruption were recorded and no significant monetary or non-monetary sanctions were imposed on any of the Group’s entities for non-compliance with laws and regulations.

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

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

For this reason, no forms of contribution of any kind to political parties or other similar institutions have been made.
5.5

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

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

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

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

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

The level of commitment shown by Carraro in the pursuit of high quality standards is evidenced by the number of human resources dedicated to product and process management and control activities, according to an organizational system that numbered 265 resources as at 31 December 2019, distributed as follows:

<table>
<thead>
<tr>
<th>Department</th>
<th>Position</th>
<th>Company/office</th>
<th>Dedicated resources (FTE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality</td>
<td>Head offices of the Group</td>
<td>Carraro Spa</td>
<td>5</td>
</tr>
<tr>
<td>After-Sales Quality and Services</td>
<td>local</td>
<td>Italy, China, USA, Brazil, India</td>
<td>31</td>
</tr>
<tr>
<td>Operations Quality</td>
<td>local</td>
<td>Italy, China, India, Argentina</td>
<td>204</td>
</tr>
<tr>
<td>Procurement Quality</td>
<td>local</td>
<td>Italy, China, India</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>265</td>
</tr>
</tbody>
</table>

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 2019, no significant sanctions were imposed for non-compliance with laws and regulations for the supply and use of products or services.

Carraro’s approach includes the application of instruments such as DFMEA in the development phase and PFMEA in the production phase according to AIAG standards (user safety, product quality), operational safety according to ISO standards (user safety), the quality management system according to standard ISO 9001 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 controls 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.

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
5.6

Customer service

Economic and Social Impact
Customer engagement, feedback and satisfaction

One of the main factors of the Carraro Group’s success is the Global Partnership, which envisages the full collaboration with customers from the product design phase to its production and delivery.

The Group does not propose goods on the market that operate in a stand-alone fashion with no connection to other products in the same sector or without links to other manufacturer’s brands; instead, its products are only able to function correctly when installed in more complex machines or created on behalf of and under third-party brands.

Close and constant cooperation with customers is therefore essential to the types of business carried out by the Carraro Group due to the intrinsic nature of the products, which:

› in the case of transmission systems (axles, transmissions and transaxle gearboxes), form a key element in the machines produced by the customer which can only operate in full integration with the other elements of the machine;

› in the case of gears, are part of a more complex element (axles, transmission or other mechanical devices) whose components work in total synchrony with the other components to operate as a single complex system;

› in the case of agricultural vehicles produced for leading global OEM (Own Equipment Manufacturers), are produced thanks to the contribution of Carraro’s design expertise in the sector, the customer’s ability to identify precise technical and performance requirements that must be met as well as to indicate certain preferred supply channels, and the industrial knowhow of the Carraro Group in the production of turnkey products.

The combination of these conditions has led Carraro to develop a precise customer relations approach and to organise its work according to the following phases:

i. co-design of the product according to the application or target end product;

ii. definition of performance levels according to type of use;

iii. sharing of the prototype and testing approach and results;

iv. compliance with agreed delivery schedules;

v. timely support in the case of problems during assembly or in the field;

vi. constant attention to customers’ needs;

vii. readiness and flexibility toward the adoption of product modifications.
Each of these phases requires a precise ability to listen to customers and a high level of customer engagement, implemented through:
› the creation of mixed workgroups;
› the joint definition of work schedules;
› the sharing of reference production and quality standards;
› total openness to any technical checks and monitoring that the customer wishes to conduct at our R&D and production facilities.

Quality and service standards - specifically delivery times and the time taken to respond to and resolve problems reported by customers - determine the ability to focus on customer satisfaction, both pre- and post-sales; furthermore, the pursuit of this objective is essential to maintaining the Group’s competitive position on the market given the extremely close integration of its products with customers’ finishing products.

Moreover, a direct understanding of customer satisfaction is facilitated by the continuous monitoring carried out by customers on their own supply chain, expressed in the recognitions awarded to the Carraro Group by its suppliers. In 2019 this included:

**Carraro China Drive Systems Co Ltd**
awarded the Caterpillar ‘Gold Medal’ for the third consecutive year

**Carraro Drivetech do Brasil Ltda**
named ‘Partner Supplier’ by John Deere
Appendix
6.1

Association of material topics to GRI Standards
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Tomaso Carraro  
**Deputy Chairman**  
**Chief CSR Officer**
6.3
Independent Auditors’ Report
INDEPENDENT AUDITOR’S REPORT
ON THE CONSOLIDATED NON-FINANCIAL STATEMENT PURSUANT TO ARTICLE 3,
PARAGRAPH 10 OF LEGISLATIVE DECREES 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, 2019 prepared on the basis of art. 4 of the Decree, and approved by the Board of Directors on March 17, 2020 (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” established in 2016 by GRI - Global Reporting Initiative (hereinafter “GRI Standards”), 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 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.
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.

In particular, we carried out interviews and discussions with the management of Carraro S.p.A. and with the employees of Carraro Drive Tech S.p.A. and Carraro China Drive Systems Co. Ltd., and we carried out limited documentary verifications, in order to gather information about the processes and procedures which support the collection, aggregation, elaboration and transmittal of non-financial data and information to the department responsible for the preparation of the NFS.
In addition, for material information, taking into consideration the Group’s activities and characteristics:

- at the parent company’s and subsidiaries’ level:
  
  a) with regards to qualitative information included in the NFS, and specifically with reference to the business management model, policies applied and main risks, we carried out interviews and gathered supporting documentation in order to verify its consistency with the available evidence;
  
  b) with regards to quantitative information, we carried out both analytical procedures and limited verifications in order to ensure, on a sample basis, the correct aggregation of data.

- for the following companies and sites, Carraro S.p.A (Campodarsego), Carraro Drive Tech S.p.A. (Campodarsego) and Carraro China Drive Systems Co. Ltd., which we selected based on their activities, their contribution to the performance indicators at the consolidated level and their location, we carried out site visits, during which we have met their management and have gathered supporting documentation with reference to the correct application of procedures and calculation methods used for the indicators.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of the Carraro Group as of December 31, 2019 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
Cristiano Nacchi
Partner

Padova, Italy
April 1, 2020

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

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www.carraro.com
In this 2019 edition of the Sustainability Report we chose once more to have the faces of our Carraro people accompany the narration of our CSR activities. This time we used a series of images shot by photographer Mattia Balsamini, a young Italian talent with international visual culture and experience.

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

For the Carraro Group, Mattia shot and immortalised scenes of everyday life in the company. He took portraits of some of our employees at Maniago, Rovigo and Campodarsego. Faces chosen as part of a random selection based on their similarities and differences, representing their spirit, rather than the body, going beyond names and professional roles. An aesthetic research aimed at bringing to light unique perspectives and details of factories, offices, workspaces. Playing with contrast, both in colour and in black and white. A way of narrating ourselves, but without words.