



# **Carraro Group**

## **Interim management report at 31 March 2008**

**CARRARO S.p.A.**

Offices in Campodarsego (PD) – Via Olmo no. 37

Share Capital Euro 21,840,000 fully paid up

Tax Code, VAT Reg. no and Padua Company Register no. 00202040283

R.E.A. no. 84,033

**QUARTERLY REPORT AT 31 MARCH 2008 (CONSOLIDATED DATA)**

The first quarter of 2008 confirmed the growth trend started in the second half of the previous year. In the principal reference markets, agriculture and earth-moving, demand remained steady, particularly in Eastern Europe and Asian regions.

The demand for inverters and electronic controls – primarily intended for the photovoltaic and wind energy sector – together with that for gears and components in all sectors of application proved positive.

Although not as great as at the end of last year, difficulties emerged in relation to the sourcing of raw materials with consequent delays in times for response to steady demand from the markets. However, thanks to a careful policy of adjustment of the supply area with the current reinforcement of the supply-chain and optimisation of manufacturing activities on a global level, balance is expected to be restored in the second quarter.

On the whole, results as compared with the first quarter of last year show growth in overall terms, though there is a slight downturn in percentage terms. This is explained by comparing a 2007 trend showing a significant increase for the first months of the year – followed by a downturn – with the 2008 outlook which foresees progressive improvement during the year in relation to both volumes and profitability.

**GENERAL DATA**

The Group's results are shown and analysed below.

2008 first quarter data (FIGURES IN €/000)

	<b>31.03.2008</b>	<b>% of sales</b>	<b>31.03.2007</b>	<b>% of sales</b>	<b>% change</b>
Sales	237,471		188,857		25.7
EBITDA	18,969	8.0	16,589	8.8	14.4
EBIT	10,684	4.5	10,486	5.6	1.9
Net income	2,911	1.2	4,746	2.5	-38.7
Amortisation	8,285	3.5	6,103	3.2	35.8
Cash-flow	11,196	4.7	10,849	5.7	3.2
Investments	16,399		7,166		
Net financial position	-191,136		-131,082		
Shareholders' equity*	146,792		123,578		
Gearing	130.21%		106.07%		

\*minorities included

## Sales

Group consolidated sales in the first quarter of 2008 reached 237.471 million Euro, an increase of 25.7% compared with the figure at 31 March 2007.

A breakdown of sales by Business Unit, mains changes and geographical area is shown in the tables below.

## Segment reporting

### a) Sector of activity

2008 first quarter data (FIGURES IN €/000)

	SALES			SALES TO THIRD PARTIES			INFRA-GROUP SALES		
	31.3.'08	31.3.'07	% change	31.3.'08	31.3.'07	% change	31.3.'08	31.3.'07	% change
DRIVES & DRIVELINES	179,435	158,939	12.90	163,206	144,397	13.03	16,229	14,542	11.60
GEAR & COMPONENTS	65,772	35,212	86.79	(*) 41,072	14,115	190.98	24,700	21,097	17.08
VEHICLES	22,459	24,953	(9.99)	22,456	24,944	(9.97)	3	9	(66.67)
POWER CONTROL	10,785	5,401	99.69	10,691	5,401	97.94	94	-	n.a.
OTHERS	2,786	150	n.a.	46	-	n.a.	2,740	150	n.a.
<b>TOTAL SEGMENTS</b>	<b>281,237</b>	<b>224,655</b>	<b>25.19</b>	<b>237,471</b>	<b>188,857</b>	<b>25.74</b>	<b>43,766</b>	<b>35,798</b>	<b>22.26</b>
INFRAGROUP ADJUSTMENTS	(43,766)	(35,798)	(22.26)	-	-	-	-	-	-
<b>TOTAL CONSOLIDATED</b>	<b>237,471</b>	<b>188,857</b>	<b>25.74</b>	-	-	-	-	-	-

(\*) excluding the sales of Mini Gears consolidated since 1 August 2007, growth would be 42.77%

### b) Geographical area

2008 first quarter data (FIGURES IN €/000)

<i>Geographical Area</i>	<i>31.03.2008</i>	<i>%</i>	<i>31.03.2007</i>	<i>%</i>
Germany	40,362	17.0	33,756	17.9
North America	36,599	15.4	33,218	17.6
Great Britain	24,278	10.2	15,385	8.2
France	14,499	6.1	16,456	8.7
South America	11,284	4.8	6,840	3.6
China	8,940	3.8	3,689	1.9
Poland	6,866	2.9	5,868	3.1
India	6,440	2.7	8,848	4.7
Turkey	4,109	1.7	5,710	3.0
Other EU areas	25,096	10.6	15,345	8.1
Other non-EU areas	6,909	2.9	3,984	2.1
<b>Foreign Total</b>	<b>185,382</b>	<b>78.1</b>	<b>149,099</b>	<b>78.9</b>
Italy	52,089	21.9	39,758	21.1
<b>Total</b>	<b>237,471</b>	<b>100</b>	<b>188,857</b>	<b>100</b>

comprised of:

<b>Total EU area</b>	<b>163,190</b>	<b>68.7</b>	<b>126,568</b>	<b>67.0</b>
<b>Total non-EU area</b>	<b>74,281</b>	<b>31.3</b>	<b>62,289</b>	<b>33.0</b>

### **Ebitda and Ebit**

2008 first quarter data (FIGURES IN €/000)

	<b>31.03.2008</b>	<b>% of sales</b>	<b>31.03.2007</b>	<b>% of sales</b>	<b>% change</b>
EBITDA	18,969	8.0	16,589	8.8	14.4
EBIT	10,684	4.5	10,486	5.6	1.9

Ebitda (the sum of operating result, amortisation and fixed asset write-downs) stands at 18,969,000 Euro, representing growth of 14.4% compared with 16.589 million Euro for the first quarter of 2007.

Ebit (the operating result from the income statement) is 10.684 million Euro, the growth figure here being of 1.9% as compared with 10.486 million Euro at 31 March 2007.

As stated the results are largely in line with the budget, even allowing for the aforementioned difficulties in relation to supply which caused delays in deliveries and consequent economic troubles.

### **Financial expenses**

Financial expenses totalled 4.070 million Euro in the first quarter of 2008, compared to 2.006 million Euro at 31 March 2007. This increase, when compared with the previous year, is due to higher average borrowing and the increased cost of money.

### **Exchange rate differences**

Exchange rate differences at 31 March 2008 show a debit balance of 713 thousand Euro (as compared with a credit of 1,228,000 Euro at 31 December 2007) and a credit of 317 thousand Euro at 31 March 2007, due almost exclusively to the adjustment of Euro-denominated medium-long term loans contracted by Indian subsidiaries where the local currency was devalued by approximately 10% in March as compared to the position at 31 December 2007.

### **Net profit**

Net profit for the first quarter of 2008 stands at 2.911 million Euro as compared with 4.746 Euro in March 2007.

### **Amortisation and Cash-Flow**

2008 first quarter data (FIGURES in €/000)

	<b>31.03.2008</b>	<b>% of sales</b>	<b>31.03.2007</b>	<b>% of sales</b>	<b>% change</b>
<b>Amortisation</b>	8,285	3.5	6,103	3.2	35.8
<b>Cash-flow</b>	11,196	4.7	10,849	5.7	3.2

Amortisation has increased to 8.285 million Euro at 31 March 2008, compared with 6.103 million Euro at 31 March 2007, and cash-flow equals 11.196 million Euro (10.849 million Euro at 31 March 2007).

### **Investments**

2008 first quarter data (FIGURES IN €/000)

	<b>31.03.2008</b>	<b>31.03.2007</b>
<b>Investments</b>	16,399	7,166

Investments in the quarter amounted to 16.399 million Euro (7.166 Euro at 31 March 2007), almost exclusively allocated to increasing production capacity, in the *gear & components* division in particular.

### **Net financial position and gearing**

In line with forecasts, the net financial position (i.e. the total of payables due to banks, bonds and medium-long term loans, net of cash and cash equivalents, transferable securities and financial receivables) stands at a negative 191.136 million Euro; at 31 December 2007 it stood at a negative 175.947 million Euro (and a negative 131.082 million Euro in March 2007). At 31 March 2008 gearing stands at 130.21% as compared with 117.30% in December 2007 and 106.07% in March 2007.

### **OUTLOOK FOR OPERATIONS FOR THE CURRENT YEAR**

The order book remains positive thanks to favourable trends in all the reference markets.

While there has been an improvement in the supply situation, tensions still exist in relation to the cost of raw materials.

In this context the Group is working towards accelerating the use of alternative supply channels and putting the new production capacity into operation, the result of recent and important investments; on a commercial level it is working towards the recovery of major acquisition costs. In light of these endeavours, the benefits are expected to be evident in the medium term, and the situation returning to normal in the second half of the year.

Based on these forecasts it is considered that the budget objectives are still achievable despite the aforementioned difficulties.

**A reorganisation project was initiated in March, intended to give further impetus to the various business areas of the Group and in particular to activities relating to the development, production and marketing of transmission systems for on and off highway application.**

**The primary objective of this process, in which the Business Units will be converted into independent Companies, giving them further scope for independent operation, is the optimisation of results and creation of value.**

**FINANCIAL STATEMENTS**  
**CONSOLIDATED ECONOMIC AND FINANCIAL DATA**  
**(IAS/IFRS)**

**Consolidated income statement (figures in thousands of Euro)**

	<b>31.03.2008</b>	<b>%</b>	<b>31.03.2007</b>	<b>%</b>
<b>Sales revenue</b>	<b>237,471</b>	<b>100.0</b>	<b>188,857</b>	<b>100.00</b>
Purchases of goods and raw materials	157,045	66.13	126,394	66.93
Services	45,774	19.28	32,062	16.98
Use of third-party goods and services	1,265	0.53	761	0.40
Personnel Costs	33,120	13.95	24,916	13.19
Amortisation, depreciation and impairment of assets	8,306	3.50	6,128	3.24
Changes in inventory	-18,118	-7.63	-12,256	-6.49
Provisions for risks and contingencies	737	0.31	654	0.35
Other income and expenses	-1,342	0.56	-288	-0.15
<b>EBIT</b>	<b>10,684</b>	<b>4.50</b>	<b>10,486</b>	<b>5.55</b>
Income from shareholdings	0	0	0	0
Net financial income/expenses	-4,070	-1.72	-2,006	-1.06
Net foreign exchange income/expenses	-713	0.30	317	0.17
Net adjustments of financial assets	0	0	0	0
Income before taxes	5,901	2.48	8,797	4.66
Current and deferred income taxes	2,724	1.15	3,786	2.00
Net income	3,177	1.34	5,011	2.65
Third-party income	266	0.11	265	0.14
<b>Group consolidated income</b>	<b>2,911</b>	<b>1.23</b>	<b>4,746</b>	<b>2.51</b>

**Consolidated Balance Sheet (figures in thousands of Euro)**

	<b>31.03.2008</b>	<b>31.03.2007</b>
<b>Non-current assets</b>	<b>315,433</b>	<b>213,269</b>
Tangible fixed assets	225,094	166,430
Intangible fixed assets	73,248	31,474
Real-estate investments	709	711
Shareholdings	170	185
Financial assets	844	1,051
Deferred tax assets	14,434	11,901
Trade receivables and other receivables	934	1,517
<b>Current assets</b>	<b>438,611</b>	<b>348,454</b>
Closing inventory	198,745	142,910
Trade receivables and other receivables	209,626	179,659
Financial assets	2,054	1,661
Cash and cash equivalents	28,186	24,224
<b>Total assets</b>	<b>754,044</b>	<b>561,723</b>
<b>Shareholders' equity</b>	<b>146,792</b>	<b>123,578</b>
<b>Non-current liabilities</b>	<b>174,298</b>	<b>128,306</b>
Financial liabilities	120,762	96,528
Trade payables and other payables	14,530	1,783
Deferred tax liabilities	12,092	3,737
Severance, pension and similar provisions	24,608	24,471
Provisions for risks and contingencies	2,306	1,787
<b>Current liabilities</b>	<b>432,954</b>	<b>309,839</b>
Financial liabilities	103,896	60,437
Trade payables and other payables	307,288	238,552
Current taxes payable	14,063	4,268
Provisions for risks and contingencies (short-term amounts)	7,707	6,582
<b>Total liabilities and shareholders' equity</b>	<b>754,044</b>	<b>561,723</b>

## NET FINANCIAL POSITION

*Figures in thousands of Euro*

<b>Description</b>	<b>31.03.2008</b>	<b>31.12.2007</b>	<b>31.03.2007</b>
<b>Bonds:</b>			
- non-current	-		-
- current	-		-
<b>Loans:</b>			
- non-current	120,762	132,233	96,528
- current	98,265	75,861	59,505
<b>Financial accruals and deferrals:</b>			
- non-current	-34	-8	-111
- current	786	600	-517
<b>NET OF:</b>			
Cash and cash equivalents			
Cash	-177	-138	-78
Bank assets	-28,093	-32,517	-24,146
Loans and receivables	-373	-84	-99
Securities	-		-
Loans to factor			
<b>Consolidated net financial position</b>	<b>191,136</b>	<b>175,947</b>	<b>131,082</b>



### **Content and drafting criteria**

This consolidated interim management report at 31 March 2008, was drafted in accordance with international accounting standards (IAS / IFRS), representing a continuation of those applied in the 2007 financial statements.

The document was prepared in accordance with the provisions of article 154 *ter*, paragraph 5 of Legislative Decree no. 58 of 24/02/98 (T.U.F.) and subsequent amendments, and, therefore, the provisions of the international accounting standard concerning interim financial reporting (IAS 34 “interim financial statements”) were not adopted.

**Carraro SpA**  
Chairman  
(signed)

Mario Carraro

**Declaration in accordance with article 154 *bis*, paragraph 2, legislative decree no. 58/1998**

**Re: interim management report at 31.03.2008**

The undersigned Enrico Gomiero, Director assigned to drafting corporate accounting documents, declares that the accounting information contained in the document in question corresponds to documented results, accounting books and bookkeeping entries, pursuant to paragraph 2 of article 154 *bis* of the Finance Consolidation Act.

Campodarsego, 14 May 2008

**Carraro SpA**  
Chief Financial Officer  
(signed)

Enrico Gomiero