REPORT

CARRARO GROUP

Annual Report 2017

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REPORT

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Letter from the Chairman

Dear Shareholders,
The excellent results recorded in the year just ended mark a turning point and are the result of all the activities put in place in the last three years with the aim of increasing profitability, strengthening the capital structure and increasing our level of competitiveness on the markets. The road to a new phase of development is now opening.

Turning to the figures, 2017 shows an improvement on every front, with a turnover that increases to 606 million Euros, thanks to the increase in the demand for tractors on a global level, on the one hand, and to a progressive recovery of the construction machine sector, on the other.

But it is above all margins that record the most significant increases, with Ebitda increasing by 40.5% compared to 2016, exceeding 55 million Euros, and the return to Profit with a net profit of 13.7 million Euros, taking us far away from the loss of 9 million at the end of 2016.

A good performance also in terms of Net Financial Position, which decreased to 145.9 million Euros compared to 183.2 million in the previous year, bringing the Group back to a very balanced situation which allowed us to further invest in the development of new products and improving the efficiency of the global production platform, and at the same time to create a joint venture in China with Shandong Juming Group.

Research and Development
Our Carraro Twin Shift™ double clutch transmissions for tractors have received excellent feedback from the main customers, and we are completing the range for the various application powers. In the construction equipment sector, on the other hand, solutions – such as Direct Drive – confirmed their validity, guaranteeing high efficiency and productivity for many types of operating machines; as too did tailor-made products guaranteeing maximum design ergonomics, such as the TCH transmissions for a market, that of telescopic forklift trucks, with considerable potential for development.

At the same time, we developed a new range of front axles with electronically controlled suspension for tractors and today we are the only player in our industry to be able to offer all the technologies available on the market.

Still on the subject of innovation, in the field of specialised tractors, we are significantly expanding our range, extending it to lower (compact and super compact machines) and to higher powers, positioning our Rovigo center of excellence at an increasingly high level of competence and recognition by the main agriculture OEMs.

Target markets

In 2017, the agricultural sector globally recorded increasing volumes, in sharp contrast with the last three years. This improvement was sustained by the increase in the price of commodities that facilitated the renewal of machinery by agricultural entrepreneurs. In North America, in 2017 there was a progressive increase in tractor sales volumes, with particular reference to compact machines. At the same time in Europe, the growth in tractor demand was consolidated during the year for every vehicle type and size. In contrast, the Chinese market, which, following the shift in state subsidies and the simultaneous increase in vehicle prices, recorded a significant decline in volumes, especially for tractors above 100 HP. Thanks to the good climatic conditions of the last 12 months, there is growing demand for tractors on the Indian subcontinent, one of the most interesting areas in terms of development prospects..

The construction machinery sector is also recovering, with a progressive acceleration of demand in Europe, especially for compact and specialised machines, while in the United States there was recovery in larger and the mining machines, after years of stagnation. Similarly in China, after almost 5 years of deep recession, the phase of disposal of products in stock finally ended and the market began to show a reversal of trend. India consolidated its expansion in this area in 2017 and confirmed to be the largest market in the world for backhoe loaders. In this application - for which we are the main worldwide supplier of axles and transmissions – we are recording recovery on a global level after years of stagnation.

Customers

In parallel with the development of our product range, in recent years we have forged even closer relationships with our customers, maintaining and strengthening them step by step. Continually adding new ones.

Since our origins we have been alongside the main global manufacturers of agricultural and construction machinery, becoming strategic partners in the heart of advanced mechanics.

Today we are recognised as a global player able to provide highly technological product solutions designed to adapt to local needs. Fully in line with the local for local approach that has always distinguished us and constitutes a fundamental element of competitiveness in today's geopolitical scenarios.

Operations

The competitiveness achieved today by the Group is the result of our ability to identify and invest in advanced production processes.

Continuous updating of our process technologies – above all with a digital integration 4.0 approach – and the simultaneous introduction of new and sophisticated production plants, are the basis of a complex industrial system that allows us to achieve maximum efficiency in each plant.

In this context, the ability to integrate our Partner suppliers in the Group's activities, involving them in Carraro processes and sharing a long-term strategy with them, has been and remains decisive.

Focus on People

The contribution of all the Group's collaborators has been crucial in achieving the results that we set ourselves, always sharing objectives and strategies, working together in the same direction and bringing to the forefront the experience of people who have grown step by step with us.

Looking ahead to the future, in recent months we launched the Carraro Academy in Agritalia, with the aim of developing young talent to one day become part of our staff, or the cross-fertilisation program developed with several universities, aimed at mutually matching skills and introducing young researchers in our Innovation departments.

So we see positive scenarios ahead of us in every direction with markets growing everywhere, except for some uncertainties in limited regions.

In this context, we are now aware of having all the levers to compete in an increasingly effective manner, with a new organisation that will allow us to be increasingly reactive in challenging and dynamic markets.

So, new products, new markets, new customers and new process technologies. Four fundamental pillars of a clear vision that leads us to look positively towards the future a new growth phase.

ENRICO CARRARO
Chairman

Ownership Structure

Board of Directors
In office until approval of the 2017 Financial Statements
(Appointments, Shareholders' Meeting 23/03/2015)

Enrico Carraro
Chairman

Tomaso Carraro
Deputy Chairman

Alberto Negri
Chief Executive Officer

Fabio Buttignon [1/2]
Director*

Riccardo Arduini
Director*

Marina Manna [1/3]
Director*

Marina Pittini [1/2]
Director*

1 Members of the Auditing and Risk Committee
2 Members of the Appointments and Remuneration Committee
3 Members of the Supervisory Board
* Independent Directors

Board of Statutory Auditors
In office until approval of the 2017 Financial Statements
(Appointments, Shareholders' Meeting 23/03/2015)

Saverio Bozzolan
Chairman

Stefania Centorbi
Regular Auditor

Andrea Cortellazzo
Regular Auditor

Barbara Cantoni
Alternate Auditor

Gianmarco Milanato
Alternate Auditor

Independent Auditors
2016–2025
Deloitte & Touche Spa

Parent Company
Finaid Spa

Under the terms and for the purposes of Consob Communication no. 97001574 of 20 February 1997, we state that: The Chairman, Mr. Enrico Carraro and the Chief Executive Officer, Mr. Alberto Negri, have been given severally powers of legal representation and use of the corporate signature in relations with third parties and in court; they carry out their work within the limits of the powers conferred on them by the Board of Directors in the meeting of 27 March 2015, in accordance with applicable legal constraints, in terms of matters which cannot be delegated by the Board of Directors and of responsibilities reserved for the Board itself, as well as the principles and limits provided for in the Company's Code of Conduct.

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Share Capital
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of Companies
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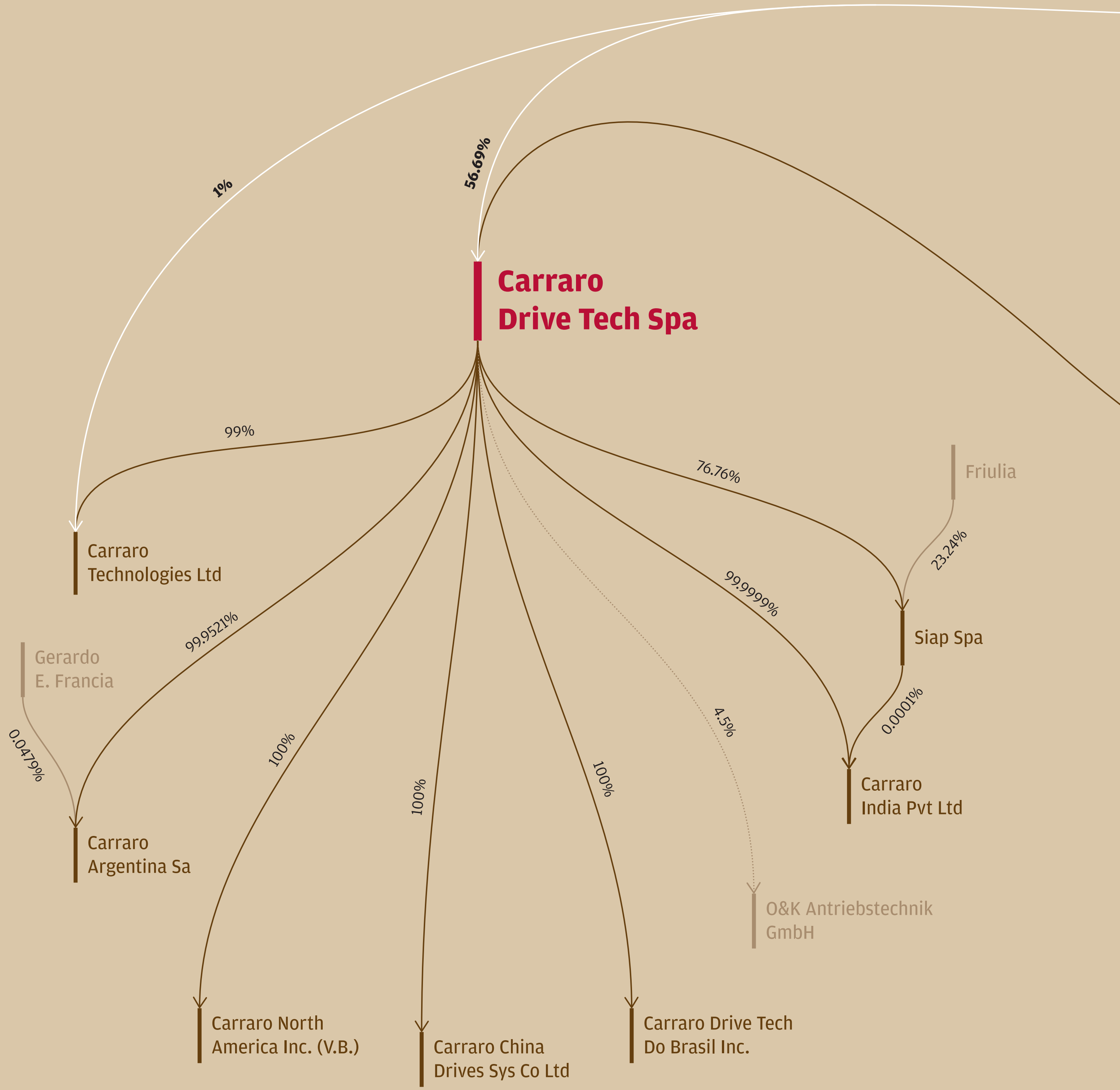
Padua REA No. 84033



Ownership Structure


Carraro Spa
Divisione Agritalia
100%
100%
27.3572%
Carraro
Deutschland GmbH
Carraro
International Se
43.31%
21.6455%
100%
49%
Minigears Inc
Elettronica
Santerno Spa
Agriming Agriculture
Equipment Co. Ltd.

DIRECTORS' REPORT ON OPERATIONS
as at 31 December 2017

Report

Consolidated Income Statement
as at 31/12/2017

Amounts in Euro/000

	31.12.17	%	31.12.16	%	Changes	
					31.12.17	31.12.16
Revenues from sales	**606,021**	**100.00%**	**593,747**	**100.00**	**12,274**	**2.07%**
Purchases of goods and materials (net of changes in inventories)	-360,270	-59.45%	-357,066	-60.14%	-3,204	-0.90%
Services and Use of third-party goods and services	-93,959	-15.50%	-96,450	-16.24%	2,491	2.58%
Personnel costs	-94,432	-15.58%	-97,871	-16.48%	3,439	3.51%
Amortisation, depreciation and impairment of assets	-21,770	-3.59%	-27,918	-4.70%	6,148	22.02%
Provisions for risks	-9,011	-1.49%	-10,306	-1.74%	1,295	12.57%
Other income and expenses	5,480	0.90%	3,439	0.58%	2,041	59.35%
Internal construction	1,649	0.27%	4,184	0.70%	-2,535	-60.59%
Operating costs	**-572,313**	**-94.44%**	**-581,988**	**-98.02%**	**9,675**	**1.66%**
Operating profit/(loss) (Ebit)	**33,708**	**5.56%**	**11,759**	**1.98%**	**21,949**	
Income and expenses from equity investments	-326	-0.05%	-14	0.00%	-312	
Other financial income	3,023	0.50%	2,200	0.37%	823	37.41%
Financial costs and expenses	-11,670	-1.93%	-13,644	-2.30%	1,974	14.47%
Net gains/(losses) on foreign exchange	-1,958	-0.32%	-1,836	-0.31%	-122	-6.64%
Value adjustments of financial assets	-1,504	-0.25%	-213	-0.04%	-1,291	
Gains/(losses) on financial assets	**-12,435**	**-2.05%**	**-13,507**	**-2.27%**	**1,072**	**7.94%**
Profit/(loss) before taxes	**21,273**	**3.51%**	**-1,748**	**-0.29%**	**23,021**	
Current and deferred income taxes	-7,602	-1.25%	-7,340	-1.24%	-262	-3.57%
Net profit/(loss)	**13,671**	**2.26%**	**-9,088**	**-1.53%**	**22,759**	
Profit/(loss) pertaining to minorities	-3	0.00%	1	0.00%	-4	
Group consolidated profit/(loss)	**13,668**	**2.26%**	**-9,087**	**-1.53%**	**22,755**	
Ebitda*	**55,035**	**9.08%**	**39,182**	**6.60%**	**15,853**	**40.46%**

* for the breakdown, please refer to the “Summary of year” section, which describes the alternative performance indicators.

Consolidated Statement of Financial Position

as at 31/12/2017

Amounts in Euro/000

	31.12.17	31.12.16
Property, plant and equipment	140,717	150,849
Intangible fixed assets	57,603	61,117
Real estate investments	695	695
Investments	24,252	18,561
Financial assets	8,849	10,616
Deferred tax assets	21,135	21,781
Trade receivables and other receivables	5,638	3,551
Non-current assets	**258,889**	**267,170**
Closing inventory	122,892	90,665
Trade receivables and other receivables	107,909	72,916
Financial assets	5,016	7,711
Cash and cash equivalents	48,868	47,753
Current assets	**284,685**	**219,045**
Total assets	**543,574**	**486,215**
Share Capital	41,453	23,915
Reserves	27,164	46,995
Foreign currency translation reserve	-9,266	-15,094
Profit/loss for the year	13,668	-9,087
Minority interests	9,040	-
Shareholders' equity	**82,059**	**46,729**
Financial liabilities	134,594	159,783
Trade payables and other payables	421	646
Deferred tax liabilities	2,532	2,117
Provision for severance indemnity and retirement benefits	10,229	10,697
Provisions for risks and liabilities	5,723	4,711
Non-current liabilities	**153,499**	**177,954**
Financial liabilities	73,240	88,448
Trade payables and other payables	210,860	151,442
Current taxes payables	7,193	6,473
Provisions for risks and liabilities	16,723	15,169
Current liabilities	**308,016**	**261,532**
Total shareholders' equity and liabilities	**543,574**	**486,215**

Analysis of Net Working Capital of Operations
as at 31/12/2017

Amounts in Euro/000

	31.12.17	31.12.16
Trade Receivables **	77,819	50,637
Closing inventory	122,892	90,665
Trade payables ***	-174,722	-129,087
Net Working Capital of operations	**25,989**	**12,215**

** for details of the item please refer to Note 12 of the Consolidated Financial Statements.
*** for details of the item please refer to Note 17 of the Consolidated Financial Statements.

The Carraro Group

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

Carraro Spa is not subject to management and coordination activities under the terms of Art. 2497 *et seq* of the Italian Civil Code. The controlling shareholder of Finaid Spa does not direct and coordinate Carraro's operations.

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

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

› **Tractors**
  Through Divisione Agritalia, the Group designs and manufactures 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.

Reference Markets

AGRICULTURE

2017 closed with increasing volumes at the global level, in sharp contrast with the last three years. Demand for agricultural tractors gradually strengthened over the course of the year, helping increase the positive expectations of all operators in the sector also for 2018. This growth was sustained by the increase in the price of raw materials: the higher income facilitated the renewal of the machinery fleet by agricultural entrepreneurs.

In Europe, demand growth consolidated during the year, extending to all vehicle types and sizes. Also for specialised tractors (Vineyard-Orchard) the good sales levels already recorded in the recent past were confirmed. For 2018, sales of the aforementioned vehicles will remain in line with or slightly higher than 2017.

The agricultural machinery market in Turkey fell slightly compared to 2016, with a fluctuating trend in demand. The forecasts for 2018 remain uncertain: the area has all the fundamentals for a growth path, but the progressive closure of commercial trade is holding this back with the imposition of import duties and the continuous loss of value of the Turkish lira.

Also in North America, in the course of 2017 there was a progressive increase in sales volumes. Higher power tractors were again penalised compared to the compact models, albeit with some signs of recovery in demand. Sales of harvesting machines showed a positive reversal of trend, with an increase in volumes compared to the previous year. The outlook for 2018 remains positive with market development expectations in line with those of the year just ended.

In contrast, in 2017 the Chinese market recorded a significant decline in agricultural machinery sales volumes compared to 2016, especially those above 100 hp. This slowdown was due both to the decline in state subsidies as well as to the increase in the price of tractors, following the technological upgrade necessary to meet the new emission standards. The outlook for 2018 is still uncertain and there are no elements for a significant change in the current trend.

The positive trend begun last year was strengthened in India. The good weather facilitated demand growth. The outlook for 2018 is a substantial confirmation of the sales volumes achieved this year.

The South American market improved in the first half of the year compared to the same period of 2016, while this trend progressively changed to a clear slowdown in the last quarter. Overall, however, volumes were up compared to 2016, thus confirming, also in this area of the world, a reversal of the negative cycle of the last three years. The increases were significant for all types of vehicles, while remaining far from the values of the record highs. Some areas of uncertainty remain for 2018, as a result of the aforementioned slowdown in the latter part of the year, even if the fundamentals confirm a potential for growth in demand.

CONSTRUCTION EQUIPMENT

2017 closed with much better results than the previous year.

In Europe, the market recorded a progressive acceleration in the demand for construction machines for all types and sizes, with greater dynamism for compact and specialist machines (loaders and excavators); this trend is also confirmed for 2018.

Demand in the Turkish market remained weak as a result of the continuing slowdown in infrastructure investments. On the other hand, exports showed a positive trend, not sufficient to offset the low level of domestic sales, for which a slight improvement is expected in 2018.

North America recorded a significant increase in the demand for larger and mining machines, typologies in substantial stagnation in recent years, and the good level of demand was also confirmed for Utility machines. For 2018, in light of the radical change of direction with regard to the coal industry, expectations for a further recovery in the mining sector are reasonable. The prospects for major infrastructure investments (roads, ports, airports) should also drive demand for medium-large size machines.

In 2017, China reversed its trend in sales of construction machinery. After 4 years of deep recession, there were finally significant increases in volumes for the two most popular vehicles, loaders and crawler excavators. The de-stocking of quantities over-produced and unsold until 2013 is therefore over and the market is now responding to the actual demand for new vehicles. Thanks to the long-term plan of investments in infrastructure called “One Belt, One Road”, it is reasonable to expect that the current trend will continue in the medium term.

In India, the expanding phase of the construction machinery market was consolidated in 2017; the country remains the largest market in the world for the backhoe loader, with an expected volume of 30-35 thousand machines. Furthermore, the need for large infrastructural investments will allow this trend to be maintained or even strengthened in the future.

In South America, the demand for construction machinery remained weak, despite some modest signs of improvement. In the main market of the area, Brazil, the intense political-institutional instability significantly limits investments in the construction sector and consequently the need for new machinery. Positive signs came from exports, thanks to the weakness of the currency. Although the economic scenario of the country is improving, significant impacts on sales are not expected in 2018.

Key Factors of Success

Research and Innovation

The Group's key success factor

In line with the new 2017-2021 Business Plan, presented to the market in September 2017 (see paragraph on significant events in 2017), Carraro maintains its focus on R&D activities, with particular reference to the development of innovative transmissions and specialised tractors for markets with highest development potential. In particular, the financial commitment in R&D activities in 2017 amounted to approx. 3.6% of turnover and the 2017-2021 Business Plan envisages additional investments of 90 million Euros in the near future.

TRANSMISSION SYSTEMS AND GEARBOXES

2017 saw significant development progress in the Driveline area (axles and transmissions), encouraged by the needs of the main customers, increasingly focused on vehicle efficiency and emission reduction.

In the agricultural segment, inheriting the already consolidated developments of its bigger sister, the T180 CTS (*Carraro Twin Shift*), great attention was paid to the new T100 CTS (*Carraro Twin Shift*) transmission, now undergoing final testing. At the end of 2017, a series of prototypes and demonstration vehicles were under validation and can be sold in the first quarter of 2018. High priority was also given to the T120 PR (*Power reverse*) project. For the high-power transmissions, the design phase of the new mechanical versions of the T180 and T230 families was completed.

In the Construction field, validation of the new TCH90 transmission for telescopic trucks (TBH) continued. Always in collaboration with important customers, field validations of the TLB for backhoe loaders (BHL) which mount the Carraro Direct Drive functionality are in progress and are expected to be available for sale between 2019 and 2020.

AXLE RANGE EVOLUTION

As regards axles, 2017 was an extremely innovative year, due to both the expansion of the offer to “portal” architecture solutions and to completion of the testing of a new model of agricultural axle with independent suspension (Ifas, *Independent Front Axle Suspension*), designed to significantly improve vehicle driving comfort. A solution which has already attracted the interest of the main customers of Agritalia and which will be applied within the new models of specialised tractors built in the Rovigo plant. The project to standardise the range to guarantee quality and competitiveness objectives continued with utmost commitment.

TRACTORS

The level of commitment in the program for the expansion of the range specialised tractors with new models aimed at covering important market niches, such as the low-profile cabs, was also high in 2017. All the engine installations of the John Deere and Claas platforms were renewed to adapt to the Stage IIIB emissions directives and to the European “Mother Regulation” directive.

The new range of specialised Massey Ferguson, launched in production in the second half of 2017, was completed.

The range of “open field” tractors was also released for countries not subject to stringent emissions regulations and the Carraro Tractors series was renewed with Stage IIIB common rail engines with new ergonomics.

Prototype validation of technical solutions with high market demand continued in 2017, in particular vehicle integration of suspended axles and continuously variable transmissions for supercreeper applications, that will be launched in 2018.

Finally, the development of engine installations conforming to Stage V was activated, for the new powertrain platforms, which will be launched on the market in 2021, and a project was launched in the field of hybrid/electric tractor solutions.

Highlights

Summary of Financial Year 2017

FOREWORD

To better understand the figures relating to the 2017 financial year, adjusted figures and proforma figures will be highlighted. In particular the adjusted figures will take into account transactions not related to ordinary operations such as extraordinary restructuring activities, some sales of assets that mainly concerned the Carraro Argentina Company and the impairment of some intangible assets that concerned Carraro Spa. The proforma figures for comparison purposes take into account the effects of deconsolidation following the sale of 51% of the Elettronica Santerno Spa and its subsidiaries, which took place in November 2016, in order to represent the results achieved in the various periods with constant perimeter.

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

- Ebitda: the sum of operating profit/(loss) of the income statement, amortisation, depreciation and impairment of fixed assets
- Ebit: earnings before tax taxes and financial income and expenses, with no adjustments;
- Net Working Capital of operations: difference between Trade Receivables, Net Inventories and Trade Payables in the balance sheet;
- Net financial position of operations: Esma Net Financial Debt determined in accordance with the provisions of paragraph 127 of the recommendations contained in the Esma document no. 319 of 2013, implementing Regulation (EC) 809/2004, deducted, where applicable, non-current receivables and financial assets.

2017 closed with results above expectations, both in terms of turnover as well as for all profitability indicators. Thanks to the now tangible and consolidated effects resulting from the reorganisation and refocusing on the core business, Carraro has left the most complex period of its history behind it and can look to the future with ambitious objectives and renewed energy, with a new strategic dimension and increased competitiveness. Key factors of this result were the attention to technological challenges accompanied by the effort dedicated in recent years to optimisation of the industrial organisation, of production factors and of the rationalisation of the overheads.

In particular, the Group's continuing commitment to Research and Development, always enhanced over time, for which 140 million have been invested in the last ten years and 90 million are envisaged in the near future by the 2017-2021 Business Plan, today guarantees a solid positioning for a new technological leadership. This success stems from the finalisation of a renewed range of products, created with a strong focus on cost control, as well as the standardisation of the manufacturing process.

The virtuous circle which has finally started has a real impact on the profitability of all business areas. Margins are clearly improving both in absolute terms as well as a percentage of turnover.

Achieving all these targets is the result of the strong ability to meet the commitments taken that has been particularly appreciated by the main customers of the Group which have also guaranteed and renewed their trust in recent years. The financial market's appreciation was even more decisive, supporting the Group by subscribing 100% of the capital increase issued by Carraro Spa and contributing to the increase in the share value, which more than doubled its capitalisation on the stock market during the course of the year, realigning it to values more consistent with the economic results and the regained financial equilibrium.

Furthermore, after the presentation of the Business Plan in September 2017, the debt restructuring process, much appreciated by the market with the subscription in 2018 of 100% of the new 180 million bond issue maturing in 2025, was started (for further details, see the paragraph relating to subsequent events).

RESULTS SUMMARY

After a first half-year down overall compared to the same period of 2016, the year closed with increasing volumes and a turnover of 606.021 million, an increase of 2.07% compared to the 593.747 million Euros of 2016, an increase that reaches 8.6% if compared with the 2016 pro forma figure (equal to 557.823 million Euros) taking into account the deconsolidation of Santerno.

The consolidated margins (Ebitda and Ebit) for the year were affected by non-recurring operating items, such as mainly the restructuring costs relating to the downsizing of the Argentine subsidiary for a total of 1.2 million Euros, the sale of the owned property, again in Argentina, which resulted in a capital gain of 3.3 million and some capital losses from impairment due to the non-recoverability of certain intangible assets amounting to 1.9 million in Carraro Spa.

Ebitda as at 31 December 2017 was equal to 55.035 million Euros (9.1% of turnover) up 40.5% compared to 39.182 million Euros (6.6% of turnover) in 2016; 2017 Ebit was equal to 33.708 million Euros (5.6% of turnover), significantly up compared to 11.759 million Euros (2% of turnover) in 2016.

Net of the non-recurring operations and with constant perimeter, adjusted and proforma Ebitda and Ebit would be the following:

Amounts in Euro/000

Group	31.12.2017	*% of turnover*	31.12.2016	*% of turnover*
Ebitda	55,035	9.1%	39,182	6.6%
Adjusted ebitda	54,809	9.0%	44,669	7.5%
Adjusted proforma Ebitda	54,809	9.0%	48,151	8.6%
Ebit	33,708	5.6%	11,759	2.0%
Adjusted Ebit	33,482	5.5%	22,459	3.8%
Adjusted proforma Ebit	33,482	5.5%	27,662	5.0%

Margins are clearly improving in absolute terms, as a percentage of turnover and in terms of adjusted figures. This important result is due to the positive combination generated by the inversion of the market trend, with the consequent acceleration of volumes, and to the manoeuvres to contain costs, the result of the reorganisation process, as mentioned above.

In the previous tables, the 2016 pro forma figures were also presented for comparison purposes, which take into account the contribution of Santerno, deconsolidated in full from the end of November 2016, which contributed to the Group's results at 31 December 2016 with a negative Ebitda of 3.532 million Euros (-9.8% of turnover), negative Ebit of 10.465 million Euros (-28.9% of turnover) and a loss of 12.257 million Euros (for 2017 there is no proforma effect): it is therefore clear that the deconsolidation of Santerno has led to an improvement in margins.

Net financial expenses amounted to 8.647 million Euros (1.4% of turnover) compared to 11.444 million Euros (1.9% of turnover) in 2016; exchange rate losses amounted to 1.958 million Euros (0.3% of turnover) in line with the 1.836 million Euros (0.3% of turnover) in 2016.

Taxes for the period amounted to a total of 7.602 million Euros (1.25% of turnover) against 7.340 million Euros (1.24% of turnover) in the previous year.

Carraro closed with a significant consolidated net profit of 13.668 million Euros (2.26% of turnover) compared to a loss of 9.087 million Euros (-1.53% of turnover) in 2016. Net of the effects of non-recurring operations with constant perimeter, the adjusted and proforma profit/(loss) can be inferred from the following table:

Amounts in Euro/000

Group	31.12.2017	*% of turnover*	31.12.20156	*% of turnover*
Net profit/(loss)	13,668	2.3%	-9,087	-1.5%
Adjusted net profit/(loss)	13,657	2.3%	436	0.1%
Adjusted net proforma profit/(loss)	13,657	2.3%	4,785	0.9%

The adjusted net profit takes into account the non-recurring operating items just mentioned (such as the restructuring costs relating to the downsizing of the Argentine subsidiary for a total of 1.2 million Euros, the sale of the property, again in Argentina, which resulted in a capital gain of 3.3 million and some capital losses from impairment due to the non-recoverability of certain intangible assets amounting to 1.9 million in Carraro Spa) in addition to the corresponding tax effect (215,000 Euros. As regards 2016, it should be noted that the Electronics Business Area (Elettronica Santerno), fully deconsolidated as from the end of November 2016, contributed to the results with a loss of 12.257 million Euros.

The consolidated net financial position as at 31 December 2017 was negative at 145.896 million Euros, improving on the figure both at 31 December 2016 (negative at 183.200 million Euros), as well as at 30 June 2017 (negative at 148.430 million Euros). The positive effect is attributable to the finalisation of the capital increase in Carraro Spa by the market for 20 million Euros, the entry of Friulia Spa (Finance Company of the Friuli Venezia Giulia Region) in Siap Spa with the payment of 8 million Euros, the collection of the price for the sale of the property in Argentina already mentioned, as well as the good performance of the operating free cash flow. The improvement was partially used to the benefit of the Joint Venture signed with Shandong Juming Group for the incorporation of the NewCo Agriming Agriculture Equipment Co. Ltd (4.9 million Euros).

The consolidated shareholders' equity as at 31 December 2017 was equal to 82.059 million Euros compared to 46.729 million Euros as at 31 December 2016. The 2017 result and the effect of the capital increase contributed to the improvement.

As at 31 December 2017, the covenants envisaged by the agreement signed with the banks on 24 December 2015, ceasing in February 2018 following repayment by the Group of the loans outstanding, were respected (see subsequent events).

Euro/000

2017

← 2016

Net Revenues

606,021

← 593,747

Operating Income

33,708

← 11,759

Net Income

13,668

← -9,087

Shareholders' Equity

82,059

← 46,729

ROI

6.20%

← 2.42%

ROE

16.66%

← -19.45%

Gross Investments

15,555

← 16,015

Managers and Employees at 31/12

685

← 686

Workers at 31/12

2,471

← 2,293

R&D

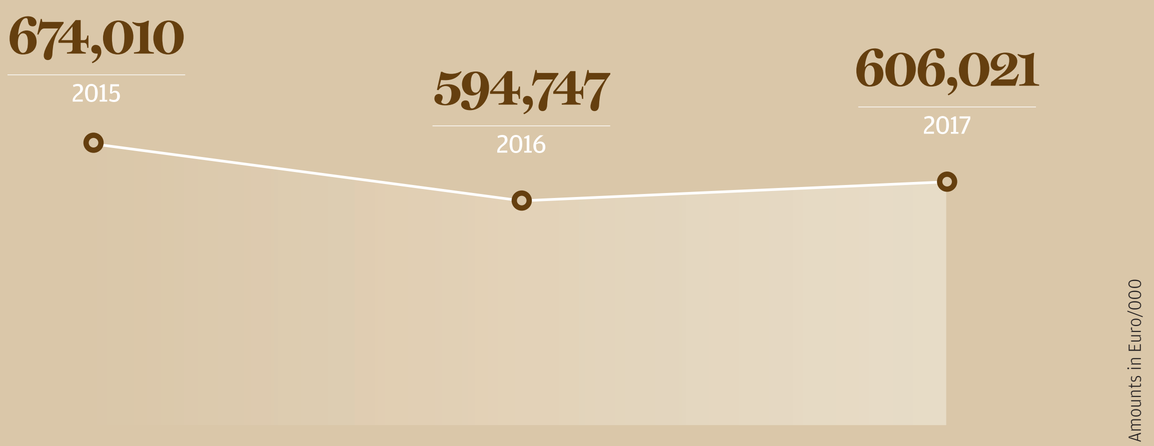
21,882

R&D/Sales

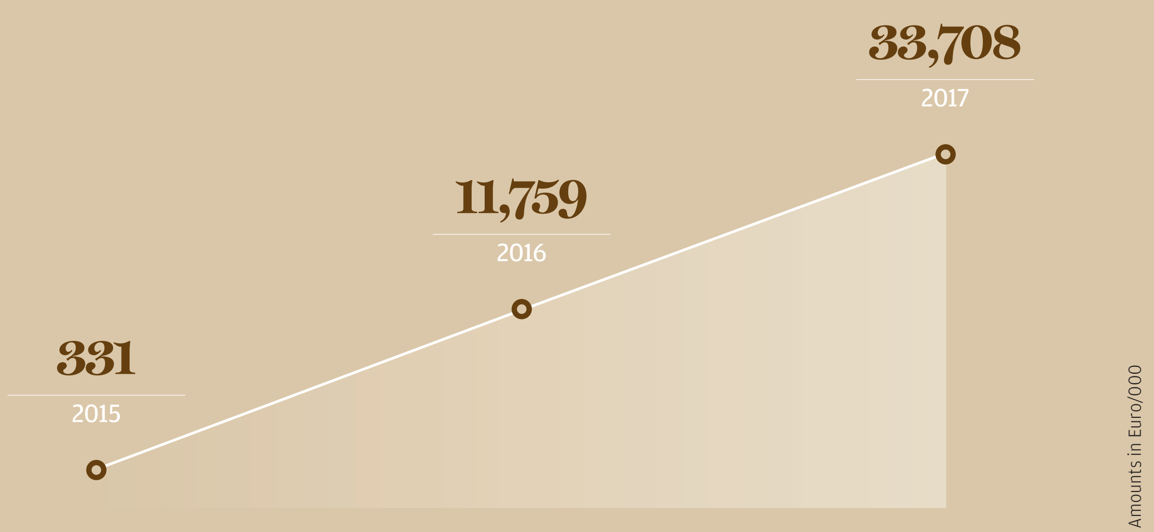
3.6%

← 2.5%

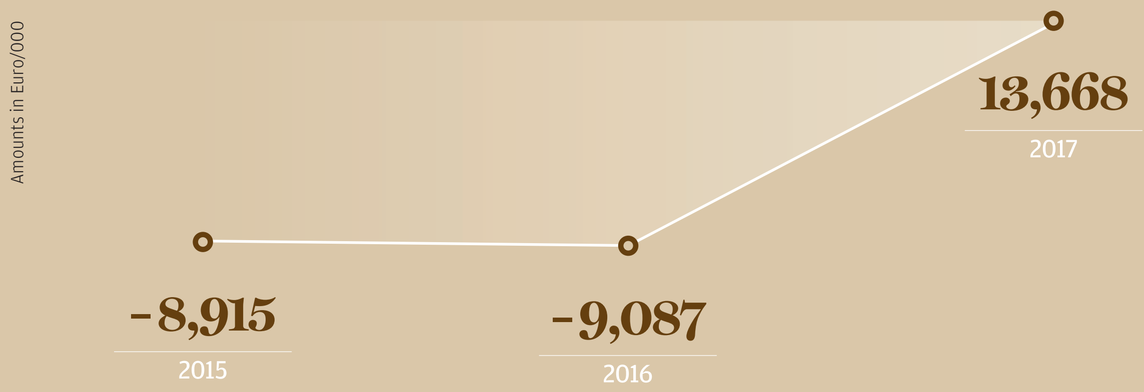
Consolidated Sales Revenues



Consolidated Ebit

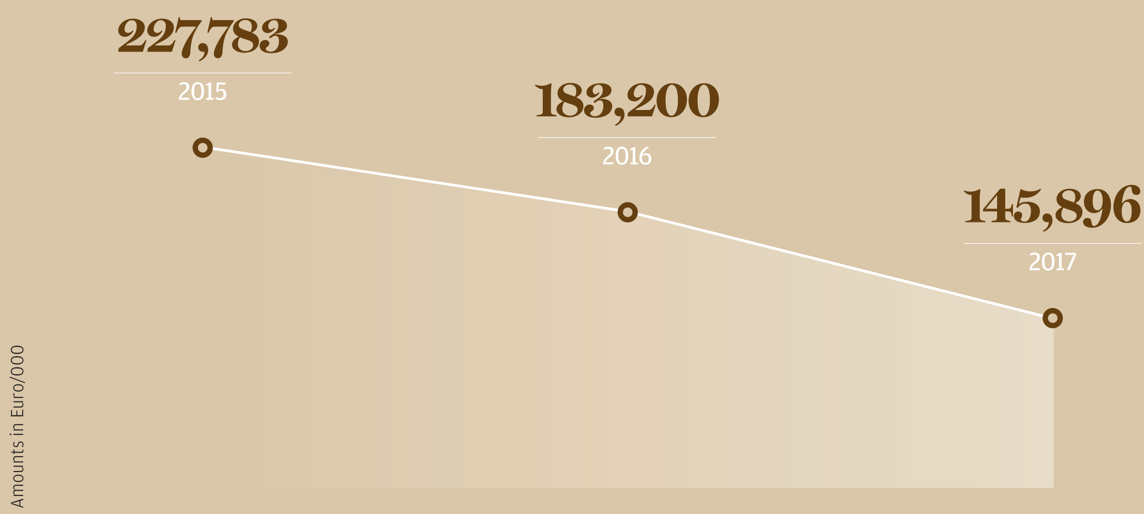


Consolidated Net Income



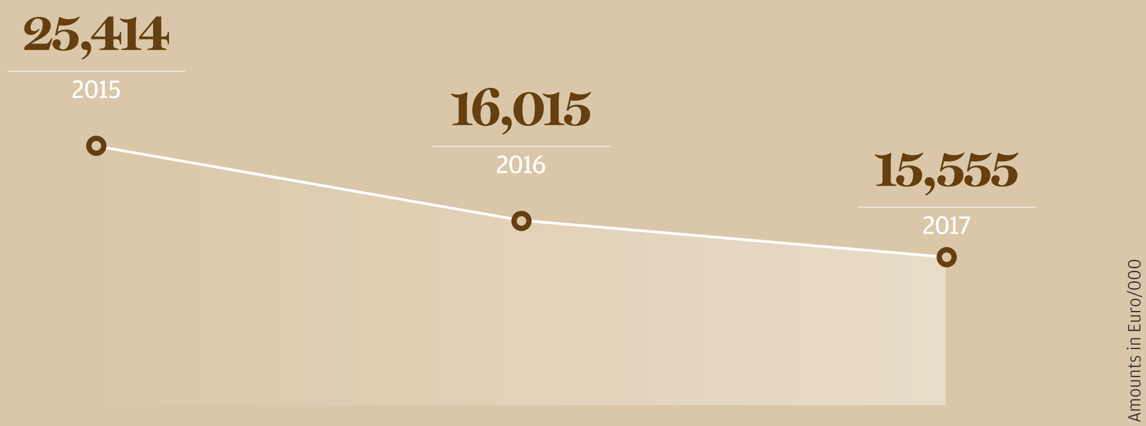
Consolidated Net Financial Position

debt balance

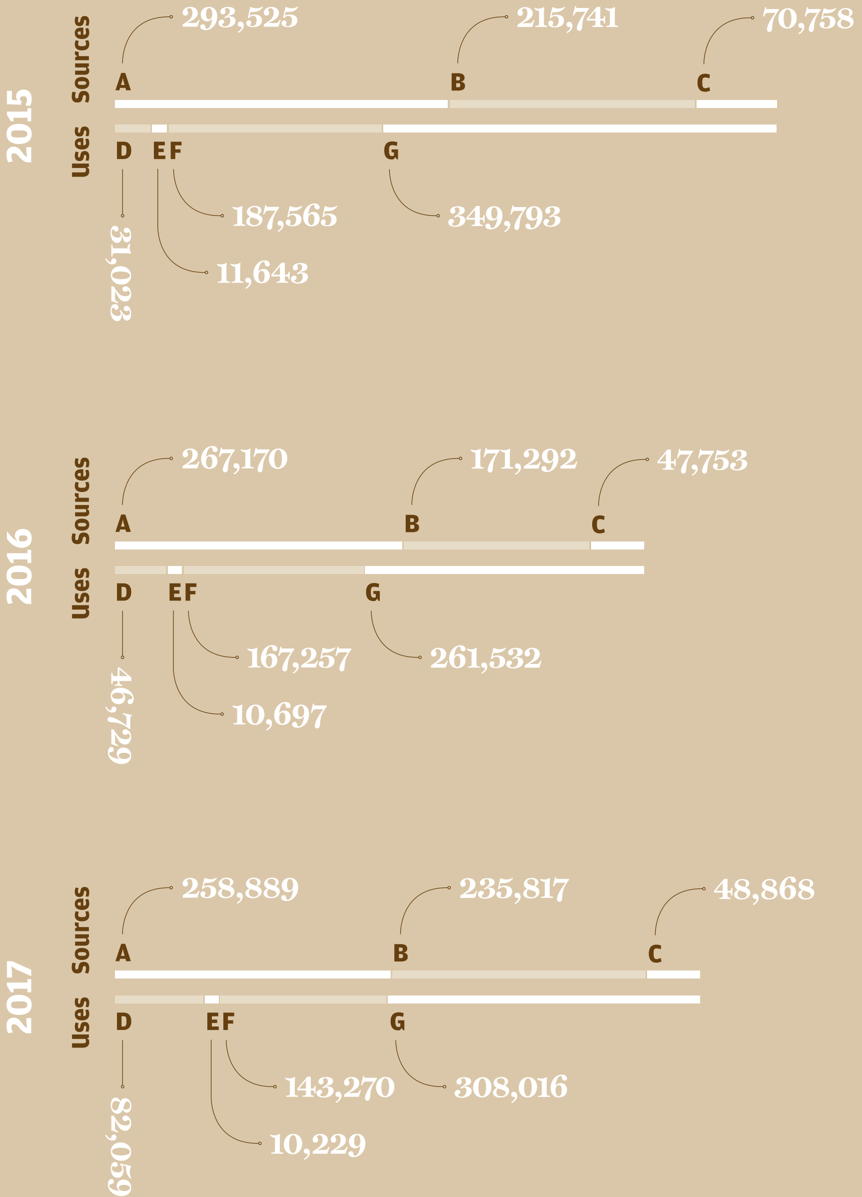


Carraro Group Investments

gross of revenues from disposals



Consolidated Equity Structure



A – Fixed assets
B – Working capital
C – Liquidity

D – Shareholders' equity
E – Sever, Indem
F – M/L terms payables
G – Short-term payables

Breakdown by Sector of Application

AGRICULTURE

51.7%

CONSTRUCTION EQUIPMENT

30.5%

MATERIAL HANDLING

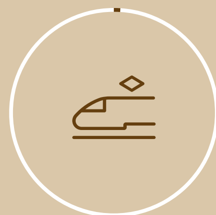
4%

AUTOMOTIVE

2.6%

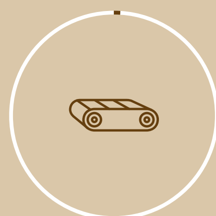
RAILWAYS AND TRANSPORT

0.2%



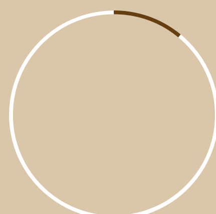
INDUSTRIAL

0.2%



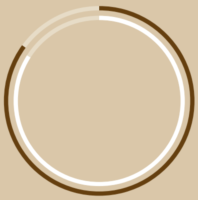
OTHER

10.8%



Main Markets

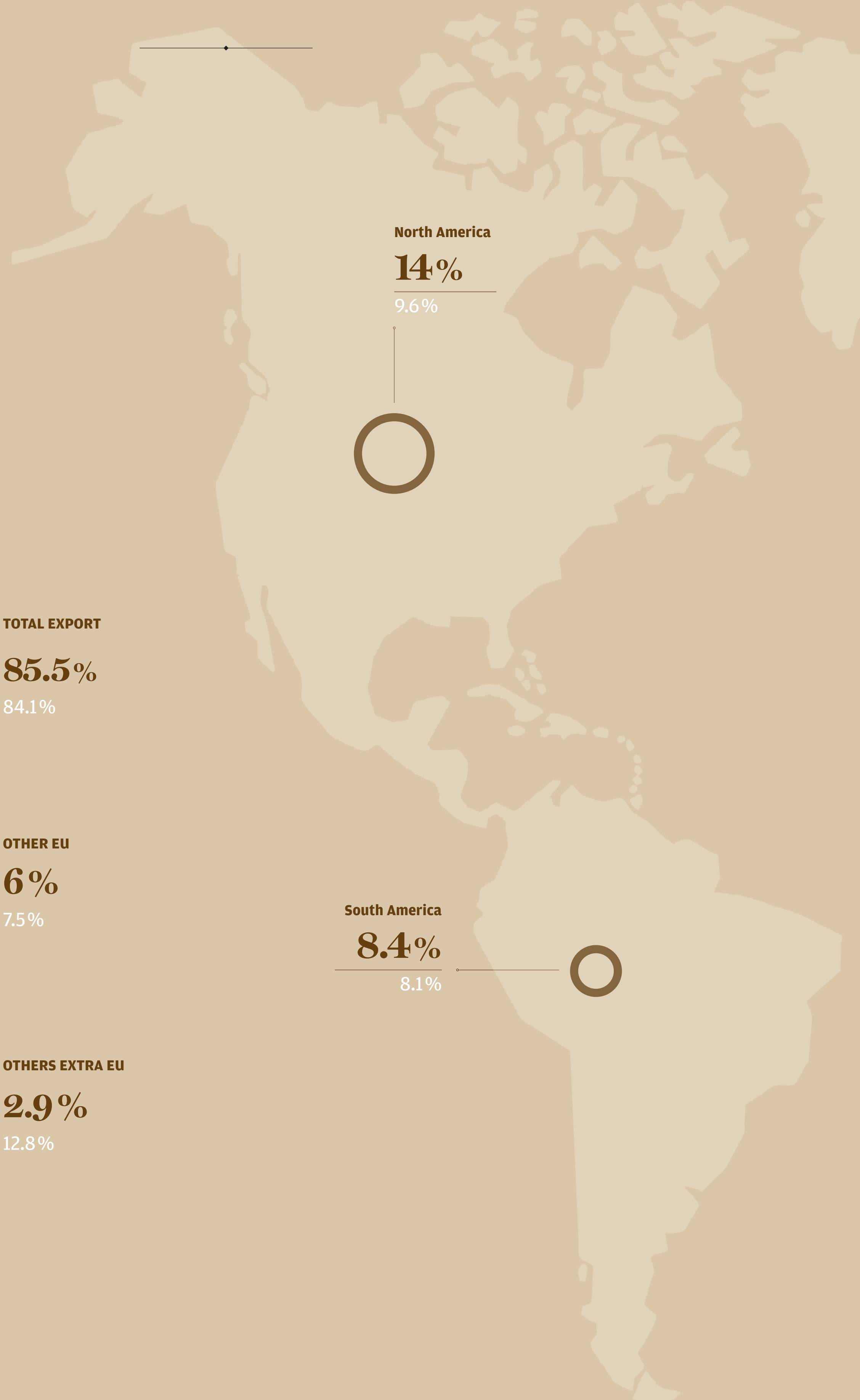
2017
2016

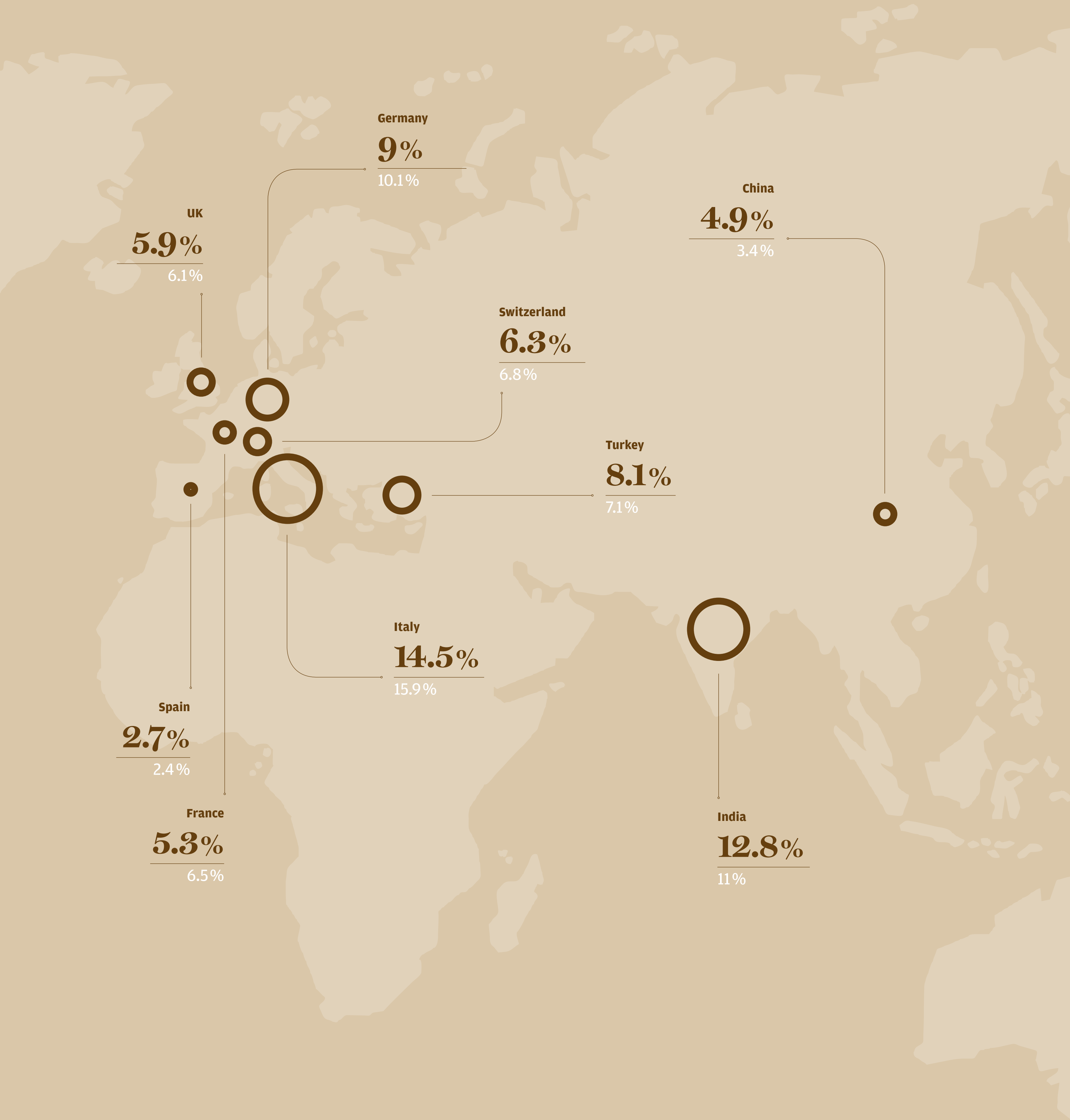


TOTAL EXPORT
85.5%
84.1%

OTHER EU
6%
7.5%

OTHERS EXTRA EU
2.9%
12.8%




Germany
9%
10.1%
UK
5.9%
6.1%
China
4.9%
3.4%
Switzerland
6.3%
6.8%
Turkey
8.1%
7.1%
Italy
14.5%
15.9%
Spain
2.7%
2.4%
France
5.3%
6.5%
India
12.8%
11%

Drivetech

Summary Data and Graphs

Amounts in Euro/000

Euro/000

2017

← 2016

Net revenues

492,786

← 461,797

Operating income

32,703

← 21,137

Adjusted for the effect of exchange differences

Net income

19,012

← 9,923

Net of minority interests

Shareholders' equity

114,175

← 121,736

Gross investments

12,097

← 10,236

R&D

2,158

Workforce at 31/12

2,692

← 2,589

Total Foreign Countries

88.77%

← 88.3%

Turnover by Geographical Area

Total Italy

11.23%

← 11.7%

Turnover by Geographical Area

Managers/Employees

476

← 477

Workforce Breakdown

Workers

2,216

← 2,112

Workforce Breakdown

Breakdown by Sector of Application

Construction Eq.

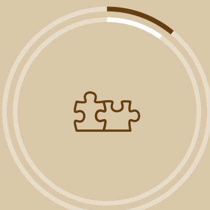
39.63%

39.4%

Agriculture

37.69%

38.8%



Spare Parts

11.12%

10.9%

Auto & Truck

3.4%

3.4%

Material Handling

5.16%

5.2%

Other

3%

2.3%

Agritalia

Summary Data and Graphs

Amounts in Euro/000

Euro/000	**Net revenues**	**Operating income**
2017	141,302	8,276
← 2016	← 119,756	← 6,200 Adjusted for the effect of exchange differences
Net income	**Shareholders' equity**	**Gross investments**
8,258	2,921	1,543
← 6,172 Net of minority interests	← -1,956	← 1,809
R&D	**Workforce at 31/12**	**Total Foreign Countries**
10,100	306	74.25%
	← 233	← 69.5% Turnover by Geographical Area
Total Italy	**Managers/Employees**	**Workers**
25.75%	86	220
← 30.5% Turnover by Geographical Area	← 85 Workforce Breakdown	← 148 Workforce Breakdown

Breakdown by Sector of Application

Agriculture

100 %

100 %

Significant Events in Financial Year 2017

The most significant events during the year are summarised below.

On 1 May 2017, the sale of the second portion of the property in Argentina was formalised with a capital gain of 3.3 million Euros.

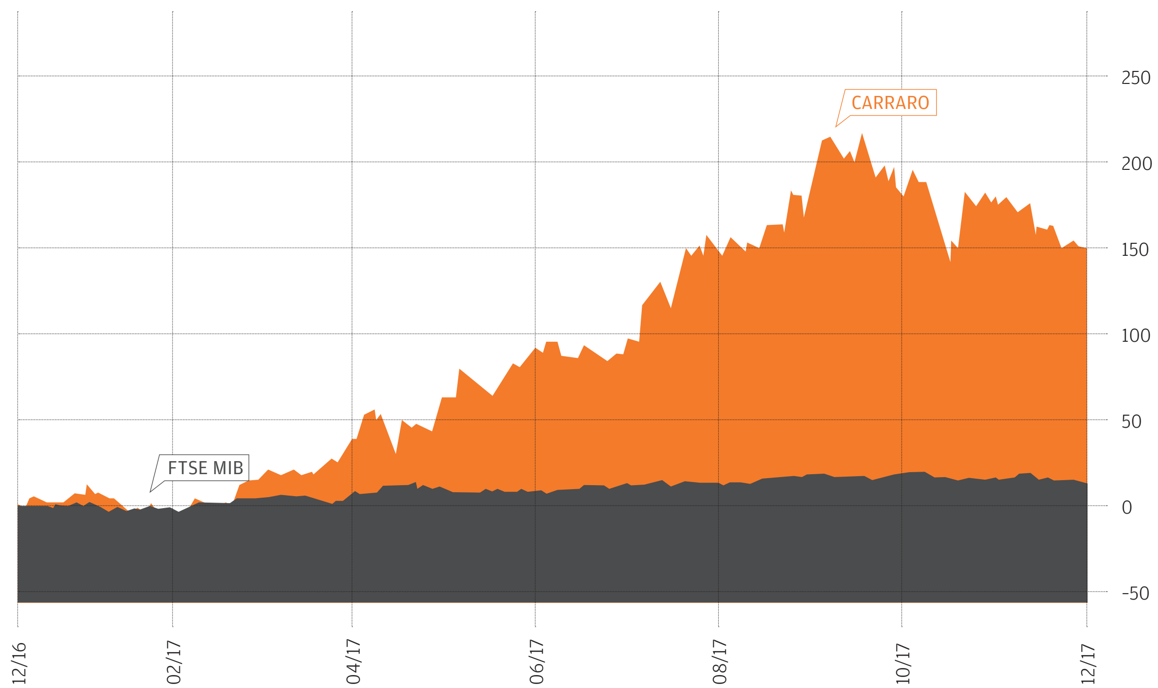
On 5 June 2017, having obtained clearance from Consob to publish the prospectus in May, the capital increase of Carraro Spa, 100% subscribed at for a total of 54 million Euros, was completed. The first tranche of 34 million Euros had already been subscribed by the shareholders Finaid Spa and Julia Dora Koranyi Arduini during 2016. Again in June 2017, Carraro, thanks to the joint venture agreement with Shandong Juming Group, invested in the newco, Agriming Agriculture Equipment Co. Ltd which will focus on the production of agricultural tractors for the Chinese market with the support of Carraro China, which will become its strategic supplier of axles and transmissions.

In September 2017, the new 2017-2021 Business Plan was presented to the financial community, which confirmed Carraro as the only player able to provide innovative technological solutions for off-highway machines as well as complete agricultural tractors. The Plan is focussed on continuous and virtuous investments in R&D. The strategic objectives of the plan are: focus on the development of innovative transmissions, as well as specialised tractors, the balancing of the presence in emerging geographical areas (India, China, South America, Turkey and Russia) according to the expected significant increase in population, acceleration and consolidation of the *World Manufacturing Excellence Program* thanks to the successful optimisation of the production platform in a local for local approach and the ongoing evolution of manufacturing processes, the continuous search for new efficient solutions such as electric and hybrid. The financial targets of the plan are the following: consolidated turnover for 2021 at 670 million Euros with a 2016-2021 Cagr of 3.7% compared to 558 million Euros in 2016, Ebitda at 75 million Euros (11.2% of turnover), compared to 48 million Euros in 2016 (8.6% of turnover), Net Financial Position in 2021 reduced to 91 million Euros, compared to 183 million in 2016.

In November 2017 the Friuli Venezia Giulia regional financial company, Friulia Spa, participated in the share capital increase of Siap Spa, a subsidiary of Carraro Drive Tech Spa, with a total contribution of 8 million Euros (4.4 million share capital, 3.6 million share premium) with a view to equity and financial strengthening of the Company and enabling it to address its operational programs with adequate resources.

Share Performance

In the first few months of 2017, the share price maintained a similar trend to the Ftse Mib index and then significantly increased its value in the second half of the year as a result of the good results at 30 June and 30 September. The official average price of 2017 was 2.9699 Euros, with a maximum listing at 4.898 Euros on 16 October and a minimum listing at 1.475 Euros on 13 February 2017.



Subsequent Events

During the month of December, the Group began the financial rationalisation process, envisaged in the 2017-2021 Business Plan, which resulted:

› in the issue of a senior unsecured bond issue of 180 million Euros, maturity 2025, 3.5% fixed rate, fully placed in January 2018;
› in the signing, in February 2018, an underwriting agreement with the counterparty Banco BPM that BPM will have the possibility of in turn placing with a limited group of relationship banks, which provides for the disbursement of a total of 100 million Euros divided into a 20 million LTA (long term) cash credit line with maturity on 31 December 2023 and an 80 million Euro *revolving* credit line with maturity on 30 June 2023.

Also in February, the Carraro Group, following the total repayment of the debt, terminated the bank agreement signed with the banking system on 24 December 2015.

In the same period, in order to better manage the logistics activities linked to Carraro Spare Parts, a new joint-stock company was created, called Driveservice Srl with operational headquarters in Poggiofiorito (CH).

Performance and Expected Business Outlook 2018

In 2018, sales volumes are expected to improve compared to 2017. A generalised increase in the prices of raw materials (steel, cast iron) could partially influence margins in transmission systems in the first quarter. This effect is nevertheless expected to be reabsorbed within the first half of the year.

As for Agritalia, 2018 will see the start of production of some renewed ranges of IIIB engine tractors compliant with the new European safety directives (Mother Regulations), with the typical difficulties of launching new series.

Balance Sheet and Financial Data

Turnover

Consolidated turnover as at 31 December 2017 amounted to 606.021 million Euros, up 2.07% compared to the turnover for 2016, equal to 593.747 million Euros.

The following table breaks turnover down by business segment:

Amounts in Euro/000

		Sales			Sales to third parties	
	31.12.17	**31.12.16**	**Diff %**	**31.12.17**	**31.12.16**	**Diff %**
Carraro Drivetech	492,786	461,797	6.7	466,509	439,637	6.1
Carraro div. Agritalia	141,302	119,756	18.0	137,456	115,081	19.4
Elettronica Santerno	–	36,153	–100.0	–	36,150	–100.0
Non allocated business	25,863	23,328	10.9	334	56	–
Total segments	**659,951**	**641,034**	**3.0**	**604,299**	**590,924**	**2.3**
Intra-group eliminations	–53,930	–47,287	14.0	–	–	–
Consolidated total	**606,021**	**593,747**	**2.1**	**604,299**	**590,924**	**2.3**

		Related sales			Intra-group sales	
	31.12.17	**31.12.16**	**Diff %**	**31.12.17**	**31.12.16**	**Diff %**
Carraro Drivetech	1,659	2,559	–35.2	24,618	19,601	25.6
Carraro div. Agritalia	–	–	–	3,846	4,675	–17.7
Elettronica Santerno	–	–	–	–	3	–100.0
Non allocated business	63	264	–76.1	25,466	23,008	10.7
Total segments	**1,722**	**2,823**	**–39.0**	**53,930**	**47,287**	**14.0**
Intra-group eliminations	–	–	–	–53,930	–47,287	14.0
Consolidated total	**1,722**	**2,823**	**–39.0**	–	–	–

Intra-group sales refer to sales realised between companies from different business areas (in particular Carraro Drive Tech and Divisione Agritalia). Sales to related companies refer to sales made to O&K and Santerno.

The following table breaks down third party turnover by geographical area:

Amounts in Euro/000

	31.12.2017	**%**	**31.12.2016**	**%**	**Diff. 2017–16 %**
North America	84,790	14.03	56,828	9.62	49.20
India	77,173	12.77	65,014	11.00	18.70
Germany	54,451	9.01	59,796	10.12	–8.94
South America	50,483	8.35	47,937	8.11	5.31
Turkey	45,599	7.55	47,733	8.08	–4.47
Switzerland	37,744	6.25	39,981	6.77	–5.60
United Kingdom	35,396	5.86	36,077	6.11	–1.89
France	31,727	5.25	38,253	6.47	–17.06
China	29,652	4.91	20,327	3.44	45.87
Spain	15,907	2.63	14,186	2.40	12.13

	31.12.2017	%	31.12.2016	%	Diff. 2017–16 %
Other E.U. areas	36,203	5.99	35,369	5.99	2.36
Other non-E.U. areas	17,316	2.87	35,286	5.97	–50.93
Total Abroad	**516,441**	**85.46**	**496,787**	**84.07**	**3.96**
Italy	87,858	14.54	94,137	15.93	–6.67
Total	**604,299**	**100.00**	**590,924**	**100.00**	**2.26**
of which:					
Total E.U. area	**261,542**	**43.28**	**277,818**	**47.01**	**–5.86**
Total non-E.U. area	**342,757**	**56.72**	**313,106**	**52.99**	**9.47**

It should be noted that the Group sells to the production sites of OEMs that may reside in different countries from the nations of end users of their products.

In terms of positioning, this year North America replaced India in first place (in contrast to 2016). The German market slipped to third place followed by South America and Turkey. Good performance in China, stable sales on European markets. All this in line with the commercial phenomena discussed in the introductory section relating to the markets.

Ebitda and Ebit

The following tables show details of the non-recurring items affecting Ebitda and Ebit.

Amounts in Euro/000

	31.12.17	% of turnover	31.12.16	% of turnover	Diff. %
Ebitda	**55,035**	**9.1**	**39,182**	**6.6**	**40.5**
Costs/(income) of non-recurring operations	–226	–	5,487	–	–
of which:					
Capital gain on the sale of real estate in Argentina	–3,308	–	–	–	–
Restructuring costs in Argentina	1,178	–	4,272	–	–
Other restructuring costs	0	–	34	–	–
Other (impairment effect)	1,904	–	1,181	–	–
Adjusted Ebitda	**54,809**	**9.0**	**44,669**	**7.5**	**22.7**

Ebit	**33,708**	**5.6**	**11,759**	**2.0**	**n.r.**
Costs/(income) of non-recurring operations	–226	–	10,700	–	–
of which:					
Capital gain on the sale of real estate in Argentina	–3,308	–	–	–	–
Intang. asset impairment	–	–	5,213	–	–
Restructuring costs in Argentina	1,178	–	4,272	–	–
Other restructuring costs		–	34	–	–
Other (impairment effect)	1,904	–	1,181	–	–
Adjusted Ebit	**33,482**	**5.5**	**22,459**	**3.8**	**49.1**

In addition to the above, the following table shows the detail of Proforma Ebitda and Ebit, excluding the contribution of Elettronica Santerno for 2016 (no proforma effect in 2017).

Amounts in Euro/000

	31.12.17	% of turnover	31.12.16	% of turnover	Diff. %
Proforma Ebitda	**55,035**	**9.1**	**42,713**	**7.7**	**28.8**
Costs/(income) of non-recurring operations	–226	–	5,438	–	–
of which:					
Capital gain on the sale of real estate in Argentina	–3,308	–	–	–	–
Restructuring costs in Argentina	1,178	–	4,272	–	–
Other restructuring costs	0	–	–15	–	–
Other (impairment effect)	1,904	–	1,181	–	–
Adjusted Proforma Ebitda	**54,809**	**9.0**	**48,151**	**8.6**	**13.8**
Proforma Ebit	**33,708**	**5.6**	**22,224**	**4.0**	**51.7**
Costs/(income) of non-recurring operations	–226	–	5,438	–	–
of which:					
Capital gain on the sale of real estate in Argentina	–3,308	–	–	–	–
Asset impairment	–	–	–	–	–
Restructuring costs in Argentina	1,178	–	4,272	–	–
Other restructuring costs	–	–	–15	–	–
Other (impairment effect)	1,904	–	1,181	–	–
Adjusted Proforma Ebit	**33,482**	**5.5**	**27,662**	**5.0**	**21.0**

The normalising effect on Proforma Ebitda and Ebit resulting from the deconsolidation of Santerno is clearly apparent from the tables.

Net financial expenses

Amounts in Euro/000

	31.12.17	% of turnover	31.12.16	% of turnover	Diff. %
Net financial expenses	–8,647	–1.4	–11,444	–1.9	24.4

The decrease in net financial expenses, which went from 11.444 million Euros in the previous year to 8.647 million Euros in 2017, is mainly attributable to the reduction in the net financial position and to the debt optimisation activity. The effects of the reductions in Indian and Chinese rates remain positive.

Financial expenses also include the fees paid on medium and long-term loans that are absorbed during the depreciation plan of the same, in application of the amortised cost method.

Income (expenses) from equity investments

Amounts in Euro/000

	31.12.17	% of turnover	31.12.16	% of turnover	Diff. %
Income/(expenses) from equity investments	–326	0.00	–14	0.00	n.r.

During 2017, some adjustments were made relating to the sale price of 55% of the German company O&K Antriebstechnik, formalised on 30 December 2015, following the resolution of certain claims.

Exchange differences

Amounts in Euro/000

	31.12.17	% of turnover	31.12.16	% of turnover	Diff. %
Exchange differences	–1,958	–0.32	–1,836	–0.31	–6.6

Exchange differences as at 31 December 2017 were negative, amounting to 1.958 million Euros (-0.32% of turnover) compared to a negative value of 1.836 million Euros (-0.31% of turnover) as at 31 December 2016.

Net profit/(loss)

2017 closed with a significant profit of 13.668 million Euros (2.3% of turnover) compared to a loss of 9.087 million Euros (-1.5% of turnover) in 2016. Taxes as at 31 December 2017 amounted to 7.602 million Euros (1.3% of turnover) against 7.340 million Euros (1.2% of turnover) as at 31 December 2016.

Amounts in Euro/000

	31.12.17	% of turnover	31.12.16	% of turnover	Diff. %
Earnings before tax	21,273	3.5	–1,748	–0.3	n.r.
Current and deferred income taxes	–7,602	–1.3	–7,340	–1.2	–
Profit/(loss) pertaining to minorities	–3	0.0	1	0.0	–
Net profit/(loss)	13,668	2.3	–9,087	–1.5	n.r.

	31.12.17	% of turnover	31.12.16	% of turnover	Diff. %
Net profit/(loss)	13,668	2.3	–9,087	–1.5	n.r.
Costs/(income) of non-recurring operations net of the tax effect	–11	–	9,523	–	–
Adjusted net profit/(loss)	13,657	2.3	436	0.1	n.r.

The adjusted net profit takes into account the non-recurring operating items mentioned in the previous paragraphs (such as the restructuring costs relating to the downsizing of the Argentine subsidiary for a total of 1.2 million Euros, the sale of the property, again in Argentina, which resulted in a capital gain of 3.3 million and some capital losses from impairment due to the non-recoverability of certain intangible assets amounting to 1.9 million in Carraro Spa) in addition to the corresponding tax effect (215,000 Euros).

	31.12.17	% of turnover	31.12.16	% of turnover	Diff. %
Proforma net profit/(loss)	13,668	2.3	–282	–0.1	n.r.
Costs/(income) of non-recurring operations net of the tax effect	–11	–	5,067	–	–
Adjusted net proforma profit/(loss)	13,657	2.3	4,785	0.9	n.r.

The analysis of the above table shows the normalising effect resulting from the deconsolidation of Santerno in 2016.

Amortisation, depreciation and impairment of assets

	31.12.17	% of turnover	31.12.16	% of turnover	Diff. %
Depreciation and amortisation	20,021	3.3	21,554	3.6	–7.1
Impairment of fixed assets	1,306	0.2	5,869	1.0	–77.7
Amortisation, depreciation and impairment	21,327	3.5	27,423	4.6	–22.2

Amounts in Euro/000

Depreciation amounted to 20.021 million Euros (3.3% of turnover), a decrease compared to 21.554 million Euros (3.6% of turnover) in 2016. Impairment of fixed assets mainly refers to the write-down of machinery at the Poggiofiorito plant (while in 2016 it mainly referred to the write-down of the goodwill of the Santerno Business Area amounting to 5.213 million Euros).

Investments

	31.12.17	31.12.16
Investments	15,555	16,015

Amounts in Euro/000

In 2017, investments amounting to 15.556 million Euros were made, in line with the 2017-2021 Business Plan mentioned above (compared to the 16.015 million Euros of 2016), intended to maintain efficiency and modernise plant and equipment and for the development R&D projects.

Posizione finanziaria netta della gestione

Amounts in Euro/000

	31.12.17	30.09.17	30.06.17	31.12.16
Net financial position of operations	–145,896	–155,019	–148,430	–183,200

The company's consolidated net financial position up to 31 December 2017 was negative at 145.896 million Euros and is an improvement compared to 31 December 2016, when it was negative at 183.200 million Euros. The significant improvement was positively impacted by the payment of capital increases (in Carraro Spa by the market for 20 million Euros and in Siap spa by Friulia for 8 million), the collection of the price for the sale of the property in Argentina, the good performance of the operating free cash flow and negatively by the contribution paid to the Joint Venture Agriming Agriculture Equipment Co. Ltd of 4.9 million.

At 31 December 2017, the covenants provided for in the agreement signed with the banks on 24 December 2015, agreement terminated by the Group in February 2018, were complied with.

Research and innovation

Research and Innovation expenses, whose aims and applications are commented in a specific paragraph, amounted to 21.882 million Euros in 2017, 3.6% of turnover.

Treasury Shares

As at 31 December 2017, the company held 2,626,988 treasury shares for a total investment of 6.666 million Euros.

Human resources

Workforce trend

	31.12.2017	31.12.2016	31.12.2015
Executives	25	25	29
Clerical staff	660	661	823
Factory workers	2,040	2,006	2,211
Temporary workers	431	287	213
Total	**3,.156**	**2,979**	**3,276**

The Group workforce as at 31 December 2017 (including temporary workers, trainees and interim workers), amounted to 3,156 resources compared to 2,979 actually working as at 31 December 2016. The increase compared to 31 December 2016 was mainly due to the growth in production volumes, which took place in particular in the latter part of 2017.

With reference to the geographical breakdown, as at 31 December 2017, there were 1,408 resources in Italy and 1,748 abroad.

During the year, reorganisation actions continued in the Human Resources areas instrumental to the specific needs of each plant (in particular in the Argentine subsidiary) through appropriate strategies such as early retirement plans and resignation incentives.

Actions taken

Following the decision to create a new service centre at the Poggiofiorito (CH) site, which will develop, among other things, certain skills in logistics and in the management of Carraro Spare Parts, on 12 July 2017, at the headquarters of the Abruzzo Region, an agreement was signed by Carraro Drive Tech Spa concerning the industrial conversion of said Poggiofiorito site and at the same time the termination of an existing service contract with an external logistics supplier at the Monselice (PD) site. In order to best manage this new service centre, in February 2018, a new joint-stock company was created, named Driveservice Srl and having as its business purpose, among other things, some of the logistics/transport activities to be re-allocated.

In October 2017, Carraro Spa - Agritalia Division, with the collaboration of a leading human resources consulting company in the field of human resources, launched a six-month training programme - called Carraro Academy - dedicated to young secondary school graduates in the technical area, with the aim of developing a series of highly specialised professionals (mechanical designers, electrical designers and software engineers) to be employed in the design and construction of specialised tractors.

Risks regarding health and safety at work

The Group carries out industrial processes consisting of a significant part of mechanical processing, assembly of mechanical components, agricultural tractors and construction machinery. The risks related to safety, health and environmental impact deriving from work activities are mainly those typical of manufacturing.

During 2017, the Group continued implementation of its EH&S management system, compliant with ISO 14001, OHSAS 18001 standards and the UNI-INAIL guidelines, which constitutes the reference organisational model defined by Legislative Decree 231/2001. All operating units in Italy and also those abroad operate with reference to the Group standards and compliance with local requirements. The Group EH&S Service ensures a continuous improvement process through EH&S system audits and monthly review of the related improvement plans.

Also in 2017, the organisation was able to implement many new initiatives and certain EH&S programmes which allowed performance to be improved. Each local unit has extended the approach of our EH&S Management System to many of the processes that have constituted the pillars for such developments.

In 2017, the Group recorded a total of 515 days of prognosis and 36 recordable accidents. In Brazil, India and China and in the Spare Parts Division, no accidents were recorded. In particular, in 2017 the Indian plant recorded more than 3,000,000 hours worked with "zero accidents". The accidents that recorded more than 30 days of prognosis occurred in the Campodarsego plant, with two cases, in the Argentina plant with one case and in the Siap Maniago plant with one case. With 2017, the sixth year of the Carraro Group EH&S Management System closed. Since September 2011, very significant results have been achieved: the number of accidents in 2017 fell by 68% compared to 2011 and the number of days of prognosis in 2017 fell by 65% compared to the same figure in 2011.

With regard to environmental performance with reference to the 2014 baseline, we recorded the following results: -9.4% in recyclable waste production; -22% in non-recyclable waste production; -19% in water consumption; -14% in electricity consumption; -34% in GHG emission. In 2017, 21.3% of the electricity consumed in Carraro Group plants came from renewable sources.

Performance of the Parent Company

Carraro Spa

Carraro Spa is the parent company, with strategic guidance, control and coordination functions and centralises and integrates the R&D activities. The company also includes a production facility, Agritalia Division, in Rovigo, whose business is focused on the development, production and distribution of agricultural tractors on the basis of agreements with major international producers (Agco, John Deere, Claas).

In 2017, Carraro Spa realised sales revenues of 166.939 million Euros (142.863 million Euros as at 31 December 2016), mostly generated by Divisione Agritalia and by R&D activities.

Ebitda was positive at 7.688 million Euros, 4.6% of turnover, an increase of 19.8 % compared to the positive figure of 6.414 million Euros (4.5% of turnover) in the previous year. Ebit was positive, amounting to 3.229 million Euros (1.9% of turnover), growing 42% compared to the positive value of 2.273 million Euros (1.6% of turnover) as at 31 December 2016. Net of items not related to recurring operations (capital losses from impairment relating to development costs), Ebitda would have been 9.592 million Euros (5.7% of turnover) compared to the 7.595 million Euros (5.3% of turnover) of 2016, while Ebit would have been positive at 5.133 million Euros (3% of turnover) compared to the positive value of 3.454 million Euros (2.4% of turnover) in the previous year.

Net financial expenses amounted to 5.362 million Euros (3.2% of turnover), a significant decrease compared to 7.162 million Euros (5% of turnover) as at 31 December 2016.

Dividends received at 31 December 2017 amounted to 17.8 million Euros, mainly from Carraro Drive Tech Spa.

With taxes receivable amounting to 275 thousand Euros (1.910 million Euros in 2016) 2017 closed with a net profit of 15.736 million Euros (9.4% of turnover) compared to a loss of 1.437 million Euros (-1.0% of turnover) as at 31 December 2016.

In 2017, amortisation and depreciation were equal to 4.459 million Euros in line with those of the previous year (4.141 million Euros).

Gross investments in 2017 amounted to 3.802 million Euros (5.211 million Euros at 31 December 2016): these are capitalised internal costs related to work in progress for the expansion of the building and offices and the capitalisation of the R&D projects.

The net financial position of operations recorded debt amounting to 72.901 million Euros, compared to debt of 111.535 million Euros as at 31 December 2016. The improvement in the net financial position was mainly due to the payment of 20 million Euros by way of capital increase by the shareholders, as well as receipt of dividends as previously described.

The shareholders' equity of Carraro Spa at 31 December 2017 amounted to 87.389 million Euros, an increase compared to 52.659 million Euros in 2016, following the capital increase already mentioned which took place during the year.

The workforce as at 31 December 2017 totalled 462 persons (of which 156 at the holding in Campodarsego, including the R&D area with 82 people, and 306 at the Rovigo plant of Divisione Agritalia).

Summary results of the parent company and the companies it directly controls, not attributable to any of the Business Areas, are given below.

Amounts in Euro/000

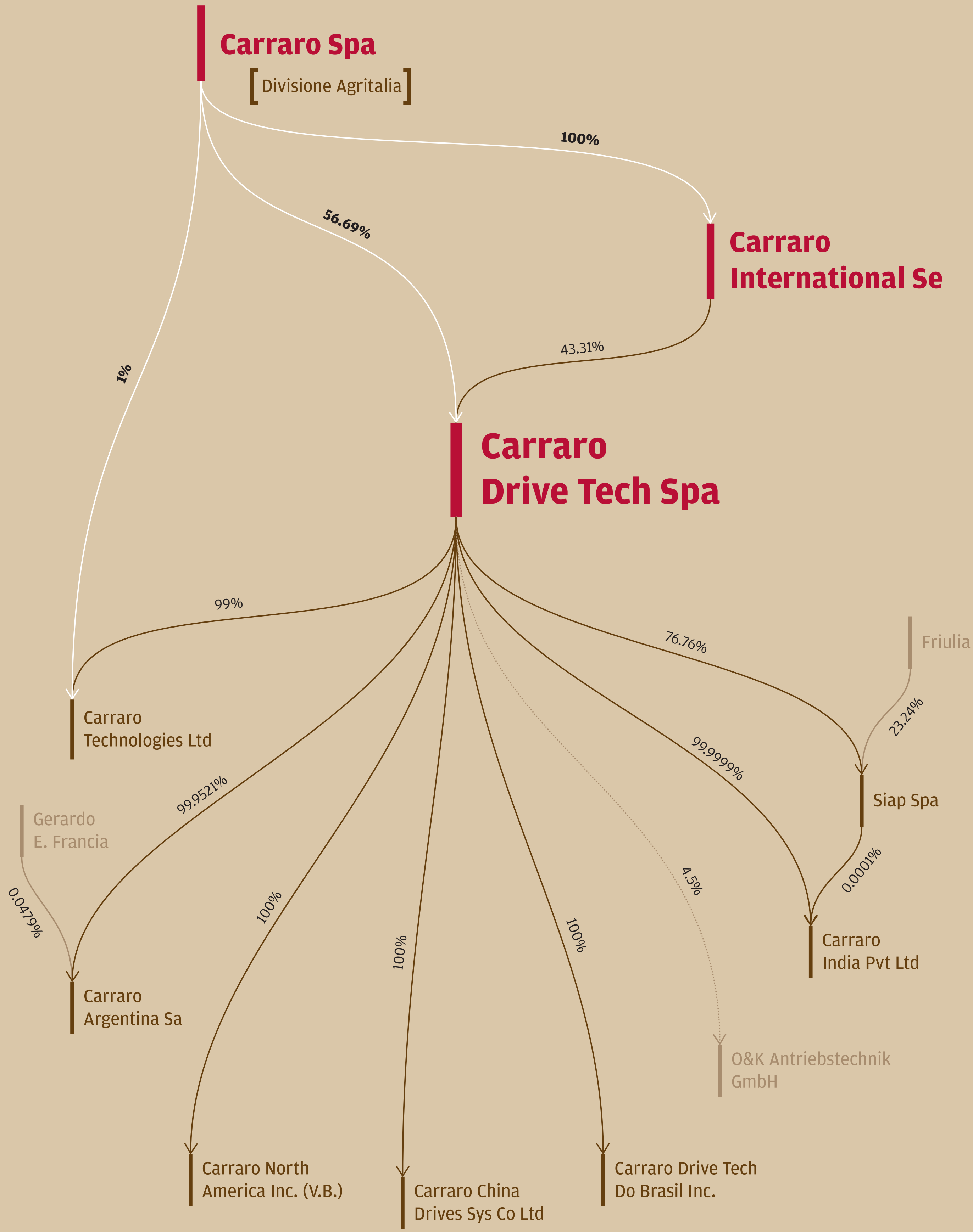
	Carraro Spa					Carraro Deutschland GmbH				
	31.12.17	**% of turn.**	**31.12.16**	**% of turn.**	**Diff.%**	**31.12.17**	**% of turn.**	**31.12.16**	**% of turn.**	**Diff.%**
Turnover	166,939	–	142,863	–	16.9	–	–	–	–	–
Ebitda	7,688	4.6	6,414	4.5	19.9	–1,373	–	–380	–	n.r.
Ebit	3,229	1.9	2,273	1.6	42.1	–1,373	–	–380	–	n.r.
Net Profit/(loss)	15,736	9.4	–1,437	–1.0	n.r.	–1,094	–	8,595	–	n.r.
Amortisation, depreciation and impairment	4,459	2.7	4,141	2.9	7.7	–	–	–	–	–
Investments	3,802	–	5,211	–	–	–	–	–	–	–
Net financial position of operations	–72,901	–	–111,535	–	–	10,892	–	10,739	–	–
Shareholders' equity	87,389	–	52,659	–	–	9,794	–	10,889	–	–

Amounts in Euro/000

	Carraro International SE[1]					Mini Gears Inc.				
	31.12.17	**% of turn.**	**31.12.16**	**% of turn.**	**Diff.%**	**31.12.17**	**% of turn.**	**31.12.16**	**% of turn.**	**Diff.%**
Turnover	300	–	285	–	5.3	–	–	–	–	–
Ebitda	–706	–	–922	–	–23.4	–4	–	–4	–	–
Ebit	–718	–	–934	–	–23.1	–4	–	–4	–	–
Net Profit/(loss)	10,579	–	–5,722	–	n.r.	–5	–	–5	–	–
Amortisation, depreciation and impairment	12	4.0	12	4.2	0.0	–	–	–	–	–
Investments	–	–	–	–	–	–	–	–	–	–
Net financial position of operations	–26,848	–	–30,265	–	–	6	–	8	–	–
Shareholders' equity	18,086	–	8,707	–	–	–2	–	4	–	–

[1] Based in Luxembourg, the company performs the financial management and treasury functions of the Group.

Business Areas



Carraro Spa
Divisione Agritalia
100%
56.69%
1%
Carraro International Se
43.31%
Carraro Drive Tech Spa
99%
Carraro Technologies Ltd
76.76%
Friulia
23.24%
Siap Spa
99.9999%
0.0001%
Carraro India Pvt Ltd
99.9521%
Gerardo E. Francia
0.0479%
Carraro Argentina Sa
100%
Carraro North America Inc. (V.B.)
100%
Carraro China Drives Sys Co Ltd
100%
Carraro Drive Tech Do Brasil Inc.
4.5%
O&K Antriebstechnik GmbH

BUSINESS AREA
Drivelines & Components

Drivetech

Subconsolidated Income Statement as at 31.12.2017

Drivelines & Components - Drivetech business area

Amounts in Euro/000

	31.12.17	%	31.12.16	%	Changes	
					31.12.17	31.12.16
Revenues from sales	**492,786**	**100.00%**	**461,797**	**100.00%**	**30,989**	**6.71%**
Purchases of goods and materials (net of changes in inventories)	–284,208	–57.67%	–269,130	–58.28%	–15,078	–5.60%
Services and Use of third-party goods and services	–94,000	–19.08%	–87,426	–18.93%	–6,574	–7.52%
Personnel costs	–68,233	–13.85%	–66,242	–14.34%	–1,991	–3.01%
Amortisation, depreciation and impairment of assets	–16,992	–3.45%	–16,646	–3.60%	–346	–2.08%
Provisions for risks	–4,397	–0.89%	–6,094	–1.32%	1,697	27.85%
Other income and expenses	7,333	1.49%	4,533	0.98%	2,800	61.77%
Internal construction	414	0.08%	345	0.07%	69	20.00%
Operating costs	**–460,083**	**–93.36%**	**–440,660**	**–95.42%**	**–19,423**	**–4.41%**
Operating Profit/(loss) (Ebit)	**32,703**	**6.64%**	**21,137**	**4.58%**	**11,566**	**54.72%**
Income from equity investments	–326	–0.07%	–14	0.00%	–312	–
Other financial income	2,868	0.58%	2,254	0.49%	614	27.24%
Financial costs and expenses	–6,997	–1.42%	–7,066	–1.53%	69	0.98%
Net gains/(losses) on foreign exchange	–1,776	–0.36%	–1,194	–0.26%	–582	–48.74%
Value adjustments of financial assets	121	0.02%	–	0.00%	121	–
Gains/(losses) on financial assets	**–6,110**	**–1.24%**	**–6,020**	**–1.30%**	**–90**	**–1.50%**
Profit/(loss) before taxes	**26,593**	**5.40%**	**15,117**	**3.27%**	**11,476**	**75.91%**
Current and deferred income taxes	–7,578	–1.54%	–5,194	–1.12%	–2,384	–45.90%
Net profit/(loss)	**19,015**	**3.86%**	**9,923**	**2.15%**	**9,092**	**91.63%**
Profit/(loss) pertaining to minorities	–3	0.00%	1	0.00%	–4	–
Business area consolidated result	**19,012**	**3.86%**	**9,924**	**2.15%**	**9,088**	**91.58%**
Ebitda	**49,558**	**10.06%**	**37,479**	**8.12%**	**12,079**	**32.23%**

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

Subconsolidated Statement of Financial Position as at 31.12.2017

Drivelines & Components - Drivetech business area

Amounts in Euro/000

	31.12.17	31.12.16
Property, plant and equipment	100,176	110,113
Intangible fixed assets	42,293	43,098
Real estate investments	155	155
Investments	16,348	16,552
Financial assets	3,096	4,854
Deferred tax assets	7,035	7,763
Trade receivables and other receivables	5,467	3,416
Non-current assets	**174,570**	**185,951**
Closing inventory	88,108	81,592
Trade receivables and other receivables	89,693	67,683
Financial assets	10,623	4,997
Cash and cash equivalents	23,613	32,495
Current assets	**212,037**	**186,767**

Total assets	**386,607**	**372,718**
Share Capital	30,102	30,102
Reserves	65,463	96,979
Foreign currency translation reserve	–9,442	–15,269
Profit/loss for the year	19,012	9,924
Minority interests	9,040	–
Shareholders' equity	**114,175**	**121,736**
Financial liabilities	36,714	41,678
Trade payables and other payables	421	645
Deferred tax liabilities	2,412	2,038
Provision for severance indemnity and retirement benefits	7,660	8,002
Provisions for risks and liabilities	3,097	4,107
Non-current liabilities	**50,304**	**56,470**
Financial liabilities	57,005	51,918
Trade payables and other payables	153,337	130,166
Current taxes payables	2,739	3,582
Provisions for risks and liabilities	9,047	8,846
Current liabilities	**222,128**	**194,512**
Total shareholders' equity and liabilities	**386,607**	**372,718**

Analysis of Net Working Capital of Operations as at 31.12.2017

Drivelines & Components - Drivetech business area

	31.12.17	31.12.16
Trade Receivables	67,559	49,237
Closing Inventory	88,108	81,592
Trade Payables	–130,524	–111,785
Net Working Capital of operations	**25,143**	**19,044**

Amounts in Euro/000

Corporate structure as at 31.12.2017

Drivelines & Components - Drivetech business area

The target markets of the Drive Tech & Components Business Area (hereafter Drive Tech), since the very first months of 2017, showed important signs of recovery compared to the same period of the previous year; the analysis by quarter shows a good increase in turnover in the first two quarters, stabilisation in the third quarter, while during the last segment of the year the market started to grow again, in contrast with the last quarter of 2016.

Drive Tech sales revenues as at 31 December 2017 amounted to a total of 492.786 million Euros compared to 461.797 million Euros in the same period of 2016, up by 6.7%.

Below is the detailed analysis of the main target markets.

Agricultural market

Sales in the agricultural market in 2017, representing 37.69% (38.83% in 2016) of Drive Tech turnover, recorded a 2.99% increase over 2016.

The Business Area saw a significant increase in market share in North America, which represents 3.65% of the total (1.95% in 2016) recording +98.6% compared to 2016; growth in India (8.45% compared to 8.22% in 2016) and in China (2.35% compared to 2.12% in 2016) was also positively consolidated. The Italian market is also worthy of mention, representing 2.6% of turnover (2.5% in 2016) in which, in the current year, Drive Tech recorded an increase of 10.8% compared to 2016. The Turkish market on the other hand, which represents 5.06% of turnover (6.71% in 2016), recorded a decrease of 20.1% compared to the previous year due to the instability of the area and the related currency trend. Finally, as regards the rest of the European market, France stood at 4.01% of turnover compared to 4.63% in 2016 and Germany at 1.47% (2.23% in 2016).

The European market confirmed the timid positive signs already apparent in 2016, albeit with different trends according to the different countries. The tendency to use the 4WD version and to abandon the 2WD versions is confirmed on the Indian market, the first in the world for number of agricultural tractors. Also worthy of note is the situation in the Chinese market, which, in the face of falling domestic sales, recorded a favourable change in mix in the medium-high ranges, where Drive Tech operates, and this trend seems to be confirmed also for 2018. Encouraging signs of recovery were recorded in the high-end segment both on the American continent (North and South America) and in Russia and Central Europe.

Construction equipment market

The Construction Equipment market, which represents 39.63% of turnover (39.37% in 2016), recorded an increase in absolute value of 6.81% compared to 2016.

India, the main target market for this segment, which represents 6.64% of turnover (5.19% in 2016), recorded an increase of 35.4% and China stood at 2.66% of turnover (2.05%) with an increase of 36.9%; even the Turkish market, despite the turbulence mentioned above, showed - in this segment - signs of recovery, accounting for 3.09% of total turnover (2.73% in 2016) equal to an increase of 19.7% compared to the previous year. In contrast were the German market, representing 5.12% (5.65% in 2016) and the French market 0.85% (1.14% in 2016).

As for the backhoe loader segment, the significant growth in the Indian market was confirmed, also thanks to a new propensity towards exports in Asia, the Middle East and Latin America. Sales in Europe, Brazil and North America were stable, albeit with increasing volumes in the second half of 2017. In North America in particular, the recovery concerned the construction market as mentioned in the general section.

Material handling market

The Material Handling segment represented 5.16% of turnover (5.2% in 2016), up 5.25% from the previous year, a performance consistent with the industry trend. Europe and the United States remain the main markets for this product segment, with over 96% of sales. The growth of electric vehicles is confirmed in this segment.

Automotive Market

The Automotive segment accounts for 3.4% of the turnover for the Drive Tech Business Area, substantially unchanged in percentage terms compared to the previous year and nevertheless shows an increase of 5.27% compared to 2016.

This increase is essentially due to the renewal of the range by the main customers and the good performance of light commercial vehicles, especially on the Italian market.

Replacement parts

The replacement parts turnover was positively affected by the overall recovery, mentioned above, recording an increase of 8.2% compared to the previous year. The analysis by geographical area shows significant increases in the Italian market (+20.1% compared to 2016) and in the French and US markets, respectively, with growth of 7.6% and 7.7%.

The sales analysis of replacement parts by application market shows, similarly to the sale of the first installation products, an increase in the agricultural market of +9.4%, in the material handling market (+5.3%) while the construction equipment market marks a decrease of 15.9%.

Further turnover opportunities went begging due to delays in the provision of services by the company responsible for managing the handling and packaging of replacement parts on behalf of Carraro at the Monselice site. The delay accumulated in relation to this contingency is already in the recovery phase and will be completely reabsorbed within the first few months of 2018. Precisely in order to guarantee a better and more efficient management of these components, the Group has decided to set up a new company called Driveservice Srl which, among other things, will deal with the logistics management of replacement parts with its operational headquarters in Poggiofiorito (CH).

Results summary

The data on margins confirm a constant improvement thanks to both the consolidation of the results obtained in cost optimisation by virtue of the actions taken on the manufacturing process, and to the positive effect of volumes that allow a better absorption of fixed costs. Ebitda amounted to 49.558 million Euros (10.1% of turnover), an improvement of 32.2% compared to the 37.479 million Euros (8.1% of turnover) of 2016, while Ebit amounted to 32.703 million Euros (6.6% of turnover), an increase of 54.7% compared to the 21.137 million Euros (4.6% of turnover) of 31 December 2016.

The 2017 results were affected by restructuring costs incurred by the Argentine subsidiary amounting to 1.2 million Euros (compared to 4.3 million Euros in 2016). It is also pointed out that in 2017 a capital gain was realized from the total sale of the property of the Argentine factory for a value of 3.3 million Euros.

Net of non-recurring operating items, the adjusted Ebitda and Ebit would be as follows:

	31.12.17	% of turnover	31.12.16	% of turnover
Ebitda	49,558	10.1%	37,479	8.1%
Adjusted Ebitda	47,428	9.6%	41,736	9.0%
Ebit	32,703	6.6%	21,137	4.6%
Adjusted Ebit	30,573	6.2%	25,394	5.5%

Amounts in Euro/000

Earnings before tax were equal to 26.593 million Euros (5.4% of turnover), a significant improvement compared to 15.117 million Euros (3.3% of turnover) in 2016; it is recalled that the 2017 pre-tax result includes, as mentioned above, the net gain arising from the sale of a part of the Argentine Plant building of 3.3 million Euros, the restructuring costs relating to said company of 1.2 million Euros, as well as the related tax effect (746 thousand Euros).

Net profit was equal to 19.012 million Euros (3.9% of turnover) compared to 9.924 million Euros (2.1% of turnover) in 2016.

Net of the non-recurring operating items, the adjusted and proforma net profit would be as follows:

	31.12.17	% of turnover	31.12.16	% of turnover
Net profit/(loss)	19,012	3.9%	9,924	2.1%
Adjusted net profit/(loss)	17,628	3.6%	14,181	3.1%

Amounts in Euro/000

The net financial position of operations at 31 December 2017 was negative at 57.045 million Euros, up from the 52.147 million Euros of 31 December 2016, due to the payment of dividends to parent companies, but decreasing compared to the 63.989 million Euros of 30 June 2017, mainly thanks to the positive cash flows deriving from the reduction in net working capital, as well as from the capital increase paid by Friulia in Siap Spa controlled by Carraro Drive Tech Spa (total of 8 million, of which 4.4 million share capital, 3.6 million share premium).

Turnover

A breakdown of turnover between sales to third parties and intra-group is provided below:

Amounts in Euro/000

	Sales			Sales to third parties		
	2017	2016	Diff %	2017	2016	Diff %
Carraro Drivetech	492,786	461,797	6.7	466,509	439,637	6.1

	Related sales			Intra-Group sales		
	2017	2016	Diff %	2017	2016	Diff %
Carraro Drivetech	1,659	2,559	–35.2	24,618	19,601	25.6

Intra-group sales refer to sales realised between companies from different business areas (in particular Drive Tech and Divisione Agritalia).

Turnover from third parties, which accounts for 95% of total turnover, was equal to 466.509 million Euros compared to 439.637 million for the previous year (95.2% of total turnover) up by 6.1%. Turnover from Group and related companies amounted to 26.277 million Euros (5% of total turnover), with a 18.6% increase compared to 22.160 million Euros (4.8% of total turnover) in 2016.

The following table breaks down turnover from third parties by geographical area:

Amounts in Euro/000

Geographical Area	31.12.17	%	31.12.16	%	Diff. % '17 -'16
India	77,173	16.54	64,931	14.77	18.85
North America	54,906	11.77	52,827	12.02	3.94
Germany	52,568	11.27	56,939	12.95	–7.68
South America	48,346	10.36	41,209	9.37	17.32
Turkey	40,159	8.61	43,646	9.93	–7.99
United Kingdom	34,390	7.37	34,596	7.87	–0.60
China	29,544	6.33	20,094	4.57	47.03
France	26,117	5.60	29,160	6.63	–10.44
Switzerland	5,722	1.23	5,989	1.36	–4.46
Poland	4,586	0.98	4,715	1.07	–2.74
Spain	2,418	0.52	1,770	0.40	36.61
Other	38,198	8.19	32,445	7.38	17.73
Total Abroad	**414,127**	**88.77**	**388,321**	**88.33**	**6.65**

Geographical Area	31.12.17	%	31.12.16	%	Diff. % ‘17 -’16
Italy	52,382	11.23	51,316	11.67	2.08
Total	**466,509**	**100.00**	**439,637**	**100.00**	**6.11**

Sales made within the European market accounted for 43.30% of total turnover (46.54% in 2016), while sales to markets outside Europe amounted to 56.7% (53.46% in 2016).

Overall turnover of Drive Tech by geographic area shows India with 16.54% (14.8% in 2016) as the main market outside Europe, followed by North America with 11.8% (12.0% in 2016), by South America with 10.3% (9.4% in 2016) and Turkey 8.6% (9.9% in 2016), while Germany, with 11.27% (12.95% in 2016) is the main market in the European Union followed by Italy with 11.23% (11.67% in 2016) and the United Kingdom with 7.37% (7.87% in 2016).

Overall turnover from foreign markets as of 31 December 2017 was 88.77% of the total Drive Tech turnover, against 88.33% in the same period of 2016 (an increase of 6.65%).

The following table breaks down sales to third parties by application segment:

Sector	31.12.17	%	31.12.16	%	Diff. % ’17-’16
Construction Equipment	184,861	39.63	173,080	39.37	6.81
Agricultural	175,810	37.69	170,708	38.83	2.99
Replacement parts	51,871	11.12	47,957	10.91	8.16
Material Handling	24,065	5.16	22,865	5.20	5.25
Automotive	15,875	3.40	15,080	3.43	5.27
Industrial	1,040	0.22	1,066	0.24	-2.44
Other	12,987	2.78	8,881	2.02	46.23
Total	**466,509**	**100.00**	**439,637**	**100.00**	**6.11**

Amounts in Euro/000

Ebitda and Ebit

Ebitda stood at 49.558 million Euros compared to 37.479 million Euros in 2016, accounting for 10.06% of turnover as at 31 December 2017 compared to 8.12% of turnover as at 31 December 2016, an increase of 32.23%.

Excluding non-recurring items, already mentioned, Ebitda would have amounted to 47.428 million Euros (9.6% of turnover) compared to 41.736 million Euros (9.0% of turnover) compared to 2016. Ebit amounted to 32.703 million Euros (6.6% of turnover) up by 54.7% compared to 21.137 million Euros (4.6 % of turnover) as at 31 December 2016. Excluding non-recurring items, it would have amounted to 30.573 million Euros (6.2% of turnover) compared to 25.394 million Euros (5.5% of turnover) in 2016.

Amounts in Euro/000

	31.12.17	% of turnover	31.12.16	% of turnover	Diff. %
Ebitda	**49,558**	**10.1**	**37,479**	**8.1**	**32.2**
Costs/(income) of non-recurring operations	–2,130	–	4,257	–	–
of which:					
Capital gain on the sale of real estate in Argentina	–3,308	–	–	–	–
Restructuring costs in Argentina	1,178	–	4,272	–	–
Other restructuring costs	–	–	–15	–	–
Adjusted Ebitda	**47,428**	**9.6**	**41,736**	**9.0**	**13.6**
Ebit	**32,703**	**6.6**	**21,137**	**4.6**	**54.7**
Costs/(income) of non-recurring operations	–2,130	–	4,257	–	–
of which:					
Capital gain on the sale of real estate in Argentina	–3,308	–	–	–	–
Restructuring costs in Argentina	1,178	–	4,272	–	–
Other restructuring costs		–	–15	–	–
Adjusted Ebit	**30,573**	**6.2**	**25,394**	**5.5**	**20.4**

Financial expenses

Amounts in Euro/000

	31.12.17	% of turnover	31.12.16	% of turnover	Diff. %
Net financial expenses	–4,129	–0.8	–4,812	–1.0	14.2

Financial expenses as at 31 December 2017 amounted to 4.129 million Euros (0.8% of turnover) a reduction compared to 4.812 million Euros (1.0% of turnover) as at 31 December 2016, thanks to lower average indebtedness compared to the previous year.

Income (expenses) from equity investments

Amounts in Euro/000

	31.12.17	% of turnover	31.12.16	% of turnover	Diff. %
Income (expenses) from equity investments	–326	0.0	–14	0.0	n.r.

During 2017, some adjustments were made relating to the sale price of 55% of the German company O&K Antriebstechnik, a sale formalised on 30 December 2015, following the resolution of certain claims.

Exchange differences

	31.12.17	% of turnover	31.12.16	% of turnover	Diff. %
Exchange differences	–1,776	–0.4	–1,194	–0.3	–48.7

Amounts in Euro/000

Exchange differences as at 31 December 2017 were negative amounting to 1.776 million Euros compared to 1.194 million Euros as at 31 December 2016.

Net profit/(loss)

After tax at 7.578 million Euros, Drive Tech showed a profit of 19.012 million Euros (3.9% of turnover), compared to the previous year when it stood at 9.924 million Euros (2.1% of turnover). Net of the effects of non-recurring events already mentioned, net profit would have been equal to 17.628 million Euros (3.6% of turnover) compared to 14.181 million Euros (3.1% of turnover) in 2016.

	31.12.17	% of turnover	31.12.16	% of turnover	Diff. %
Net profit/(loss)	19,012	3.9	9,924	2.1	91.6
Costs/(income) of non-recurring operations net of the tax effect	–1,384	–	4,257	–	–
Adjusted net profit/(loss)	17,628	3.6	14,181	3.1	24.3

Amounts in Euro/000

In the above table, the net profit was adjusted to take into account, as mentioned above, the net gain arising from the sale of a part of the Argentine Plant building of 3.3 million Euros and the restructuring costs relating to said company of 1.2 million Euros, as well as the related tax effect (746 thousand Euros).

Amortisation, depreciation and impairment of assets

	31.12.17	% of turnover	31.12.16	% of turnover	Diff. %
Depreciation and amortisation	15,549	3.2	15,893	3.4	–2.2
Impairment	1,306	0.3	449	0.1	n.r.

Amounts in Euro/000

Impairment of fixed assets mainly refers to the write-down of machinery at the Poggiofiorito plant.

Investments

Amounts in Euro/000

	31.12.17	31.12.16
Investments	12,097	10,236

Investments amount to 12.097 million Euros, for the development of new projects to improve production efficiency and upgrade existing systems.

Net financial position of operations

Amounts in Euro/000

	31.12.17	30.09.17	30.06.17	31.12.16
Net financial position of operations	–57,045	–68,525	–63,989	–52,147

The net financial position of operations as at 31 December 2017 registered a negative balance of 57.045 million Euros compared to the negative balance of 52.147 million Euros as at 31 December 2016: the deterioration was mainly due to the disbursement of dividends amounting to 29.2 million Euros, but was mitigated by cash flows deriving from the improvement in net working capital and from the payment of the capital increase by Friulia in Siap Spa.

Human resources

Workforce trend

	31.12.17	31.12.16
Executives	9	10
Clerical staff	467	467
Factory workers	1,863	1,829
Temporary workers	353	283
Total	**2,692**	**2,589**

The increase in personnel compared to 31 December 2016 was mainly due to the increase in production volumes.

Summary data of companies belonging to the
Business area Drivelines & Components - Drivetech as at 31.12.2017

Amounts in Euro/000

	Carraro Drive Tech Spa [1]					Siap Spa				
	31.12.17	% of turn.	31.12.16	% of turn.	Diff.%	31.12.17	% of turn.	31.12.16	% of turn.	Diff.%
Turnover	325,677	–	312,922	–	4.1	67,821	–	61,350	–	10.5
Ebitda	25,140	7.7	20,640	6.6	21.8	7,334	10.8	5,792	9.4	26.6
Ebit	19,665	6.0	15,983	5.1	23.0	3,442	5.1	1,687	2.7	n.r.
Net profit/(loss)	4,932	1.5	11,868	3.8	–58.4	2,948	4.3	1,639	2.7	79.9
Amort., deprec. and impairment	5,475	1.7	4,657	1.5	17.6	3,892	5.7	4,105	6.7	–5.2
Investments	2,571	–	5,688	–	–	4,537	–	3,443	–	–
Net fin. position of operations	–59,846		–43,067	–	–	3,585	–	–842	–	–
Shareholders' eq.	70,301		94,825	–	–	38,900	–	33,062	–	–

[1] Subholding and parent company of the Business Area.

Amounts in Euro/000

	Carraro India Pvt. Ltd.					Carraro China Drives System Co. Ltd.				
	31.12.17	% of turn.	31.12.16	% of turn.	Diff.%	31.12.17	% of turn.	31.12.16	% of turn.	Diff.%
Turnover	132,619	–	118,410	–	12.0	59,684	–	49,534	–	20.5
Ebitda	9,769	7.4	8,701	7.3	12.3	4,371	7.3	5,452	11.0	–19.8
Ebit	5,003	3.8	4,056	3.4	23.3	2,314	3.9	3,303	6.7	–29.9
Net profit/(loss)	2,037	1.5	1,408	1.2	44.7	1,159	1.9	1,481	3.0	–21.7
Amort., deprec. and impairment	4,766	3.6	4,645	3.9	2.6	2,057	3.4	2,149	4.3	–4.3
Investments	3,537	–	3,913	–	–	918	–	288	–	–
Net fin. position of operations	–11,815		–6,646	–	–	9,860	–	3,126	–	–
Shareholders' eq.	33,817		34,092	–	–	24,692	–	25,233	–	–

Amounts in Euro/000

	Carraro Argentina Sa					Carraro Technologies Ltd [2]				
	31.12.17	% of turn.	31.12.16	% of turn.	Diff.%	31.12.17	% of turn.	31.12.16	% of turn.	Diff.%
Turnover	29,973	–	32,674	–	–8.3	1,484	–	1,443	–	2.8
Ebitda	2,235	7.5	–3,026	–9.3	n.r.	272	18.3	293	20.3	–7.2
Ebit	1,826	6.1	–3,494	–10.7	n.r.	196	13.2	203	14.1	–3.4
Net profit/(loss)	–291	–1.0	–4,727	–14.5	–93.8	193	13.0	142	9.8	35.9
Amort., deprec. and impairment	409	1.4	468	1.4	–12.6	76	5.1	90	6.2	–15.6
Investments	349	–	507	–	–	19	–	99	–	–
Net fin. position of operations	209	–	–2,693	–	–	1,266	–	1,204	–	–
Shareholders' eq.	5,655	–	1,535	–	–	1,815	–	1,744	–	–

[2] This company carries out design, research and development for the Group and third parties and is based in Pune (India)

Amounts in Euro/000

	Carraro Drive Tech Do Brasil Inc					Carraro North America Inc. (Virginia Beach)				
	31.12.17	% of turn.	31.12.16	% of turn.	Diff.%	31.12.17	% of turn.	31.12.16	% of turn.	Diff.%
Turnover	6,367	–	3,406	–	86.9	1,008	–	1,342	–	–24.9
Ebitda	360	5.7	–263	–7.7	n.r.	4	0.4	5	0.4	–20.0
Ebit	223	3.5	–392	–11.5	n.r.	4	0.4	4	0.3	0.0
Net profit/(loss)	–433	–6.8	–1,080	–31.7	–59.9	–3	–0.3	–5	–0.4	–40.0
Amort., deprec. and impairment	137	2.2	129	3.8	6.2	–	0.0	1	0.1	–100.0
Investments	218	–	13	–	–	–	–	–	–	–
Net fin. position of operations	4	–	–3,312	–	–	–307	–	82	–	–
Shareholders' eq.	1,839	–	–1,243	–	–	–252	–	–284	–	–

Amounts in Euro/000

	Fon Sa				
	31.12.17	% of turn.	31.12.16	% of turn.	Diff.%
Turnover	–	–	–	–	–
Ebitda	–104	–	–87	–	19.5
Ebit	–104	–	–87	–	19.5
Net profit/(loss)	–104	–	–86	–	20.9
Amort., deprec. and impairment	–	–	–	–	–
Investments	–	–	–	–	–
Net fin. position of operations	–	–	1	–	–
Shareholders' eq.	–	–	–28	–	–

BUSINESS AREA
Vehicles

Agritalia

Income Statement as at 31.12.2017

Business Area Vehicles / Agritalia

Amounts in Euro/000

	31.12.17	%	31.12.16	%	Variazione	
					31.12.17	31.12.16
Revenues from sales	**141,302**	**100.00%**	**119,756**	**100.00%**	**21,546**	**17.99%**
Purchases of goods and materials (net of changes in inventories)	–103,031	–72.92%	–85,214	–71.16%	–17,817	–20.91%
Services and Use of third-party goods and services	–14,960	–10.59%	–14,903	–12.44%	–57	–0.38%
Personnel costs	–12,484	–8.83%	–11,890	–9.93%	–594	–5.00%
Amortisation, depreciation and impairment of assets	–1,502	–1.06%	–1,645	–1.37%	143	8.69%
Provisions for risks	–2,206	–1.56%	–1,601	–1.34%	–605	–37.79%
Other income and expenses	491	0.35%	101	0.08%	390	–
Internal construction	666	0.47%	1,596	1.33%	–930	–58.27%
Operating costs	**–133,026**	**–94.14%**	**–113,556**	**–94.82%**	**–19,470**	**–17.15%**
Operating profit/(loss) (Ebit)	**8,276**	**5.86%**	**6,200**	**5.18%**	**2,076**	**33.48%**
Income from equity investments	–	0.00%	–	0.00%	–	–
Other financial income	11	0.01%	19	0.02%	–8	–42.11%
Financial costs and expenses	–38	–0.03%	–46	–0.04%	8	17.39%
Net gains/(losses) on foreign exchange	9	0.01%	–1	0.00%	10	–
Value adjustments of financial assets	–	0.00%	–	0.00%	–	–
Gains/(losses) on financial assets	**–18**	**–0.01%**	**–28**	**–0.02%**	**10**	**35.71%**
Profit/(loss) before taxes	**8,258**	**5.84%**	**6,172**	**5.15%**	**2,086**	**33.80%**
Current and deferred income taxes	–	0.00%	–	0.00%	–	0.00%
Contribution to the net profit/(loss) of Carraro Spa	**8,258**	**5.84%**	**6,172**	**5.15%**	**2,086**	**33.80%**
Ebitda*	**9,707**	**6.87%**	**7,786**	**6.50%**	**1,921**	**24.67%**

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

Equity and financial disclosure as at 31.12.2017

Business Area Vehicles / Agritalia

Amounts in Euro/000

	31.12.17	31.12.16
Property, plant and equipment	9,553	9,832
Intangible fixed assets	4,539	4,148
Real estate investments	–	–
Holdings in subsidiaries and associates	–	–
Financial assets	–	–
Deferred tax assets	1,375	1,376
Trade receivables and other receivables	10	9
Non-current assets	**15,477**	**15,365**

	31.12.17	31.12.16
Closing inventory	36,513	10,688
Trade receivables and other receivables	27,238	9,846
Financial assets	–	12
Cash and cash equivalents	–	–
Current assets	**63,751**	**20,546**
Total assets	**79,228**	**35,911**
Contribution to shareholders' equity of Carraro Spa	**2,921**	**–1,956**
Financial liabilities	25	–
Trade payables and other payables	–	1
Deferred tax liabilities	–	–
Provision for severance indemnity and retirement benefits	1,178	1,231
Provisions for risks and liabilities	–	201
Non-current liabilities	**1,203**	**1,433**
Financial liabilities	8	–
Trade payables and other payables	70,578	33,448
Current taxes payables	–	–
Provisions for risks and liabilities	4,518	2,986
Current liabilities	**75,104**	**36,434**
Total shareholders' equity and liabilities	**79,228**	**35,911**

Analysis of Net Working Capital of Operations as at 31.12.2017
Business Area Vehicles / Agritalia

Amounts in Euro/000

	31.12.17	31.12.16
Trade Receivables	19,094	8,200
Closing inventory	36,513	10,688
Trade Payables	–58,011	–31,286
Net Working Capital of operations	**–2,404**	**–12,398**

Corporate structure as at 31.12.2017
Business Area Vehicles / Agritalia

Carraro Agritalia closed 2017 with a turnover of 141.302 million Euros, a value never achieved in the past and a significant increase compared to the 119.756 million Euros in the previous year. Tractors sold to third-party customers amounted to 4,673 units (against 4,052 in 2016). Turnover from 2017 development projects amounted to 6.254 million Euros compared to 8.456 million Euros of 2016, in line with the objectives. Ebitda in 2017 was equal to 9.707 million Euros (6.87% of turnover), compared to 7.786 million Euros (6.5% of turnover) in 2016, both values records for the division. Margins improved both in absolute terms and as a percentage thanks to higher volumes and the containment of transformation and structural costs, which offset the inflationary pressures on purchased materials.

Three key factors contributed to the turnover growth:

› the start of exports on the North American market of the new range of tractors for the customer John Deere, important quantities that were used to create stocks in the customer's distribution network for the start of sales.
› the end-of-line peak of the IIIA emission stage specialised tractor range,
› the production start-up of the IIIB emission stage range, with a considerably higher level of technology and price than previous models.

In 2017, Agritalia was also involved in a significant effort to successfully implement the expansion of the *Carraro Tractors* brand product range and the new options and models to offer to its OEM customers. The year also marked the beginning of a development activity in the field of tractor electrification, destined to continue in the future.

Turnover

The turnover of the Vehicles Business Area as at 31 December 2017 was equal to 141.302 million Euros compared to 119.756 million Euros as at 31 December 2016.

A breakdown of turnover between sales to third parties and intra-group is provided below:

			Sales			Sales to third parties			Intra-Group sales
	31.12.17	**31.12.16**	**Diff %**	**31.12.17**	**31.12.16**	**Diff %**	**31.12.17**	**31.12.16**	**Diff %**
Carraro Div. Agritalia	141,302	119,756	18.0	137,456	115,081	19.4	3,846	4,675	–17.7

Amounts in Euro/000

Intra-group sales refer to sales realised between companies from different business areas (in particular Carraro Drive Tech).

The following table breaks down turnover from third parties by geographical area:

Geographical Area	**31.12.17**	**%**	**31.12.16**	**%**	**Diff. % '17–'16**
Switzerland	32,022	23.30	33,992	29.54	–5.80
North America	29,883	21.74	3,261	2.83	816.38
Spain	13,489	9.81	12,416	10.79	8.64
France	5,610	4.08	9,093	7.90	–38.30
Turkey	5,440	3.96	4,087	3.55	33.10
Australia	2,894	2.11	2,602	2.26	11.22
South America	2,137	1.55	1,148	1.00	86.15
Germany	1,884	1.37	2,857	2.48	–34.06
Poland	1,595	1.16	808	0.70	97.40
United Kingdom	1,006	0.73	1,481	1.29	–32.07
Other	6,097	4.44	8,237	7.16	–25.98
Total Abroad	**102,057**	**74.25**	**79,982**	**69.50**	**27.60**

Amounts in Euro/000

Geographical Area	31.12.17	%	31.12.16	%	Diff. % '17–'16
Italy	35,399	25.75	35,099	30.50	0.85
Total	**137,456**	**100.00**	**115,081**	**100.00**	**19.44**

Worthy of note is the effect on the North American market due to the increase in stock by the customer John Deere.

The decrease in sales in France is due to lower purchases of tractors by certain customers.

Ebitda and Ebit

Amounts in Euro/000

	31.12.17	% of turn.	31.12.16	% of turn.	Diff. %
Ebitda	9,707	6.9	7,786	6.5	24.7
Costs/(income) of non-recurring operations	–	–	–	–	–
Adjusted Ebitda	9,707	6.9	7,786	6.5	24.7
Ebit	8,276	5.9	6,200	5.2	33.5
Costs/(income) of non-recurring operations	–	–	–	–	–
Adjusted Ebit	8,276	5.9	6,200	5.2	33.5

There were no non-recurring effects to report.

Ebitda was equal to 9.707 million Euros (6.9% of turnover) compared to 7.786 million Euros (6.5% of turnover) as at 31 December 2016. Ebit increased by 33.5% compared to 31 December 2016 (8.276 million Euros, 5.9% of turnover compared to 6.200 million Euros, 5.2% of the turnover in the previous year).

Net financial expenses

Amounts in Euro/000

	31.12.17	% of turn.	31.12.16	% of turn.	Diff. %
Net financial expenses	–27	–0.0	–27	–0.0	–

Albeit with a positive net financial position of operations, there were financial charges, amounting to 27 thousand Euros, relating to bank charges and commission.

Exchange differences

Amounts in Euro/000

	31.12.17	% of turn.	31.12.16	% of turn.	Diff. %
Exchange differences	9	–0.0	–1	–0.0	n.r.

Contribution to the net profit/(loss) of Carraro Spa

Amounts in Euro/000

	31.12.17	% of turn.	31.12.16	% of turn.	Diff. %
Contribution to the net profit/(loss) of Carraro Spa	8,258	5.8	6,172	5.2	33.8
Costs/(income) of non-recurring operations net of the tax effect	–	–	–	–	–
Adjusted contribution to the net profit/(loss) of Carraro Spa	8,258	5.8	6,172	5.2	33.8

2017 closed with a net profit of 8.258 million Euros (5.8% of turnover), a significant increase compared to the previous year (6.172 million Euros, 5.2% of turnover).

Amortisation, depreciation and impairment of assets

Amounts in Euro/000

	31.12.17	% of turn.	31.12.16	% of turn.	Diff. %
Amortisation, depreciation and impairment	1,431	1.0	1,586	1.1	–9.8

Investments

Amounts in Euro/000

	31.12.17	31.12.16
Investments	1,543	1,809

Human resources

Workforce trend

	31.12.17	31.12.16
Executives	4	3
Clerical staff	82	82
Factory workers	143	144
Temporary workers	77	4
Total	**306**	**233**

The increase in personnel compared to 31 December 2016 was mainly due to the increase in production volumes already mentioned.

Key risks and uncertainties to which Carraro Spa and the Group are exposed

Risks associated with the general economic conditions

The Group's financial, capital and borrowing 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.

Also in 2017, the dynamics of the global economy and international trade were characterised by instability in certain geographic areas.

The prospects for 2018 still remain uncertain and therefore significant risks remain, including the possibility of a slowdown in emerging economies which may be more pronounced and long-lasting than hitherto assumed, with a major impact on financial markets.

Risks having an effect on the Group's results

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

Risks associated with funding requirements

The Group's liquidity risk is mainly linked to the activation and maintenance of sufficient funding to support industrial operations.

The raising of funds, consistent with the most recent Business Plan, is intended to finance both the working capital of operations and investments in R&D and innovation, as well as the fixed assets necessary to ensure sufficient and technologically advanced production capacity. This requirement is also directly proportional, in addition to the dynamics of customer orders and the consequent trend in business volumes, to the group's efforts in research and innovation.

The cash flows envisaged for 2018 include, besides the trend in working capital of operations and investments, the effects of current liabilities and the short-term portions of medium- and long-term loans reaching maturity, as well as the effects (assuming the same rates of exchange with compared to 31.12.2017) of the closure of derivative financial instruments on currencies in existence at the reporting date.

The Group envisages meeting the needs arising from all of the above with the flows deriving from operations, available liquidity, collection of receivables arising form the disposal of assets and the availability of new sources of funding.

The management of liquidity, funding requirements and cash flows are under the direct control and management of the Group Treasury, which operates with the aim of managing the resources available as efficiently as possible.

Risks relating to fluctuating exchange and interest rates

The Group is exposed to exchange rate risks by virtue of the fact that a significant portion of sales and some of the purchases are made in currencies other than the Group's functional currency, with trade transactions carried out by companies in the Euros area with counterparties that do not belong to the Euros area and vice versa.

Another aspect of exchange rate risk is the fact that several Group companies present their financial statements in currencies other than the Group's functional currency.

Exposure to exchange rate risk with reference to each entity is regularly monitored by the Group Treasury according to a strategy which focuses, in particular, on the balance between purchases and sales in foreign currency and activating, for the remaining non-balanced portion and according to the criteria set by the company policy in terms of the management of financial risks, appropriate initiatives to hedge or reduce the risks identified, using the instruments available on the market.

The Group is also exposed to interest rate risks in relation to financial liabilities assumed to fund either normal operations or, where applicable, the Group's expansion by acquisitions. Changes in interest rates may have positive or negative effects on both the financial outcome and on cash flows.

The interest rate risk on the floating portion is, where necessary, reduced via specific hedging operations.

Credit risk

The Group includes among its customers leading international manufacturers of agricultural machinery, construction equipment vehicles and industrial; The risk concentration is associated with the size of these customers, which on a global context is on average high, yet balanced by the fact that credit exposure is distributed across a complex network of counterparties active in several geographic segments.

The management of credit is designed to prioritise the acquisition of customers of national and international standing for multi-annual supplies; on this basis consolidated historical relationships have been built up with the main customers. Generally speaking, these relationships are governed by ad hoc supply contracts. Credit control requires periodic monitoring of the main financial and economic data (including the delivery schedules) relating to each customer.

Except in special circumstances to do with country or counterparty risk, guarantees are not normally obtained on credit.

Receivables are recognised in the accounts net of any write-downs determined by assessing the counterparty's risk of insolvency based on the information available.

Country risk

The Carraro Group operates in different countries and its exposure to them has gradually increased over the years. On these markets, unstable economic-political conditions occur on a cyclical basis (for example in Turkey) that have had an impact and could negatively affect the financial situation and economic results of the Group. A global presence is fundamental for the Group, encompassing a strategy serving clients and seizing opportunities on new markets for its product range.

Environmental risks

The Group operates across 8 manufacturing sites in 5 different nations.

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

These processes have accessory materials such as packaging, lubricants, paints and solvents. The objective of limiting the impact of emissions into the environment has seen a significant improvement from 2008 onwards through an important investment in moving from solvent-based coatings to water-based paints that reduce atmospheric emissions to zero.

Each site operates in compliance with local environmental regulations. Moreover the management pays continual attention to environmental issues adopting all the applications that current technology has made available to reduce the risks of pollution.

Lots of the plants have acquired the Environmental Certification according to the ISO 14001 criteria.

Particular attention is paid to increasing the efficiency of processes in order to maximise energy savings.

Transactions with related parties

Transactions with related parties carried out during the period gave rise to relationships of a commercial, financial or advisory nature and were expedited at market terms, in the economic interest of the individual companies involved in the transactions.

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

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

Standards used in preparing the Consolidated Financial Statements

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

Other information

With reference to the provisions of Articles 15 (formerly 36) and 18 (formerly 39) of Consob Regulation 20249 of 28.12.2017 (formerly 16191 of 29.10.2007), the so-called "Market Regulations", we can confirm that the parent company Carraro S.p.A. meets the conditions required by points a), b) and c) of paragraph 1 of the aforementioned Art. 15 (formerly 36) on the subject of accounting situations, articles of association, corporate bodies and administrative and accounting control of its subsidiaries incorporated and regulated in countries that do not belong to the European Union.

The Group's perimeter includes 12 companies of which 7 established and regulated in non-European Union countries, specifically in Argentina, Brazil, China, India and the United States; of these, 3, in Argentina, China and India, are significant under the terms of Title VI, Section II of the Issuer Regulations (Consob resolution 11971/1999).

For more complete disclosure on the system of corporate governance of Carraro Spa and its ownership structures, as required by Article 123-bis of Legislative Decree 58 of 24 February 1998, (Consolidated Finance Act – TUF), see the "Report on Corporate Governance and Ownership Structures", which can be consulted on the company's website www.carraro.com, under the *investor relations/corporate governance* section.

Consolidated non-financial statement

The consolidated non-financial statement of the Carraro Group for 2017, prepared pursuant to Legislative Decree 254/16, constitutes a separate report ("Sustainability Report") with respect to this report on operations, as provided for by Art. 5 paragraph 3, letter b) of Legislative Decree 254/16, and is available on the website www.carraro.com.

Statement of reconciliation of consolidated net profit/(loss) and shareholders' equity with the net profit/(loss) and shareholders' equity of the parent company

The following statement illustrates the reconciliation of the consolidated net income and shareholders' equity as disclosed in the Consolidated Financial Statements and the net income and shareholders' equity disclosed in the Financial Statements of Carraro Spa:

Amounts in Euro/000

Items	Net profit/ (loss) for the period	Shareholders' equity for the period	Net profit/ (loss) for the previous year	Shareholders' equity for the previous year
Net profit/(loss) and shareholders' equity of Carraro Spa	**15,736**	**87,389**	**–1,437**	**52,659**
Net profit/(loss) and shareholders' equity of subsidiaries	19,917	204,645	722	208,536
Aggregate	**35,653**	**292,034**	**–715**	**261,195**
Elimination of carrying amount of subsidiaries	10,225	–239,935	2,365	–245,698
Consolidation adjustments	–32,207	29,960	–10,738	31,232
Profit and shareholders' equity	**13,671**	**82,059**	**–9,088**	**46,729**
Recognition of minority interests	–3	–9,040	1	–
Profit and shareholders' equity of the Group	**13,668**	**73,019**	**–9,087**	**46,729**

The information required by Article 152 *quinquies* 1 of the Issuers' Regulations and Regulation EU 596/2014 Article 19 ("information on the equity investments in the Parent Company Carraro Spa and its subsidiaries held by directors, statutory auditors and ... omitted...") is set forth in a specific statement annexed to the Explanatory Notes to the Financial Statements to which this Report refers.

ENRICO CARRARO
Chairman

CONSOLIDATED FINANCIAL STATEMENTS
as at 31 December 2017

Statements

Consolidated Income Statement

Amounts in Euro/000

	Notes	31.12.2017	*of which non-recurring*	31.12.2016	*of which non-recurring*
A) REVENUES FROM SALES					
1) Products		582,183	–	571,332	–
2) Services		8,688	–	14,638	
3) Other revenues		15,150	–	7,777	–
Total revenues from sales	**1**	**606,021**	–	**593,747**	–
B) OPERATING COSTS					
1) Purchases of goods and materials		397,147	–	339,617	–
2) Services		92,654	–	94,542	–
3) Use of third-party goods and services		1,305	–	1,908	–
4) Personnel costs		94,432	*233*	97,871	*308*
5) Amortisation, depreciation and impairment of assets		21,770	–	27,918	–
5.a) depreciation of property, plant and equipment		*16,625*	–	*17,700*	–
5.b) amortisation of intangible fixed assets		*3,396*	–	*3,854*	–
5.c) impairment of fixed assets		*1,306*	–	*5,869*	*5,213*
5.d) impairment of receivables		*443*	–	*495*	–
6) Changes in inventories		–36,877	–	17,449	–
7) Provision for risks and other liabilities		9,011	*945*	10,306	*3,998*
8) Other income and expenses		–5,480	*–1,404*	–3,439	*1,181*
9) Internal construction		–1,649	–	–4,184	–
Total operating costs	**2**	**572,313**	–	**581,988**	–
Operating profit/(loss)		**33,708**	–	**11,759**	–
C) GAINS/(LOSSES) ON FINANCIAL ASSETS					
10) Income and expenses from equity investments		–326	–	–14	–
11) Other financial income		3,023	–	2,200	–
12) Financial costs and expenses		–11,670	–	–13,644	–
13) Net gains/(losses) on foreign exchang		–1,958	–	–1,836	–
14) Value adjustments of financial assets		–1,504	–	–213	–
Net gains/(losses) on financial assets	**3**	**–12,435**	–	**–13,507**	–
Profit/(loss) before taxes		**21,273**	–	**–1,748**	–
15) Current and deferred income taxes	4	7,602	*215*	7,340	*–1,177*
Net profit/(loss)		**13,671**	–	**–9,088**	
16) Minority interests		–3	–	1	
Group consolidated profit/(loss)		**13,668**	11	**–9,087**	–9,523
Earnings (losses) per share	**5**				
Basic, for the profit/loss for the period attributable to ordinary shareholders of the parent company		*€ 0.22*	–	*€ –0.21*	–
Diluted, for the profit/loss for the period attributable to ordinary shareholders of the parent company		*€ 0.22*	–	*€ –0.21*	–

Consolidated Comprehensive Income Statement

Amounts in Euro/000

	Notes	31.12.2017	31.12.2016
Net profit/(loss) for the period		**13,671**	**–9,088**
Other income components that could be recognised in the income statement in subsequent periods:			
Change in cash flow hedge reserve	**9**	–275	351
Exchange differences from the translation of items from foreign operations	**15**	–1,348	34
Taxes on other comprehensive income components		87	–93
Total other income components that could be recognised in the income statement in subsequent periods:		**–1,536**	**292**
Other income components that will not be recognised in the income statement in subsequent periods			
Change in the provision for discounting employee benefits	**19**	149	–60
Taxes on other comprehensive income components		–14	29
Total other income components that will not be recognised in the income statement in subsequent periods:		**135**	**–31**
Other comprehensive income components, net of tax effects		**–1,401**	**261**
Total comprehensive income for the period		**12,270**	**–8,827**
Total comprehensive income attributable to			
Shareholders of the parent company		12,260	–8,826
Profit/(loss) pertaining to minorities		10	–1
Total comprehensive income for the period		**12,270**	**–8,827**

Consolidated Statement of Financial Position

Amounts in Euro/000

	Notes	31.12.2017	31.12.2016
A) NON-CURRENT ASSETS			
1) Property, plant and equipment	**6**	140,717	150,849
2) Intangible fixed assets	**7**	57,603	61,117
3) Real estate investments	**8**	695	695
4) Investments	**9**	24,252	18,561
5) Financial assets	**10**	8,849	10,616
5.1) Loans and receivables		*8,677*	*10,508*
5.2) Other financial assets		*172*	*108*
6) Deferred tax assets	**11**	21,135	21,781
7) Trade receivables and other receivables	**12**	5,638	3,551
7.1) Trade receivables		–	–
7.2) Other receivables		*5,638*	*3,551*
Total non-current assets		**258,889**	**267,170**
B) CURRENT ASSETS			
1) Closing inventory	**13**	122,892	90,665
2) Trade receivables and other receivables	**12**	107,909	72,916
2.1) Trade receivables		*77,819*	*50,637*
2.2) Other receivables		*30,090*	*22,279*
3) Financial assets	**10**	5,016	7,711
3.1) Loans and receivables		*3,315*	*5,871*
3.2) Other financial assets		*1,701*	*1,840*
4) Cash and cash equivalents	**14**	48,868	47,753
4.1) Cash		*99*	*96*
4.2) Bank current accounts and deposits		*48,769*	*47,657*
4.3) Other cash and cash equivalents		–	–
Total current assets		**284,685**	**219,045**
Total assets		**543,574**	**486,215**

Amounts in Euro/000

	Notes	31.12.2017	31.12.2016
A) SHAREHOLDERS' EQUITY	15	–	–
1) Capitale Sociale		41,453	23,915
2) Other Reserves		27,201	46,972
3) Profits/(Losses) brought forward		–	–
4) Cash flow hedge reserve		236	427
5) Provision for discounting employee benefits		–273	–404
6) Foreign currency translation reserve		–9,266	–15,094
7) Profit/loss for the year pertaining to the Group		13,668	–9,087
Group Shareholders' Equity		73,019	46,729
8) Minority interests		9,040	–
Total shareholders' equity		**82,059**	**46,729**
B) NON-CURRENT LIABILITIES			
1) Financial liabilities	16	134,594	159,783
1.1) Bonds		–	–
1.2) Loans		*134,493*	*159,666*
1.3) Other financial liabilities		*101*	*117*
2) Trade payables and other payables	17	421	646
2.1) Trade payables		–	–
2.2) Other payables		*421*	*646*
3) Deferred tax liabilities	11	2,532	*2,117*
4) Provision for employee benefits/retirement	19	10,229	10,697
4.1) Provision for severance indemnity		*9,204*	*9,865*
4.2) Provision for retirement benefits		*1,025*	*832*
5) Provisions for risks and liabilities	20	5,723	4,711
5.1) Provision for warranties		*3,021*	*2,117*
5.2) Provision for legal claims		*56*	*56*
5.3) Provision for restructuring and reconversion		–	–
5.4) Other provisions		*2,646*	*2,538*
Total non-current liabilities		**153,499**	**177,954**
C) CURRENT LIABILITIES			
1) Financial liabilities	16	73,240	88,448
1.1) Bonds		–	–
1.2) Loans		*72,972*	*87,896*
1.3) Other financial liabilities		*268*	*552*
2) Trade payables and other payables	17	210,860	151,442
2.1) Trade payables		*174,722*	*129,087*
2.2) Other payables		*36,138*	*22,355*
3) Current taxes payables	18	7,193	6,473
4) Provisions for risks and liabilities	20	16,723	15,169
4.1) Provision for warranties		*9,581*	*8,870*
4.2) Provision for legal claims		*1,068*	*1,335*
4.3) Provision for restructuring and reconversion		*2,375*	*2,418*
4.4) Other provisions		*3,699*	*2,546*
Total current liabilities		**308,016**	**261,532**
Total liabilities		**461,515**	**439,486**
Total shareholders' equity and liabilities		**543,574**	**486,215**

Statement of changes in Consolidated Shareholder's Equity

Amounts in Euro/000

	Share Capital	Other reserves			Provision for discounting employee benefits	Reserve cash flow hedge	Foreign currency translation reserve*		Profit/(Loss) for the period	Equity of Group	Minority interests	Total
		Capital reserves	Other reserves	Treasury stock acquired			On capital reserves	On profit reserves				
Balance as at 1.1.2016	**23,915**	**49,330**	**–16,276**	**–6,666**	**297**	**169**	**–13,867**	**378**	**–8,915**	**28,365**	**2,658**	**31,023**
Total profit/loss for the year	–	–	–	–	**–30**	**257**	–	**34**	**–9,087**	**–8,826**	**–1**	**–8,827**
Transactions with shareholders:												
Future capital increase reserves	–	32,641	–	–	–	–	–	–	–	**32,641**	–	**32,641**
Allocation of 2015 residual profit	–	–	–8,915	–	–	–	–	–	8,915	–	–	–
Treasury share purchase	–	–	–	–	–	–	–	–	–	–	–	–
Change in consolidation scope	–	–	–2,206	–	65	1	809	–	–	**–1,331**	–2,657	**–3,988**
"Capital reserves" exchange difference	–	–	–	–	–	–	–2,448	–	–	**–2,448**	–	**–2,448**
Other changes	–	–	–936	–	–736	–	–	–	–	**–1,672**	–	**–1,672**
Total transactions of the period	–	**32,641**	**–12,057**	–	**–671**	**1**	**–1,639**	–	**8,915**	**27,190**	**–2,657**	**24,533**
Balance as at 31.12.2016	**23,915**	**81,971**	**–28,333**	**–6,666**	**–404**	**427**	**–15,506**	**412**	**–9,087**	**46,729**	–	**46,729**

	Share Capital	Other reserves			Provision for discounting employee benefits	Reserve cash flow hedge	Foreign currency translation reserve*		Profit/(Loss) for the period	Equity of Group	Minority interests	Total
		Capital reserves	Other reserves	Treasury stock acquired			On capital reserves	On profit reserves				
Balance as at 1.1.2017	**23,915**	**81,971**	**–28,333**	**–6,666**	**–404**	**427**	**–15,506**	**412**	**–9,087**	**46,729**	–	**46,729**
Total profit/loss for the year	–	–	–	–	**131**	**–191**	–	**–1,348**	**13,668**	**12,260**	**10**	**12,270**
Transactions with shareholders:												
Share capital increase	17,538	–	–	–	–	–	–	–	–	**17,538**	–	**17,538**
Share premium reserve and CAPINC expenses	–	1,436	–	–	–	–	–	–	–	**1,436**	–	**1,436**
Carraro Spa dividend allocation	–	–	–	–	–	–	–	–	–	–	–	–
Allocation of 2016 residual profit	–	–	–9,087	–	–	–	–	–	9,087	–	–	–
Treasury share purchase	–	–	–	–	–	–	–	–	–	–	–	–
Change in consolidation scope	–	–	–1,170	–	–	–	–	–	–	**–1,170**	9,030	**7,860**
"Capital reserves" exchange difference	–	–	–10,950	–	–	–	7,176	–	–	**–3,774**	–	**–3,774**
Other changes	–	–53,280	53,280	–	–	–	–	–	–	–	–	–
Total transactions of the period	**17,538**	**–51,844**	**32,073**	–	–	–	**7,176**	–	**9,087**	**14,030**	**9,030**	**23,060**
Balance as at 31.12.2017	**41,453**	**83,407**	**–49,540**	**–6,666**	**–273**	**236**	**–8,330**	**–936**	**13,668**	**73,019**	**9,040**	**82,059**

For further details regarding changes in consolidated shareholders' equity, please refer to note no.15 below. * For a better understanding and evidence the opening translation reserve has been restated.

Consolidated Statement of Cash Flows

Amounts in Euro/000

	Notes	31.12.2017	31.12.2016
Profit/(loss) for the year pertaining to the Group	5	13,668	–9,087
Profit/(Loss) for the year pertaining to minority interests		3	–1
Tax for the year	4	7,602	7,340
Profit/(loss) before taxes		***21,273***	***–1,748***
Depreciation of property, plant and equipment	2	16,625	17,700
Amortisation of intangible fixed assets	2	3,396	3,854
Impairment of intangible assets	2	1,306	5,869
Provisions for risks	2	9,011	10,306
Provisions for employee benefits	2	4,636	4,698
Net gains/(losses) on foreign exchange	3	1,958	1,836
Income and expenses from equity investments	3	326	14
Net adjustments of financial assets	3	1,625	213
Other non-monetary income and expenses		–1,526	–
Cash flows before changes in Net Working Capital		***58,630***	***42,742***
Changes in inventory		–36,877	17,449
Changes in trade receivables and other receivables		–41,743	5,429
of which changes in trade receivables and other receivables from related parties		*–3,873*	*–2,933*
Changes in trade payables and other payables		65,153	–26,677
of which changes in trade payables and other payables from related parties		*245*	*1,087*
Changes in receivables/payables for deferred taxation		1,532	4,140
Use of funds for employee benefits		–4,864	–5,069
Use of risks funds		–5,538	–9,397
Change in other financial assets and liabilities		–1,506	–948
Tax consolidation expense and income		–4,264	–2,108
Tax payments		–2,805	–3,777
Cash flows from operating activities		***27,718***	***21,784***
Investments in plant, property and equipment and real estate investments		–13,536	–11,049
Disinvestments and other movements in property, plant and equipment		1,508	–318
Investments in intangible assets		–2,019	–4,966
Disinvestments and other movements in intangible assets		2	1,318
Net cash flow disposed of from disinvestments in companies		–	–1,703
Equity investments/divestments		–4,900	–
Cash flows from Investing activities		***–18,945***	***–16,718***
Change in financial assets		1,064	–3,977
Change in financial liabilities		–34,267	–51,307
Change in share capital	15	6,460	–
Treasury share purchase		–	–
Entry of third party shareholders		7,860	–
Other movements of shareholders' equity	15	13,138	28,034
Cash flows from financing activities		***–5,745***	***–27,249***
Total cash flows for the period		***3,028***	***–22,183***
Opening cash and cash equivalents		**47,753**	**70,758**
Exchange changes in cash and cash equivalents		*–1,913*	*–822*
Closing cash and cash equivalents		**48,868**	**47,753**

Explanatory an supplementary notes to the Consolidated accounts as at 31 december 2017

1. Introduction

Publication of the Consolidated Financial Statements of Carraro Spa and "Carraro Group" subsidiaries for the year ended 31 December 2017 was authorised by a resolution of the Board of Directors on 29 March 2018.

Carraro Spa is a joint-stock company registered in Italy at the Padua Companies Register and controlled by Finaid Spa.

Carraro Spa is not subject to management and coordination activities under the terms of Art. 2497 *et seq* of the Italian Civil Code.

The controlling shareholder Finaid Spa does not perform any activity of management and coordination in relation to Carraro, and in particular:

› Finaid is a purely financial holding;
› Finaid does not issue any directions to Carraro;
› the Finaid Board of Directors does not approve Carraro's strategic plans or business plans nor does it "interfere" regularly in its operations; and
› there are no relationships of a commercial or financial nature between Finaid and Carraro.

These financial statements are presented in Euros, as this is the currency in which most of the group's operations are conducted. The foreign companies are included in the consolidated financial statements in accordance with the principles described in the notes that follow.

Amounts in these financial statements are given in Euro thousands, while amounts in the notes are indicated in Euro millions (mln).

The Carraro Group companies are principally engaged in the manufacture and marketing of drive systems developed for agricultural tractors, construction equipment, material moving machinery, light commercial vehicles and automobiles, and electronic control and power systems.

Completing the strategic plan of refocussing the Group on its core business, in November 2016, a 51% stake of Elettronica Santerno Spa was sold to Enertronica Spa, parent company of the Santerno Business Area (Cash Generating Unit).

Following this extraordinary operation, the Carraro Group is organised in two CGUs (Cash Generating Units): Carraro Drive Tech and Agritalia.

Reporting criteria and accounting principles

The annual Financial Statements are drawn up in compliance with the International Financial Reporting Standards ('Ifrs') issued by the International Accounting Standards Board ("Iasb") and endorsed by the European Union, and with the measures issued implementing Article 9 of Legislative Decree 38/2005. The term Ifrs also includes the revised International Accounting Standards (Ias) and all interpretations of the International Financial Reporting Interpretations Committee (Ifric) previously known as the Standard Interpretation Committee (Sic). These standards are the same as those used for the Financial

Statements as at 31 December 2016, with the exceptions described in the paragraph 3.3 "*Accounting standards, amendments and interpretations adoptable since 1 January 2017*".

The financial statements were prepared assuming that the company is a going concern. For further details, please refer to the information in the Directors' Report on Operations.

2. Struttura e contenuto del bilancio

These consolidated financial statements have been prepared in accordance with the revised International Accounting Standards (Ias/Ifrs) ratified by the European Union and to this end the figures of financial statements of the consolidated subsidiary companies have been reclassified and adjusted appropriately.

This document contains a number of "alternative performance indicators" not envisaged by the Ifrs accounting standards: *Ebitda* (understood as the sum of operating profit/(loss), amortisation, depreciation and impairment of fixed assets); *Ebit* (understood as operating profit/(loss) in the income statement); *Net Financial Position of Operations*: Esma Net Financial Debt determined in accordance with the provisions of paragraph 127 of the recommendations contained in the Esma document no. 319 of 2013, implementing Regulation (EC) 809/2004, adjusting, where applicable, non-current receivables and financial assets.

2.1 Format of the consolidated financial statements

With regard to the format of consolidated accounting schedules, the Group opted to present the following accounting statements.

Income Statement

Items on the consolidated income statement are classified by their nature.

The income statement separately indicates the effects of non-recurrent positive and negative income components relative to events or transactions the occurrence of which is non-current, or transactions or events that are not repeated frequently in carrying out normal activities.

Statement of Comprehensive Income

The statement of comprehensive income includes items of income and costs that are not posted on the period income statement, as required or permitted by the Ifrss, such as changes to the cash flow hedge reserve, changes to the reserve for employee benefits - actual gains and losses, changes to the translation reserve and the result of financial assets available for sale.

Statement of Financial Position

The consolidated interim statement of financial position is presented with separate disclosure of Assets, Liabilities and Shareholders' Equity.

Assets and Liabilities are illustrated in the Consolidated Financial Statements according to their classification as current and non-current.

Statement of Changes in Shareholders' Equity

The statement of changes in shareholders' equity is presented in accordance with the requirements of the international accounting standards, showing the comprehensive income for the period and all changes generated from transactions with shareholders.

Statement of Cash Flows

The consolidated statement of cash flows illustrates the changes in cash and cash equivalents (as presented in the statement of financial position) divided by cash generating area, indicating financial flows in accordance with the "indirect method", as permitted by Ias 7.

Accounting statements of transactions with related parties (Consob regulation 15519)

With reference to the reporting of related-party transactions in the financial statements, provided for in Consob Regulation 15519 of 27 July 2006, balances of a significant amount are specifically indicated, to facilitate understanding of the assets and liabilities, financial position and results of the Group, in the table of paragraph 8 below on related-party transactions.

2.2 Content of the Consolidated Financial Statements

Consolidation scope

The consolidated financial statements of the Group include the financial statements of Carraro Spaand companies it directly or indirectly controls.

Subsidiaries are companies in which the Company exercises control. The Company controls another company when it is exposed, or has rights, to the variability of results of the subsidiary based on its involvement with said subsidiary and has the capacity to influence such results through the exercise of its power.

Control may be exercised through directly or indirectly holding the majority of shares with voting rights, or on the basis of contractual or legal agreements, also regardless of shareholding relations. The existence of potential voting rights that may be exercised at the reporting date is considered for the purposes of determining control.

In general, the existence of control is assumed when the Parent Company holds, directly or indirectly, more than half the voting rights.

Subsidiaries are consolidated on a line-by-line basis, starting from the date when control is actually acquired and stop being consolidated at the date when control is transferred to third parties.

The following companies are consolidated using the line-by-line method:

Name	Based in	Currency	Nominal value Share capital	Group stake
Parent company				
Carraro Spa	Campodarsego (Padua)	Eur	41,452,544	–
Italian subsidiaries				
Carraro Drive Tech Spa	Campodarsego (Padua)	Eur	30,102,365	100.00%
Siap Spa	Maniago (Pordenone)	Eur	18,903,000	76.76%
Foreign subsidiaries				
Carraro International Sa	Luxembourg	Eur	13,500,000	100.00%
Carraro Deutschland Gmbh	Hattingen (Germany)	Eur	10,507,048	100.00%
Carraro Technologies India Pvt. Ltd.	Pune (India)	Inr	18,000,000	100.00%
Carraro Argentina Sa	Haedo (Argentina)	Ars	57,930,828	99.95%
Carraro China Drive System	Qingdao (China)	Cny	168,103,219	100.00%
Carraro India Ltd.	Pune (India)	Inr	568,515,380	100.00%
Carraro North America Inc.	Norfolk (Usa)	Usd	1,000	100.00%
Fon Sa	Radomsko (Poland)	Pln	–	98.64%
Carraro Drive Tech Do Brasil	Santo Andrè (State of Sao Paulo)	Brl	18,835,789	100.00%
Mini Gears Inc	Virginia Beach (Usa)	Usd	8,910,000	100.00%

Associated companies and joint ventures are consolidated using the net equity method as better defined in the following paragraph "*measurement criteria and accounting standards*".

The details of equity investments are shown below:

Name	Based in	Currency	Nominal value Share capita	Group stake
Associated companies				
Elettronica Santerno Spa	Campodarsego (Padua)	Eur	4,412,000	49.01%
Joint Ventures				
Agriming Agriculture Equipment Co. Ltd	Shandong (China)	Eur	10,000,000	49.00%
Other equity investments				
O&K Antriebstechnik Gmbh	Hattingen (Germany)	Eur	1,000,000	4.50%

Changes in the consolidation area and other operations of company reorganisation

Capital Increase of the issuer Carraro Spa

On 5 June 2017, the capital increase was completed, already approved on 27 June 2016 and subscribed for the amount of 34 million Euros by the shareholders Finaid Spa and Julia Dora Koranyi Arduini on 29 June 2016, with the further contribution of 20 million Euros from the market. The offer was fully subscribed.

Agriming Agriculture Equipment Co. Ltd. Joint Venture Agreement

On 22 June 2017, an agreement was signed between Carraro International Sa and Shandong Juming Machinery Co. Ltd. for the incorporation of the joint venture Agriming Agriculture Equipment Co. Ltd., with total capital of 10 million Euros. This agreement envisages that the shareholding of Carraro International Sa is 49%, as defined in note 9 below.

Liquidation of the subsidiary Fon Sa

On 31 May 2017, the Carraro Group put the Polish subsidiary Fon Sa into liquidation.

The liquidation process was successfully concluded with registration at the companies register on 17 October 2017.

Entry of the third party shareholder Friulia Spa

On 28 November 2017, a new shareholder "Friulia Spa" joined the corporate structure of the subsidiary Siap Spa, through the full subscription of 4,393,000 preference shares, with a nominal value of 1.00 Euro each, with a total share premium of 3,607,000 Euros.

3. Consolidation criteria and accounting standards

3.1 Consolidation criteria

The figures are consolidated using the line by line method, that is assuming the entire amount of the assets, liabilities, costs and earnings of the individual companies, regardless of the stock held in the company.

For the consolidation of foreign companies, specifically prepared financial statements were used according to the formats adopted by the parent company and prepared according to common accounting standards, with reference to those applied for Carraro Spa. Where necessary, to align the closing dates of the foreign companies, interim financial statements as at 31 December 2017 were prepared by the directors, with the same criteria used for the year-end versions.

The carrying amount of consolidated equity interests, held by Carraro Spa or by other companies within the consolidation scope, was offset by the relevant amount of shareholders' equity in the subsidiary companies.

The amount of shareholders' equity and the net profit/(loss) of these third-party shareholders are shown in the Consolidated Statement of Financial Position, Consolidated Income Statement and Consolidated Statement of Comprehensive Income respectively.

Payable and receivables, income and expenditure and all operations undertaken between the companies included within the consolidation scope have been eliminated, including dividends distributed within the Group.

Profits not yet realised and capital gains and losses deriving from operations between companies of the Group have also been eliminated.

Intra-group losses that indicate impairment are recognised in the consolidated financial statements.

Balances in foreign currencies have been converted into Euros using the exchange rate of the end of the period for assets and liabilities, historical exchange rates for shareholders' equity items and average exchange rates in the period for the income statement.

Exchange differences resulting from this conversion method are shown in a specific shareholders' equity item entitled "Foreign currency translation reserve".

The exchange rates applied for the translation of balances presented in foreign currencies were as follows:

Currency	Average exchange rate for 2017	Exchange rate as at 31.12.2017	Average exchange rate for 2016	Exchange rate as at 31.12.2016
Indian Rupee	73.532	76.606	74.372	71.594
Polish Zloty	4.257	4.177	4.363	4.410
US Dollar	1.130	1.199	1.107	1.054
Chinese Renminbi	7.629	7.804	7.352	7.320
Argentine Peso	18.741	22.931	16.342	16.749
Brazilian Real	3.605	3.973	3.856	3.431

3.2 Discretionary valuations and significant accounting estimates

Estimates and assumptions

In the application of the Group's accounting standards, the directors have not made decisions based on discretionary evaluations (excluding those which involve estimates) having a significant effect on the values in the financial statements.

We present below the key assumptions on the future and other significant sources of uncertainty in the estimates at the reporting date, which could bring about significant changes in the carrying amounts of assets and liabilities within the next financial year.

Impairment loss on goodwill

Goodwill is examined for any impairment once a year. This test requires an estimate of the value in use of the cash generating unit to which the goodwill is attributed, which in turn is based on an estimate of the anticipated cash flows from the unit and their discounting based on an appropriate discount rate. For further details see note 7.

Deferred tax assets

Deferred tax assets are recognised in compliance with Ias 12 and they include retained tax losses, to the extent that it is likely there will be future tax profits to offset these losses with the returns of the temporary differences absorbed. A significant discretionary valuation is required of the directors to determine the amount of the deferred tax assets that can be accounted for. They must estimate the probable timing and the amount of future taxable profits as well as a planning strategy for future taxation. The details are provided in note 11.

Pension funds and other post employment benefits

The cost of defined-benefit pension plans is determined using actuarial valuations. The actuarial valuation requires assumptions on the discount rates, the expected rate of return on investments, future salary increments, mortality rates and future pension increases. Because of the long-term nature of these plans, these estimates are subject to a significant level of uncertainty. Further information is provided in note 19.

Development costs

Development costs have been capitalised based on the following accounting principle. In order to determine the amounts to be capitalised the directors must develop assumptions on anticipated future cash flows from assets, the discount rates to apply and the periods of manifestation of the anticipated benefits.

Provisions for risks and liabilities

The Group used estimates for the valuation of the provisions for credit risks, for work under warranties granted to customers, for company restructuring, for stock depreciation and for other risks and liabilities. Further details are provided in the notes relating to the individual financial statement items.

3.3 Accounting standards and measurement criteria

Ifrs accounting standards, amendments and interpretations adopted since 1 January 2017

On 29 January 2016, the Iasb published the document *"Disclosure Initiative (Amendments to Ias 7)"* which contains amendments to Ias 7. The document aims to provide some clarification to improve disclosures on financial liabilities. In particular, the changes require a disclosure that enables users of the financial statements to understand the changes in liabilities arising from financing operations, including changes resulting from monetary movements and changes resulting from non-monetary movements. The changes do not envisage a specific format to be used for the disclosure. Nevertheless, the changes introduced require an entity to provide a reconciliation of the opening balance and the closing balance for liabilities arising from financial transactions. Presentation of comparative information relating to prior years is not required. Further information is provided in note 16.

On 19 January 2016, the Iasbpublished the document *"Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to Ias 12)"* which contains amendments to Ias12. The document is intended to provide some clarification on the inclusion of deferred tax assets on unrealised losses in the measurement of financial assets *"Available for Sale"* upon the occurrence of certain circumstances and on the estimated taxable income for future years. The adoption of these amendments had no effect on the Group consolidated financial statements.

Ifrs and Ifric accounting standards, amendments and interpretations endorsed by the European Union, not yet mandatorily applicable and not adopted in advance by the Group as at 31 December 2017:

Ifrs 15 – «Revenue from contracts with customers»

Published on 28 May 2014 and supplemented with further clarifications published on 12 April 2016, it is intended to replace the standards Ias 18 – *Revenue* and Ias 11 – *Construction Contracts*, as well as the interpretations Ifric 13 – *Customer Loyalty Programmes*, Ifric 15 – *Agreements for the Construction of Real Estate*, Ifric 18 – *Transfers of Assets from Customers* and Sic 31 – R*evenues-Barter Transactions Involving Advertising Services*.

The standard establishes a new revenue recognition model to be applied to all customer contracts except those falling within the scope of other Ias/Ifrs standards such as leases, insurance contracts and financial instruments. The key steps for revenue recognition according to the new model are:

- identification of the contract with the customer;
- identification of the contract performance obligations;
- price determination;
- allocation of the price to the performance obligations of the contract;
- revenue recognition criteria when the entity meets each performance obligation.

This standard applies from 1 January 2018. Based on the analyses carried out, the Directors expect that application of Ifrs 15 will not have a significant impact on the amounts recognised as revenues and on the related disclosures in the Group consolidated financial statements.

Ifrs 9 – «Financial instruments»

On 24 July 2014, the Iasb published the final version. The document includes the results of the Iasb project to replace Ias 39. The new standard must be applied to the financial statements beginning on or after 1 January 2018.

The standard introduces new criteria for the classification and valuation of financial assets and liabilities. In particular, for financial assets, the new standard uses a single approach based on financial instrument management methods and on the characteristics of the contractual cash flows of such financial assets in order to determine their valuation criterion, replacing the various rules provided for by Ias 39. For financial liabilities, on the other hand, the main change regards the accounting treatment of the changes in fair value of a financial liability designated as a financial liability valued at fair value through the income statement, if these changes are due to changes in the creditworthiness of the issuer of such liability. According to the new standard, these changes must be recognised in the "Other comprehensive income" table and no longer in the income statement.

With reference to impairment, the new standard requires that the estimate of losses on receivables be made on the basis of the expected losses model (and not on the incurred losses model used by Ias 39) using supporting information, available without unreasonable burden or effort, which includes historical, current and prospective data. The standard envisages that this impairment model is applied to all financial instruments, i.e. to financial assets valued at amortised cost, to those valued at fair value through other comprehensive income, to receivables deriving from rental contracts and to trade receivables.

Finally, the standard introduces a new hedge accounting model to meet the requirements of Ias 39 that were sometimes considered too stringent and unsuitable to reflect company risk management policies. The main innovations of the document concern:

› lthe increase in the types of transactions eligible for hedge accounting, also including the risks of non-financial assets/liabilities eligible to be managed with hedge accounting;
› the change in the way forward contracts and options are accounted when included in a hedge accounting relationship in order to reduce the volatility of the income statement;
› changes to the effectiveness test by replacing the current methods based on the 80-125% parameter with the principle of "economic relationship" between hedged item and hedging instrument; moreover, an assessment of the retrospective efficacy of the hedging relationship will no longer be required.

The greater flexibility of the new accounting rules is offset by additional disclosure requirements on the company's risk management activities. Based on the analyses carried out, the Directors expect that application of Ifrs 9 will not have a significant impact on the amounts and on the related disclosures in the Group consolidated financial statements.

Ifrs 16 – «Leases»

On 13 January 2016, the Iasb published Ifrs 16 - *Leases* which is intended to replace Ias 17 - *Leases*, as well as the interpretations Ifric 4 *Determining Whether an Arrangement contains a Lease*, Sic-15 *Operating Leases-Incentives* and Sic-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The new standard provides a new definition of lease and introduces a criterion based on control (right of use) of an asset for distinguishing lease contracts from service contracts, identifying as discriminating factors: identification of the asset, the right to replace the same, the right to obtain substantially all of the economic benefits arising from the use of the asset and the right to direct the use of the asset underlying the contract.

The standard establishes a single model of recognition and valuation of lease contracts for the lessee which entails recognising the asset covered by the lease, also operating lease, under assets with an offsetting financial payable, while also providing the possibility of not recognising as leases contracts which refer to "low-value assets" and leases with a contract term less than or equal to 12 months. On the contrary, the standard does not include significant changes for lessors.

The standard is applicable as from 1 January 2019 but early application is allowed only for companies that have implemented Ifrs 15 - Revenue from Contracts with Customers. The Directors expect that application of Ifrs 16 may have a significant impact on the accounting treatment of lease contracts and on the related disclosures in the Group consolidated financial statements. Nevertheless, it is not possible to provide a reasonable estimate of the effect until the Group has completed a detailed analysis of the related contracts.

Ifrs standards, amendments and interpretations not yet endorsed by the European Union

Amendments to Ifrs 2 «Classification and measurement of share-based payment transactions»

On 20 June 2016, the Iasb published the document *"Classification and measurement of share-based payment transactions (Amendments to Ifrs 2)"* which contains the amendments to Ifrs 2. The amendments provide some clarification with regard to the recognition of the effects of vesting conditions in the presence of cash-settled share-based payments, the classification of share-based payments with net settlement characteristics and the accounting of changes to the terms and conditions of a share-based payment which alter their classification from cash-settled to equity-settled. The changes will apply from 1 January 2018 but early application is allowed. At the moment, the directors are considering the possible impacts of these changes on the Group consolidated financial statements.

Annual Improvements to Ifrss 2014–2016 Cycle

On 8 December 2016, the IASB published the document "*Annual Improvements to Ifrss: 2014-2016 Cycle*" which incorporates the amendments to certain standards as part of the annual improvement process of the same. The main changes concern:

- Ias 28 *Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice*. The amendment clarifies that the option for a venture capital organization or other entity with such qualification (such as a mutual fund or similar entity), in order to measure investments in associates and joint ventures measured at fair value through profit or loss (rather than by applying the net equity method) must carried out for each investment at the time of initial recognition. This amendment applies from 1 January 2018.
- Ifrs 12 *Disclosure of Interests in Other Entities – Clarification of the scope of the Standard*. The amendment clarifies the scope of Ifrs 12 specifying that the information required by the standard, except for that provided for in paragraphs B10-B16, applies to all equity interests that are classified as held for sale, held for distribution to shareholders or as discontinued operations in accordance with Ifrs 5. This amendment is applicable from 1 January 2017 but, since it has not yet been approved by the European Union, it was not adopted by the Group as at 31 December 2017.

At the moment, the directors are considering the possible impacts of these changes on the Group consolidated financial statements.

Ifric Interpretation 22 «Foreign Currency Transactions and Advance Consideration»

On 8 December 2016, the Iasb published the document *"Foreign Currency Transactions and Advance Consideration (Ifric Interpretation 22)"*. The interpretation aims to provide guidelines for foreign exchange transactions if they are recognized under non-cash advances or down payments, prior to recognition of the related asset, cost or revenue. This document provides guidance on how an entity should determine the date of a transaction and, as a result, the spot exchange rate to be used when there are foreign currency transactions in which the payment is made or received in advance.

The interpretation clarifies that the transaction date is the earlier of:

› the date on which the advance payment or down payment received are entered in the accounts of the entity; and
› the date on which the asset, cost or revenue (or part of the same) is entered in the accounts (with resulting reversal of the advance payment or down payment received).

If there are several advance payments or receipts, a transaction date must be identified for each of them. Ifric 22 is applicable from 1 January 2018, but earlier application is allowed. At the moment, the directors are considering the possible impacts of these changes on the Group consolidated financial statements.

Amendments to Ias 40 – «Transfers of Investment Property»

On 8 December 2016, the Iasb published the document "*Transfers of Investment Property (Amendments to Ias 40)"* which contains amendments to Ias 40. These changes clarify the transfer of a property to, or from, property investment. In particular, an entity must reclassify a property among, or from, property investments only when there is evidence that there has been a change of use of the property. This change must be attributed to a specific event that occurred and must not therefore be limited to a change of intention on the part of the management of an entity. These changes will apply from 1 January 2018 but early application is allowed. At the moment, the directors are considering the possible impacts of these changes on the Group consolidated financial statements.

Ifric Interpretation 23 – «Uncertainty over Income Tax Treatments»

On 7 June 2017, the Iasb published the interpretative document Ifric 23 – *Uncertainty over Income Tax Treatments*. The document addresses the issue of uncertainty about the tax treatment to be adopted on income taxes.

The document envisages that uncertainties in the determination of tax liabilities or assets are reflected in the financial statements only when it is probable that the entity will pay or recover the amount in question. In addition, the document does not contain any new disclosure requirements, but emphasises that the entity will have to determine whether it will be necessary to provide information on the management's considerations and the uncertainty inherent in the accounting of the tax, in accordance with Ias 1.

The new interpretation applies from 1 January 2019, but early application is permitted. At the moment, the directors are considering the possible impacts of these changes on the Group consolidated financial statements.

Amendments to Ias 9
«Prepayment Features with Negative Compensation»

On 12 October 2017, the Iasb published the document "*Prepayment Features with Negative Compensation: (Amendments to Ifrs9)*". This document specifies that a debt instrument that provides for an early repayment option could comply with the characteristics of contractual cash flows "Sppi" test) and, consequently, could be measured using the amortised cost or the *fair value through other comprehensive income* method, also if the "*reasonable additional compensation*" provided for in the event of early repayment is a "*negative compensation*" for the lender. The amendment applies from 1 January 2019, but early application is permitted. At the moment, the directors are considering the possible impacts of these changes on the Group consolidated financial statements.

Amendments to Ias 28 «Long-term Interests in Associates and Joint Ventures»

On 12 October 2017, the Iasb published the document "*Long-term Interests in Associates and Joint Ventures (Amendments to Ias 28)*". This document clarifies the need to apply Ifrs 9, including the requirements related to *impairment*, to other long-term interests in associates and joint ventures for which the net equity method is not applied. The amendment applies from 1 January 2019, but early application is permitted.

At the moment, the directors are considering the possible impacts of these changes on the Group consolidated financial statements.

Annual Improvements to Ifrss 2015-2017 Cycle

On 12 December 2017, the Iasb published the document "*Annual Improvements to Ifrss 2015-2017 Cycle*" which incorporates the changes to certain standards as part of the annual improvement process. The main changes concern:

- Ifrs 3 *Business Combinations* and Ifrs 11 *Joint Arrangements*: the amendment clarifies that when an entity obtains control of a *business* that represents a *joint operation*, it must remeasure the interest previously held in that *business*. On the other hand, this process is not envisaged if joint control is obtained.
- Ias 12 *Income Taxes*: the amendment clarifies that all the fiscal effects related to dividends (including payments on financial instruments classified under shareholders' equity) should be accounted for in a manner consistent with the transaction that generated such profits (income statement, OCI or shareholders' equity).
- Ias 23 *Borrowing costs*: the amendment clarifies that in the case of loans that remain in place even after the *qualifying asset* in question is ready for use or for sale, these become part of the totality of the loans used to calculate the borrowing costs.

The changes will apply from 1 January 2019 but early application is allowed. The directors do not expect a significant effect on the Group's consolidated financial statements from the adoption of these amendments.

Amendments to Ifrs 10 and Ias 28 «Sale or Contribution of Assets between an Investor and its Associate or Joint Venture»

On 11 September 2014, the Iasb published an amendment to Ifrs 10 and Ias 28 *Sales or Contribution of Assets between an Investor and its Associate or Joint Venture*. The document was published in order to resolve the current conflict between Ias 28 and Ifrs 10.

According to Ias 28, the gain or loss resulting from the sale or contribution of a non-monetary asset to a joint venture or associate in exchange for a share in the capital of the latter is limited to the share in the joint venture or associate held by the other investors extraneous to the transaction. In contrast, Ifrs 10 requires the recording of the entire gain or loss in the event of loss of control of a subsidiary, even if the entity continues to hold a non-controlling stake in the same, including in this case also the sale or transfer of a subsidiary to a joint venture or associate. The changes introduced provide that in the case of a sale/contribution of an asset or a subsidiary to a joint venture or associate, the extent of the gain or loss to be recognised in the financial statements of the seller/contributor depends on whether or not the assets or subsidiary sold/contributed constitute a business, in the sense of Ifrs 3. In the event that the assets or subsidiary sold /contributed represent a business, the entity must recognise the gain or loss on the entire investment previously held; while, if not, the share of the gain or loss on the stake still held by the entity must be eliminated. At the moment, the Iasb has suspended application of this amendment. At the moment, the directors are considering the possible impacts of these changes on the Group consolidated financial statements.

Business Combinations and Goodwill

Business combinations are accounted for according to the purchase method. This requires the recognition at fair value of the identifiable assets (including intangible fixed assets previously not recognised) and identifiable liabilities (including potential liabilities and excluding future restructuring) of the business acquired.

The goodwill acquired through a business combination is initially measured at cost, represented by the amount by which the cost of the business combination exceeds the share attributable to the Group of the net fair value of the identifiable assets, liabilities and potential liabilities (of the business acquired). In order to analyse appropriateness, goodwill acquired in a merger is allocated at the date of acquisition, to the individual cash generating units of the Group or to groups of cash generating units, which should benefit from the synergies of the combination, irrespective of whether other Group assets or liabilities are allocated to such units or groups of units.

Each unit or group of units to which the goodwill is allocated:

› represents the lowest level, within the Group, at which the goodwill is monitored for internal management purposes; and
› is no larger than the business segments identified on the basis of the Group's primary or secondary schedule of presentation of the segment reporting, determined on the basis of the indications of Ifrs 8 – «*Operating Segments*».

When the goodwill represents part of a cash generating unit (or group of cash generating units) and part of the asset internal to that unit is transferred, the goodwill associated with the asset transferred is included in the carrying amount of the asset in order to determine the profit or loss generated by the transfer. Goodwill transferred in such cases is calculated on the basis of the values relating to the asset transferred and of the portion of the unit maintained in existence.

When the transfer concerns a subsidiary, the difference between the selling price and the net assets plus the accumulated translation differences and goodwill is recognised in the income statement.

Acquisitions of additional equity interests after achieving control

Ias 27 Revised states that, once control of an entity has been obtained, transactions in which the controlling entity buys or sells further minority interests without affecting the control exercised over the subsidiary are transactions with owners and therefore must be recognised in shareholders' equity. It follows that the carrying amount of the controlling and the minority interests must be adjusted to reflect the change in the equity investment in the subsidiary and any difference between the amount of the adjustment made to the minority interests and the fair value of the price paid or received in this transaction is recognised directly in shareholders' equity and is attributed to the owners of the parent company. There will be no adjustments to the value of goodwill and profits or losses recognised in the income statement. Any ancillary expenses deriving from these transactions, moreover, must by recognised in shareholders' equity in accordance with the provisions of Ias 32, paragraph 35.

Previously, in the absence of a specific Standard or Interpretation on the subject, in the case of acquisition of minority interests in companies already controlled, the Carraro Group had adopted the *Parent Entity Extension Method*, which involved recognition of the difference between the purchase price and the carrying amounts of assets and liabilities under the item Goodwill. In the case of sale of minority interests without loss of control, instead, the Group recognised the difference between the carrying amount of the assets and liabilities sold and the sales price in the income statement.

The measurement criteria and accounting standards are illustrated below for the most significant items.

Property, plant and equipment

Property, plant and equipment items are recognised at their historical cost, less the related accumulated depreciation and cumulative impairment losses. This cost includes expenses for replacing parts of machinery and plant at the time they are incurred if this is in accordance with the recognition criteria.

Depreciation is calculated on a straight-line basis with reference to the estimated useful life of the assets.

Property, plant and equipment items are derecognised at the time of sale or once future economic benefits are no longer expected from their use or disposal. Any losses or profits (calculated as the difference between the net income on the sale and the carrying amount) are recognised in the income statement during the year of elimination as above.

Assets held under finance leases, through which all the risks and benefits of ownership are transferred to the Group, are recognised as Group assets at their current value or,

if lower, at the present value of the minimum lease payments.

The corresponding liability to the lessor is included in the financial statements under financial payables. Leases where the lessor substantially retains all the risks and benefits of ownership are classified as operating leases and the related costs are recognised in the income statement over the term of the contract.

The asset's residual value, its useful life and the methods applied are reviewed annually and adjusted if necessary, at the end of each accounting period.

On average the useful life, in years, is as follows:

Category	Useful Life
Industrial buildings	20-50
Plant	15-25
Machinery	15-18
Equipment	3-15
Dies and models	5-8
Furniture and fittings	15
Office machines	5-10
Motor vehicles	5-15

Real estate investments

Real estate investments are recognised at fair value and are not depreciated.

Intangible fixed assets

Intangible assets are recognised in the accounts only if they can be identified and checked, are expected to generate future economic benefits, and their cost can be reliably determined.

Intangible fixed assets with a limited life are carried at purchase or production cost net of amortisation and accumulated impairment losses.

Amortisation is calculated in relation to their anticipated useful life and starts when the asset becomes available for use.

Goodwill

Goodwill represents the surplus of the purchase cost over the acquirer's interest in the fair value (referred to the identifiable net values of the assets or liabilities of the entity acquired).

After initial recognition, goodwill is carried at cost, less any cumulative impairment losses.

Goodwill is subject, at least once a year, to an impairment test, to identify any impairment losses. In order to perform a correct fair value analysis, the goodwill is allocated to each of the units generating financial flows that will benefit from the effects deriving from the acquisition.

Costi di ricerca e sviluppo

The costs of research are charged to the income statement when incurred, in accordance with Ias 38.

Again in compliance with Ias 38, development costs relating to specific projects are recorded among the assets only if all the following conditions are fulfilled:

› the asset can be identified;
› the technical feasibility of completing the intangible asset so that it will be available for use or sale exists;
› the intention to complete the intangible asset and use or sell it exists;

- the ability to use or sell the intangible asset exists;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset exists;
- it is likely that the asset created will generate future financial benefits;
- the costs of the development of the asset can be reliably measured.

Such intangible assets are amortised on a straight-line basis over their useful lives.

Licences, trademarks and similar rights

Trademarks and licences are stated at cost, net of amortisation and accumulated impairment losses.

The cost is amortised over the shorter of the duration of the contract and the limited useful life.

Software

The cost of software licences, inclusive of ancillary expenses, is capitalised and recognised net of amortisation and of any accumulated impairment losses.

Such intangible assets are amortised on a straight-line basis over their useful lives.

Impairment losses

Where there are specific signs of impairment, tangible and intangible fixed assets are subject to an impairment test, estimating the recoverable value of the assets and comparing it with their net carrying amount. The recoverable value is the greater of the fair value of an asset net of selling costs and its value in use, which is determined as the present value of the cash flows that the company estimates will derive from the continuous use of the asset and from its disposal at the end of its useful life.

This recoverable value is determined for each individual asset except when the asset does not generate cash flows which are fully dependent on those generated by other assets.

If the recoverable value is lower than the carrying amount, the latter is reduced accordingly. This reduction represents an impairment loss, which is recognised in the income statement.

If there is no longer any reason for an impairment loss previously recognised to be maintained, with the exception of goodwill and of intangible assets with an unlimited useful life, the carrying amount is reinstated to the new value deriving from the estimate, provided that this value does not exceed the net carrying amount which the asset would have had, if no impairment had ever been made and net of amortisation that would have accumulated. The value written back is also recorded in the income statement.

Impairment tests are carried out annually in the case of goodwill and of intangible fixed assets with an unlimited useful life.

Impairment tests are also carried out on all assets with independent flows that show evidence of impairment.

Equity investments in associated companies

An associated company is an entity over which the Group is able to exercise significant influence, but does not have control or joint control, via the equity investment, over the financial and operating policies of the subsidiary.

The income, expenses, assets and liabilities of associated companies are shown in the consolidated financial statements using the net equity method, with the exception of cases that are classified as held for sale.

Equity investments in other companies and other securities

In accordance with the provisions of the standards Ias 39 and 32, equity investments in companies other than subsidiaries and associates are classified as financial assets available for sale and are carried at fair value except in cases where it is not possible to determine the market price or the fair value: in this case the cost method is used.

Profits and losses deriving from value adjustments are recognised in the statement of comprehensive income and accumulated in a specific shareholders' equity reserve.

In the presence of permanent impairment losses or in the event of a sale, profits and losses recognised up to that moment in shareholders' equity are recognised in the income statement.

Financial assets

Ias 39 envisages the following types of financial instruments: financial assets at fair value through profit or loss, loans and receivables, investments held to maturity and assets available for sale. Initially, all financial assets are recognised at fair value, increased, in the case of assets other than those at fair value through profit or loss, by any ancillary expenses. The Group establishes the classification of its financial assets after initial registration and, where appropriate and permitted, revises the classification at the end of each financial year.

All standardised (regular way) purchases and sales of financial assets are recognised at the trade date, or at the date on which the Group undertakes to acquire the asset. Standardised purchases and sales means all purchase/sale transactions on financial assets which require the handing over of the assets in the period generally envisaged by the regulations and by the practices of the market on which the trade occurs.

Financial assets at fair value through profit or loss

This category comprises financial assets held for trading, that is, all assets acquired for the purpose of sale in the short term. Derivatives are classified as financial instruments held for trading unless they are designated as effective hedging instruments, in which case their accounting treatment is described in the paragraph *"Derivative financial instruments and hedging transactions"*, below. Profits or losses on assets held for trading are recorded in the income statement.

Investments held to maturity

Financial assets which are not derivative instruments and which are characterised by payments with fixed or determinable maturities are classified as "investments held to maturity" when the Group has the intention and the capacity to maintain them in the portfolio until maturity. Financial assets that the Group decides to keep in the portfolio for an indefinite period do not fall within this category. Other long-term financial investments which are held to maturity, such as bonds, are subsequently measured using the amortised cost method. This cost is calculated as the value initially recognised, less the repayment of the principal, plus or minus the amortisation accumulated using the effective interest rate method on any difference between the value initially recognised and the amount at maturity. This calculation includes all the fees or points paid between the parties, which form an integral part of the effective interest rate, the transaction costs and other premiums or discounts. For investments measured at their amortised cost, profits and losses are recognised in the income statement at the moment in which the investment is derecognised or in the event of an impairment loss, as well as by means of the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted on an active market. These assets are stated on the basis of amortised cost using the effective discount rate method. Profits and losses are recognised in the income statement when the loans and receivables are derecognised or on the occurrence of impairment losses, as well as by means of the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are financial assets, excluding derivative instruments, which are designated as such or not classified in any of the other three previous categories. After initial recognition at cost, financial assets held for sale are carried at fair value and profits and losses are recorded in a separate shareholders' equity item until the assets have been derecognised or until it is ascertained that they have suffered an impairment loss. Profits and losses accumulated up to that moment in shareholders' equity are then charged to the income statement.

In the case of securities widely traded on regulated markets, the fair value is determined by making reference to the stock market price struck at the end of trading on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques based on prices of recent transactions between unrelated parties; the current market value of a substantially similar instrument; discounted cash flow analysis; option pricing models.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, if applicable, part of a financial asset or parts of a group of similar financial assets) is derecognised when:

› the right to receive the cash flows from the asset has expired;
› the Company maintains the right to receive cash flows from the asset, but has undertaken a contractual commitment to pay them in full and without delay to a third party;
› the Group has transferred the rights to receive cash flows from the asset and (a) has

essentially transferred all the risks and benefits of the ownership of the financial asset or (b) has not transferred or essentially withheld all the risks and benefits of the asset, but has transferred control of the same.

In cases where the Group has transferred the rights to receive cash flows from an asset and has not essentially transferred or withheld all the risks and benefits or has not lost control over the same, the asset is recorded in the Group's financial statements to the extent of the latter's residual involvement in this asset. The residual involvement, which takes the form of a guarantee on the asset transferred, is measured at the lower of the initial carrying amount of the asset and the maximum amount which the Group could be obliged to pay.

In cases where the residual involvement takes the form of an option issued and/or acquired on the asset transferred (including options settled in cash or similar), the extent of the Group's involvement corresponds to the amount of the asset transferred which the company could re-acquire; however, in the case of a put option issued on an asset measured at fair value (including options settled in cash or by means of similar provisions), the extent of the Group's residual involvement is limited to the lower of the fair value of the asset transferred and the exercise price of the option.

Financial liabilities

A financial liability is derecognised when the underlying obligation is discharged, cancelled or fulfilled.

In cases where an existing financial liability is replaced by another of the same lender, under essentially different conditions, or the conditions of an existing liability are essentially changed, this change or amendment is treated as derecognition of the original liability and recognition of a new liability. Any difference between the carrying amounts are recognised in the income statement.

Impairment losses on financial assets

The Group assesses whether a financial asset or group of financial assets has undergone a loss in value at the end of each accounting period.

Assets measured on the basis of amortised cost

If there is objective evidence that a loan or receivable recognised at amortised cost has suffered an impairment loss, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows (excluding future receivable losses not yet incurred) discounted at the original effective interest rate of the financial asset (that is the effective interest rate calculated at the date of initial recognition). The carrying amount of the asset is reduced both directly and by setting aside provisions. The amount of the loss will be recognised in the income statement.

The Group assesses first of all the existence of objective evidence of impairment at the individual level. In the absence of objective evidence of an impairment loss for a financial asset measured individually, whether significant or otherwise, this asset is included in a group of financial assets with similar credit risk features and the group is subject to assessment for impairment losses in a collective manner. Assets assessed at the individual level, for which an impairment loss is seen or continues to be seen, will not be included in collective valuation.

If, in a subsequent accounting period, the amount of an impairment loss decreases and this reduction can objectively be traced back to an event which took place after the impairment loss was recognised, the value previously written down is reinstated. Any subsequent write-backs are recognised in the income statement, provided that the carrying amount of the asset does not exceed the amortised cost at the date of the reversal.

Assets recognised at cost

If objective evidence exists of the loss in value of an unlisted instrument representing equity which is not recognised at fair value because its value cannot be measured reliably, or of a derivative instrument which is linked to this equity instrument and must be settled by means of the consignment of the instrument, the amount of the impairment loss is given as the difference between the carrying amount of the asset and the present value of the expected future cash flows and discounted at the current market rate of return for a similar financial asset.

Available-for-sale financial assets

In the event of an impairment loss of an available-for-sale financial asset, a value equal to the difference between its cost (net of repayment of the principal and amortisation) and its current fair value, net of any losses in value previously recognised in the income statement, is transferred from the statement of comprehensive income to the income statement. Writebacks relating to equity instruments classified as available for sale are not recognised in the income statement. Writebacks relating to debt instruments are recognised in the income statement if the increase in the fair value of the instrument can be objectively traced back to an event which took place after the loss was recognised in the income statement.

Inventories

Inventories are measured at the lower of the average purchase or production cost for the period, and market value. Production cost includes materials, labour and direct and indirect manufacturing costs. Obsolete or slow-moving stocks are written down appropriately, as well as in consideration of their anticipated future use and their realisation value.

Works in progress to order

Works in progress are recognised based on the progress method (or percentage of completion) according to which costs, revenues and the margin are recognised based on the progress of production activities. The Group adopts the percentage of completion method. Job order revenues include sums paid under the contract, sums for changes in works and price revisions. Job order costs include all costs that refer directly to the job order, costs which may be attributable to job order activities in general and that may be allocated to the job order, in addition to any other cost that may be specifically charged to the client based on contract clauses.

If a loss is expected from completion of a job order, this is entirely recognised in the year in which it is reasonably foreseeable.

Trade receivables and other receivables

Trade receivables and other receivables are included among current assets, with the exception of those falling due more than 12 months after the reporting date, which are classified as non-current assets. These assets are valued at amortised cost on the basis of the effective interest rate method.

Receivables which mature at more than one year, are interest-free or that earn less interest than the market, are discounted using market rates. Trade receivables are discounted when they have longer payment terms than the average term of extension granted.

If there is objective evidence of elements indicating an impairment loss, the asset is reduced by an amount that returns the discounted value of the cash flows obtainable in the future. Impairment losses are recognised in the income statement. Where reasons for previous writedowns are not maintained into subsequent trading periods, the value of the asset is reinstated until it corresponds to the value that would have derived from application of the amortised cost.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash deposits and investments maturing within three months of the original date of acquisition.

Loans and bonds

Loans are initially recognised at the fair value of the price received net of the related loan acquisition costs. After initial recognition, loans are carried on the basis of their amortised cost calculated by means of the application of the effective interest rate. The amortised cost is calculated taking into account the issue costs and any discounts or premium provided for at the time of settlement.

Allowances and provisions

Provisions for risks and liabilities

Provisions for risks and liabilities are made when the Group must meet a current legal or implicit obligation deriving from a past event, a sacrifice of resources is likely in order to deal with this obligation and it is possible to make a reliable estimate of its amount. When the Group considers that a provision for risks and liabilities will be partly or fully reimbursed, for example in the case of risks covered by insurance policies, the indemnity is recognised separately among the assets if, and only if, it is practically certain. In this case, the cost of the possible related provisions, net of the amount recognised for the indemnity, is presented in the income statement. If the effect of discounting to the present the value of the money is significant, the provisions are discounted back using a pre-tax discount rate which reflects, where appropriate, the specific risks of the liabilities. When the discounting is carried out, the increase of the provision due to the passage of time is recognised as a financial expense.

Employee and similar benefits

According to Ias 19, employee benefits to be paid out subsequent to the termination of the employment relationship and other long-term benefits (including the Provision for severance indemnity) are subjected to actuarial valuations which have to take into account a series of variables (such as mortality, the provisions of future salary changes, the anticipated rate of inflation, etc.).

Following this method, the liability recognised represents the current value of the obligation, net of any plan assets, adjusted for any actuarial losses or profits not accounted for.

As provided for by Ias 19 Revised, actuarial gains and losses were recognised directly in the income statement, without using the corridor approach.

Following the adoption of Ias 19 Revised, actuarial gains/losses are no longer directly recognised in the income statement, but are directly recognised in a reserve of shareholders' equity with immediate recognition in the Statement of Comprehensive Income. The item Interest cost is classified under Financial income/expenses and no longer under the item Personnel Costs.

Recognition of revenues and other positive income components

Sales of goods are recognised when the goods are shipped and the company has transferred to the purchaser the significant risks and rewards associated with ownership of the goods.

Revenues for services are recognised with reference to the stage of completion.

Interest income is recognised in accordance with the accruals concept, on the basis of the amount financed and the effective interest rate applicable, which represents the rate that discounts future collections estimated over the expected life of the financial asset so as to take them back to the carrying amount of the asset itself.

Revenues from dividends are recorded when the right to collection arises, which normally corresponds to the resolution of the shareholders' meeting approving distribution of the dividends. Dividends to shareholders are recognised as payable at the time of the distribution resolution.

Public grants

Public grants are recognised when reasonable certainty exists that they will be received and all the related conditions are satisfied. When the grants are associated with cost elements, they are recorded as revenues, but they are systematically spread over the accounting periods so that they are commensurate with the costs they are intended to offset. If the grant is linked to an asset, the fair value is suspended in long-term liabilities and the release to the income statement takes place progressively over the expected useful life of the asset concerned on a straight-line basis.

Taxes

Taxation for the year represents the sum total of the current and deferred income taxes.

Current taxes

Current income taxes have been provided for on the basis of an estimate of the taxable income for the consolidated companies, in accordance with the provisions issued or essentially issued at the reporting date and taking any applicable exemptions into account.

Deferred taxes

Deferred taxes are determined on the basis of the taxable temporary differences existing between the carrying amount of assets and liabilities and their value for tax purposes; they are classified under non-current assets and liabilities.

Deferred tax assets are provided for only to the extent that future tax burdens will probably exist, against which this asset balance can be used.

The value of deferred tax assets which can be recognised is subject to an annual assessment and is written down to the extent that it is not likely that sufficient income for tax purposes will be available in the future so as to permit all or part of this credit to be used. Unrecognised deferred tax assets are reviewed annually at the reporting date and are recognised to the extent that it has become likely that income for tax purposes will be sufficient to permit these deferred tax assets to be recovered.

Deferred tax assets and liabilities are determined with reference to the tax rates which are expected to be applied in the period in which these deferments will be realised, taking into account the rates in force or those which it is known will be subsequently issued.

Deferred tax assets and liabilities are offset, if a legal right exists to offset the current tax assets with current tax liabilities and the deferred taxes refer to the same fiscal entity and the same tax authority.

Value added tax

Revenues, costs, assets and liabilities are recognised net of value added tax, except when:

› the tax applied to the purchase of goods or services is non-deductible, in which case it is recognised as part of the purchase cost of the asset or part of the cost item recognised in the income statement;
› it refers to trade receivables and payables recorded including the value of the tax.

Earnings (losses) per share

Basic earnings (losses) per share are calculated by dividing the net profit (net loss) for the period attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding in the period.

Diluted earnings (losses) per share are obtained by means of adjustment of the weighted average of outstanding shares, so as to take into account all the potential ordinary shares with diluting effects.

Translation of foreign currency balances

Functional currency

The companies of the Group provide their financial statements in the currency used in the individual country.

The Group's functional currency is the Euros, which represents the currency in which the separate financial statements are drawn up and published.

Accounting transactions and entries

Transactions carried out in a foreign currency are initially recognised using the exchange rates at the transaction date.

At the reporting date, the monetary assets and liabilities denominated in a foreign currency are re-translated on the basis of the exchange rate in force at that date.

Non-monetary foreign currency items measured at historical cost are translated using the exchange rate in force at the date of the transaction.

Non-monetary items recognised at fair value are translated using the exchange rate in force at the date of determination of the value.

Derivative financial instruments and hedging transactions

The Company's financial risk management strategy conforms to the company objectives set out in the policies approved by the Board of Directors of Carraro Spa. In particular, it aims to minimise interest rate and exchange rate risk and optimise the cost of debt.

These risks are managed in accordance with the principles of prudence and market best practices and all risk management transactions are centrally managed.

The main objectives indicated by the policy are as follows:

Exchange-rate risks

- to hedge all commercial and financial transactions against the risk of fluctuation;
- to apply the "currency balancing" method of hedging the risk, where possible, favouring the offsetting of revenues and expenses and payables and receivables in foreign currencies in order to engage in hedging solely for the excess balance not offset;
- not to permit the use and ownership of derivatives or similar instruments for mere trading purposes;
- to permit only the use of instruments traded on regulated markets for hedging transactions.

Interest-rate risks

- to hedge financial assets and liabilities against the risk of changes in interest rates;
- in hedging against risk, to comply with the general criteria for balancing lending and borrowing set at the Group level by the Board of Directors of Carraro Spa when it approves long-term plans and budgets (fixed and floating interest rates, proportions at short-term and medium/long-term);
- to permit only the use of instruments traded on regulated markets for hedging transactions.

The Group uses derivative financial instruments such as currency futures contracts and interest rate swaps to hedge the risks deriving mainly from fluctuations in interest and exchange rates. These derivative financial instruments are initially recognised at their fair value at the date they were entered into; this fair value is periodically reviewed. They are accounted for as assets when the fair value is positive and as liabilities when it is negative.

Any profits or losses emerging from the changes in the fair value of derivatives not eligible for hedge accounting are charged directly to the income statement during the accounting period.

The fair value of currency futures contracts is determined with reference to the current forward exchange rates for contracts with a similar maturity profile. The fair value of interest rate swap agreements is determined with reference to the market value for similar instruments.

For hedge accounting purposes, hedges are classified as:
› fair value hedges, if they hedge the risk of change in the fair value of an underlying asset or liability;
› cash flow hedges, if they hedge the risk of change in the cash flows deriving from existing assets and liabilities or from future transactions;
› hedges of a net investment in a foreign operation (net investment hedges).

A transaction hedging the exchange-rate risk relating to an irrevocable commitment is accounted for as a cash flow hedge.

When implementing a hedging transaction, the Group formally designates and documents the hedging relationship to which it is intended to apply the hedge accounting, its risk management objectives and the strategy pursued. The documentation identifies the hedging instrument, the element or transaction subject to the hedge, the nature of the risk and the methods by means of which the entity intends to assess the effectiveness of the hedge in offsetting exposure to changes in the fair value of the element hedged or the cash flows attributable to the hedged risk.

These hedges are expected to be highly effective in offsetting exposure of the element hedged to changes in the fair value or in the cash flows attributable to the hedged risk. The assessment of whether these changes have effectively shown themselves to be highly effective is carried out on an ongoing basis during the accounting periods in which they were designated.

Transactions which meet the criteria for hedge accounting are accounted for as follows:

Fair value hedges

The Group may use fair value hedging transactions against exposure to changes in the fair value of accounting assets and liabilities or of an off-balance sheet irrevocable commitment, as well as an identified part of the said assets, liabilities or irrevocable commitments, attributable to a particular risk, which could have an impact on the income statement. As far as fair value hedges are concerned, the carrying amount of the element being hedged is adjusted to reflect the profits and losses attributable to the risk subject to the hedge, the derivative instrument is re-determined at fair value and the profits and losses of both are booked to the income statement.

With regard to fair value hedges referring to elements recognised on the basis of amortised cost, the adjustment of the carrying amount is amortised in the income statement over the period remaining until maturity. Any adjustments to the carrying amount of the hedged financial instrument to which the effective interest rate method is applied are amortised in the income statement.

The amortisation can start as soon as an adjustment exists but not after the date when the hedged element ceases to be adjusted due to the changes in its fair value attributable to the hedged risk.

When an unrecognised irrevocable commitment is designated as a hedged item, subsequent cumulative changes in its fair value attributable to the hedged risk are recognised as assets or liabilities and the corresponding profits and losses are recognised in the income statement. Changes in the fair value of a hedging instrument are also booked to the income statement.

An instrument is no longer recognised as a fair value hedge when it matures or is sold, discharged or exercised, when the hedge no longer meets the requirements for hedge accounting purposes, or when the Group revokes its designation. Any adjustments to the carrying amount of the hedged financial instrument to which the effective interest rate method is applied are amortised in the income statement. The amortisation can start as soon as an adjustment exists but not after the date when the hedged element ceases to be adjusted due to changes in its fair value attributable to the hedged risk.

Cash flow hedges

Cash flow hedges are transactions hedging the risk of fluctuations in cash flows attributable to a specific risk, associated with a recognised asset or liability or with a highly likely future transaction which could influence the financial outcome. Profits or losses deriving from the hedging instrument are recognised in the statement of comprehensive income and accumulated in a specific shareholders' equity reserve for the efficient part, while the remaining (inefficient) portion is recognised in the income statement.

The profit or loss booked to shareholders' equity is reclassified in the income statement during the period when the transaction being hedged influences the income statement (for example, when the financial income or expense is recognised or when an anticipated sale or purchase takes place). When the element being hedged is the cost of a non-financial asset or liability, the amounts recognised in shareholders' equity are transferred at the initial carrying amount of the asset or liability.

If the transaction is no longer expected to take place, the amounts initially accumulated in shareholders' equity are transferred to the income statement. If the hedging instrument matures or is sold, cancelled or exercised without being replaced, or if its designation as a hedge is revoked, the amounts previously accumulated in shareholders' equity remain recognised therein until the expected transaction takes place. If it is believed that this will no longer happen, the amounts are transferred to the income statement.

Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation, including hedges of a monetary item recognised as part of a net investment, are recognised on a similar basis to cash flow hedges. Profits or losses deriving from the hedging instrument are recognised in the statement of comprehensive income and accumulated in a specific shareholders' equity reserve for the efficient part of the hedge, while for the remaining (inefficient) portion they are recognised in the income statement. On disposal of the foreign operation, the cumulative value of these profits or losses booked to shareholders' equity is transferred to the income statement.

Credit risk

The Group includes among its customers leading international manufacturers of agricultural machinery, construction equipment vehicles, industrial vehicles and light power tools as well as renewable energy producers, and designers and installers of photovoltaic systems. The risk concentration is associated with the size of these customers, which on a global context is on average high, yet balanced by the fact that credit exposure is distributed across a complex network of counterparties active in several geographic segments.

The management of credit is designed to prioritise the acquisition of customers of national and international standing for multi-annual supplies; on this basis consolidated historical relationships have been built up with the main customers. Generally speaking, these relationships are governed by *ad hoc* supply contracts. Credit control requires periodic monitoring of the main financial and economic data (including the delivery schedules) relating to each customer.

Except in special circumstances to do with country or counterparty risk, guarantees are not normally obtained on credit.

Receivables are recognised in the accounts net of any write-downs determined by assessing the counterparty's risk of insolvency based on the information available.

Liquidity risk

The Group's liquidity risk is mainly linked to the activation and maintenance of sufficient funding to support industrial operations.

The raising of funds, consistent with the Group's short- and medium-term development plans, is intended to finance both the working capital and investments in fixed assets necessary to ensure sufficient and technologically advanced production capacity. This requirement is directly proportional to the trend in customer orders and the consequent trend in business volumes.

The cash flows envisaged for 2018 include, besides the trend in working capital and investments, the effects of current liabilities and the short-term portions of medium- and long-term loans reaching maturity, as well as the effects (assuming the same rates of exchange compared to 31.12.2017) of the closure of derivative financial instruments on currencies in existence at the reporting date.

The Group envisages meeting the needs arising from all of the above with the flows deriving from operations, available liquidity and the availability of additional credit facilities.

In 2018, the Group expects to be able to generate financial resources through its operations such as to ensure adequate support for investments.

The management of liquidity, funding requirements and cash flows are under the direct control and management of the Group Treasury, which operates with the aim of managing the resources available as efficiently as possible.

Uncertainties of financial markets have had an effect on the borrowing of banks and as a consequence on credit granted to businesses. This instability could also continue in 2018, preventing the normal execution of financial transactions.

Lastly, regardless of the fact that the Group has continued refinancing its debts with the support of its banking counterparties and the financial markets, the situation could arise of having to seek additional financing in less favourable market conditions, with the limited availability of such sources and an increase in financial expenses.

The maturity features of the Group's liabilities and assets are shown in notes 10 and 16 relating respectively to non-current financial receivables and non-current financial payables. The maturity features of derivative financial instruments are described in paragraph 9.2.

Exchange-rate risk and interest rate risk

The Group is exposed to exchange rate risks by virtue of the fact that a significant portion of sales and some of the purchases are made in currencies other than the Group's functional currency, with trade transactions carried out by companies in the Euros area with counterparties that do not belong to the Euros area and vice versa.

Another aspect of exchange rate risk is the fact that several Group companies present their financial statements in currencies other than the Group's functional currency.

Exposure to exchange rate risk with reference to each entity is regularly monitored by the Group Treasury according to a strategy which focuses, in particular, on the balance between purchases and sales in foreign currency and activating, for the remaining non-balanced portion and according to the criteria set by the company policy in terms of the management of financial risks, appropriate initiatives to hedge or reduce the risks identified, using the instruments available on the market.

The Group is also exposed to interest rate risk in relation to financial liabilities undertaken for loans for both ordinary operations and investments. Changes in interest rates may have positive or negative effects on both the financial outcome and on cash flows.

The strategy adopted pursues the basic objective of achieving a balance between floating-rate and fixed-rate debt. The interest rate risk on the floating portion is then reduced via specific hedging operations.

Intra-group transactions

As regards related-party transactions, including intra-group transactions, said transactions cannot be qualified as atypical or unusual, and are part or the normal operations of Group companies. Said transactions take place in market conditions, considering the characteristics of the goods and services provided.

Information on related-party transactions, including the information required by Consob Communication of 28 July 2006, is given in section 8.

4. Reporting by business and geographic segment

Information on Operating Segments is given on the basis of internal reporting provided as at 31 December 2017 to the highest operating decision-making level.

For operational purposes, the group manages and controls its business on the basis of the type of products supplied.

In November 2016, control of the Santerno Business Area was sold, the results of which were therefore recognised in the financial statements using the line-by-line consolidation method up to that date while subsequently it was consolidated with the net equity method.

Following this extraordinary operation, the Carraro Group as at 31.12.2017 was organised in the following Business Areas:

› Carraro Drive Tech (*Transmission systems and components*): specialised in the design, manufacture and sale of transmission systems (axles, transmissions and planetary drives) mainly for agricultural and construction equipment, and also markets a wide range of components and gears for very diverse sectors, from the automotive industry to light power tools, material handling, agricultural applications and construction equipment;

› Carraro Divisione Agritalia (*Vehicles*): designs and manufactures special tractors (from 60 to 100 hp) for third-party brands;

The item "other segments" brings together the Groups operations not allocated to the three operating segments, and comprises the central holding and management activities of the Group.

The Management examines separately the results achieved by the operating segments in order to take decisions on the allocation of resources and on assessment of the results.

4.1 Business segments

The most significant information by business segment is presented in the tables below, with comparisons between financial years 2017 and 2016.

A. Economic data

Amounts in Euro/000

2017	Drive Tech	Agritalia	Elettronica Santerno	Eliminations and items not allocated	Consolidated Total
Revenues from sales	**492,786**	**141,302**	–	**–28,067**	**606,021**
Sales to third parties	466,509	137,456	–	334	604,299
Related sales	1,659	–	–	63	1,722
Sales between divisions	24,618	3,846	–	–28,464	–
Operating costs	**460,083**	**133,026**	–	**–20,796**	**572,313**
Purchases of goods and materials	295,374	128,856	–	–27,083	397,147
Services	75,833	14,919	–	1,902	92,654
Use of third-party goods and services	18,167	41	–	–16,903	1,305
Personnel costs	68,233	12,484	–	13,715	94,432
Amortisation, depreciation and impairment of assets	16,992	1,502	–	3,276	21,770
Changes in inventories	–11,166	–25,825	–	114	–36,877
Provisions for risks	4,397	2,206	–	2,408	9,011
Other income and expenses	–7,333	–491	–	2,344	–5,480
Internal construction	–414	–666	–	–569	–1,649
Operating profit/(loss)	**32,703**	**8,276**	–	**–7,271**	**33,708**

Amounts in Euro/000

2016	Drive Tech	Agritalia	Elettronica Santerno *	Eliminations and items not allocated	Consolidated Total
Revenues from sales	**461,797**	**119,756**	**36,153**	**–23,959**	**593,747**
Sales to third parties	439,637	115,081	36,150	56	590,924
Related sales	2,559	–	–	264	2,823
Sales between divisions	19,601	4,675	3	–24,279	–
Operating costs	**440,660**	**113,556**	**46,618**	**–18,846**	**581,988**
Purchases of goods and materials	266,992	79,057	15,858	–22,290	339,617
Services	70,322	14,903	7,095	2,222	94,542
Use of third-party goods and services	17,104	–	346	–15,542	1,908
Personnel costs	66,242	11,890	6,865	12,874	97,871
Amortisation, depreciation and impairment of assets	16,646	1,645	7,066	2,561	27,918
Changes in inventories	2,138	6,157	9,263	–109	17,449
Provisions for risks	6,094	1,601	713	1,898	10,306
Other income and expenses	–4,533	–101	–85	1,280	–3,439
Internal construction	–345	–1,596	–503	–1,740	–4,184
Operating profit/(loss)	**21,137**	**6,200**	**–10,465**	**–5,113**	**11,759**

* Values referring to line-by-line consolidation until 30 November 2016

B. Other information

Amounts in Euro/000

2017	Drive Tech	Agritalia	Elettronica Santerno	Eliminations and items not allocated	Consolidated Total
Investments	12,097	1,543	–	1,915	15,555
Workforce as at 31.12	2,692	306	–	158	3,156

Amounts in Euro/000

2016	Drive Tech	Agritalia	Elettronica Santerno *	Eliminations and items not allocated	Consolidated Total
Investments	10,238	1,809	573	3,395	16,015
Workforce as at 31.12	2,589	233	–	157	2,979

* Values referring to line-by-line consolidation until 30 November 2016

4.2 Geographic segments

The Group's industrial operations are located in various areas of the world: Italy, other European countries, North and South America, Asia and other non-European countries.

The Group's sales, deriving from the manufacturing carried out in the above areas are achieved equally with customers in Europe, Asia and the Americas.

The most significant information by geographic segment is presented in the tables below.

A. Sales

he breakdown of sales by main geographic area is shown in the following table.

Amounts in Euro/000

	31.12.2017	%	31.12.2016	%
North America	84,790	14.03%	56,828	9.62%
India	77,173	12.77%	65,014	11.00%
Germany	54,451	9.01%	59,796	10.12%
South America	50,483	8.35%	47,937	8.11%
Turkey	45,599	7.55%	47,733	8.08%
Switzerland	37,744	6.25%	39,981	6.77%
United Kingdom	35,396	5.86%	36,077	6.11%
France	31,727	5.25%	38,253	6.47%
China	29,652	4.91%	20,327	3.44%
Spain	15,907	2.63%	14,186	2.40%
Other E.U. areas	36,203	5.99%	35,369	5.99%
Other non-E.U. areas	17,316	2.87%	35,286	5.97%
Total Abroad	**516,441**	**85.46%**	**496,787**	**84.07%**
Italy	87,858	14.54%	94,137	15.93%
Total	**604,299**	**100.0%**	**590,924**	**100.00%**
of which:				
Total E.U. area	**261,542**	**43.28%**	**277,818**	**47.01%**
Total non-E.U. area	**342,757**	**56.72%**	**313,106**	**52.99%**

B. Carrying amount of assets by area

The following table illustrates the book values of current and non-current assets according to the primary geographic areas of manufacture.

Amounts in Euro/000

	31.12.2017		31.12.2016	
	Current assets	**Non current assets**	**Current assets**	**Non current assets**
Italy	206,348	362,762	176,143	391,078
Other E.U. countries (Germany, Poland)	68,872	99,455	57,133	117,221
North America	335	–	618	58
South America	21,987	6,847	24,433	10,329
Asia (India, China)	94,578	52,997	84,597	57,056
Non-E.U. countries	–	–	3,708	29
Eliminations and items not allocated	–107,435	–263,172	–127,587	–308,601
Total	**284,685**	**258,889**	**219,045**	**267,170**

C. Investments by geographic segment

The table below illustrates the value of investments in the primary geographic areas of manufacture.

Amounts in Euro/000

	31.12.2017	31.12.2016
Ital7	10,911	14,915
Other E.U. countries	–	–
North America	–	–
South America	567	520
Asia	4,474	4,300
Non-E.U. countries	–	–
Eliminations and items not allocated	–398	–3,720
Total	**15,554**	**16,015**

5. Non-recurring operations

At 31 December 2017, the following non-recurring operations were present: restructuring costs related to the downsizing of personnel in Argentina for a total of 1.2 million Euros, to the capital gain recorded by the subsidiary Carraro Argentina Sa of 3.3 million Euros for the sale of the residual owned industrial area and the write-down deriving from the impairment of two research and development projects in Carraro Spa amounting to 1.9 million Euros.

Amounts in Euro/000

31.12.2017	Personnel costs	Provisions for impairment	Provisions for risks and liabilities	Other income and expenses	Ebit	Before tax	Taxes	Net
Carraro Spa	–	–	–	1,904	1,904	1,904	–531	1,373
Carraro Argentina Sa	233	–	945	–3,308	–2,130	–2,130	746	–1,384
Total	**233**	**–**	**945**	**–1,404**	**–226**	**–226**	**215**	**–11**

6. Notes and comments

Ricavi e costi

A. Revenues from sales (note 1)

Analysis by business and geographic segment

Reference is made to the information in section 4 above, and to the Directors’ Report on Operations.

B. Operating costs (note 2)

Amounts in Euro/000

	31.12.2017	**31.12.2016**
Purchases of raw materials	388,723	329,519
Returns of raw materials	–50	–50
A) PURCHASES	388,673	329,469
Miscellaneous consumables	924	151
Consumable tools	3,972	4,261
Maintenance material	2,442	2,483
Mat. and serv. for resale	3,529	4,852
Rebates and discounts – suppliers	–2,393	–1,599
B) OTHER PRODUCTION COSTS	8,474	10,148
1) Purchases of goods and materials	**397,147**	**339,617**
A) EXTERNAL SERVICES FOR PRODUCTION	52,303	46,871
B) SUNDRY SUPPLIES	7,696	7,932
C) GENERAL OVERHEADS	24,032	29,091
D) COMMERCIAL COSTS	1,194	1,445
E) SALES EXPENSES	7,429	9,203
2) Services	**92,654**	**94,542**
3) Use of third-party goods and services	**1,305**	**1,908**
A) WAGES AND SALARIES	67,706	69,602
B) SOCIAL SECURITY CONTRIBUTIONS	17,228	18,205
C) EMPLOYEE SEVERANCE INDEMNITY AND RETIREMENT	4,636	4,698
D) OTHER COSTS	4,862	5,366
4) Personnel costs	**94,432**	**97,871**
A) DEPREC. PROP., PLANT & EQUIPMENT	16,625	17,700
B) AMORT. INTANGIBLE ASSETS	3,396	3,854
C) IMPAIRMENT OF FIXED ASSETS	1,306	5,869
D) IMPAIRMENT OF RECEIVABLES	443	495
5) Amortisation, depreciation and impairment of assets	**21,770**	**27,918**
A) CHANGES IN INVENTORIES OF RAW AND ANCILLARY MATERIALS AND GOODS	–29,221	14,669
B) CHANGES IN INVENTORIES OF WORK IN PROG. SEMI-FIN. & FIN. PRODS	–7,656	2,780
6) Changes in inventories	**–36,877**	**17,449**
A) WARRANTY	6,088	5,104
B) COSTS OF LEGAL CLAIMS	1,338	343
C) RENOVATION AND CONV.	945	3,998
D) OTHER PROVISIONS	640	861
7) Provision for risks and other liabilities	**9,011**	**10,306**
A) SUNDRY INCOME	–8,973	–5,466
B) GRANTS	–217	–212
C) OTHER OPERATING EXPENSES	2,073	1,808
D) OTHER NON-ORDINARY OPERATING INCOME/EXPENSES	1,637	431
8) Other income and expenses	**–5,480**	**–3,439**
9) Internal construction	**–1,649**	**–4,184**

The changes in the income statement are significantly affected by the change in the Scope of Consolidation of 2016, in particular the exit of the subsidiary Santerno Spa and of the Santerno Business Area whose results until 30 November 2016 were recognised as part of the various income statement items of the Carraro Group. For further details, please refer to the description in the Directors' Report on Operations.

C. Net income from financial assets (note 3)

Amounts in Euro/000

	31.12.2017	31.12.2016
10) Income/expenses from equity investments	**–326**	**–14**
A) FROM FINANCIAL ASSETS	–	–
B) FROM BANK CURRENT ACCOUNTS AND DEPOSITS	319	387
C) FROM OTHER CASH EQUIVALENTS	260	129
D) INCOME OTHER THAN THE ABOVE	2,444	1,684
E) FROM FAIR VALUE CHANGES, INTEREST RATE DERIVATIVES	–	–
11) Other financial income	**3,023**	**2,200**
A) FROM FINANCIAL LIABILITIES	–8,713	–10,896
B) FROM BANK CURRENT ACCOUNTS AND DEPOSITS	–1,780	–2,239
C) EXPENSES OTHER THAN THE ABOVE	–1,177	–509
D) FROM FAIR VALUE CHANGES, INTEREST RATE DERIVATIVES	–	–
12) Financial costs and expenses	**–11,670**	**–13,644**
From net derivative transactions on exchange rates	1,370	–2,523
From net changes in fair value of derivative transactions on exchange rates	30	–56
Other net exchange rate differences	–3,358	743
13) Net gains/(losses) on foreign exchange	**–1,958**	**–1,836**
B) IMPAIRMENT	–1,504	–213
14) Adjustments of financial assets	**–1,504**	**–213**
Net gains/(losses) on financial assets	**–12,435**	**–13,507**

The decrease in financial expenses, which went from 13.644 million Euros in the previous year to 11.670 million Euros in 2017, is mainly attributable to the reduction in the net financial position and to the debt optimisation activity. The effects of the reductions in Indian and Chinese rates remain positive.

Exchange differences as at 31 December 2017 were negative, amounting to 1.958 million Euros (-0.3% of turnover) compared to a negative value of 1.836 million Euros (-0.3% of turnover) as at 31 December 2016.

For further details and analysis, see section 9.1 "*General summary of the effects on the Income Statement deriving from financial instruments*".

Current and deferred income taxes (note 4)

Amounts in Euro/000

	31.12.2017	31.12.2016
Current taxes	4,852	3,864
Tax consolidation expense and income	4,297	2,108
Taxes from previous years	–1,176	1,004
Deferred taxes	–371	364
Provision for tax risks relative to direct taxes	–	–
15) Current and deferred income taxes	**7,602**	**7,340**

Current taxes

Tax on the income of Italian companies is calculated at 24%, for Ires (corporation tax), and at 3.90% for Irap (regional business tax) on the respective taxable income for the period. Taxes for the other foreign companies are calculated at the rates in force in the various countries.

Tax consolidation expense and income

Carraro Spa, Carraro Drive Tech Spa, Siap Spa and Carraro International Sa adhere to the tax consolidation area of the parent company Carraro Spa. The option is valid for the three years 2015-2017. The charges/income deriving from the transfer of the Ires taxable base are booked under current taxes.

Deferred taxes

These are set aside on the temporary differences between the carrying amount of the assets and liabilities and the corresponding tax value.

The provisions for taxation for the year can be reconciled with the result recorded in the financial statements as follows:

Amounts in Euro/000

	31.12.2017	%	31.12.2016	%
Earnings before tax	**21,273**		**–1,748**	
Theoretical tax rate	**5,935**	**27.90%**	**–549**	**31.40%**
Tax effects related to:				
Effect of non-deductible costs	10,427	49.02%	3,772	–215.77%
Untaxable income	–8,184	–38.47%	–3,663	209.56%
Unrecognised deferred taxes on tax losses	300	1.41%	6,525	–373.30%
Other unrecognised deferred tax assets	642	3.02%	1,305	–74.66%
Change in deferred tax rate	–	–	–	0.00%
Adjustment of deferred taxes of previous year	675	3.17%	–380	21.74%
Use of previous tax losses	–1,031	–4.85%	–682	39.02%
Foreign companies rate difference	15	0.07	–102	5.84%
Provisions for tax risks	–	–	–	0.00%
Withheld at source	–	–	110	–6.29%
Taxes from previous years	–1,177	–5.53%	1,004	–57.44%
Taxation at effective rate	**7,602**	**35.74%**	**7,340**	**–419.90%**

As well as taxes recognised in the income statement for the year, deferred tax assets of 0.07 million Euros were directly recognised in the statement of comprehensive income.

Earning (loss) per share (note 5)

Basic earnings (losses) per share are calculated by dividing the net earnings (net losses) for the year attributable to the company's ordinary shareholders by the weighted average number of outstanding ordinary shares during the year.

Amounts in Euro/000

	31.12.2017	31.12.2016
Results		
Earnings (Losses) for the purposes of calculating basic earnings per share	13,668	–9,087
Diluting effect deriving from potential ordinary shares	–	–
Earnings (Losses) for the purposes of calculating diluted earnings per share	13,668	–9,087

Number of shares		
Weighted average number of ordinary shares for calculating		
basic earnings (losses) per share	62,674,773	43,362,812
diluted earnings (losses) per share	62,674,773	43,362,812
Basic earnings (losses) per share (Euros)	0.22	–0.21
Diluted earnings (losses) per share (Euros)	0.22	–0.21

Dividends

Carraro Spa did not pay dividends in 2017 and 2016.

Property, plant and equipment (note 6)

These items present a net balance of 140.72 million Euros compared with 150.85 million Euros in the previous period.

The breakdown is as follows:

Amounts in Euro/000

Items	Land and buildings	Plant and machinery	Industrial equipment	Other assets	Fixed assets in progress and deposits	Total
Historical cost	77,319	179,857	107,713	16,649	7,183	388,721
Provisions for amortisation and depreciations	–23,882	–107,418	–80,350	–13,243	–	–224,893
Net as at 31.12.2015	**53,437**	**72,439**	**27,363**	**3,406**	**7,183**	**163,828**
Movements in 2016						
Increases	169	3,192	3,253	356	4,079	11,049
Decreases	–33	629	21	–48	–259	310
Capitalisation	1,404	3,751	1,440	262	–6,857	–
Change in consolidation scope	–445	–610	–2,409	–590	–	–4,054
Depreciation and amortisation	–1,514	–9,697	–5,719	–770	–	–17,700

Items	Land and buildings	Plant and machinery	Industrial equipment	Other assets	Fixed assets in progress and deposits	Total
Reclassification	–1,046	1,656	386	31	–1,027	–
Impairment	–	–407	–7	–116	–	–530
Foreign exchange translation difference	–322	–1,635	–77	–17	–3	–2,054
Net as at 31.12.2016	**51,650**	**69,318**	**24,251**	**2,514**	**3,116**	**150,849**
Made up of:						
Historical cost	76,010	181,636	103,404	14,587	3,116	378,753
Provisions for amortisation and depreciations	–24,360	–112,318	–79,153	–12,073	–	–227,904

Amounts in Euro/000

Items	Land and buildings	Plant and machinery	Industrial equipment	Other assets	Fixed assets in progress and deposits	Total
Historical cost	76,010	181,636	103,404	14,587	3,116	378,753
Provisions for amortisation and depreciations	–24,360	–112,318	–79,153	–12,073	–	–227,904
Net as at 31.12.2016	**51,650**	**69,318**	**24,251**	**2,514**	**3,116**	**150,849**
Movements in 2017						
Increases	315	3,197	3,443	595	5,986	13,536
Decreases	–409	–792	–227	–3	–82	–1,513
Capitalisation	742	2,771	917	7	–4,437	–
Change in consolidation scope	–	–	–	–	–	–
Depreciation and amortisation	–1,515	–9,539	–4,964	–607	–	–16,625
Reclassification	–	59	144	–2	–201	–
Impairment	–	–1,306	–	–	–	–1,306
Foreign exchange translation difference	–793	–2,350	–853	–119	–109	–4,224
Net as at 31.12.2017	**49,990**	**61,358**	**22,711**	**2,385**	**4,273**	**140,717**
Made up of:						
Historical cost	75,248	178,875	103,748	11,602	4,273	373,746
Provisions for amortisation and depreciations	–25,258	–117,517	-81,037	–9,217	–	–233,029

As at 31.12.2017, leased assets were registered under plant and machinery for 3.4 million Euros.

The increase in land and buildings refers in particular to Carraro India Pvt. Ltd. and Siap Spa.

The main investments in plant and machinery were made by Carraro Spa, Carraro India Pvt. Ltd. and Siap Spa.

The increases in industrial equipment refer mainly to purchases made by Carraro Drive Tech Spa, Carraro India Pvt. Ltd. and Siap Spa.

The increases in other assets mainly refer to office machinery and motor vehicles purchased by Carraro Spa, Carraro Drive Tech Spa, Carraro Argentina Sa, Carraro India Pvt. Ltd.and Siap Spa.

The increase in amounts relative to fixed assets in progress and deposits is primarily owing to investments currently under way at Carraro Spa, Carraro Drive Tech Spa, Carraro India Pvt. Ltd. and Siap Spa.

The properties of Carraro Spa and Carraro India Pvt. Ltd. are subject to mortgages to guarantee outstanding loans for a total of 30.6 million Euros. The machinery of Carraro India Pvt. Ltd. is subject to mortgages to guarantee outstanding loans for a total of 5 million Euros.

Decrease and exchange difference values are highlighted by the net value of the historical cost and the accumulated amortisation and uses of the depreciation provision.

Intangible assets (note 7)

These items present a net balance of 57.6 million Euros compared with 61.1 million Euros in the previous period.

The breakdown is as follows:

Amounts in Euro/000

Items	Goodwill	Develop. costs	Royalties and patents	Licences and Trademarks	Invest. in prog. and deposits	Other intangible assets	Total
Historical cost	60,171	15,933	1,156	28,269	10,958	–	116,487
Provisions for amortisation and depreciations	–17,500	–11,334	–1,029	–15,922	–	–	–45,785
Net as at 31.12.2015	**42,671**	**4,599**	**127**	**12,347**	**10,958**	–	**70,702**
Movements in 2016							
Increases	–	–	36	568	4,362	–	4,966
Decreases	–	–1,240	–4	–75	–1	–	–1,320
Capitalisation of internal costs	–	5,385	–	145	–5,530	–	–
Change in consolidation scope	–664	–2,704	–1	–119	–548	–	–4,036
Depreciation and amortisation	–	–1,661	–55	–2,138	–	–	–3,854
Reclassification	–	–	–	597	–597	–	–
Impairment	–5,213	–126	–	–	–	–	–5,339
Foreign exchange translation difference	–	–1	1	69	–71	–	–2
Net as at 31.12.2016	**36,794**	**4,252**	**104**	**11,394**	**8,573**	–	**61,117**
Made up of:							
Historical cost	56,619	7,701	1,088	26,718	8,573	–	100,699
Provisions for amortisation and depreciations	–19,825	–3,449	–984	–15,324	–	–	–39,582

Amounts in Euro/000

Items	Goodwill	Develop. costs	Royalties and patents	Licences and Trademarks	Invest. in prog. and deposits	Other intangible assets	Total
Historical cost	56,619	7,701	1,088	26,718	8,573	–	100,699
Provisions for amortisation and depreciations	–19,825	–3,449	–984	–15,324	–	–	–39,582
Net as at 31.12.2016	**36,794**	**4,252**	**104**	**11,394**	**8,573**	**–**	**61,117**
Movements in 2017							
Increases	–	–	74	456	1,489	–	2,019
Decreases	–	–1,904	–	–	–	–	–1,904
Capitalisation of internal costs	–	4,510	–	–152	–4,358	–	–
Change in consolidation scope	–	–	–	–	–	–	–
Depreciation and amortisation	–	–1,271	–42	–2,083	–	–	–3,396
Reclassification	–	–	–	11	–11	–	–
Impairment	–	–	–	–	–	–	–
Foreign exchange translation difference	–	–	–1	–161	–71	–	–233
Net as at 31.12.2017	**36,794**	**5,587**	**135**	**9,465**	**5,622**	**–**	**57,603**
Made up of:							
Historical cost	38,294	10,307	1,162	26,718	5,622	–	82,103
Provisions for amortisation and depreciations	–1,500	–4,720	–1,027	–17,253	–	–	–24,500

The other intangible fixed assets with a limited useful life are amortised on a straight-line basis over terms estimated at between 3 and 5 years.

Decrease and exchange difference values are highlighted by the net value of the historical cost and the accumulated amortisation and uses of the depreciation provision.

Goodwill and Impairment Tests

Goodwill

Goodwill is attributed to the Cgus (cash generating units) as shown in the following table.

Amounts in Euro/000

Business Unit (Cgu)	2016	Changes	2017
Drivetech	36,794	–	36,794
Total	**36,794**	**–**	**36,794**

The assets of the CGUs were tested for impairment as described below.

Impairment Test

Impairment tests were carried out, applying the provisions of Ias 36, with the application criteria described below, also considering guidelines on methodologies issued by the Oiv (Italian Valuation Standard Setter), in particular the indications provided by: *i)* Application no. 2 published by the Oic in December 2009; *ii)* the Guidelines with regard to

Impairment Tests, published by the Oiv on 14 June 2012; *iii)* Consob communication no. 0003907 of 19 January 2015; *iv)* guidelines (in terms of plans) of the Italian Valuation Standards issued by the OIV in July 2015:

- the recoverable value of the assets of the cash generating units (henceforth "Cgus") was ascertained by identifying their "value in use" obtained from the present value of the expected operating cash flows of these assets applying a rate expressing the risks of the single "Cgus" considered;
- for the purpose of impairment testing for the Consolidated Financial Statements as at 31 December 2017, and as for the previous year, the "Cgus" were identified as the two business areas: *"Drivetech"* and *"Agritalia"*. As in previous years, testing was also carried out at a Group level overall, although impairment indicators were not identified and in particular, the average Stock Exchange capitalisation value was higher than the carrying amount of shareholders' equity;
- the reference time horizon for the estimate of future cash flows is a period of four years, subsequently using the perpetual return criterion;
- the expected cash flow projections are based on: *i)* the 2018 budget approved by the Board of Directors on 18 December 2017; *ii)* the projections prepared by the management for the period 2019-21, extrapolating them from the business plan approved by the Board of Directors on 27 July 2017.
- the future cash flow estimates were determined based on criteria of prudence with regard to both growth rates as well as margin evolution. The cash flow projections refer to current operating conditions and therefore do not include the cash flows arising from any extraordinary interventions;
- the terminal value was estimated based on the values of the last year of analytical forecasting; a "standard" tax rate was applied, which, for conservative purposes, does not consider any tax recovery arising from the use of previous losses. The estimated, forward-looking growth rate ("g") is equal to 1%. The figures of the projections are expressed in nominal terms;
- Wacc (weighted average cost of capital) rates were used to discount flows, calculated analysing comparable company data in relation to each Cgu (cash generating unit), so as to reflect the risk level of each segment of activity, as well as uncertainties related to the current economic context. The rates were determined net of the tax effect. The change in taxes from one year to another is affected, among others, by the change in the cost of money and update to the basket of comparable companies for each segment of activity. In line with the decisions taken in previous years, for each Cgu a degree of "historical" error (in terms of overstatement) inherent in the forecasts prepared by the Group's management has been measured. In line with the test conducted for the purposes of the 2016 financial statements, also in this financial year no "increase in the final balance" was determined, because the 2017 budget objectives formulated for each Cash Generating Unit were achieved. In line with the previous year and with the Oiv document of June 2012, a second and further increase has also been considered, determined by comparing the Ebitda margin envisaged in the data used for the 2016 impairment test with that envisaged in the Plan used for the test as at 31 December 2017. This calculation gave rise to an increase in the rate used.

The rates used for each Cgu and for the Group overall, are indicated below:

	WACC Discount rate net of taxes
Carraro Group	8.37%
Drivetech Cgu	8.35%
Agritalia Cgu	9.54%

- the sensitivity analysis of the difference between the value in use and the carrying amount was performed:
  - varying some of the basic parameters of the estimate made, in compliance with the Consob Communication of 19 January 2015. In particular, a sensitivity analysis was carried out on the following variables:
    - Wacc (increased, in the light of the trend in market rates, by 25 bp and 50 bp, and determination of the rate that eliminates the difference between *Enterprise Value* and Nic).
    - Steady state growth rate (g): reduction of 50 and 100 bp;
    - Ebit (decreased by 5% and 10% and determination of the percentage reduction that eliminates the difference between *Enterprise Value* and NIC);
    - Turnover (reduction of 10%)
  - taking into account the different business risk levels of the Cgus.

Parameters used for sensitivity analysis are indicated below: in particular, the discount rate and the Ebit reduction in the period in question which makes recoverable values equal to the carrying amounts is indicated:

	Wacc	**Ebit**
Carraro Group	15.95%	–53.35%
Drivetech Cgu	13.96%	–44.28%
Agritalia Cgu	11.75%	–22.87%

The procedure adopted and impairment testing were approved by the Board of Directors independently and before approval of the financial statements.

Fixed assets in progress and deposits

The increase fixed assets in progress refers to the costs incurred by Carraro Spa and by Carraro China Drive Systems Ltd. for the design of new product lines developed in relation to similar projects launched by customers. Development costs generated internally are capitalised at cost.

Licences and Trademarks

The increases are mainly attributable to the acquisition of licenses by Carraro Spa and Carraro India Pvt. Ltd..

Royalties and patents

Investments in Royalties and Patents mainly refer to purchases of Carraro Spa.

Research and development costs

During 2017, the financial commitment sustained by the group for R&D activities amounted to approx. 3.61% of turnover. These costs did not give rise to capitalisations consistent with the criteria of Ias 38.

Real estate investments *(note 8)*

These present a net balance of 0.7 million Euros.

The breakdown is as follows:

Amounts in Euro/000

Items	Buildings	Total
Balance as at 31.12.2016	**695**	**695**
Increases	–	–
Decreases	–	–
Change in currency conversion	–	–
Balance as at 31.12.2017	**695**	**695**

Real estate investments refer to non-industrial property owned by Carraro Spa and Siap Spa

Equity investments *(note 9)*

Equity investments in associated companies

As at 31 December 2017, following the investment agreement with Enertronica Spa, the Group holds an associated shareholding in Elettronica Santerno Spa of 27.36% equal to 1.120 million Euros through Carraro Spa and a 21.65% shareholding equal to 1.772 million Euros through Carraro International Sa. The carrying amount is equal to the fair value determined at the date of loss of control based on the accounting standard Ifrs 10, subsequently adjusted on the basis of the equity criterion taking into account the profits and losses attributable to the Carraro Group.

Other Equity Investments and Joint Ventures

As at 31 December 2017, the Carraro Group had a shareholding of 16.348 million Euros, equal to 4.5%, in the company O&K Antriebstechnik Gmbh, no longer associated since the percentage holding in 2017 went from 45% to 4.5%.

The carrying amount is equal to the fair value determined at the date of loss of control according to the provisions of Ifrs 10, subsequently adjusted based on the equity criterion, taking account of profits and losses attributable to the Carraro Group in application of the agreements signed with the majority shareholder on 30 December 2015.

Furthermore, on 22 June 2017, Carraro, thanks to the joint venture agreement with Shandong Juming Group, invested in the newco, Agriming Agriculture Equipment Co.

Ltd which will focus on the production of agricultural tractors for the Chinese market with the support of Carraro China, which will become its strategic supplier of axles and transmissions.

Financial assets *(note 10)*

Amounts in Euro/000

	31.12.2017	31.12.2016
Loans to related parties	5,663	5,663
Loans to third parties	3,014	4,845
Loans and receivables	**8,677**	**10,508**
Available for sale	87	96
Other financial assets	85	12
Other financial assets	**172**	**108**
Non-current financial assets	**8,849**	**10,616**
From related parties	–	2,500
From third parties	3,315	3,371
Loans and receivables	**3,315**	**5,871**
Fair value of derivatives	708	1,234
Other financial assets	993	606
Other financial assets	**1,701**	**1,840**
Current financial assets	**5,016**	**7,711**

Non-current loans and receivables

Non-current loans and receivables from third parties include the medium/long-term portion (3.01 million Euros) of the receivable from the Argentine real estate companies to which the land and buildings related to the production plant of Carraro Argentina were sold in two successive transactions. Non-current related party loans and receivables refer to the medium/long-term portion of 5.66 million Euros of the loan to Elettronica Santerno Spa.

Values of these receivables approximate their fair value.

Other non-current financial assets

These include mainly minority shareholdings and guarantee deposits.

Current loans and receivables

3.32 million Euros of these refer to the short-term portion of the financial receivable from the Argentine real estate companies to which the land and the building relating to the Carraro Argentina production plant were sold in two successive transactions.

Other current financial assets

They include cash flow hedge derivatives for 0.7 million Euros. The amount refers to the fair value calculated as at 31.12.2017 on current instruments on currencies. As described in detail in the section on derivative financial instruments (Paragraph 9), profits or losses deriving from hedging instruments are recognised in the statement of comprehensive income and accumulated in a specific shareholders' equity reserve for the efficient part, while the remaining (inefficient) portion is recognised in the income statement.

Deferred tax assets and liabilities *(note 11)*

The table below illustrates the composition of deferred taxation by the nature of the temporary differences that determine it. The change corresponds to the effect of deferred taxes on net equity and income.

Amounts in Euro/000

Description of differences	Opening 31.12.2016	Riclassific.	Change in consolidation scope	Effect		Difference exchange	Closing 31.12.2017
				on income statement	on net equity		
Assets							
Depreciation and amortisation	10,173	–218	–	–472	–	–	9,483
Measurement of receivables	106	–	–	11	–	–	117
Measurement of financial assets/liabilities	–165	3	–	–	87	–	–75
Discounting of employee severance indemnity	201	–3	–	–	–24	–	174
Allocations to provisions	8,948	–	–	–365	–	–28	8,555
Tax losses	527	–	–	199	–	–	726
Thin cap	400	–	–	–92	–	–	308
Other	1,309	–2	–	136	–	–1	1,442
Personnel bonuses	282	–	–	123	–	–	405
Total	**21,781**	**–220**	–	**–460**	**63**	**–29**	**21,135**
Liabilities							
Depreciation and amortisation	–3,279	–	–	515	–	–	–2,764
Measurement of receivables	–	–	–	–	–	–	–
Measurement of financial assets/liabilities	–62	2	–	–41	–	–18	–119
Discounting of employee severance indemnity	–	–	–	–	–	–	–
Allocations to provisions	1,213	–1,229	–	355	–	–	339
Other	11	–	–	2	–	–1	12
Total	**–2,117**	**–1,227**	–	**831**	–	**–19**	**–2,532**
Balance	**19,664**	**–1,447**	–	**371**	**63**	**–48**	**18,603**

The carrying amount of net deferred tax assets recognised as at 31 December 2017 was 18.6 million Euros (2016: 19.7 million Euros). Deferred tax assets include the potential benefits associated with retained tax losses, insofar as it is likely that there will be adequate future taxable profits against which these losses can be used in a reasonably short period.

Tax losses for which it was decided not to recognise deferred tax assets as at 31 December 2017 amounted to 33.0 million Euros (2016: 50.5 million Euros) with a tax effect of 9.5 million Euros (2016: 13.1 million Euros).

With reference to temporarily non-deductible financial expenses, it was decided to recognise deferred tax assets of 0.3 million Euros (2016: 0.4 million Euros) for a taxable amount of 1.3 million Euros. Therefore, deferred tax assets are not recognised on the residual non-deductible interest expense for a taxable amount of 28.8 million Euros.(2016: 31 million Euros), with a tax effect of 7 million Euros (2016: 7.4 million Euros).

"*Depreciation and amortisation*" includes deferred tax assets related to the capital gain from an operation carried out in 2014. As this is a transaction between companies subject to common control, as per the Assirevi "OPI1" document, this capital gain was not recognised for accounting purposes, resulting in the corresponding recognition of deferred assets, whose value as at 31.12.2017 amounted to 7.7 million Euros.

Trade receivables and other receivables *(note 12)*

Amounts in Euro/000

	31.12.2017	31.12.2016
Non current trade receivables	–	–
From third parties	5,638	3,551
Other non-current receivables	**5,638**	**3,551**
Non-current trade receivables and other receivables	**5,638**	**3,551**
From related parties	2,230	3,170
From third parties	75,589	47,467
Current trade receivables	**77,819**	**50,637**
From related parties	809	809
From third parties	29,281	21,470
Other current receivables	**30,090**	**22,279**
Current trade receivables and other receivables	**107,909**	**72,916**

Other non-current receivables (5.6 million Euros) consist mainly of guarantee deposits, portions of costs accruing in subsequent periods and advance payments and tax receivables of the subsidiary Carraro India Pvt. Ltd. and Carraro Argentina Sa.

Trade receivables bear no interest and mature on average at 60 days.

Other current receivables due from third parties can be analysed as follows:

	31.12.2017	31.12.2016
Vat credits	10,553	3,403
Vat credits due for rebate	989	1,137
Other tax credits	10,947	6,756
Receivables for current taxes	4,929	7,439
Receivables from employees	84	128
Receivables from pensions agencies	254	966
Provisions for Impairment of other Receivables	–253	–109
Other receivables	1,778	1,750
Other current receivables from third parties	**29,281**	**21,470**

Amounts in Euro/000

Other current receivables from third parties equal to 29 million Euros (21 million Euros in 2016) increased, mainly due to the increase in Vat and other tax receivables.

The breakdown of trade and other receivables (including provisions for impairment of receivables) by maturity is shown in the following table:

31.12.2017					
	Past due		Not yet due		
	Less than 1 year	More than 1 year	Less than 1 year	More than 1 year	Total
Trade receivables	11,035	386	67,466	566	**79,453**
Other receivables	–	–	30,343	5,638	**35,981**
Total	**11,035**	**386**	**97,809**	**6,204**	**115,434**

31.12.2016					
	Past due		Not yet due		
	Less than 1 year	More than 1 year	Less than 1 year	More than 1 year	Total
Trade receivables	10,997	803	41,049	–	**52,849**
Other receivables	–	–	22,388	3,551	**25,939**
Total	**10,997**	**803**	**63,437**	**3,551**	**78,788**

Amounts in Euro/000

The balance of receivables is equal to 115.4 million Euros (79 million Euros in 2016). As envisaged in Ifrs 7.37 bands of amounts past due were identified. In financial year 2017 past-due receivables amounted to 11.4 million Euros, of which 0.4 million Euros (0.3% of total receivables) are past due by more than one year. In the same way in 2016, out of a total of 11.8 million Euros past due, 0.8 million Euros (1.1% of total receivables) were past due by more than one year. An analysis was carried out on specific impairment at the reporting date for past due positions, from which a total impairment loss of 1.9 million Euros emerged (2.3 million Euros in 2016). The analysis was performed on the basis of the effective recoverability prospects of the positions analysed.

Provisions for Depreciations of Receivables

The breakdown of the gross and net value of the receivables is as follows:

Amounts in Euro/000

	31.12.2017	31.12.2016
Trade receivables from related parties	2,230	3,170
Net trade receivables from related parties	**2,230**	**3,170**
Current trade receivables from third parties	77,223	49,679
Provisions for impairment	–1,634	–2,212
Net current trade receivables from third parties	**75,589**	**47,467**
Other receivables from related parties	809	809
Net current other receivables from related parties	**809**	**809**
Other current receivables from third parties	29,534	21,579
Provisions for impairment of other receivables	–253	–109
Net current other receivables from third parties	**29,281**	**21,470**

Trade receivables and other related party receivables refer to the credit from tax consolidation vis-a-vis the parent company Finaid Spa and to transactions with O&K Antriebstechnik Gmbh, Elettronica Santerno Spa and Santerno subsidiaries.

Movements in provisions for depreciation for the periods considered can be broken down as follows.

Amounts in Euro/000

	31.12.2016	Increases	Decreases	Change in consolidat. scope	Reclassif.	Exchange-rate adjustm.	31.12.2017
Provisions for impairment of trade receivables	2,212	335	–763	–	–	–150	1,634
Provisions for impairment of other receivables	109	235	–90	–	–	–1	253
Total	**2,321**	**570**	**–853**	–	–	**–151**	**1,887**

Closing inventory (note 13)

Amounts in Euro/000

Items	**31.12.2017**	**31.12.2016**
Raw materials	88,550	65,286
Work in progress and semi-finished products	32,875	25,350
Finished products	18,074	17,889
Goods in transit	257	266
Total inventories	**139,756**	**108,791**
Provision for impairment of inventories	–16,864	–18,126
Total inventories	**122,892**	**90,665**

Movements in provisions for depreciation of inventories are shown in detail below:

Balance as at 31 December 2016	**18,126**
Provisions set aside	3,974
Utilisation	–4,932
Changes in the scope of consolidation	–
Translation differences	–304
Other changes	–
Balance as at 31 December 2017	**16,864**

Amounts in Euro/000

Cash and cash equivalents (note 14)

	31.12.2017	31.12.2016
Cash	99	96
Bank current accounts and deposits	48,769	47,657
Other liquid funds or equivalent assets	–	–
Total	**48,868**	**47,753**

Amounts in Euro/000

Short-term bank deposits are remunerated at a floating rate.

As at 31 December 2017, there are no restrictions on cash and cash equivalents in Carraro Group companies.

Shareholders' equity (note 15)

	31.12.2017	31.12.2016
1) Share Capital	41,453	23,915
2) Other Reserves	27,201	46,972
3) Profits/(Losses) brought forward	–	–
4) Cash flow hedge reserve	236	427
5) Provision for discounting employee benefits	–273	–404
6) Foreign currency translation reserve	–9,266	–15,094
7) Result for the period pertaining to the Group	13,668	–9,087
Group Shareholders' Equity	**73,019**	**46,729**
8) Minority interests	9,040	–

Amounts in Euro/000

The Carraro Spa Shareholders' Meeting of 31 March 2017 resolved to carry forward the loss for 2016 amounting to 1,437,173.17 Euros.

The Share Capital is set at 41,452,543.60 Euros, fully paid up, divided into 76,442,194 ordinary shares with nominal value of 0.52 Euros each and 3,274,236 class B shares with a nominal value of 0.52 Euros each.

Compared to the previous year, the share capital was increased following the capital increase completed on 5 June 2017, which led to the issue of 33,726,630 new shares

(30,452,394 ordinary and 3,274,236 type B) for a total value of 17,537,848 Euros (of which 6,460,152 Euros paid during 2017).

Both categories of shares issued by the company (ordinary shares and B shares) do not give a fixed dividend.

No other financial instruments which assign equity and investment rights have been issued.

No new treasury shares were purchased in 2017. The overall investment therefore amounts to 6.666 million Euros.

Altre riserve

The item "*Other reserves*" of 27.201 million Euros, includes reserves of Carraro Spa relating to profits not distributed or carried forward and others as follows:

- 63.420 million Euros relating to the Carraro Spa share premium reserve;
- 4.761 million Euros relating to the Carraro Spa legal reserve;
- less 2.213 million Euros relating to the Carraro Spa capital increase reserve;
- less 8.755 million Euros relating to the extraordinary reserve and retained profits of Carraro Spa;
- less 6.666 million Euros for deduction of the reserve corresponding to own share purchase of Carraro Spa;
- less 20.521 million Euros relating to other Ias reserves of Carraro Spa;
- less 2.825 million Euros arising from the reduction in the shareholders' equities of consolidated companies with respect to the corresponding carrying amounts of equity investments and consolidation adjustments.

Other Ias/Ifrs reserves

This includes the values arising from application of the criterion prescribed for cash flow hedging of 0.24 million Euros.

Provision for discounting employee benefits

This reserve, which is negative amounting to 0.27 million Euros, includes Employee benefit actuarial gains/losses, as provided for by Ias 19 Revised.

For further details, see section 3.3 "*Accounting standards and measurement criteria*".

Foreign currency translation reserve

This reserve, which is negative amounting to 9.26 million Euros, is used to record exchange differences arising from translation of the financial statements of foreign subsidiaries.

It should be noted that, as required by Ias 1 Revised paragraph 83, the movements in the period of the foreign currency translation reserve were recognised in the statement of comprehensive income, as detailed below:

	31.12.16	Changes in the Statement of Comprehensive Income *profit reserves*	Changes in shareholders' equity *capital reserves*	Changes by area	31.12.17
Exchange reserve of the parent company's shareholders	–15,094	–1,348	7,176	–	–9,266
Exchange reserve of minority interests	–	–	–	–	–
Effect of the translation reserve on the statement of comprehensive income	**–15,094**	**–1,348**	**7,176**	–	**–9,266**

Amounts in Euro/000

Minority interests

For an analysis of the change in minority interests, see paragraph 2.2.

Passività finanziarie (note 16)

As at 31 December 2017, the financial parameters (covenants) contractually specified for such date in the Agreement entered into with the main reference banks on 24 December 2015 were met.

In particular:

› gearing (defined as the ratio of net financial position of operations to owners' equity) stood at 1.78 as at 31 December 2017 (the Framework Agreement defines for that date a minimum value of the parameter of 3.50);

› the Net Financial Position of Operations/Adjusted Ebitda ratio stood at 2.66 as at 31 December 2017 (the limit established for this financial parameter covenant for the above date is equal to 5.00).

The classification of financial liabilities is shown below:

	31.12.2017	31.12.2016
Medium/long-term loans	134,493	159,666
Non-current financial liabilities	**134,493**	**159,666**
Fair value of non-current interest rate derivatives	101	117
Other non-current financial liabilities	**101**	**117**
Non-current financial liabilities	**134,594**	**159,783**
Medium-/long-term loans – short-term portion	25,587	23,438
Loans to others	47,385	64,458
Current financial liabilities	**72,972**	**87,896**
Fair value of interest rate derivatives	–	–
Fair value of exchange rate derivatives	–	281
Other current financial liabilities	268	271
Other current financial liabilities	**268**	**552**
Current financial liabilities	**73,240**	**88,448**

Amounts in Euro/000

Short-term loans include current accounts payable and loans taken out during 2017, with a short-term maturity.

Medium- and long-term loans are presented below, divided into short-term portion, medium-term portion and portion at more than 5 years.

Amounts in Euro/000

Company	Up to one year		From 1 to 5 years		More than 5 years		Total 31.12.2017
	nominal value	amortised cost and exchange delta	nominal value	amortised cost and exchange delta	nominal value	amortised cost and exchange delta	
Carraro China Drive Systems Co Ltd	2,588	–	2,627	–	–	–	5,215
Carraro India Pvt Ltd	1,676	–	7,603	–	1,542	–	10,821
Carraro Drive Tech do Brasil Inc	2	–	–	–	–	–	2
Carraro Argentina Sa	11	–	14	–	–	–	25
Carraro International Sa	16,736	–421	102,371	–943	–	–	117,743
Carraro Spa	2,920	–126	11,303	–282	–	–	13,815
Siap Spa	584	–	676	–	–	–	1,260
Carraro Drive Tech Spa	1,665	–48	9,691	–109	–	–	11,199
Total	**26,182**	**–595**	**134,285**	**–1,334**	**1,542**	–	**160,080**

The following table provides further detailed information on the financial liabilities illustrated above. For an analysis of the maturities of trade payables see Note 17, while a description of how the Group manages liquidity risk is included in paragraph 3.3.

Amounts in Euro/000

Company	Lender	Short-term portion as at 31.12.17	Md/lg-term portion as at 31.12.17	Expiry	Rate	Rate type	Currency
Carraro China Drive System	Bank of Communications	1,397	–	Oct-18	5.23%	Variable	Cny
Carraro China Drive System	Agricultural Bank	1,191	2,627	Mar-20	5.23%	Variable	Cny
Carraro India	Exim	470	–	Jun-18	11.62%	Variable	Inr
Carraro India	Idbi Bank	267	2,407	Jun-23	3.75%	Variable	Euro
Carraro India	Idbi Bank	330	413	Jan-20	11.16%	Variable	Inr
Carraro India	Axis	601	6,325	Dec-24	9.14%	Variable	Inr
Carraro India	Siemens Financial	8	–	Feb-18	12.97%	Variable	Inr
Carraro Drivetech do Brasil	Bradesco Financ	2	–	Apr-18	12.97%	Variable	Brl
Carraro Argentina	HSBC	6	11	Sep-20	11.50%	Variable	Ars
Carraro Argentina	HSBC	5	3	May-19	22.00%	Variable	Ars
Carraro International	BPV Finance	2,101	12,849	Dec-22	3.93%	Variable	Euro
Carraro International	Mps	717	4,384	Dec-22	3.23%	Variable	Euro
Carraro International	Mps	452	2,767	Dec-22	3.23%	Variable	Euro

Company	Lender	Short-term portion as at 31.12.17	Md/lg-term portion as at 31.12.17	Expiry	Rate	Rate type	Currency
Carraro International	Pool of banks	8,688	53,143	Dec-22	3.23%	Variable	Euro
Carraro International	Pool of banks (revolving)	4,778	29,228	Dec-22	3.23%	Variable	Euro
Carraro Spa	Mps	1,746	10,677	Dec-22	3.23%	Variable	Euro
Carraro Spa	Cassa Risparmio di Bolzano	1,166	601	Jun-19	3.40%	Variable	Euro
Carraro Spa	Selmabipiemme Leasing	8	25	Mar-22	1.57%	Variable	Euro
Siap	De Lage Landen	120	195	Jul-20	3.75%	Fixed	Euro
Siap	Albaleasing	70	9	Feb-19	2.94%	Variable	Euro
Siap	Albaleasing	191	99	Jul-19	2.94%	Variable	Euro
Siap	Credit Agricole Leasing	19	–	Jul-18	3.42%	Variable	Euro
Siap	Credit Agricole Leasing	68	3	Jan-19	3.42%	Variable	Euro
Siap	Fraer Leasing	25	75	Nov-21	1.42%	Variable	Euro
Siap	Fraer Leasing	25	80	Jan-22	1.42%	Variable	Euro
Siap	Fraer Leasing	66	215	Feb-22	1.42%	Variable	Euro
Carraro Drive Tech Spa	Banca Pop. Verona	1,518	9,284	Dec-22	3.17%	Variable	Euro
Carraro Drive Tech Spa	Fraer Leasing	91	200	Feb-21	1.42%	Variable	Euro
Carraro Drive Tech Spa	Fraer Leasing	36	126	May-22	1.42%	Variable	Euro
Carraro Drive Tech Spa	Semalbipiemme	20	81	Oct-22	1.57%	Variable	Euro
Total		**26,182**	**135,827**				

Below, as required by the *Amendments to Ias 7,* is the disclosure of changes in financial liabilities with evidence of monetary and non-monetary changes:

Amounts in Euro/000

Financial liabilities	31.12.2016	Cash Flow	Reclassif.	Other Changes	Exchange Delta	31.12.2017
Non-current gross loans payable	161,597	4,589	–27,465	925	–3,819	135,827
Current gross loans payable	88,528	–37,615	26,224	–2,652	–918	73,567
Amortised cost	–2,563	–	–	634	–	–1,929
Other non-current financial liabilities	117	–120	101	–	3	101
Other current financial liabilities	271	–320	–	319	–2	268
Financial liabilities	**247,950**	**–33,466**	**–1,140**	**–774**	**–4,736**	**207,834**

The net financial position is broken down below:

Amounts in Euro/000

Net financial position	31.12.2017	31.12.2016
Non-current loans payable	–134,493	–159,666
Current loans payable	–72,972	–87,896
Other non-current financial liabilities	–101	–117
Other current financial liabilities	–268	–271
Financial liabilities	**–207,834**	**–247,950**
Current loans and receivables	3,315	5,871
Other current financial assets	993	606
Financial assets	**4,308**	**6,477**
Cash	99	96
Bank current accounts and deposits	48,769	47,657
Cash and cash equivalents	**48,868**	**47,753**
Net financial position*	**–154,658**	**–193,720**
Non-current loans and receivables	8,677	10,508
Other non-current financial assets	85	12
Net financial position of operations	**–145,896**	**–183,200**
of which payables / (receivables)		
non-current	–125,832	–149,263
current	–20,064	–33,937

* Net financial debt prepared according to the scheme prescribed by the ESMA/2013/319 Recommendation

The Group has available short-term banking credit facilities for a total of 159.8 million Euros. These credit facilities are callable and may be used for various current-account purposes and short-term financing of a maximum term of 12 months, with the total balance being 47.4 million Euros.

The rate terms vary according to the country of usage and can be summarised as follows:

- Europe: 2.5 – 2.80%
- India: 9 – 11.50%
- China: 5.25 – 5.50%

The medium- and long-term banking credit facilities amounted to a total of 185 million Euros, against a utilisation of 162 million Euros.

Fair Value

The fair value of medium/long-term financial liabilities, taking account of the fact that these are almost exclusively for variable-rate funding and that the terms being renegotiated with the banking counterparties are in line with the average levels for the market and the segment – even considering the residual volatility of the markets and the relative uncertainty in identifying “reference” conditions – as measured is not significantly different overall from the carrying amounts.

Trade payables and other payables *(note 17)*

Amounts in Euro/000

	31.12.2017	31.12.2016
From third parties	421	646
Other non-current payables	**421**	**646**
Trade payables and other non-current payables	**421**	**646**
From related parties	155	2,143
From third parties	174,567	126,944
Current trade payables	**174,722**	**129,087**
From related parties	90	90
From third parties	36,048	22,265
Other current payables	**36,138**	**22,355**
Trade payables and other current payables	**210,860**	**151,442**

Trade payables do not produce interest and on average are settled at 120 days. Other payables due to third parties can be analysed as follows:

Amounts in Euro/000

	31.12.2017	31.12.2016
Vat payables	1,983	1,371
Other tax payables	1,980	322
Amounts due to pensions agencies	3,820	3,988
Amounts due to employees	12,193	11,295
Irpef (personal income tax) employees & professionals	2,814	2,815
Board of Directors	2,030	1,872
Other payables	11,228	602
Other current payables	**36,048**	**22,265**

The following table shows an analysis of trade and other payables by maturity:

Amounts in Euro/000

31.12.2017	Past due		Not yet due		
	Less than 1 year	**More than 1 year**	**Less than 1 year**	**More than 1 year**	**Total**
Trade payables	9,910	1,202	163,544	66	**174,722**
Other payables	–	–	36,138	421	**36,559**
Total	**9,910**	**1,202**	**199,682**	**487**	**211,281**

31.12.2016	Past due		Not yet due		
	Less than 1 year	**More than 1 year**	**Less than 1 year**	**More than 1 year**	**Total**
Trade payables	9,187	1,397	118,503	–	**129,087**
Other payables	–	–	22,355	646	**23,001**
Total	**9,187**	**1,397**	**140,858**	**646**	**152,088**

Current taxes payables *(note 18)*

Amounts in Euro/000

	31.12.2017	31.12.2016
Current taxes payable	7,193	6,473
Current taxes payables	**7,193**	**6,473**

Employee severance indemnities and retirement benefits *(note 19)*

Provision for severance indemnity and retirement benefits

Amounts in Euro/000

	31.12.2017	31.12.2016
Opening severance indemnities in accordance with Ias 19	**9,865**	**11,130**
Utilisation of employee severance indemnities	–686	–1,003
Interest Cost	133	108
Actuarial Gains/Losses	–108	216
Change in consolidation scope	–	–586
Closing severance indemnities in accordance with Ias 19	**9,204**	**9,865**

The severance indemnity, calculated according to current Italian laws, is treated for accounting purposes as a defined-benefit fund and as such is recalculated at the end of each accounting period according to a statistical-actuarial criterion which also takes account of the effects of financial discounting.

The actuarial valuation of this obligation is carried out according to the actuarial criterion of the "projected unit credit method" with the support of the data issued by Istat, the Inps and the Ania. The parameters used are as follows: 1) annual discount rate: 0.88%, 2) personnel rotation rate 5%, 3) annual inflation index 1.5%, 4) rate of advances 2%, 5) remuneration increase rate 2.625%.

The accounting treatment of employee benefits recorded in the financial statements complies with Ias 19 Revised for defined-benefit plans. For further details, see section 3.3.

Termination benefits are benefits to employees regulated by the laws in force in Italy and recognised in the financial statements of Italian companies.

On the basis of the changes introduced in Law 296/06, with effect from 30 June 2007, termination benefits maturing after 1 January 2007 must be paid into a specific treasury reserve established at the pensions agency Inps, or, if the employee so chooses, into a special complementary pension fund. There are no more provisions for termination benefits with these contributions.

Sensitivity analysis Ias 19 revised

The table below indicates the values of the Employee benefits provision as at 31.12.2017 calculated in the case of changes in actuarial assumptions reasonably possible at that date with the following variables:

› turnover frequency
› discount rate (taken from the Iboxx Corporate AA 7-10 index)
› inflation rate

	Turnover frequency		Inflation rate		Discout rate	
	+1 %	–1 %	+0.25 %	–0.25 %	+0.25 %	–0.25 %
Provisions for employee benefits 31.12.2017	9,150	9,263	9,313	9,097	9,033	9,381

Amounts in Euro/000

Pension/retirement funds

Pension and similar funds of 1 million Euros. (0.8 million Euros as at 31.12.2016) refer to the liabilities recorded in the financial statements of Carraro Argentina Sa, Carraro India Ltd, Carraro Technologies Ltd and Carraro China Drive System Co. Ltd.

	Opening 31.12.2016	Increases	Decreases	Change in consolidation scope	Change in currency	Closing 31.12.2017
Pension and similar funds	**832**	76	–144	–	261	**1,025**

Amounts in Euro/000

Number of employees

The number of employees refers only to the fully consolidated companies and is divided into categories:

Employees	31.12.2016	Changes	31.12.2017
Executives	25	0	25
Clerical staff	661	–1	660
Factory workers	2,006	34	2,040
Temporary workers	287	144	431
Total as at 31.12	**2,979**	**177**	**3,156**

Provisions for risks and liabilities (note 20)

The item can be broken down as follows:

	Opening situation	Increases	Decreases	Reclassif.	Change in the scope of consolidation	Exchange-rate adjustments	Closing situation
Non-current portion							
1) Warranty	2,117	1,126	–	–214	–	–8	3,021
2) Costs of legal claims	56	–	–	–	–	–	56
3) Renovation and conv.	–	–	–	–	–	–	–
4) Other provisions	2,538	1,097	–455	–86	–	–448	2,646
Total	**4,711**	**2,223**	**–455**	**–300**	–	**–456**	**5,723**
Current portion							
1) Warranty	8,870	4,962	–4,369	214	–	–96	9,581
2) Costs of legal claims	1,335	275	–426	–	–	–116	1,068
3) Renovation and conv.	2,418	945	–814	–	–	–174	2,375
4) Other provisions	2,546	3,174	–2,040	86	–	–67	3,699
Total	**15,169**	**9,356**	**–7,649**	**300**	–	**–453**	**16,723**

Amounts in Euro/000

Warranty reserve

From the product warranty reserve, 4.4 million Euros was used for customer claims accepted and the reserve was increased by 6.1 million Euros on the basis of the expected warranty costs which will be incurred in relation to sales made.

Provision for costs of legal claims

The provision for costs of legal claims refers to tax liabilities that have been defined or are being defined and litigation concerning employees.

With reference to the Indian company, in the course of 2016, EY was commissioned to follow the tax disputes as a result of claims by the local tax authorities concerning several years and mainly related to the benchmark used for transfer pricing and to the evidence of services and related benefits received by the Indian plant for the deductibility of royalties and intercompany services. Extensive documentation has already been submitted in court in support of the defence arguments of the company.

Supported by the opinions of its tax consultants, the risk of losing the case in court in relation to the claims of the Indian financial administration is estimated to be possible for a total of 5.8 million Euros. Considering the estimated degree of risk, it was not considered necessary to allocate a risk provision.

Provision for restructuring and reconversion

The detailed movements of provisions for restructuring are shown below:

Amounts in Euro/000

	Provisions 31.12.16	Increases	Decrreases	Reclassifi.	Exchange-rate adjustments	Provisions 31.12.17
Carraro Spa	382	–	–92	–	–	290
Carraro Drive Tech Spa	1,687	–	–714	–	–	973
Siap Spa	349	–	–8	–	–	341
Elettronica Santerno Spa	–	–	–	–	–	–
Elettronica Santerno Ind. e Com Ltd.	–	–	–	–	–	–
Carraro Argentina Sa	–	945	–	–	–174	771
Total	**2,418**	**945**	**–814**	–	**–174**	**2,375**

Other provisions

The item “*Other provisions*” includes amounts recognised for individual companies for future expenses and liabilities.

7. Commitments and risks

There are no commitments and risks such as to have any effect on the financial statements and related disclosure.

8. Transactions with related parties (note 21)

The Carraro Group is controlled directly by Finaid Spa, which as at 31.12.2017 held 35.3949% of the shares outstanding.

Carraro Spa and all Italian subsidiaries adhere to the tax consolidation of the parent company Carraro Spa. The charges/income deriving from the transfer of the Ires taxable base are booked under current taxes.

The transactions between Carraro Spa and its subsidiaries which are affiliated entities of Carraro Spa, were eliminated in the consolidated financial statements and are not pointed out in these notes.

The details of the transactions between Carraro Group and other affiliated companies according to principle Ias 24 and Consob requirements, are indicated below.

Amounts in Euro/000

	Financial and commercial transactions			Economic transactions					
	Financ. assets	Trade receiv. and other receiv.	Trade payables and other payables	Sales revenues	Purchases of goods and materials	Purchases of services	Other income and expenses	Other financial income	Purchases of assets
Related parties									
Finaid Srl	–	844	90	–	–	–	–	–	–
O&K Antriebstechnik Gmbh	–	342	30	1,616	584	20	–110	–	–
Elettronica Santerno Spa	5,663	1,105	118	–7	5	–	–4	38	6
Elettronica Santerno Ind. e Com Ltd.	–	111	7	63	–	–	–	–	–
Santerno South Africa Pty Ltd	–	115	–	–	–	–	–	–	–
Santerno Usa	–	522	–	50	–	–	–	5	–
Total	**5,663**	**3,039**	**245**	**1,722**	**589**	**20**	**–114**	**43**	**6**

9. Financial instruments

9.1 General summary of the effects on the Income Statement deriving from financial instruments

Amounts in Euro/000

31.12.2017	Financial income	Financial expenses	Positive exchange diff.	Negative exchange diff.	Suspension costs revenues
A) FINANCIAL ASSETS					
A.1) Cash and Cash Equivalents:					
Bank accounts, positive balance	319	–	–	–	–
A.2) Non-derivative Financial Instruments:					
A.2.1) Financial instruments at fair value (Fvtpl):					

Amounts in Euro/000

31.12.2017	Financial income	Financial expenses	Positive exchange diff.	Negative exchange diff.	Suspension costs revenues
A.2.2) Financial instruments held to maturity (Htm):					
A.2.3) Loans and receivables (L&R):					
A.2.3.1) Loans:					
Loans receivable	–	–	–	–	–
A.2.3.2) Other assets:					
Trade receivables	–	–	2,400	–2,749	–
Other financial assets	2,704	–	1,952	–	–
A.2.4) Financial instruments available for sale (Avs):					
A.3) Derivative Financial Instruments:					
A.3.1) Hedging derivatives:					
A.3.1.2) Cash Flow Hedging Derivatives on currencies:					
Fair value through profit or loss	–	–	–174	–	–
Fair value in shareholders' equity	–	–	–	–	311
Profit realised	–	–	3,310	–	–
A.3.1.2) Cash Flow Hedging Derivatives on interest rates:					
Profit realised	–	–	–	–	–
A.3.2) Speculative derivatives (Trading):	–	–	–	–	–

B) FINANCIAL LIABILITIES					
B.1) Non-derivative Financial Instruments:					
B.1.1) Financial Instruments at fair value:					
B.1.2) Other Financial Instruments:					
Bank accounts, negative balance	–	–1,780	–	–	–
Trade payables	–	–	704	–4,970	–
Loans payable		–8,713	–	–	–
Other financial liabilities	–	–1,177	–	–695	–
B.2) Derivative Financial Instruments:					
B.2.1) Hedging derivatives:					
B.2.1.1) Cash Flow Hedging Derivatives on currencies:					
Fair value through profit or loss	–	–	–	204	–
Fair value in shareholders' equity	–	–	–	–	–
Loss realised	–	–	–	–1,940	–
B.2.1.2) Cash Flow Hedging Derivatives on interest rates					
Loss realised	–	–	–	–	–
B.2.2) Speculative derivatives (Trading):	–	–	–	–	–
Total	**3,023**	**–11,670**	**8,192**	**–10,150**	**311**

31.12.2016	Financial income	Financial expenses	Positive exchange diff.	Negative exchange diff.	Suspension costs revenues
A) FINANCIAL ASSETS					
A.1) Cash and Cash Equivalents:					
Bank accounts, positive balance	387	–	–	–	–
A.2) Non-derivative Financial Instruments:					
A.2.1) Financial instruments at fair value (Fvtpl):					
A.2.2) Financial instruments held to maturity (Htm):					
A.2.3) Loans and receivables (L&R):					
A.2.3.1) Loans:					
Loans receivable	–	–	–	–	–
A.2.3.2) Other assets:					
Trade receivables	–	–	85,834	–83,010	–
Other financial assets	1,813	–	4,169	–	–
A.2.4) Financial instruments available for sale (Avs):					
A.3) Derivative Financial Instruments:					
A.3.1) Hedging derivatives:					
A.3.1.2) Cash Flow Hedging Derivatives on currencies:					
Fair value through profit or loss	–	–	44	–	–
Fair value in shareholders' equity	–	–	–	–	662
Profit realised	–	–	3,377	–	–
A.3.1.2) Cash Flow Hedging Derivatives on interest rates:					
Profit realised	–	–	–	–	–
A.3.2) Speculative derivatives (Trading):	–	–	–	–	–
B) FINANCIAL LIABILITIES					
B.1) Non-derivative Financial Instruments:					
B.1.1) Financial Instruments at fair value:					
B.1.2) Other Financial Instruments:					
Bank accounts, negative balance	–	–2,239	–	–	–
Trade payables	–	–	2,123	–4,859	–
Loans payable		–10,896	–	–	–
Other financial liabilities	–	–509	–	–3,514	–
B.2) Derivative Financial Instruments:					
B.2.1) Hedging derivatives:					
B.2.1.1) Cash Flow Hedging Derivatives on currencies:					
Fair value through profit or loss	–	–	–	–100	–
Fair value in shareholders' equity	–	–	–	–	–73
Loss realised	–	–	–	–5,900	–
B.2.1.2) Cash Flow Hedging Derivatives on interest rates					
Loss realised	–	–	–	–	–
B.2.2) Speculative derivatives (Trading):	–	–	–	–	–
Total	**2,200**	**–13,644**	**95,547**	**–97,383**	**589**

Amounts in Euro/000

The source for foreign currency exchange rates is provided by the ECB and the Bank of Italy for exchange rates with the Argentinian Pesos.

9.2 Derivative financial instruments on currencies

The following tables indicate all the key information relating to the portfolio of derivative financial instruments on currencies outstanding as at 31.12.2017. These are instruments designated to cover:

› foreign currency sales budgets
› imbalances of current receivables and payables in foreign currencies.

A. Notional values

Amounts in Euro/000

Contratto	Swap (DCS) [1]	Swap (DCS) [2]	Total notional values
Carraro Spa	–	8,190	8,190
Carraro Drive Tech	60,202	7,912	68,114
Carraro India	–	4,675	4,675
Siap	2,387	–	2,387
Carraro China	–	500	500
Group Total 31.12.2017	**62,589**	**21,277**	**83,866**
Group Total 31.12.2016	**55,789**	**26,811**	**82,600**

[1] Instruments hedging foreign currency sales and purchasing budget.
[2] Instruments hedging current receivables and payables in foreign currencies.

B. Reference currencies and expiry dates of contracts

Contract	Swap (DCS) [1]		Swap (DCS) [2]	
	Currencies	Expiry dates	Currencies	Expiry dates
Carraro Spa	–	–	Usd/Eur	Jan 18
Carraro Drive Tech	Usd/Eur Cny/Eur Inr/Eur	Feb 19	Usd/Eur	Jan 18
Carraro India	–	–	Inr/Eur	Mar 18
Siap	Usd/Eur	Mar 19	–	–
Carraro China	–	–	Cny/Eur	Jan 18

[1] Instruments hedging foreign currency sales and purchasing budget.
[2] Instruments hedging current receivables and payables in foreign currencies.

C. Fair value

Amounts in Euro/000

Contract	Swap (DCS) [1]	Swap (DCS) [2]	Total
Carraro Spa	–	51	51
Carraro Drive Tech	504	50	554
Carraro India	–	51	51
Siap	49	–	49
Carraro China	–	3	3
Group Total 31.12.2017	**553**	**155**	**708**
Group Total 31.12.2016	**983**	**–30**	**953**

[1] Instruments hedging foreign currency sales and purchasing budget.
[2] Instruments hedging current receivables and payables in foreign currencies.

D. Details of *fair value*

	31.12.2017		31.12.2016	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Fair Value/Cash Flow Hedge Exchange rate risk	708	–	1,234	–281

Amounts in Euro/000

E. Summary of *fair values* recognised before tax effect according to their accounting treatment

	FV recognised in the income statement	FV recognised in net equity	Total
Carraro Spa	51	–	51
Carraro Drive Tech	267	287	554
Carraro India	51	–	51
Siap	22	27	49
Siap	3	–	3
Group Total 31.12.2017	**394**	**314**	**708**
Group Total 31.12.2016	**364**	**589**	**953**

Amounts in Euro/000

In relation to the positioning in the hierarchy of fair values pursuant to Ifrs 7 par. 27 the financial instruments described are classifiable as level 2; there were no transfers of level during the period.

The fair values as at 31.12.2017 of financial instruments on exchange rates were calculated using the forward exchange rate method.

The counterparties with which the contracts are stipulated are leading national and international banking institutions.

The financial instruments on currencies are used, on a basis consistent with the financial risk management policy adopted by the group, to hedge the risks deriving from exchange rate fluctuations and concern sales volumes compared with the budget exchange rate and the collections and payment of short and medium-term receivables and payables with respect to the historical value.

For accounting purposes in relation to contracts hedging sales budgets in foreign currencies effective at the reporting date, it should be noted that for the transactions executed, especially Domestic Currency Swaps, and in accordance with all the conditions provided by the Ias/Ifrs standards, hedge accounting was applied.

With reference to cash flow hedges (hedging of future cash flows) the related changes in fair value are recognised in the equity reserve, net of the tax effect, while for fair value hedges (hedging the fair value of assets and liabilities) the related changes in fair value are reflected in the income statement, net of the tax effect.

9.3 Derivative financial instruments on interest rates

A. Notional values and fair values

There are no derivative contracts on interest rates outstanding as at 31 December 2017.

Below is a summary table of the assets and liabilities measured at fair value as at 31 December 2017, as required by Ifrs 13, described in section 3.2:

Amounts in Euro/000

	Level 2 31.12.2017	Level 2 31.12.2016
Assets		
Foreign exchange derivative assets	708	1,234
Total assets	**708**	**1,234**
Liabilities		
Foreign exchange derivative liabilities	–	281
Interest rate derivative liabilities	–	–
Total liabilities	–	**281**

Sensitivity analysis

The table below shows the economic and financial effects generated by financial statement assets and liabilities (as at 31.12.2017 and 31.12.2016 respectively), in the event of sudden changes in the following market variables:

› main foreign currencies with respect to the Euros: +/- 10%

› interest rates: +100/-15 "basis points"

The interest rate oscillation bands represent the average expectations of maximum change that the markets currently express.

The following methods were used:

› for Interest Rate Swaps the discounted cash flow method was applied;

› Domestic Currency Swap contracts were calculated using the forward exchange rate method;

The exchange-rate risks deriving from translation of the financial statements of foreign subsidiaries from local currency into Euros were not considered.

Amounts in Euro/000

Balances as at 31.12.2017	**Interest rate risk**				**Exchange rate risk**			
	+1%		–0.15%		+10%		–10%	
	Financial effect	Effect on equity	Financial effect	Effect on equity	Financial effect	Effect on equity	Financial effect	Effect on equity
Assets								
Trade receivables	–	–	–	–	–872	–	1,240	–
Other fin. ass. - derivatives on currencies	–	–	–	–	–41	–2,770	745	2,512
Other fin. ass. - derivatives on interest rates	–	–	–	–	–	–	–	–
Loans	–	–	–	–	–	–	–	–

Balances as at 31.12.2017	Interest rate risk				Exchange rate risk			
	+1%		–0.15%		+10%		–10%	
	Financial effect	Effect on equity	Financial effect	Effect on equity	Financial effect	Effect on equity	Financial effect	Effect on equity
Cash and cash equivalents	–	–	–	–	258	–	–247	–
Total gross effect	–	–	–	–	**–655**	**–2,770**	**1,738**	**2,512**
Taxes (24%)	–	–	–	–	157	665	–417	–603
Total net effect	–	–	–	–	**–498**	**–2,105**	**1,321**	**1,909**
Liabilities								
Trade payables	–	–	–	–	116	–	126	–
Loans	2,005	–	–301	–	–270	–	270	–
Total gross effect	**2,005**	–	**–301**	–	**–154**	–	**396**	–
Taxes (24%)	–481	–	72	–	37	–	–95	–
Total net effect	**1,524**	–	**–229**	–	**–117**	–	**301**	–
Total	**1,524**	–	**–229**	–	**–615**	**–2,105**	**1,622**	**1,909**

Balances as at 31.12.2016	Interest rate risk				Exchange rate risk			
	+1%		–0.15%		+10%		–10%	
	Financial effect	Effect on equity	Financial effect	Effect on equity	Financial effect	Effect on equity	Financial effect	Effect on equity
Assets								
Trade receivables	–	–	–	–	–1,224	–	1,618	–
Other fin. ass. - derivatives on currencies	–	–	–	–	4,226	–4,226	–5,797	5,421
Other fin. ass. - derivatives on interest rates	–	–	–	–	–	–	–	–
Loans	–	–	–	–	–	–	–	–
Cash and cash equivalents	–	–	–	–	269	–	–262	–
Total gross effect	–	–	–	–	**3,271**	**–4,226**	**–4,441**	**5,421**
Taxes	–	–	–	–	–900	1,162	1,221	–1,491
Total net effect	–	–	–	–	**2,371**	**–3,064**	**–3,220**	**3,930**
Liabilities								
Trade payables	–	–	–	–	–115	–	290	–
Loans	2,068	–	–310	–	–249	–	249	–
Total gross effect	**2,068**	–	**–310**	–	**–364**	–	**539**	–
Taxes	–569	–	85	–	100	–	–148	–
Total net effect	**1,499**	–	**–225**	–	**–264**	–	**391**	–
Total	**1,499**	–	**–225**	–	**2,107**	**–3,064**	**–2,829**	**3,930**

Amounts in Euro/000

Positive sign: expense (economic) - decrease (equity)
Negative sign: income (economic) - increase (equity)

10. Events subsequent to the reporting date

During the month of December, the Group began the financial rationalisation process, envisaged in the 2017-2021 Business Plan, which resulted:

› in the issue of a senior unsecured bond issue of 180 million Euros, maturity 2025, 3.5% fixed rate, fully placed in January 2018;

› in the signing, in February 2018, an underwriting agreement with the counterparty Banco BPM that BPM will have the possibility of in turn placing with a limited group of relationship banks, which provides for the disbursement of a total of 100 million Euros divided into a 20 million LTA (long term) cash credit line with maturity on 31 December 2023 and an 80 million Euro "*revolving*" credit line with maturity on 30 June 2023.

Also in February, the Carraro Group, following the total repayment of the debt, terminated the bank agreement signed with the banking system on 24 December 2015.

In the same period, in order to better manage the logistics activities linked to Carraro Spare Parts, a new joint-stock company was created, called Driveservice Srl with operational headquarters in Poggiofiorito (CH).

11. Information in accordance with article 149-duodecies of the Consob Issuers' Regulations.

The auditing of the financial statements of the Carraro Group is carried out by *Deloitte & Touche Spa*.

Below is a summary of the fees and charges of the auditing company pertaining to 2017, relating to auditing services and other services rendered, net of any accessory expenses charged. It is emphasised that the 2016 column included fees relating to both the current auditor as well as the previous one, *PricewaterhouseCoopers Spa*, before the end of its mandate.

Amounts in Euro/000

	2017	**2016**
Accounting audit		
Carraro Spa	464	286
Subsidiary companies	495	408
Total independent auditing services	**959**	**694**
Other services		
Carraro Spa	33	39
Subsidiary companies	–	16
Total other services	**33**	**55**
Total fees	**992**	**749**

Equity investments held by Directors, Statutory Auditors and General Managers and immediate family members

Name and surname	Subsidiary company: Carraro Spa	N° of shares held as at 31/12/2016	N° of shares purchased	N° of shares sold	N° of shares held as at 31/12/2017
Mario Carraro	dir. Possedute	2,460,735	1,913,905	–	4,374,640
	tramite Finaid Spa	18,372,203	9,843,316	–	28,215,519
Julia Dora Koranyi Arduini	dir. Possedute	9,098,449	12,531,330	–	21,629,779
Alberto Negri	dir. Possedute	100,857	–	–	100,857

ENRICO CARRARO
Chairman

Certification of the consolidated financial statements for the year pursuant to Art. 154-bis, subsection 5 of Leg. Dec. 58/1998 (Consolidated Finance Act) and Article 81-ter of Consob Regulation no. 11971 of 14 May 1999 as amended

1. The undersigned Alberto Negri, Chief Executive Officer, and Enrico Gomiero, Financial Reporting Officer, also taking into account also the provisions of Article 154-bis, paragraphs 3 and 4, of Legislative Decree 58 of 24 February 1998, certify:

› the adequacy in relation to the characteristics of the enterprise;
› the effective application of the administrative and accounting procedures used to prepare the consolidated financial statements for 2017;

2. In this regard no significant aspects emerged which require disclosure.

3. We can also certify that:

3.1 the consolidated financial statements:

› were prepared in conformity with the applicable international accounting standards endorsed by the European Community under the terms of Regulation (EC) N° 1606/2002 of the European Parliament and Council, of July 19, 2002;
› correspond to the accounting records;
› give a true and fair picture of the financial position and performance of the Group and of all the companies included in the scope of consolidation;

3.2 the report on operations includes a reliable analysis of the progress and results of operations, as well as the situation of the issuer and of the set of companies included in the consolidation, together with a description of the key risks and uncertainties they are exposed to.

Date: 29 March 2018

ALBERTO NEGRI
Chief Executive Officer

ENRICO GOMIERO
Financial Reporting Office

Report of the Board of Statutory Auditors to the shareholders' meeting pursuant to art. 153 of legislative decree 58/1998 and art. 2429

Dear Shareholders,

During the year ended 31 December 2017, we carried out the supervisory activities required by law (in particular by Article 149 of Legislative Decree 58/1998 or "Consolidated Finance Act – TUF"), in accordance with the Rules of Conduct of the Boards of Statutory Auditors of listed companies of the National Association of Certified Public Accountants, the CONSOB recommendations concerning corporate controls and activities of the Board of Statutory Auditors, the guidelines of the Code of Conduct, as well as in our capacity as the Internal Control and Auditing Committee pursuant to Article 19 of Legislative Decree 39/2010.

Nineteen meetings of the Board of Statutory Auditors were held during 2017.

The Board of Statutory Auditors also participated;

- in its ollegial composition, in nine meetings of the Board of Directors pursuant to Article 149, paragraph 2 of Legislative Decree 58/98;
- in its collegial composition, in meetings of the Control, Risk and Sustainability Committee, of which seven were held;
- in four meetings of the Appointments and Remuneration Committee, in general, with only the Chairman and/or a standing auditor attending.

Supervision of compliance with the law and the Articles of Association

We monitored compliance with the law and the Articles of Association without any observations or findings in compliance with applicable legislation. We monitored compliance with the disclosure requirements relating to regulated and insider information and the requests of the supervisory authorities received pursuant to Article 114 of Legislative Decree 58/1998.

On at least a quarterly basis, we received information from the Directors about business conducted and about transactions having a significant effect on the Company's financial position and performance and on its subsidiaries. We can reasonably assure you that the actions adopted and undertaken are in conformity with law and with the Articles of Association.

The main group reorganisation activities and the most significant events for the Company in 2017, which the Board of Statutory Auditors deems necessary to highlight, are described below:

- on 5 June, the capital increase of Carraro Spa, 100% subscribed for a total of 54 million Euros, 34 million of which already subscribed by the shareholders Finaid Spa. and Julia Dora Koranyi Arduini during 2016, was concluded;

- in June, Carraro started up Agriming Agriculture Equipment Co. Ltd, a joint venture with Shandong Juming Group, which will focus on the production of agricultural tractors for the Chinese market. Within this agreement, Carraro China will become the strategic supplier of axles and transmissions for the joint venture;
- in September, the 2017-2021 Business Plan was presented to the financial community, containing the following strategic objectives: the focus on the development of innovative transmissions and specialised tractors; balancing of the presence in emerging geographical areas (India, China, South America, Turkey and Russia); acceleration and consolidation of the World Manufacturing Excellence Program; attention on new efficient solutions such as electric and hybrid;
- in November, the regional financial company of the Regione Friuli Venezia Giulia, Friulia Spa participated in the share capital increase of Siap Spa, with a total contribution of 8 million Euros.

Supervision of compliance with the principles of correct administration, of the adequacy of the organisational structure and of the internal control and risk management system

On at least a quarterly basis, we received information from the Directors about business conducted and about transactions having a significant effect on the Company's financial position and performance and on its subsidiaries. We can reasonably assure you that actions adopted and undertaken were not manifestly imprudent, risky, or in conflict with resolutions adopted by the Shareholders' Meeting and did not compromise the integrity of the Company's assets.

We became familiar with and monitored, within our area of responsibility, compliance with the principles of proper management, the adequacy of the Company's organisational structure, and of regulations issued by the Company for subsidiaries pursuant to Article 114, paragraph 2 of Legislative Decree 58/1998, by collecting information from relative responsible parties and meeting with the independent auditors appointed for the statutory audit.

We maintained contact with the corresponding control bodies of Italian subsidiaries, obtaining information from members of the Board of Statutory Auditors of such subsidiaries for the purpose of mutual exchange of relevant data and information.

No critical issues emerged from the exchange of information with the members of the Boards of Statutory Auditors of subsidiaries. We also examined and obtained information on the organisational and procedural activity put in place pursuant to Legislative Decree 231/2001 on the Administrative Liability of Entities and, also with reference to the exchange of information with the internal control functions, no elements worthy of mention in this report emerged.

During 2017, the Company did not carry out any atypical and/or unusual transactions, as defined in Note 2 of CONSOB Communication no. DEM/1025564 of 6/4/2001.

The Board of Statutory Auditors acknowledges that management decisions were therefore based on the principle of correct information and reasonableness.

We collected evidence concerning the adequacy of the composition, size and operation of the Board of Directors with reference to the preparation of the strategic guidelines of the company, in the definition of the corporate structure of the group, as well as in the existence of adequate information flows to the Board of Directors required to monitor the performance of the company and of the group.

The Board, pursuant to Legislative Decree 39/2010, in addition to sharing control objectives and procedures with the Independent Directors that comprise the Control, Risk and Sustainability Committee, based on the provisions of the Code of Conduct, performed specific analyses of the activities and audits carried out by the internal audit function, also with regard to financial disclosure processes.

The Board periodically exchanged information with the Chief Executive Officer and with the top management with reference to the analysis and monitoring of the main corporate risks. In particular, meetings were held with the company's management regarding the methods for identifying the countermeasures adopted and their adoption.

In our capacity as Internal Control Committee, we evaluated and monitored the sufficiency of the internal control and accounting systems, as well as the reliability of the accounting system for correctly presenting the actions of management, by obtaining information from responsible parties in the various departments, examining company documents, evaluating the results emerging from the activity plan of the internal audit function and analysing the results of work carried out by the independent auditors, with the objective of monitoring the work of those in charge of internal control. In particular:

› we monitored the constant updating and sufficiency of internal procedures concerning the main Company cycles, as well as the verification activities put in place by internal control;
› we monitored the adoption of administrative procedures designed to provide necessary information about operations and the financial position and performance of companies established and regulated by the laws of non-EU member states that have significant relevance, within the meaning of the combined provisions of Articles 36 and 39 of the so-called "*Markets Regulations*".
› we ascertained that the information flows provided by the non-EU parent companies were adequate to conduct the control of the annual and interim accounts as provided for by Article 15 of the Market Regulations adopted with CONSOB resolution no. 20249 of 28 December 2017.

The Board agrees with the contents of the Report on Corporate Governance attached to the Financial Statements, where an analytical description is given of the specific implementation of corporate governance rules required by the Code of Conduct, which the Company, in disclosure to the public, has declared it adopts. This report was prepared in accordance with the instructions of the Regulations of the Organised Markets managed by the Italian Stock Exchange and of the TUF.

As required by Article 149, paragraph one, letter c-bis, of Legislative Decree 58/1998 and by Code of Conduct, we monitored:

› the methods of implementing the rules of corporate governance required by the aforementioned code without needing to make any qualifications;
› the correct application of the criteria and the verification procedures adopted by the Board of Directors to evaluate the independence of its members, as well as other public tender procedures.

The Board agrees with the contents of the Report of the Appointments and Remuneration Committee attached to the Financial Statements, providing a detailed illustration of the concrete implementation of remuneration policies. The Board of Statutory Auditors verified the corporate processes that led to the definition of the remuneration policies of the Company with particular reference to the remuneration criteria of the Executive Directors, the Financial Reporting Director and the Head of the Internal Audit Function.

The Board agrees with the contents of the Report of the Control, Risk and Sustainability Committee attached to the Financial Statements, providing a detailed illustration of the activities carried out and the assessments of the internal control system.

Pursuant to and in accordance with the requirements of Section 8 paragraph 1 of the Code of Conduct, we acknowledge to have verified the existence of requisites for the independence of members of the Board of Statutory Auditors, according to criteria required by the Code of Conduct and to have proceeded with reference to each member in accordance with procedures designed to ensure impartial and truthful evaluation.

Taking into account the information acquired, the Board of Statutory Auditors believes that the activity was carried out in compliance with the principles of correct administration and that the organisational structure, the internal control and risk management system as well as the administrative and accounting system that drives the financial disclosure process are on the whole adequate for corporate needs.

Supervision of the Statutory Audit

In accordance with the provisions of Article 19 of Legislative Decree 39/2010, the Board of Statutory Auditors, identified in said article as the "Internal Control and Auditing Committee", carried out the required supervision of the operations of the Independent Auditors.

The Board of Statutory Auditors met the Independent Auditors Deloitte & Touche Spa also pursuant to Article 150 of the Consolidated Finance Act, in order to exchange information pertaining to their activity. In these Meetings, the Independent Auditors never highlighted any facts deemed to be reprehensible or irregularities that may require reporting pursuant to Article 155, par. 2 of the Consolidated Finance Act.

During the year, the Board of Statutory Auditors met the Independent Auditors on the occasion of preparation of the Company's Interim Report at 30 June 2017. On that occasion, the Independent Auditors presented their document summarising the activities carried out with particular reference to the most significant evaluation items. On 4 August 2017, the Independent Auditors issued the Report on the limited audit of the interim consolidated financial statements without highlighting any objections.

On 16 April 2018, the Independent Auditors, pursuant to Article 14 of Legislative Decree 39/2010 and of Article 10 of Regulation (EU) 537/2014, issued the Report on the audit of the financial statements as at 31 December 2017, the Report on the audit of the consolidated financial statements as at 31 December 2017, as well as, pursuant to Article 3 of Legislative Decree 254 of 30 December 2016 and Article 5 of CONSOB Regulation 20267, the Report on the consolidated non-financial statement

The text of the Audit Report was profoundly revised following the amendments made with the Reform of the Statutory Audit through Regulation (EU) 537/2014 and also implemented with Legislative Decree 135/2016 which amends the content of Legislative Decree 39/2010. The Audit Report was modified in both form and content as regards both the certifications and the information. With regard to the opinions and certifications, in their Audit Report, the Independent Auditors:

› issued an opinion which showed that Carraro's financial statements and consolidated financial statements provide a truthful and correct representation of the equity and financial situation of Carraro Spa and of the Group at 31 December 2017, of the operating profit/loss and cash flows for the year ended on that date, in accordance with the Ias/Ifrs standards adopted by the European Union and the provisions issued in implementation of Article 9 of Legislative Decree 38/2005;
› issued an opinion of consistency certifying that the Reports on Operations accompanying the financial statements and the consolidated financial statements as at 31 December 2017 and certain specific information contained in the "*Corporate Governance and Ownership Structures Report*" indicated in Article 123-bis, paragraph 4, of the Consolidated Finance Act, whose responsibility lies with on the Directors of the Company, were drafted in compliance with the law;
› declared, regarding any significant errors in the Reports on Operations, based on the knowledge and understanding of the company and its context, to have nothing to report.

On 16 April 2018, the independent auditors also issued the report on the consolidated non-financial statement pursuant to Article 3, Legislative Decree 254/2016 and Article 5 of CONSOB Regulation no. 20267 of 18 January 2018, certifying that said independent auditors did not receive any evidence that the consolidated non-financial statement of the Carraro Group, for the year ended 31 December 2017, was not drafted, in all its significant aspects, in compliance with the requirements of Articles 3 and 4 of the aforementioned decree and the GRI Standards.

Finally, on 16 April 2018, the independent auditors issued the declaration on independence, as required by Article 6, paragraph 2, letter a) of Regulation (EU) 537/2014, from which no situations emerged that could compromise their independence. Finally, the Board of Statutory Auditors took note of the Transparency Report prepared by the independent auditors and published on its website pursuant to Article 18 of Legislative Decree 39/2010.

In addition to the tasks required by law for listed companies, the Independent Auditors, together with the other companies belonging to its network, carried out non-auditing activities in favour of Carraro S.p.A. for total fees and consideration for 2017 of 33 thousand Euros. The Independent Auditors or other companies belonging to its network did not provide non-auditing services to Carraro Group companies in 2017. These fees, also shown in the annex to the financial statements as required by Article 19-duodecies of the Issuers Regulation, were charged to the income statement. These assignments were never those prohibited pursuant to Article 5, paragraph 1 of Regulation (EU) 537/2014).

Taking into account the tasks assigned by Carraro and Group companies to Deloitte & Touche Spa and to its network, the Board of Statutory Auditors does not believe that there are any critical aspects in relation to independence of Deloitte & Touche.

The Independent Auditors also confirmed to the Board of Statutory Auditors that, during the year, it did not issue opinions pursuant to the law, in the absence of the prerequisites for their issue.

With regard to the preparation of the financial statements and consolidated financial statements, the Board of Statutory Auditors acknowledges that the Board of Directors, as required by the joint Bank of Italy/CONSOB/ISVAP document of 3 March 2010, approved the impairment procedure.

On 16 April 2018, the Independent Auditors submitted to the Board of Statutory Auditors the Additional Report required by Article 11 of the European Regulation 537/2014 which:

› includes the declaration of independence of the Independent Auditors;
› illustrates the scope and timing of the audit, describes the methodology used and indicates the quantitative level of overall significance;
› indicates and evaluates the evaluation methods applied to the various items of the financial statements without highlighting any issues regarding the appropriateness of the accounting standards adopted by the Company;
› does not raise doubts about the ability of Carraro Spa. to continue operating as an operating entity (business continuity);
› does not indicate significant shortcomings in the internal control system, in relation to the financial reporting process;
› does not contain the reporting of cases of non-compliance with laws, regulations or important statutory provisions in relation to the activity of the Board of Statutory Auditors;

- it does not contain any reports of limitations on the auditing activity nor the existence of significant difficulties arising from the statutory audit.

In this regard, as required by Article 19 of Legislative Decree 39/2010, on 16 April 2018 the Board of Statutory Auditors informed the Board of Directors, without considering it necessary to support said report with its own observations.

Supervision of transactions with related parties

With regard to transactions entered into with Group companies or with related parties pursuant to Arts. 2391 and 2391-bis of the Italian Civil Code, we noted:

- the existence of intra-Group transactions concerning ordinary equity, economic and financial relationships with subsidiaries and associated companies, with the parent company, and with other related parties. Such transactions have been described in detail in the attached notes to the financial statements and consolidated financial statements. In particular, we recall:
  - that such transactions of an ordinary nature primarily concern transactions of a financial or commercial nature, the provision of services and advisory services;
  - that such transactions with subsidiaries and associated companies, with the parent company, and with other related parties are considered as being made against suitable payments and conforming to the interests of the Company;
  - we did not note the existence of atypical and/or unusual transactions entered into with related parties and/or capable of having a significant impact on the Company's financial position and performance;
  - the information provided by the Directors in Report on Operations and in the notes to the Financial Statements on intra-Group transactions and/or transactions with related parties and atypical or unusual transactions, is considered to be adequate.

Omissions or reprehensible facts, opinions rendered and initiatives taken

During the course of the fiscal year, no complaints were received pursuant to Article 2408 of the Italian Civil Code, nor were any petitions received from shareholders and/or third parties.

The Board of Statutory Auditors did not issue and formulate, in the course of 2017, opinions required by Law and issued the advisory opinions required by the Code of Conduct and by policies and procedures adopted by the Company.

During the year, we constantly carried out monitoring activities as required by Article 149 of Legislative Decree 58/1998, and we can conclusively confirm that in carrying out our activities, we did not ascertain any irregularities, omissions, or punishable acts and therefore do not have any proposals to make to the Shareholders' Meeting pursuant to Article 153, paragraph 2 of Legislative Decree 58/1998.

Conclusions

The Financial Statements as at 31 December 2017 of Carraro Spa and the Consolidated Financial Statements as at the same date, were prepared in accordance with the international accounting standards Ias/Ifrs issued by the International Accounting Standards Board (Iasb), in conformity with the provisions of Legislative Decree of 28 February 2005, no. 38, enacted pursuant to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002.

The Board of Statutory Auditors has examined the criteria adopted in preparation of the above-mentioned Financial Statements, with particular reference to the content and structure, the basis of consolidation and uniformity of application of accounting standards, the existence of adequate disclosure on corporate performance and on evaluations carried out for impairment testing and on the continuation of the business continuity.

Since analytical control of the content of the Financial Statements is not our responsibility, we have monitored the general structure of the Financial Statements and Consolidated Financial Statements, their compliance with the law with regard to their formation and structure and in this regard we have no particular observations to make.

To the best of our knowledge, the Directors, in preparing the Financial Statements, did not depart from the rules of law pursuant to Article 2423, paragraph 4 of the Italian Civil Code.

We have verified that the Financial Statements and the Directors' Report on Operations are consistent with the facts and information of which we are aware as a result of the execution of our duties and we have no observations in this regard. The statutory Financial Statements and Consolidated Financial Statements of Carraro Spa are accompanied by the required report of the independent auditors, to which we refer.

In light of the foregoing, the Board gives its favourable opinion for approval of the financial statement for the fiscal year that closed on 31 December 2017 as submitted by the Board of Directors, and it is in agreement with the Board concerning the allocation of operating profit.

Campodarsego, 16 April 2018

THE BOARD OF STATUTORY AUDITORS

SAVERIO BOZZOLAN **STEFANIA CENTORBI** **ANDREA CORTELLAZZO**

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INDEPENDENT AUDITORS' REPORT PURSUANT TO ART. 14 OF LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010 AND TO ART. 10 OF REGULATION (EU) NO. 537/2014

**To the Shareholders of
Carraro S.p.A.**

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have carried out the audit of the consolidated financial statements of the Carraro Group (the Group), consisting of the statement of financial position as at 31 December 2017, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the cash flow statement for the financial year ending on that date and of the notes to the financial statements which also include a summary of the most significant accounting standards applied.

In our opinion, the consolidated financial statements provide a truthful and correct representation of the financial position of the Group as at 31 December 2017, of the operating profit/loss and of the cash flows for the year ended on that date in accordance with the International Financial Reporting Standards adopted by the European Union as well as with the provisions issued in implementation of art. 9 of Legislative Decree no. 38/05.

Elements underlying the opinion

We performed the audit in accordance with international auditing standards (ISA Italia). Our responsibilities pursuant to these standards are further described in the section *Auditor's Responsibility for the audit of the consolidated financial statements* of this report. We are independent with respect to Carraro S.p.A. (the Company) in compliance with the regulations and standards on ethics and independence applicable in the Italian legal system for auditing financial statements. We believe *we have* acquired sufficient and appropriate evidence on which to base our opinion.

Key aspects of the audit

The key aspects of the audit are those aspects that, according to our professional opinion, were most significant in the context of the audit of the consolidated financial statements for the year under review. These aspects were dealt with by us in the audit and in the formation of our opinion on the consolidated financial statements as a whole; therefore we do not express a separate opinion on these aspects.

Recoverability of Goodwill

Description of the key aspect of the audit

In the Group consolidated financial statements at 31 December 2017, goodwill of 36.8 million Euros was recognised under the *item* Intangible fixed assets. This goodwill is entirely allocated to the Drive Tech cash generating unit ("CGU") and, as required by the international accounting standard "IAS 36 Impairment of assets", is not amortised but is subjected to an impairment test at least annually by comparing the recoverable value of the CGU - determined according to the method of value in use - with the book value, which takes into account both the goodwill and the other tangible and intangible assets allocated to the CGU.

The process of measuring goodwill by the Directors is complex and is based on assumptions concerning, inter alia, the forecast of expected cash flows of the CGU, the determination of an appropriate discounting rate (WACC) and long-term growth (g-rate). These assumptions are influenced by future expectations and market conditions.

In consideration of the significance of the amount of goodwill recognised in the consolidated financial statements, of the subjectivity of the estimates relating to the cash flow of the CGU and the key variables of the impairment model, we considered the impairment test a key aspect of the audit of the consolidated financial statements of the Carraro Group at 31 December 2017.

Note 7 of the notes to the consolidated financial statements shows the information on goodwill and the impairment test carried out by the Management.

Audit procedures performed

- As part of our audit we performed, inter alia, the following procedures, also using the support of our experts:
- identification and comprehension of the methods adopted and of the relevant controls implemented by the Carraro Group on the process of preparation and approval of the impairment test;
- analysis of the Group's operating and financial plan for the financial years 2017-2021 (the "Operating and Financial Plan"");
- analysis of the reasonableness of the main assumptions adopted for the formulation of the cash flow forecasts deriving from the Operating and Financial Plan, also by analysing the macroeconomic forecasts for the main countries in which the Group companies operate, and the industry data relating to the expected trend for the "Agriculture" and "Construction Machinery" industries, in addition to obtaining information from the Management;
- analysis of the actual data with respect to the original plans in order to assess the nature of the deviations and the reliability of the planning process;
- evaluation of the reasonableness of the discounting rate (WACC) and long-term growth (g-rate);
- verification of the mathematical accuracy of the model used to determine the value in use of the CGU;
- verification of the correct determination of the book value of the CGU;
- verification of the sensitivity analysis prepared by the Management;
- examination of the adequacy of the disclosure provided on the impairment test by the Group in Note 7 and its compliance with the provisions of the IFRS.

Recoverability of deferred tax assets

Description of the key aspect of the audit

The Group's consolidated financial statements as of 31 December 2017 include deferred tax assets of 21.1 million Euros, relating to losses that can be carried forward indefinitely (0.7 million Euros) and to temporary deductible differences (20.4 million Euros). In particular, this balance includes residual deferred tax assets of 7.7 million Euros relating to differences arising in connection with an intercompany reorganisation operation carried out in 2014, from which the values of certain assets higher than the values recognised in the financial statements emerged.

As indicated by the Directors, the assessment of the recoverability of deferred tax assets derives from specific assumptions regarding the probability that sufficient taxable income will be generated in future years by the Company and by the Italian subsidiaries that have a national tax consolidation agreement in place covering almost all of the deferred tax assets recognised in the consolidated financial statements. The recoverability of deferred tax assets is also associated with the possibility, offered by current tax legislation, of transforming certain deferred taxes into tax credits, upon payment of a fee for maintenance of the option.

These assumptions are underpinned by estimates based on future economic and market conditions that may also not be realised, or realised to an insufficient extent compared to that necessary to fully recover the deferred tax assets recognised in the financial statements.

In consideration of the significance of the amount of the item in question and of the subjectivity of the relative estimates, we considered recoverability of the deferred tax assets as a key aspect of the audit of the Carraro Group consolidated financial statements.

Note 11 of the notes to the consolidated financial statements shows the information on deferred tax assets.

Audit procedures performed

As part of our audit we performed, inter alia, the following procedures, also using the

support of our experts:

- identification of the procedure and relevant controls put in place by the Company for the purpose of assessing the recoverability of deferred tax assets;
- examination of the deductible temporary differences that generated the recognition of deferred tax assets;
- examination of the criteria for determining the tax rate in force at the time when the temporary differences will be reversed, based on the legislation in force at the balance sheet date;
- analysis of the forecasts for future taxable income deriving from the Group's Operating and Financial Plan;
- analysis of reasonableness of the main assumptions adopted for the formulation of the Operating and Financial Plan with the support of our experts;
- examination of the adequacy of the disclosure provided by the Group in Note 11 on the recoverability of deferred tax assets and its compliance with the provisions of the IFRS.

Responsibility of the Directors and the Board of Statutory Auditors for the consolidated financial statements

The Directors are responsible for the preparation of the consolidated financial statements that provide a truthful and correct representation in accordance with the International Financial Reporting Standards adopted by the European Union as well as the provisions issued in implementation of art. 9 of Legislative Decree no. 38/05 and, within the terms established by law, for that part of the internal control they deem necessary for the preparation of financial statements that do not contain significant errors due to fraud or unintentional conduct or events.

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The Directors are responsible for assessing the Group's ability to continue operating as an operating entity and, in drafting the consolidated financial statements, for the appropriateness of the use of the assumption of business continuity, as well as for adequate disclosure in this regard. The Directors use the assumption of business continuity in the preparation of the consolidated financial statements, unless they have determined that the conditions are met for liquidation of the parent company Carraro S.p.A. or for the interruption of the business or have no realistic alternatives to these choices.

The Board of Statutory Auditors is responsible for supervising, within the terms established by law, the process for preparing the Group's financial reporting.

Responsibility of the independent auditors for the audit of the consolidated financial statements

Our objectives are the acquisition of reasonable certainty that the consolidated financial statements as a whole do not contain significant errors due to fraud or unintentional conduct or events, and the issue of an audit report that includes our opinion. By reasonable certainty is meant a high level of certainty which, however, does not provide the assurance that an audit carried out in accordance with international auditing standards (ISA Italia) will always identify a significant error, if any. Errors can result from fraud or unintentional conduct or events and are considered significant if it can reasonably be expected that they, individually or as a whole, are able to influence the economic decisions taken by the users on the basis of the consolidated financial statements.

Within the scope of the audit carried out in accordance with international auditing standards (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. In addition:

- we identified and assessed the risks of significant errors in the consolidated financial statements, due to fraud or unintentional conduct or events; we defined and performed audit procedures in response to these risks; we have sufficient and appropriate evidence on which to base our opinion. The risk of not identifying a significant error due to fraud is higher than the risk of not identifying a significant error deriving from unintentional conduct or events, since fraud can imply the existence of collusion, falsification, intentional omission, misleading representations or forcing internal control;
- we acquired an understanding of the internal control system relevant for auditing purposes in order to define audit procedures appropriate to the circumstances and not to express an opinion on the effectiveness of the Group's internal control system;
- we evaluated the appropriateness of the accounting standards used and the reasonableness of accounting estimates made by the Directors, including the related disclosure;
- we reached a conclusion on the appropriateness of use by the Directors of the business continuity assumption and, based on the audit evidence, on the possible existence of significant uncertainty regarding events or circumstances that may give rise to significant doubts about the ability of the Group to continue operating as an operating entity. In the presence of significant uncertainty, we are obliged to draw attention in the audit report to the related disclosure in the financial statements, or, if such disclosure is inadequate, to reflect this fact in the formulation of our opinion. Our conclusions are based on the audit evidence obtained up to the date of this report. Nevertheless, subsequent events or circumstances may result in the Group ceasing to operate as an operating entity;
- we assessed the presentation, structure and content of the consolidated financial statements as a whole, including the disclosure, and whether the consolidated financial statements represent the underlying transactions and events in order to provide a correct representation;

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- we acquired sufficient and appropriate evidence on the financial information of the companies or the different economic activities carried out within the Group to express an opinion on the consolidated financial statements. We are responsible for the management, supervision and performance of the Group's audit assignment. We are solely responsible for the audit opinion on the consolidated financial statements.

We communicated to the managers of the governance activities, identified at an appropriate level as required by ISA Italia, among other aspects, the scope and timing planned for the audit and the significant results which emerged, including any significant deficiencies in the internal control system identified in the course of the audit.

We also provided the managers of governance activities with a declaration that we complied with the regulations and standards on ethics and independence applicable in the Italian legal system and communicated to them any situation that could reasonably have an effect on our independence and, where applicable, the related safeguard measures.

Among the aspects communicated to the managers of the governance activities, we identified those that were most relevant in the audit of the consolidated financial statements for the year in question, which therefore constituted the key aspects of the audit. We described these aspects in the audit report.

Other information disclosed pursuant to art. 10 of Regulation (EU) 537/2014

On 15 April 2016, the shareholders' meeting of Carraro S.p.A. appointed us to audit the company's financial statements and consolidated financial statements for the years from 31 December 2016 to 31 December 2024.

We declare that no services other than auditing were provided, prohibited pursuant to art. 5, par. l, of Regulation (EU) 537/2014, and that we remained independent with respect to the Company in the execution of the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is in line with that indicated in the additional report for the Board of Statutory Auditors, in its function as Internal Control and Statutory Audit Committee, prepared pursuant to art. 11 of the aforementioned Regulation.

REPORT ON OTHER LEGAL AND REGULATORY PROVISIONS

Opinion pursuant to art. 14, paragraph 2, letter e), of Legislative Decree 39/10 and of art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Carraro S.p.A. are responsible for the preparation of the Report on Operations and the Corporate Governance and Ownership Structure Report of the Carraro Group at 31 December 2017, including their consistency with the related consolidated financial statements and their compliance with the law.

We carried out the procedures indicated in the auditing standard (ISA Italia) 720B in order to express an opinion on the consistency of the Report on Operation and on certain specific information contained in the Corporate Governance and Ownership Structure Report indicated in art. 123-bis, par. 4 of Legislative Decree 58/98, with the consolidated financial statements of the Carraro Group at 31 December 2017 and their compliance with the law, as well as to issue a declaration on any significant errors.

In our opinion, the Report on Operations and certain specific information contained in the above-mentioned Corporate Governance and Ownership Structure Report are consistent with the consolidated financial statements of the Carraro Group at 31 December 2017 and are prepared in accordance with the law.

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With reference to the declaration pursuant to art. 14, par. 2, letter e), of Legislative Decree 39/10, issued on the basis of the knowledge and understanding of the company and the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation implementing Legislative Decree no. 254 of 30 December 2016

The Directors of Carraro S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree no. 254 of 30 December 2016.

We verified approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree no. 254 of 30 December 2016, this statement is the subject of a separate certification of conformity on our part.

DELOITTE & TOUCHE S.p.A.

Gianna Adami

Partner

Padua, 16 April 2018

Ordinary Shareholders' Meeting of Carraro Spa of 14 May 2018

Chairman: Enrico Carraro

Shareholders present: 6 in person or by proxy representing 55,994,591 shares, equal to 70.242% of the share capital, corresponding to 63.020.037 votes, equal to 69.692% of the voting rights.

The Shareholders' Meeting:

› approved the Financial Statements as at 31/12/2017 and the Board of Directors' Report on Operations for the 2017 financial year, resolving to allocate the operating profit as shown below:
  - 786,818.16 Euros to the Legal Reserve;
  - 13,105,205.14 Euros to dividends;
  - 1,844,339.81 Euros to retained earnings;

› approved the first section of the Report on the Remuneration of Directors and Key Managers;

› elected the new Board of Directors, which will remain in office for the financial years 2018, 2019 and 2020, i.e. until the approval of the financial statements as at 31/12/2020, after having established the number of its members to be 9. The new Board of Directors consists of Messrs.:
  1. Enrico Carraro (Chairman of the Board of Directors)
  2. Tomaso Carraro
  3. Alberto Negri
  4. Enrico Gomiero
  5. Virginia Carraro
  6. Fabio Buttignon
  7. Marina Manna
  8. Marina Pittini
  9. Riccardo Arduini

› approved the proposal for the annual remuneration of the members of the Board of Directors, establishing it to be 40,000 Euros for each director, and determining the total annual amount for the remuneration to be assigned to members of the Board of Directors conferred with special offices, including the Chairman, the Deputy Chairman, the Chief Executive Officer and the members of the Committees, to be 2,140,00 Euros, delegating the Board of Directors the right to allocate this amount among its members;

- elected the new Board of Statutory Auditors, which will remain in office for the financial years 2018, 2019 and 2020, i.e. until approval of the financial statements as at 31/12/2020. The new Board of Directors consists of Messrs.:
  1. Carlo Pesce (Chairman of the Board of Statutory Auditors)
  2. Saverio Bozzolan (Regular Auditor)
  3. Stefania Centorbi (Regular Auditor)
  4. Barbara Cantoni (Substitute Auditor)
  5. Gabriele Andreola (Substitute Auditor)

- approved the proposal for the annual remuneration for Regular Auditors of 50,000 Euros for the Chairman and 30,000 Euros for each of the other two Regular Auditors.

DESIGN
Bunker
{bnkr.it}

COMPOSTO IN
Amplitude
{Schwartz, 2003}
Miller
{Carter, 2002}

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