**CARRARO S.p.A.**
Registered office in Campodarsego (Italy) – 37 Via Olmo
Share capital: € 21,840,000, fully paid-up
Italian Tax Code / VAT Registration Number and
Padua Companies Registry no. 00202040283
Padua Economic and Administrative Index no. 84.033

## FINANCIAL STATEMENTS AT DECEMBER 31, 2008
## DIRECTORS' REPORT ON OPERATIONS

Dear Shareholders ,
With effect from July 1, 2008 the Carraro Group initiated a process of corporate reorganization, introducing a new model of management and governance, which involved the separation of the four Business Units into Drivelines (under the control of Carraro Drive Tech S.p.A.), Gears & Components (under the control of Gear World S.p.A.), Vehicles (Agritalia Division), and Power Controls (under the control of Elettronica Santerno S.p.A.). Each Business Unit is controlled directly or indirectly by Carraro S.p.A., in its capacity as Parent Company. This decision was taken in order to make a better distinction between the strategic control activities, for which Carraro S.p.A. is responsible, and the work of managing the individual Business Units, with consequent greater focus and efficiency in each area.
Therefore from July 1, 2008 Carraro S.p.A. conferred on the newly-established company Carraro Drive Tech S.p.A. the operations comprising all the tangible and intangible assets relating to the industrial activities of the factories of Campodarsego, Gorizia and, for replacement parts, Rovigo. This conferment included all the equity interests held in those companies active in the Business Unit Drivelines A.E. S.r.l. and Carraro Argentina S.A. Furthermore, Carraro International S.A. conferred the equity interests held in the companies involved in the Business Unit: Drivelines, Fon S.A., Carraro Qingdao Drive, Carraro Qingdao Trading, and Carraro China Drive.

Carraro S.p.A. maintains its strategic control function, coordinating the individual Business Units of the Carraro Group, managing the finances and risks of the individual companies of the Carraro Group, and the planning and producing of the agricultural machines of the complex of companies known as "Divisione Agritalia".

The figures illustrated therefore refer to six months of operations for the manufacture and marketing of axles and transmissions and 12 months of Divisione Agritalia operations, not subject to the aforesaid conferment, and are given without a comparison of the previous year.

Cumulative summary data at December 31, 2008 (figures in euro/000)

| | Dec. 31, 2008 | % of sales |
|---|---|---|
| Sales | 323,484 | |
| EBITDA | 12,300 | 3.80 |
| EBIT | 6,907 | 2.14 |
| Net income | 8,587 | 2.65 |
| Depreciation | 5,393 | 1.67 |
| Cash-flow | 13,980 | 4.32 |
| Investments | 9,244 | |
| Net financial position | 51,563 | |
| Shareholders' equity | 84,480 | |
| Gearing | 0.61 | |

The parent company achieved a sales revenue of 323,484 mln euro.

EBITDA (referring to the sum of the operating results, amortisation and write-downs of fixed assets) stood at 12.300 mln, euro or 3.80% of turnover. EBIT (intended as the operating result on the income statement) stood at 6.907 mln euro, 2.14% of turnover.

Net financing costs amounted to 4.813 mln euro, or 1.49% of turnover and net exchange differences, including hedging costs, reached a negative value of 263 thousand euro.

Revenue from investments amounts to 7.573 mln euro and refers to dividends received from the subsidiaries AE Srl (563 thousand euro), Elettronica Santerno SpA (2.010 mln euro) and Carraro International (5.000 mln euro).

With taxes of 817 thousand euro, the 2008 period closed with a net profit of 8.587 mln euro, or 2.65% of turnover.

In 2008 amortisation and depreciation amounted to 5.393 mln euro, generating a cash flow (the sum of net profit, amortisation and depreciation of assets) of 13.980 mln euro.

Gross investments in 2008 totalled 9.244 mln euro and relate to the maintenance of the Divisione Agritalia plant and the capitalisation of orders for research and development.

The net financial position (the sum of amounts payable to banks, short and medium/long-term bonds and financing, net of liquid assets, negotiable securities and financing loans) stood at a debt of 51.563 mln euro.

As at December 31, 2008 the company had 320 employees (of whom 71 are at Campodesargo and 249 at the Divisione Agritalia site in Rovigo).

## Personnel

Personnel employed as at December 31, 2008 (including temporary and contract workers) stood at 320 people (divided between the Campodesargo and Divisione Agritalia sites with 71 and 249 employees respectively).
Of this total, 19 are classified as executives, 127 as middle managers and white-collar employees, 148 as blue-collar employees, and 26 interns.

### Turnover

The Personnel Turnover rate at the Group level (personnel leaving/personnel taken on) is not meaningful as the number of employees leaving was due mainly to corporate decisions.

### Development of human resources

Training carried out in 2008 amounted to 22,444 hours and, focused on the areas of Quality, Organisation, Product Development Management, Market Development and Management, and more particularly the Management Program and Professional Program which involved 47 Key people in Italy who followed a study programme focusing on the themes of strategy, management and organisation.

Using the support of leading international external consultants (HAY Group), the *Development Center* activities were carried out at the Group's international offices, involving 65 personnel. This was the first phase of the Group's macroproject, having the objective of discovering and enhancing the participants' managerial/professional skills, vital to the company's growth.

**Initiatives**
The sudden change in the global economic panorama and the consequent influences on the operations, plans and strategies of the various Group companies have called for the implementation of a diverse programme for the development of direct and indirect human resources at the various sites. This programme has involved the use of all available tools - holidays in lieu, reduction of weekly and monthly hours, salary supplements - at all of the Group's sites and offices.
In addition, at the Campodesargo and Gorizia sites of the Carraro Drive Tech SpA company and at the Padua site of Mini Gears SpA, there were restructuring programmes involving a total number of 24 and 20 employees respectively. The extraordinary expenditure associated with the implementation of the restructuring plans amounts to 850,000 euro for Carraro Drive Tech SpA and 550,000 euro for Mini Gears SpA.
Furthermore, a significant reduction in the size of the site in Poland is anticipated where the workforce is planned to be reduced by more than two thirds of the current levels, along with a reduction in absolute terms, accompanied by the development of the resources needed for manufacturing requirements, via the use of all available tools.

## Research and Innovation
Following the development path started some years ago, the operations for the methodological improvement and development of the range of the Group's products continued. In terms of methods, the main focus was the extension of common processes and tools to all companies of the Group. This homogenisation is also part of the aim to have everyone benefit from a more mature management of knowledge and organisation, in line with the markets' expectations. More specifically, the implementation of the PLM systems was completed at Elettronica Santerno.

With regard to **power transmission** systems, a strong impetus was given to the design of the first model of the new range for agricultural applications up to 170 hp. This project will include all the advanced mechanical, hydraulic and electronic control know-how gained and consolidated over the years.

In terms of **construction equipment,** the year saw the launch of the production in the new manufacturing sites of transmissions for excavators/loaders, while also extending the configurations available for the new robotic manual and automatic transmissions.
During the same period we designed a new family of axles for construction equipment applications, with a view to extending the range and expanding into higher power applications.

With regard to traction systems for applications for material handling, special and light commercial vehicles, the first prototypes using the new electronic power and control platform for electrical and hybrid traction were built and successfully presented to the market. This innovation should signal the end to the role of the “Tier 1” supplier of complete innovative power trains.

In the **Vehicles** sector the prototypes were practically ready for the certification of a new generation of tractors for special applications, which comply with the new emissions regulations (Tier III).

A major impetus was given to the **renewable energies** area of innovation with the development and installation of the new mechanical reducers for special, high precision applications in the area of industry producing electricity via solar concentrator systems.
Furthermore, the bench test and validation operations on the new generation of inverters are being brought to completion for wind applications that should make an important contribution to increasing the Carraro Group's percentage of turnover in renewable energy products.

There has been ever-increasing evidence of the contribution made in all the activities described above, both in terms of skills and quantity of work carried out, by Carraro Technologies India, yet another expansion by the company.

## SIGNIFICANT EVENTS IN 2008

At the General Meeting of April 23, 2008, the shareholders approved an acquisition and disposal programme of no more than 5% of the share capital, over a term of 18 months, at a minimum price of no less than 30%

below, and a maximum price no more than 20% above, the reference price quoted in the stock exchange session of the day preceding each transaction. Authorization for the acquisition and disposal was also granted in order to support the liquidity of the stock and to counter price fluctuations beyond the normal variations associated with stock market trends.

In May, the subsidiary Carraro International S.A. signed a new medium/long-term financing contract for 150 mln euro. This liquidity will support the Group's growth and internationalization strategies in accordance with the objectives of the Three Year Plan, which provides for significant investment. The major aim of this investment is to reinforce the manufacturing capacity, consolidate the internationalization process and launch new Research and Development projects.

On August 1, 2008, Carraro SpA and Finacasalfiumanese SpA agreed to modify the terms of exercising the option to buy and sell the 33% of the share capital of Elettronica Santerno SpA held by Finacasalfiumanese SpA. In more detail, the option price was fixed at 18 mln euro, where the option to purchase may be exercised between January 30, 2010 and May 31, 2011 and the option to sell in the 30 working days following March 30, 2010 and May 31, 2011 respectively.

On September 26, 2008 a successive increase in the capital of Carraro Drive Tech S.p.A. was carried out via the conferment of the interest held by Carraro SpA in Carraro India Ltd.

On December 22 and 23, 2008 Carraro International S.A. entered into two medium and long-term financing contracts with leading banks for 20 mln euro each. At the same time another commitment was entered into for a real estate loan agreement for Carraro SpA, Carraro Drive Tech SpA and Elettronica Santerno SpA for a total amount of 30 mln euro, which will be brought to completion during the course of 2009. This financing will assure the Group the necessary liquidity to achieve the industrial plan and in carrying out its ordinary operations.

## KEY RISKS AND UNCERTAINTIES FOR CARRARO SPA

**Risks associated with the general economic conditions**

The company'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.

During the course of 2008 and during the second half of the year in particular, the financial markets experienced a high level of instability and a reduced volume of transactions, having a significant effect on access to credit for both consumers and business.

This increasing constraint quickly began to bring about a liquidity deficit, increasing the trend towards falling consumption and investment with fallout in the various industrial sectors Carraro SpA operates in.

Where this situation will have its most severe effects will be discovered over time, possibly having a negative effect on the company's earnings, capital and borrowing position.

**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, significant fall in demand in one of the prime markets, enduring uncertainty and volatility of the financial and capital markets, falling interest rates and unfavourable changes in the exchange rates of the major currencies to which Carraro SpA is exposed are all negative factors for the company's operations and future, as well as its financial results and its borrowing position. Moreover, the profitability of the company's operations is affected by the risk of insolvency of counterparties, as well as the general economic conditions of the country in which the company holds its equity interests.

**Risks associated with funding requirements**
The Company's liquidity risk is mainly linked to the procurement and maintenance of sufficient funding to support industrial and financial operations.
The appropriation of funds, in line with the Carraro SpA short- and medium-term development plans, is achieved by tapping into banking finance having a term coherent with the company's liquidity cycle.

As well as the dynamics of the floating capital, the anticipated cash flows for the 2009 period reflect the effects of the current liabilities falling due and the shorter term portions of the non-current liabilities. Carraro SpA envisages meeting the needs deriving from the financing obligations falling due and the anticipated investments by the flows deriving from operations, available liquidity and the renewal and refinancing of banking loans.

**Risks associated with the instability of exchange rates and interest rates**
Carraro SpA is exposed to interest rate risks via the financing liabilities taken on to fund either normal operations or, as applicable, the Group's expansion by acquisitions. Changes in interest rates have a positive or negative effect 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 rate risk on the floating portion is then reduced via specific hedging operations.

**Credit risk**
Carraro SpA includes among its customers leading manufacturers of agricultural machinery. The concentration of the risk is associated with the size of these customers, which in global terms is very high. This is however balanced by the fact that the credit exposure is distributed across counterparties operating in different geographical areas.
The management of credit is designed to prioritise the acquisition of customers of national and international standing for superannual supplies. 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 the customer.
Except in special circumstances to do with country or counterparty risk, guarantees are not normally obtained on the credit.
Credit is recorded on the financial statements net of any write-downs determined by assessing the counterparty's risk of insolvency based on the information available.

**Environmental risks**
The Group operates across 18 manufacturing sites in seven different nations.
The manufacturing processes carried out in the Group's industrial sites are essentially mechanical processing of iron and steel and assembling 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 during 2008 through an important investment in moving from solvent based coatings to water-based paints that minimise atmospheric emissions.
Each site operates in compliance with local environmental regulations. Moreover management pays continual attention to environmental issues by the adoption of all the applications that current technology has made available to reduce the risk of pollution.
In specific terms, all activities are being carried out to obtain Environmental Certification in accordance with the criteria of ISO 14001 in all of the Group's plants.
Particular attention has been paid to increasing the efficiency of processes in order to maximise energy savings.

In the choices for the allocation of production and in making make/buy decisions the optimisation of the transport variable was also considered from a viewpoint of eco-sustainability and the reduction of $CO_2$ emissions in line with the Group's objective.

## SHARE PERFORMANCE

During 2008, the Carraro share price was also affected by the falls affecting the major stock exchanges worldwide. Following the substantial stability during the first months of the year, with values in line with the MIBTEL, it entered a downward phase, followed by a strong descent in the last quarter. The official average price for 2008 was 6.06 euro with a minimum official quote of 2.168 euro on January 23 and a maximum of 9.449 euro on July 2.
In the first three months of 2009, the price has remained largely stable, showing a slight fall in the first half of March but going against the general trend of the MIBTEL. The maximum price recorded on January 19, was 2.735 euro against the price of 2.47 euro of January 2, 2009, the first day of trading. The average price up to March 15 was 2.5615 euro.

## EVENTS SUBSEQUENT TO YEAR END

Carraro Drive Tech SpA indicated its intention to exercise its option to sell its 90% stake in the share capital of A.E. Srl pursuant to the Framework Agreement entered into on February 20, 2004 as amended. Following this notification and the subsequent meetings held between the shareholders of A.E. Srl, Carraro Drive Tech SpA and CPS Italia Scrl suggested an alternative path to the sale of the stock in A.E. Srl, which envisages (i) the formation of a new company called AE Assemblaggi Emiliani Srl, (ii) the subscription of a subsequent increase of share capital via the conferment of the going concern assembling axles and general mechanical components, (iii) a commitment by CPS Italia Scrl to assign its entire interest in AE Srl to Carraro Drive Tech SpA; (iv) a commitment by Carraro Drive Tech SpA to make a resolution via its corporate bodies for A.E. Srl to transfer its entire holding in the newly incorporated company AE Assemblaggi Emiliani Srl to CPS Italia Scrl.

The agreement entered into with Agritalia SpA regarding the leasing of the business operating in the development, assembly and distribution of agricultural tractors operating at the Rovigo site will be extended for a further year, therefore expiring on March 29, 2010.

These actions have, on one hand, the objective of managing the financial phase and of putting structural modifications on the companies concerned into effect and, on the other, improving cost containment, using all of the company's current cost-cutting methods and, where necessary, implementing the restructuring plans.

## BUSINESS OUTLOOK AND PROJECTIONS FOR 2009

The first half of the year is continuing with a strong reduction of volumes in the two major markets, agricultural and construction equipment, which began at the end of 2008, while the renewable energy market remains moderate.

The general uncertainty on the future of the global economy makes projections very difficult. It is, in any event, considered that there will be a slight progressive recovery, in construction equipment in particular during the second half of the year.

In light of this expectation, Carraro put the necessary actions into effect starting from the end of 2008, to react to the reduced volumes, adopting measures for the reduction of all costs.

## ADOPTION OF THE SELF-DISCIPLINARY CODE

Information on the adoption of the Self-disciplinary Code, prescribed by Consob in article 89-*bis* of the Regulations for Issuers, is provided in the Annual Report on Corporate Governance, compiled in accordance with the instructions of the new Self-disciplinary Code issued by Borsa Italiana (Italian stock exchange). The Report is appended to this director's report.

**OTHER INFORMATION**

In executing the programme for the acquisition of treasury shares, which was deliberated by the shareholders on April 23, 2008 to support the share price and mitigate its fluctuation over and above normal market variations, as at December 31, 2008 the company held 453,692 of its own shares, amounting to 1.08% of the share capital, acquired at an average price of 3.36345 euro.

We would like to specify that infra-group operations refer to dealings of a commercial, financing or consulting nature and were carried out at normal market conditions in the financial interest of each company involved.

The information required by article 79 of the Regulations for Issuers (information on the equity investments held in Carraro S.p.A. and its subsidiaries, by the 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.

The following administrators of Carraro S.p.A. are considered to be independent:
Prof. Giorgio Brunetti, Director
Sergio Erede, Director
Antonio Cortellazzo, Director
For a complete analysis of the capital and financial figures for the trading period to December 31, 2008, please refer to the explanatory notes to the financial statements.

As regards the issues concerning the protection of privacy, as envisaged in appendix b) to Italian Legislative Decree 196/2003, we inform you that the company updated its *DPS* - Policy Document on Privacy in accordance with the terms of law.

The financial statements have been compiled in consideration of corporate continuity.

Dear Shareholders,
The trading period to December 31, 2008, the financial statements of which we invite you to approve, closed with a profit of 8,587,034.74 euro. We propose that the shareholders resolve to designate the entire amount to an extraordinary reserve.
This proposal has been assessed by the Board of Directors for the purposes of ensuring an adequate level of capital in order to meet the requirements of the period which features uncertainty and provides opportunities for growth.
The Board of Directors moreover will examine the situation and retains the option to propose a subsequent meeting of shareholders, for the distribution of the dividend.

The Chairman
Mario Carraro

# CARRARO S.P.A.

# FINANCIAL STATEMENTS
# at December 31, 2008

**CARRARO SPA**
**VIA OLMO, 37**
**35011 CAMPODARSEGO (PD)**
**SHARE CAPITAL 21,840,000 euro, fully paid-up**
**Tax Code, VAT Registration Number and**
**Padua Companies Register no. 00202040283 – R.E.A. no. 84,033**

**COMPANY STRUCTURE AS AT December 31, 2008**

| | | |
|---|---|---|
| **BOARD OF DIRECTORS:** | **MARIO CARRARO** | Chairman |
| In office until approval of 2008 Financial Statements | **ENRICO CORRARO** | Deputy Chairman |
| (Appointed, General Meeting May 11, 2006 - | **CARLO BORSARI** | Managing Director |
| Powers conferred, Board resolutions May 11, 2006 | **FRANCESCO CARRARO** | Director |
| and Jun.26, 2007) | **TOMASO CARRARO** | Director |
| | **GIORGIO BRUNETTI** (1) | Director |
| | **ANTONIO CORTELLAZZO** (1) (2) | Director |
| | **SERGIO EREDE** (2) | Director |
| | **ONOFRIO TONIN** (1) (2) | Director |

(1) Members of the Internal Auditing Committee
(2) Members of the Remuneration Committee

| | | |
|---|---|---|
| **BOARD OF STATUTORY AUDITORS** | **ROBERTO SACCOMANI** | Chairman |
| In office until approval of 2008 financial statements | **FRANCESCO SECCHIERI** | **Regular** Auditor |
| (Appointed, General Meeting May 11, 2006) | **FEDERICO MEO** | Regular Auditor |
| | **RENZO LOTTO** | Alternate Auditor |
| | **MARINA MANNA** | Alternate Auditor |

**EXTERNAL AUDITORS:** **PricewaterhouseCoopers S.p.A.**
NINE-YEAR PERIOD 2007-2015

**PARENT COMPANY:** **Finaid SpA**

Under the terms and for the purposes of Consob Communication no. 97001574 of Feb. 20, 1997, we state that:

The Chairman, Mr Mario Carraro, the Deputy Chairman, Mr Enrico Carraro, and the Managing Director, Mr Carlo Borsari, have been given severally powers of legal representation and use of the corporate signature in relations with third parties and in legal actions; they carry on their work within the limits of the powers conferred on them by the Board of Directors at the meetings on May 11, 2006 and Jun. 26, 2007, in accordance with the 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 of the principles and limits provided for in the Company's Self-disciplinary Code.

**INCOME STATEMENT AS AT Dec. 31, 2008**

| | Note | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|---|
| **A) REVENUES FROM SALES** | 1 | | |
| 1) Products | | 312,802,143 | 447,289,051 |
| 2) Services | | 7,314,184 | 3,639,184 |
| 3) Other revenue | | 3,367,832 | 5,095,607 |
| TOTAL REVENUE FROM SALES | | 323,484,159 | 456,023,842 |
| *A-bis) of which with related parties* | | *15,896,000* | *10,835,000* |
| **B) OPERATING COSTS** | 2 | | |
| 1) Purchases of goods and materials | | 234,229,709 | 333,640,880 |
| 2) Services | | 43,954,853 | 61,090,780 |
| 3) Leases and rents | | 1,645,346 | 1,654,550 |
| 4) Personnel costs | | 37,133,163 | 50,766,687 |
| 5) Amortisation and depreciation of assets | | 5,392,516 | 8,084,194 |
| *5.a) depreciation of tangible fixed assets* | | *4,221,751* | *6,697,936* |
| *5.b) amortisation of intangible assets* | | *1,170,765* | *1,247,067* |
| *5.c) provision for bad debt* | | - | *139,191* |
| 6) Change in stocks | | -7,532,554 | -13,404,256 |
| 7) Provision for risk and other liabilities | | 5,101,006 | 5,173,209 |
| 8) Other income and expenses | | -2,936,453 | -935,050 |
| 9) Internal construction | | -410,544 | -384,392 |
| TOTAL OPERATING COSTS | | 316,577,042 | 445,686,602 |
| *B-bis) of which with related parties* | | *63,210,000* | *89,916,000* |
| **OPERATING INCOME** | | **6,907,117** | **10,337,240** |
| **C) INCOME FROM FINANCIAL ASSETS** | | | |
| 10) Income from equity interests | | 7,573,400 | 6,400,000 |
| 11) Other financial income | | 626,494 | 1,227,172 |
| 12) Financial income and expenses | | -5,440,209 | -5,875,358 |
| 13) Net foreign exchange income/expenses | | -262,650 | -70,892 |
| TOTAL INCOME FROM FINANCIAL ASSETS | 3 | 2,497,035 | 1,680,922 |
| *C-bis) of which with related parties* | | *4,135,000* | *3,287,000* |
| **INCOME BEFORE TAXES** | | **9,404,152** | **12,018,162** |
| 15) Current and deferred income taxes | 4 | -817,117 | -4,387,158 |
| **NET OPERATING INCOME** | | **8,587,035** | **7,631,004** |
| **NET INCOME** | 6 | **8,587,035** | **7,631,004** |

**BALANCE SHEET AS AT Dec. 31, 2008**

| | | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|---|
| **A) NON-CURRENT ASSETS** | | | |
| 1) Tangible fixed assets | **7** | 27,650,673 | 55,728,970 |
| 2) Intangible assets | **8** | 6,582,127 | 6,088,832 |
| 3) Real estate investments | **9** | 539,703 | 539,703 |
| 4) Shareholdings | **10** | 89,518,066 | 80,333,740 |
| *4.1) Shares in subsidiary, associate and parent companies.* | | *89,518,066* | *80,321,290* |
| *4.2) Equity investments held for sale* | | - | *12,450* |
| 5) Financial assets | **11** | 4,514,364 | 85,841 |
| *5.1) Loans and receivables* | | *4,428,523* | |
| *5.2) Other financial assets* | | *85,841* | *85,841* |
| 6) Deferred tax assets | **12** | 3,131,750 | 7,163,676 |
| 7) Trade receivables and other receivables | **13** | 97,718 | 1,215,418 |
| *7.1) Trade receivables* | | | |
| *7.2) Other receivables* | | *97,718* | *1,215,418* |
| TOTAL NON-CURRENT ASSETS | | 132,034,401 | 151,156,180 |
| | | | |
| **B) CURRENT ASSETS** | | | |
| 1) Closing inventory | **14** | 21,577,106 | 76,441,355 |
| 2) Trade receivables and other receivables | **13** | 46,015,045 | 78,531,510 |
| *2.1) Trade receivables* | | *30,630,710* | *61,483,892* |
| *2.2) Other receivables* | | *15,384,335* | *17,047,618* |
| *2-bis) of which with related parties* | | *23,801,046* | *19,488,623* |
| 3) Financial assets | **11** | 229,666 | 2,116,187 |
| *3.1) Loans and receivables* | | *229,666* | *1,684,100* |
| *3.2) Other financial assets* | | - | *198,902* |
| *3.3) Financial accruals and deferrals* | | - | *233,185* |
| *3-bis) of which with related parties* | | *194,666* | *1,684,100* |
| 4) Cash and cash equivalents | **15** | 1,292,555 | 6,020,317 |
| *4.1) Cash* | | *36,116* | *92,317* |
| *4.2) Bank current accounts and deposits* | | *1,256,439* | *5,928,000* |
| *4.3) Other cash and cash equivalents* | | | |
| TOTAL CURRENT ASSETS | | 69,114,372 | 163,109,369 |
| | | | |
| **TOTAL ASSETS** | | **201,148,773** | **314,265,549** |

## BALANCE SHEET AS AT Dec. 31, 2008

| | NOTES | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|---|
| **A) SHAREHOLDERS' EQUITY** | **16** | | |
| 1) Share Capital | | 21,840,000 | 21,840,000 |
| 2) Other Reserves | | 30,257,958 | 31,082,925 |
| 3) Profits/(Losses) brought forward | | | |
| 4) IAS/IFRS first adoption reserve | | 23,793,040 | 23,793,040 |
| 5) Other IAS/IFRS reserves | | | 144,204 |
| 6) Result for the period | | 8,587,035 | 7,631,004 |
| TOTAL SHAREHOLDERS' EQUITY | | 84,478,033 | 84,491,173 |
| | | | |
| **B) NON-CURRENT LIABILITIES** | | | |
| 1) Financial liabilities | **17** | 1,519,350 | 2,093,879 |
| *1.1) Bonds* | | | |
| *1.2) Loans* | | *1,519,350* | *2,093,879* |
| 4) Provision for severance indemnity and retirement benefits | **20** | 2,674,804 | 11,473,230 |
| | | | *11,473,23* |
| *4.1) Provision for severance indemnity* | | *2,674,804* | *0* |
| *4.2) Provision for retirement benefits* | | | |
| 5) Provision for liabilities and charges | **21** | 1,428,680 | 1,049,000 |
| *5.1) Provision for warranties* | | *399,000* | *949,000* |
| *5.2) Provision for legal claims* | | *81,596* | *100,000* |
| *5.3) Provision for restructuring and reconversion* | | | |
| *5.4) Other provisions* | | 948,084 | |
| TOTAL NON-CURRENT LIABILITIES | | 5,622,834 | 14,616,109 |
| | | | |
| **C) CURRENT LIABILITIES** | | | |
| 1) Financial liabilities | **17** | 55,984,345 | 53,062,752 |
| *1.1) Bonds (short-term)* | | | |
| | | *55,972,17* | *53,014,51* |
| *1.2) Amounts payable through financing* | | *6* | *9* |
| *1.3) Accrued income and deferred charges* | | *12,169* | *37,627* |
| *1.4) Other* | | | *10,606* |
| *1-bis) of which with related parties* | | *50,226,569* | *47,044,271* |
| 2) Trade payables and other payables | **18** | 51,822,725 | 155,975,204 |
| | | *45,379,70* | *139,749,8* |
| *2.1) Trade payables* | | *5* | *54* |
| | | | *16,225,35* |
| *2.2) Other payables* | | *6,443,020* | *0* |
| *2-bis) of which with related parties* | | *13,741,110* | *23,032,541* |
| 3) Current taxes payable | **19** | 851,026 | 518,554 |
| 4) Provision for risk and contingencies (short-term amounts) | **21** | 2,389,810 | 5,601,757 |
| *4.1) Provision for warranties* | | *2,389,810* | *5,601,757* |
| TOTAL CURRENT LIABILITIES | | 111,047,906 | 215,158,267 |
| TOTAL LIABILITIES | | 116,670,740 | 229,774,376 |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **201,148,773** | **314,265,549** |

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

| | Share capital | Other reserves: of capital | profits | Profits/ (Losses) brought forward | IAS/IFRS 1st adoption reserve | Cash flow hedge reserve | Profit (loss) for the period | Total |
|---|---|---|---|---|---|---|---|---|
| Balance as at Jan. 01, 2007 | 21,840,000 | 17,833,456 | 10,028,686 | - | 23,793,040 | 202,135 | 8,470,783 | 82,168,100 |
| Allocation of 2006 income: | | | | | | | | |
| - to dividends | - | - | - | - | - | - | (5,250,000) | (5,250,000) |
| - to the legal reserve | - | - | | | | | | - |
| - for extraordinary provision | - | - | 3,220,783 | - | | | (3,220,783) | - |
| - to retained earnings | - | - | | | | | | - |
| Profits/(losses) recorded at 2007 | - | - | - | - | - | - | - | - |
| - posted in net equity | - | - | - | - | - | (57,931) | | (57,931) |
| - posted in Income Statement | - | - | - | - | - | - | 7,631,004 | 7,631,004 |
| Balance as at Jan. 01, 2008 | 21,840,000 | 17,833,456 | 13,249,469 | - | 23,793,040 | 144,204 | 7,631,004 | 84,491,173 |
| Allocation of 2007 income: | | | | | | | | |
| - to dividends | | | | | | | (6,930,000) | (6,930,000) |
| - to the legal reserve | | (1,525,969) | | | | | | (1,525,696) |
| - for extraordinary provision | | | 701,003 | | | | (701,003) | - |
| - to retained earnings | | | | | | | | |
| Profits/(losses) recorded at 2008: | | | | | | | | |
| - posted in Net Equity | | | | | | (144,204) | | (144,204) |
| - posted in Income Statement | | | | | | | 8,587,035 | 8,587,035 |
| Balance as at Dec. 31, 2008 | 21,840,000 | 16,307,487 | 13,950,472 | | 23,793,040 | 0 | 8,587,035 | 84,478,033 |

| **Cash Flow Statement** *(FIGURES IN THOUSANDS OF EURO)* | **Dec. 31, 2008** | **Dec. 31, 2007** |
|---|---|---|
| Profit/(loss) for the year | 8,587 | 7,631 |
| Tax for the year | 817 | 4,387 |
| **Income before tax** | **9,404** | **12,018** |
| Depreciation of tangible fixed assets | 4,222 | 6,698 |
| Amortisation of intangible assets | 1,171 | 1,247 |
| Provision for risk | 5,101 | 5,173 |
| Provision for employee benefits | 1,939 | 2,395 |
| Net financial income/expenses | 4,813 | 4,648 |
| Net foreign exchange income/expenses | 263 | 71 |
| Income from equity interests | -7,573 | -6,400 |
| **Operating cash flow before changes in working capital** | **19,340** | **25,850** |
| Change in stocks | 54,864 | -13,621 |
| Changes in trade and other receivables | 33,633 | 22,036 |
| *of which changes in trade and other receivables with related parties* | *-4,312* | *4,455* |
| Changes in trade and other payables | -104,154 | 12,701 |
| *of which changes in trade and other payables with related parties* | *-9.291* | *5,454* |
| Changes in receivables/payables for deferred taxation | 6.343 | 46 |
| Changes in provision for employee benefits | -10,737 | -3,430 |
| Changes in provision for risk | -7,933 | -4,260 |
| Dividends received | 7,573 | 6,400 |
| Interest received | 859 | 1,091 |
| Interest paid | -5,465 | -5,945 |
| Payment of net charges from tax consolidation | -1,640 | -2,691 |
| Tax payments | -1,156 | -2,490 |
| **Operational cash flow** | **-8,473** | **35,595** |
| Investments in / disposals of tangible fixed assets and property investments | 23.856 | -5,621 |
| Investments in / disposals of intangible fixed assets | -1.664 | -2,613 |
| Equity investments/divestments | -9.184 | -314 |
| **Cash flow from nvestments / divestments** | **13.008** | **-8,548** |
| Changes in current financial assets | 1,390 | 4,162 |
| Changes in non-current financial assets | -4.429 | 40 |
| Changes in current financial liabilities | 2,958 | -21,638 |
| Changes in non-current financial liabilities | -575 | -666 |
| Changes in reserves | -1,666 | -60 |
| Dividends paid | -6,930 | -5,250 |
| **Cash flow from financial assets** | **-9,252** | **-23,412** |
| **Total cash flow for the period** | **-4.728** | **3,635** |
| **Opening cash and cash equivalents** | **6,020** | **2,385** |
| **Closing cash and cash equivalents** | **1,292** | **6,020** |

## EXPLANATORY AND SUPPLEMENTARY NOTES TO THE ACCOUNTS FOR THE YEAR ENDED DEC. 31, 2008

### 1. Introduction

Carraro S.p.A. is a joint-stock company registed in Italy at the Padua Companies Register.

These financial statements are presented in euro, as this is the currency in which most of the group's operations are conducted.
Amounts are rounded to the nearest whole euro.

Carraro S.p.A. is primarily engaged in the manufacture and marketing of transmission systems developed for agricultural tractors, construction equipment, material moving machinery, light commercial vehicles and automobiles.

Authorisation for the publication of these financial statements was issued by the Board of Directors on Mar. 20, 2009.

On Jul. 1, 2008 the Carraro Group put in place a process of corporate reorganization, with which it introduced a new model of management and governance which involved the separation of the four Business Units into Drivelines (under the control of Carraro Drive Tech S.p.A.), Gears & Components (under the control of Gear World S.p.A.), Vehicles (Agritalia Division) and Power Controls (under the control of Elettronica Santerno S.p.A.), each of which is controlled directly or indirectly by Carraro S.p.A., in its capacity as Parent Company. This decision was taken in order to better distinguish between the strategic control activities, for which Carraro S.p.A. is responsible, and the work of managing the individual Business Units, with consequent greater focus and efficiency for each area.
On Jul. 1, 2008, therefore, Carraro S.p.A. conferred on the newly-established company Carraro Drive Tech S.p.A. the company division consisting of all the tangible and intangible assets relating to the industrial activities of the factories of Campodarsego, Gorizia and, for replacement parts, Rovigo, including the equity interests held in the companies active in the Business Unit Drivelines A.E. S.r.l. and Carraro Argentina S.A. and with conferment by Carraro International S.A. of the equity interests held in the companies involved in the Business Unit: Drivelines, Fon S.A., Carraro Qingdao Drive, Carraro Qingdao Trading, and Carraro China Drive. Carraro S.p.A. has maintained its strategic control function, coordinating the individual business units of the Carraro Group, managing the finances and risks of the individual Carraro Group companies and the planning and production of the agricultural machines of the complex of companies known as "Divisione Agritalia" (Agritalia Division).
We therefore wish to inform you that a comparison of the financial balances with the previous trading period may not be significant. In 2007, the company continued manufacturing operations for the Drivelines Business Unit for 12 months, while for 2008 these were carried out only for six months, as, in the second half of the period, the company carried out operations relative to the Vehicles Business Unit and managed the holding company services.

### Reporting criteria and accounting principles

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and ratified by the European Union. These financial statements also conform to the directives issued enacting article 9 of Italian Legislative Decree no. 38/2005. The term, IFRS shall also refer to the revised International Accounting Standards (IAS) and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC) formerly known as the Standard Interpretation Committee (SIC).

No amendments have been applied to accounting standards in comparison with the previous year and the financial statement values are to be considered comparable between the two years, apart from the extraordinary conferment operation described above.

The financial statements have been prepared on the basis of the historical cost principle, except for derivative financial instruments, which are booked at their fair value, as well as in consideration of the company's continuity.

**2. Form and content of the financial statements**

## 2.1 Form of accounting schedules

With regard to the form of accounting schedules, the Company opted to disclose the following accounting forms:

*Balance sheet*

The balance sheet is presented with separate disclosure of Assets, Liabilities and Shareholders' Equity.
Assets and Liabilities are illustrated in the financial statements according to their classification as current and non-current.

*Income statement*

Items on the income statement are classified by nature.

*Cash Flow Statement*

The cash flow statement illustrates (according to the so-called "indirect format") changes in cash and cash equivalents (as per the balance sheet format) divided by operating area in accordance with international accounting standards.

*Statement of changes in shareholders' equity*

The changes in shareholders' equity are presented, as required by international accounting standards, with evidence of the result for the period and all operating income and expenditure separate from other items not recorded in the income statement, but charged directly to consolidated shareholders' equity in accordance with specific IAS/IFRS standards.

*Related parties*

As required by Consob in Communication No. DEM 6064293 of Jul. 28, 2006, in addition to the provisions of international accounting standards regarding "Related Party Disclosures" (IAS 24), the financial statements also disclose information on the effect of the transactions or positions with related parties.
Detailed information on related parties and dealings with them are therefore contained in a table summarising such effects (see note 10).

*Significant non-recurring transactions and atypical and/or unusual transactions*

As required by Consob Communication no. DEM/6064293 dated Jul. 28, 2006 the Company analysed any significant non-recurring, atypical and/or unusual transactions. These transactions were found to be insignificant and therefore it was not necessary to include them in appropriate sub-items of the financial statements.

**2.2 Accounting standards and measurement criteria**

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

**Tangible fixed assets**

***Property, plant and equipment***

Property, plant and equipment are stated at historic cost, less the related accumulated depreciation and cumulative losses in value. This cost includes the costs for replacing equipment parts and plant at the time they were incurred where compliant with the reporting standards.
Depreciation is calculated on a straight-line basis with reference to the estimated useful life of the assets.
The book value of plant and equipment is subject to assessment so as to detect any losses in value when events or changes dictate that the book value might not be recoverable.

Tangible assets are eliminated from the financial statements at the time of sale or once future economic

benefits expected from their use or disposal no longer apply. Any losses or gains (calculated as the difference between the net income on the sale and the book value) are included in the income statement during the year of the aforementioned elimination.
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.

The depreciation is calculated, on a straight-line basis, on the cost of the asset net of the related residual value, in relation to their estimated useful life applying the following rates to newly-acquired assets:

| | **% YEAR 2007** | **% YEAR 2008** |
|---|---|---|
| INDUSTRIAL LAND | 0 | 0 |
| INDUSTRIAL BUILDINGS | 2 - 5 | 2 - 5 |
| | | |
| PLANT | 4 - 5 | 4 - 5 |
| EQUIPMENT | 5.56 - 6.67 | 5.56 - 6.67 |
| | | |
| EQUIPMENT | 6.67 - 25 | 6.67 - 25 |
| DIES AND MODELS | 12.50 | 12.50 |
| | | |
| FURNITURE AND FURNISHINGS | 6.67 | 6.67 |
| OFFICE EQUIPMENT | 12.50 - 20 | 12.50 - 20 |
| VEHICLES | 6.67 - 12.50 | 6.67 - 12.50 |

Assets held in relation to financial lease agreements are depreciated on the basis of the estimated useful life, in a way consistent with owned assets.

***Real estate investments***

Real estate investments are stated at historic cost, less the related accumulated depreciation and cumulative losses in value.

**Intangible fixed assets**

Intangible assets are shown in the accounts only if they can be identified, checked and it is expected that they will generate future economic benefits and their cost can be reliably determined.
Intangible fixed assets, having a specific duration, are stated at purchase or production cost net of amortisation and accumulated losses in value.
Amortisation is driven by the period of the anticipated useful life and starts when the asset is available for use.

*Goodwill*

Goodwill represents the surplus of the purchase cost over the purchaser's stakeholding at fair value referred to the net identifiable asset or liability values of the entity acquired.
After the initial recognition, the goodwill is stated at a cost, less any cumulative losses in value.
Goodwill is subject to an annual impairment test, to identify any permanent decrease in its value. It is not possible to reinstate any previous write-down allocated to the goodwill. 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.

*Research and development costs*

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 of the following conditions are fulfilled:
- the asset can be identified;
- it is probable that the asset created will generate future financial benefits;
- the costs of the development of the asset can be reliably measured.

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

*Trademarks and licences*
Trademarks and licences are stated at cost, net of amortisation and accumulated losses in value. The cost is amortised over the shorter of the duration of the contract and the defined useful life.

*Software*
The cost of software licences, inclusive of related charges, are capitalised and recorded in the financial statements net of amortisation and any accumulated losses in value. Software licences have an estimated useful life of 5 years.

**Decreases in value (Impairment)**
Where there are specific signs of decreases in value, tangible and intangible fixed assets are subject to an impairment test, estimating the recoverable value of the asset and comparing it with the relative net book value. The recoverable value is the greater of the fair value of an asset net of sales costs and its value in use, which is determined as the current 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 this asset does not generate financial flows that are fully independent from those generated by other assets.
If the recoverable value is lower than the book value, it is consequently reduced. This reduction represents a decrease in value, which is charged to the income statement.
If there is no longer any reason for a write-down previously booked to be maintained, the book value is reinstated to the new value deriving from the estimate, with the restriction that this value does not exceed the net book value the asset would have had, if no write-down had ever been made. The write-back value is also recorded in the income statement.
The impairment test is carried out annually in the event of intangible fixed assets having an unspecified useful life and intangible assets being in progress.

**Equity investments in subsidiaries and associated companies**
A subsidiary company is an entity in which the Company, directly or indirectly via its own subsidiaries, holds more than half of the voting rights, unless in exceptional cases where it can be clearly demonstrated that this ownership does not constitute control. Control is presumed when the company has half, or even less than half, of the votes that can be exercised at meetings of shareholders, if it has power over the following:
(a) more than half of the voting rights under an agreement with other investors;
(b) determining the financial and operating policies of the other entity under a clause of the articles of association or an agreement;
(c) appointing or removing the majority of the members of the Board of Directors or the equivalent corporate governance body, and control of the entity is held by that Board or body;
(d) casting the majority of votes at a meeting of the Board of Directors or the equivalent corporate governance body, and control of the entity is held by that Board or body.

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

In accordance with the provisions of IAS 27.37, for the purpose of separate accounting, the investment in subsidiaries or associated companies should be valued using the reduced cost method where there are decreases in value.

**Equity investments in other companies and other securities**
In accordance with the issues envisaged by standards IAS 39 and 32, equity investments in companies other than subsidiary and associated companies are classified as financial assets available for sale and are valued at fair value except in cases where it is not possible to determine the market price or the fair value. In such cases the cost method is adopted.
Gains and losses deriving from the value adjustments are classified in a specific shareholders' equity reserve.
In the presence of permanent losses in value or in the event of a sale, the gains and losses recorded up until

that moment under shareholders' equity are recorded in the income statement.

## Financial assets

IAS 39 defines the following types of financial instrument: financial assets at fair value with charges booked to the income statement, loans and receivables, investments held until maturity and assets available for sale. Initially, all the financial assets are recorded at fair value, increased by any related charges in the event of assets other than those at fair value in the income statement. The Company establishes the classification of its financial assets after the initial registration and, where appropriate and permitted, revises the classification at the end of each accounting period.
All standardised purchases and sales (regular way) of financial assets are recorded at the date of the transaction, or the date on which the Company undertakes to acquire the asset. By standardised purchases and sales, we mean all the 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 it is traded.

*Financial assets at fair value with changes booked to the income statement*

This category includes the financial assets held for dealing purposes, or all the assets acquired for the purpose of sale over the short term. The derivatives are classified as financial instruments held for dealing purposes unless they are designated as effective hedging instruments. Gains or losses on assets held for dealing purposes are recorded in the income statement.

*Investments held to maturity*

Financial assets that are not derivative instruments and are characterised by payment or fixed or determinable maturities are classified as "investments held to maturity", when the Company has the intention and the ability to maintain them in the portfolio until maturity. The financial assets that the Company 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 valued using the amortised cost method. This cost is calculated as the value initially recorded, less the repayment of the capital instruments, plus or less the amortisation accumulated using the effective interest rate method of any difference between the value initially recorded and the amount on maturity. This calculation includes the commission or points paid between the parties, which form an integral part of the effective interest rate, the transaction costs and other premiums or discounts. Gains and losses concerning investments valued at amortised cost are recorded on the income statement at the same time the investment is eliminated from the books or on in the event of a decrease in value, 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 listed on an active market. These assets are stated on the basis of amortised cost using the effective discount rate. The gains and losses are recorded in the income statement when the loans and receivables are eliminated from the books or on seeing losses of value, as well as by means of the amortisation process.

*Financial assets available for sale*

Financial assets available for sale are those financial assets, excluding derivative instruments, which are designated as such or are not classified in any of the other three previous categories. After the initial statement at cost, the financial assets held for sale are valued at fair value and the gains and losses are recorded in a separate shareholders' equity item until the assets have been eliminated from the books or until it is assessed they have undergone a loss in value. The gains and losses accumulated up to that moment under the shareholders' equity are then charged to the income statement.
In the case of securities widely traded on organised markets, the fair value is determined by making reference to the stock market listing struck at the end of trading as of the year end date. In relation to investments not having an active market, the fair value is determined by means of valuation techniques based on prices of recent transactions between independent parties, the current market value of an essentially similar instrument, the analysis of the discounted back financial flows and pricing models of the options.

***Stocks***

Stocks are valued 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.

***Trade receivables and other receivables***

Trade and other receivables are stated at estimated realisable value, with the exception of those falling due greater than 12 months following the date of the financial statements, which are classified in non-current assets. These assets are valued at a cost depreciated using the effective interest rate method.

Receivables having maturities greater than one year, are unrecoverable or that earn less interest than the market, are discounted using market rates. Trade receivables are discounted where they have greater repayment terms than the average granted extension term.

If there is objective evidence of elements that indicate reductions of value, the asset is reduced by an amount that returns the discounted value of flows of cash obtainable in the future. The losses of value are entered in the income statement. Where reasons for previous write-downs are not maintained in subsequent trading periods, the value of the asset is reinstated until it corresponds to the value that would have been derived from the 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 stated at the cost represented by the fair value of the balance received net of the related loan acquisition costs. After the initial statement, the loans are stated on the basis of 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 premiums expected at the time of settlement.

***Derecognising 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 cancelled from the financial statements when:

- the right to receive the financial flows from the assets has been discharged;
- the Company maintains the right to receive financial flows from the asset, but has undertaken the contractual commitment to pay them in full and without delay to a third party;
- the Company has transferred the rights to receive financial flows from the assets and (a) has essentially transferred all the risks and benefits of the ownership of the financial assets or (b) has not transferred or essentially withheld all the risks and benefits of the assets, but has transferred control of the same.

In the cases where the Company has transferred the rights to receive financial 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 Company's financial statements in the measure of its residual involvement in this asset. The residual involvement, which takes the form of a guarantee on the asset transferred, is valued at the lower of the initial book value of the asset and the maximum amount which the Company could be obliged to pay over.

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

*Financial liabilities*

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

In the cases where existing financial liability is replaced by another by the same lender, under essentially different conditions, or the conditions of an existing liability are essentially changed, this change or amendment is treated as a cancellation from the books of the original liability and the recording of a new liability. Any differences between the book values are booked to the income statement.

***Losses in value on financial assets***

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

*Assets valued on the basis of amortised cost*

If there is objective evidence that a loan or receivable recorded at amortised cost has suffered a loss in value, the amount of the loss is gauged as the difference between the book value of the asset and the current value of the estimated future financial flows (excluding future receivable losses not yet incurred) discounted to the original effective interest rate of the financial asset (or rather the effective interest rate calculated at the initial registration date). The book value of the asset is reduced both directly and via the use of a provision. The amount of the loss will be booked to the income statement.

The Company firstly assesses the existence of objective evidence of a loss in value at an individual level, for the financial assets which are individually significant, and therefore at an individual or a collective level for the financial assets which are not. In the absence of objective evidence of a loss in value for financial assets valued individually, whether it is significant or otherwise, this asset is included with the group of financial assets with similar credit risk features and this group is subject to assessment for value loss in a collective manner. The assets valued at individual level, for which a loss in value is seen or continues to be seen, will not be included in collective valuation.

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

*Assets stated at cost*

If objective evidence exists of the loss in value of an unlisted instrument representative of capital which is not recorded at fair value because its fair value cannot be measured reliably, or of a derivative instrument which is linked to this participative instrument and must be settled by means of the consignment of this instrument, the amount of the loss due to reduction in value is given as the difference between the book value of the asset and the current value of expected future financial flows and discounted at the current market rate for a similar financial asset.

*Financial assets available for sale*

In the event of the loss in value of a financial asset available for sale, a value equal to the difference between its cost (net of the repayment of the capital and the amortisation) and its current fair value, net of any losses in value previously recorded in the income statement, is transferred from shareholders' equity to the income statement. The write-back values relating to instruments participating in capital classified as available for sale, are not recorded in the income statement. Write-back values relating to debt instruments are recorded 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 booked to the income statement.

**Allowances and provisions**

***Provision for risk and charges***

Provision for risk and charges are made when the Company must meet a current obligation (legal or implicit) 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 extent. When the Company considers that a provision for risk and charges will be partly or fully reimbursed, for example in the case of risks covered by insurance policies, the indemnity is recorded 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 recorded for the indemnity, is presented in the income statement. If the effect of discounting back the value of the money is significant, the provisions are discounted back using the pre-tax discount rate which reflects, where appropriate, the specific risks of the liabilities. When the discounting back is carried out, the increase of the provision due to the passage of time is recorded 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 (in particular, Employee Severance Indemnity) are subjected to actuarial valuation 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 recorded in the financial statement emerges as being representative of the current value of the obligation, net of any assets serving the plans, adjusted for any actuarial losses or gains not recorded in the accounts.
The actuarial losses and gains are recorded directly in the income statement, without taking advantage of the corridor approach.

**Revenue recognition**
Sales of goods are recorded when the goods are shipped and the company has transferred the significant benefits and risks associated with the ownership of the goods to the purchaser.
Revenues for services are stated with reference to the stage of completion.
Interest income is recorded on an accrual basis, with reference to 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 book value of this asset.
Revenue from dividends are recorded when the right to collection arises, which normally corresponds to the resolution of the shareholders' meeting approving the distribution of the dividends. The dividends distributed are recognised as payable at the time of the distribution resolution.

**Public grants**
Public grants are recorded 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 revenue, but they are systematically spread over the accounting periods so that they are commensurate with the costs they intend to offset. In the event that the grant is linked to an asset, the fair value is suspended from the 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.

**Financial charges**
Financial charges are recorded in the income statement with "effective interest" (in compliance with the accruals principle).

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

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

***Deferred tax liabilities***
Deferred taxes are determined on the basis of the taxable timing differences existing between the book value 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 in the extent future tax burdens will probably exist, against which this asset balance can be used.
The value of the deferred tax assets which can be recorded in the financial statement is subject to an annual assessment and is written down to the extent that it is no longer probable that sufficient income for tax purposes will be available in the future so as to permit all part of this credit to be used. Unrecognised deferred tax assets are reviewed annually at the balance sheet date and are recorded to the extent that it has become probable that income for tax purposes is sufficient for permitting these deferred tax assets to be recovered.
Deferred tax assets and liabilities are determined with reference to 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 about

whom a subsequent issue is known.
Income taxes relating to items recorded directly under shareholders' equity are charged directly against shareholders' equity and not to the income statement.

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

### *Value-added tax*

Revenue, costs and assets are stated net of value-added tax, except in the following cases:

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

**Earnings per share**

The *basic earning per share* is calculated by dividing the net income for the period attributable to the shareholders holding ordinary shares of the Company by the weighted average number of ordinary shares in circulation during the period.
The *diluted earning per share* is obtained by means of the adjustment of the weighted average of the shares in circulation, so as to take into account all the potential ordinary shares with diluting effects.

**Translation of foreign currency balances**

*Reporting currency*

The Company's reporting currency is the euro 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 recorded using the exchange rates prevailing at the transaction date.
At the year end 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 valued at historic cost are translated using the exchange rate in force at the date of the transaction.
Non-monetary items stated at fair value are translated using the exchange rate in force at the date of the 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 S.p.A. In particular, it aims to minimize interest rate and exchange rate risk and optimize 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:

**A) *Exchange-rate risks*:**

**1) Hedging all commercial and financial transactions against the risk of fluctuation;**

2) Applying the “currency balancing” method to 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;
3) Not permitting the use and ownership of derivatives or similar instruments for mere trading purposes;
4) Only permitting the use of instruments traded on regulated markets for hedging transactions.

B) *Interest-rate risks*:
1) Hedging financial assets and liabilities against the risk of changes in interest rates;

**2) Hedging against risk in compliance with the general criteria for balancing**

**lending and borrowing rates set at the Group level by the Board of Directors of Carraro S.p.A. at the meeting for the approval of long-term plans and budgets (fixed and floating interest rates, short-term and medium/long-term);**

3) Only permitting the use of instruments traded on regulated markets for hedging transactions.

## *Derivative financial instruments and hedging transactions*

The Company uses derivative financial instruments such as forward currency agreements and swaps on interest rates to hedge the risks deriving mainly from fluctuations in interest and exchange rates. These derivative financial instruments are initially stated at their value at the date they were entered into; this fair value is periodically reviewed. They are recorded as assets when the fair value is positive and as liabilities when it is negative.

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

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

For hedge accounting purposes, the 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 financial flows deriving from existing assets and liabilities or from future transactions;
- hedges of a net investment in a foreign entity (net investment hedge).

A hedging transaction covering the exchange-rate risk relating to an irrevocable commitment is recorded as a hedge of financial flows.

When implementing a hedging transaction, the Company formally fixes and documents the hedging relationship to which it is intended to apply the hedge accounting, its objectives when handling the risk and the strategy pursued. The documentation identifies the hedging instrument, the element or the 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 hedging by compensating the exposure to the changes in the fair value of the element hedged or the financial flows attributable to the hedged risk.

These hedges are expected to be highly effective in compensating the exposure of the element hedged to changes in the fair value or of the financial 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 period in which they were designated.

The transactions which satisfy the criteria for hedge accounting are stated as follows:

*Fair value hedges*

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

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

The amortisation can start just as soon as an adjustment exists but not beyond 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 unrecorded irrevocable commitment is designated as an element subject to hedge, and subsequent cumulative changes in its fair value attributable to the hedged risk are recorded as assets or liabilities and the corresponding gains and losses are booked to the income statement. The changes in the fair value of a hedging instrument are also booked to the income statement.

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

*Cash flow hedges*
Cash flow hedges are transactions hedging the risk of fluctuations in financial flows attributable to a specific risk, associated with a recorded asset or a liability or with a highly probable future transaction which could influence the financial outcome. The gains or losses deriving from the hedging instrument are booked to shareholders' equity for the efficient part, while the remaining part (not efficient) is booked to the income statement.
The gain or loss booked to the 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 recorded or when an anticipated sale or purchase takes place). When the element being hedged is the cost of a non-financial asset or a liability, the amounts booked to the shareholders' equity are transferred to the initial book value of the asset or liability.
If the transaction is expected not to take place, the amount initially booked to the 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 charged to the shareholders' equity remain recorded therein until the expected transaction takes place. If it is believed that this will no longer take place, the amounts are transferred to the income statement.

*Hedging of a net investment in a foreign body*
Hedges of a net investment in a foreign body, including hedges of a monetary item recorded as part of a net investment, are recorded on a similar basis to the hedges of financial flows. The gains or losses deriving from the hedging instrument are booked directly to shareholders' equity for the efficient part, while the remaining part (not efficient) is booked to the income statement. On disposal of the foreign assets, the cumulative value of these gains 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 tools. The concentration of the risk is associated with the size of these customers, which on a global context is, on average, high, yet balanced by the fact that the credit exposure is distributed across a complex network of counterparties who are active in diverse geographical areas.
The management of credit is designed to prioritise the acquisition of customers of national and international standing for superannual supplies. 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 the customer.
Except in cases controlled or prompted by special circumstances surrounding country or counterparty risk, guarantees are not normally obtained on the credit.
Credit is recorded on the financial statements net of any write-downs determined by assessing the counterparty's risk of insolvency based on the information available.

**Liquidity risk**

The Company's liquidity risk is mainly linked to the activation and maintenance of sufficient funding to support the industrial activity.
The raising of funds, consistent with the short and medium-term development plans, is intended to finance both the working capital, with particular regard to the supplies held in store which supply the manufacturing process, and investments in fixed assets necessary to ensure sufficient production capacity in support of growth. This requirement is in direct proportion to the dynamic of customer orders and consequent increase in volumes of activity.

The Company's funding strategy is normally designed to increase medium-term provision, including for the benefit of the working capital requirements, thereby reducing the short-term debt.
The provision is achieved by drawing on bank loans of a term consistent with the company's liquidity cycle. The cycle of payments and receipts reflects an average term for trade payables of around 120 days and an average term for receivables of around 60 days.

The cash flows envisaged for the 2009 trading period reflect not only the aforementioned working capital dynamic, but also the effects of the maturity of the current liabilities and current portions of the non-current liabilities, and the effects (assuming the same rates of exchange with respect to Dec. 31, 2007) of the close of the derivative financial instruments on currencies in existence at the date of the financial statements. These effects (values and maturities) are set out more clearly in the schedules for the items in question.

The Company's expansion activities through acquisitions of new entities are carried out using funding from *ad hoc* loans or direct via market provision (e.g. bond loans).
The management of the liquidity, funding requirements and cash flows are under the direct control and management of the Group Treasury who operates with the aim of managing the resources available as efficiently as possible.

**Exchange-rate risk and interest rate risk**

The Group is exposed to exchange risks by virtue of the fact that a significant portion of sales and part of the acquisitions are conducted in currencies other than the group's reporting currency, with trade transactions carried out by companies in the euro area with counterparties that do not belong to the euro area and *vice versa*.
Another aspect of the exchange rate risk is the fact that several Group companies present their financial statements in currencies other than the Group's reporting currency.
Exposure to the 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 the financial liabilities assumed to fund either normal operations or, as applicable, the Group's expansion by acquisitions. Changes in interest rates can have a positive or negative effect on both the financial outcome and on cash flows.
The control and management of interest rate risks carried out by the Group Treasury also conform to the guidelines laid down by the aforementioned company policy. The strategy adopted pursues the basic objective of achieving a balance between floating-rate and fixed-rate debt; the rate risk on the floating portion is therefore reduced via specific hedging operations.

**Transactions with related parties**

In accordance with the Consob recommendations of Feb. 20, 1997 (DAC/97001574) and Feb. 27, 1998 (DAC/98015375) and DEM of Jul. 28, 2006 we can confirm that:

a) transactions with related parties which have taken place during the period, have given rise to trade, financial or consultancy-related dealings, under market conditions, in the financial interest of the individual companies involved in the transactions;
b) no atypical or unusual transactions have been performed with respect to normal business operations and the interest rates and terms applied (lending and borrowing) to financial transactions between the various companies are in line with market conditions.

**Accounting standards and evaluation criteria**

The evaluation criteria and accounting standards are in line with those adopted for the preparation of the annual financial statements at Dec. 31, 2007, with the exception of the adoption of the following IFRS, both new and amended, and the following new or amended IFRIC interpretations. The implementation of these amended standards and interpretations did not have any effect on the Financial Statements. They have however, given rise, where applicable, to the following additional information:

***Interpretations and amendments to accounting standards applicable from Jan. 1, 2008, not having significance for the company:***

**IFRIC 11 -** Group Treasury shares transactions

**IFRIC 12 -** Service concession arrangements (to be applied from Jan. 1, 2008)

**IFRIC 14 -** Defined benefit assets and minimum hedging criteria (to be applied from Jan. 1, 2008)

**AMENDMENT TO IAS 39 AND IFRS 7 -** Financial instruments: Recognition and measurement and financial instruments: additional disclosures. This amendment allows for the reclassification, in specific circumstances, of certain financial assets other than derivatives, from the accounting category to be valued at fair value in the income statement. The amendment also provides for the possibility of transferring loans and credits from the accounting category "available for sale" to the category "held until maturity" in the event the company has the intention and capacity of holding such instruments for a specific future period. The amendment would have been applicable from Jul. 1, 2008, however its adoption had no effect on the financial statements, as the company put none of the reclassifications permitted by it into effect.

***Accounting standards, amendments and interpretations not yet applicable and not adopted in advance by the company***

On Mar. 29, 2007, IASB issued a new revised version of IAS 23 - Borrowing Costs, which must be applied from Jan. 1, 2009. In the new version of the standard the option was removed for the possible immediate indication of borrowing costs servicing assets for which typically there was a specific period of time during which to make the asset ready for use or for sale.

On Sep. 6, 2007 the IASB issued a new revised version of IAS 1 - Presentation of financial statements, which must be applied from Jan. 1, 2009. The new version of the standard requires that all variations generated by transactions with shareholders are presented in a statement of changes in shareholders' equity. All transactions generated with third parties must instead be presented in a single statement of comprehensive income or in two separate statements (income statement and statement of comprehensive income). The variations generated by transactions with third parties must in each case be presented in the statement of changes in shareholders' equity. The adoption of this principle will not have any effect on the valuation of the financial statement items.

On Jan. 17, 2008 the IASB issued an amendment to IFRS 2 - Vesting conditions and cancellations, according to which, for the purposes of the valuation of remuneration instruments based on shares, only service and performance conditions can be considered as conditions for vesting such plans. The amendment, which comes into effect from Jan. 1, 2009, is not considered applicable to the Company.

On May 22, 2008 the IASB issued an amendment to IAS 1 - Presentation of financial statements (revised 2007): the amendment, which must be applied from Jan. 1, 2009, requires that assets and liabilities deriving from derivative financial instruments not held for the purposes of trading are classified on the balance sheet with a distinction between current and non-current assets and liabilities. The adoption of this amendment will not have any effect on the valuation of balance sheet items.

On May 22, 2008 the IASB issued an amendment to IAS 23 - Borrowing costs: the amendment, which must be applied from Jan. 1, 2009, revised the definition of borrowing costs.

On May 22, 2008 the IASB issued an amendment to IAS 36 - Impairment of assets: the amendment, which must be applied from Jan. 1, 2009 prescribes that additional information is provided when the company determines the recoverable value of the asset by using the discounted cash flow method.

Improvement to IAS 16 - Property, plant and equipment: the amendment sets out that companies whose key business is renting must re-classify as stock assets that cease to be leased and are destined for sale and, consequently, the payments from their transfer must be recognized as income. For the purposes of financial statements, payments made for the construction or acquisition of the assets to be leased, and the payments drawn from the subsequent sale of such assets form cash flows deriving from operating assets (and not investment assets). This amendment, which must be applied from Jan. 1, 2009, does not apply to the company as at the date of these financial statements.

Improvement amendment to IAS 19 - Employee benefits: the amendment must be applied from Jan. 1, 2009 in an indicative way to the variations in the benefits provided subsequent to this date, and clarifies the definition of cost/earnings relative to past employment service and sets out that in the case of the reduction of a programme, the effect to be entered immediately on the income statement must include only the reduction of the benefits relative to future periods, while the effect deriving from any reductions associated with past periods of service must be considered as an expense relating to past employment service. This amendment does not provide discipline applicable to the company as at the date of the present financial statements.

Improvement amendment to IAS 20 - Accounting for government grants and disclosure of government assistance: the amendment sets out that benefits deriving from government loans granted at an interest rate significantly lower than the market rate must be treated as government grants and therefore the regulations provided by IAS 20 should be followed. This amendment, which must be applied from Jan. 1, 2009, does not apply to the company as at the date of these financial statements.

Improvement amendments to IAS 28 - Investments in associates, and IAS 31 - Interests in joint ventures: these amendments prescribe that additional information should be provided for equity investments in associated companies and joint ventures valued at fair value in accordance with IAS 39. Corresponding amendments apply to IFRS 7 - Financial instruments: Disclosures and IAS 32 – Financial instruments: presentation. These amendments, which must be applied from Jan. 1, 2009, do not apply to the company as at the date of these financial statements.

Improvement amendment to IAS 29 - Financial reporting in hyperinflationary economies: the preceding version of the standard did not reflect the fact that certain assets or liabilities could be valued on financial statements based on the current value rather than the historic value. The amendment, introduced to include this eventuality, is to be applied from Jan. 1, 2009, does not affect the Company's accounting as at the date of these financial statements.

Improvement amendment to IAS 40 - Investment property: the amendment sets out that investment property under construction fall within the application of IAS 40 rather than IAS 16. The amendment, to be applied from Jan. 1, 2009, does not affect the Company's accounting as at the date of these financial statements.

Amendment to IAS 27 - Consolidated and separate financial statements: the amendment, which must be applied from Jan. 1, 2009 prescribes that equity interests also valued in accordance with IAS 39 in the separate financial statements fall under the application of IFRS 5 - Non current assets held for sale and discontinued operations.

Amendments to IAS 32 - Financial instruments: Presentation, and IAS 1 - Presentation of financial statements - Puttable instruments and obligations arising on liquidation.
These amendments, which must be applied from Jan. 1, 2009, do not apply to the company as at the date of these financial statements.

Amendment to IAS 38 - Intangible assets: sets out the recognition of promotional and advertising costs in the income statement. Furthermore, it sets out that in the event the enterprise sustains charges having future financial benefits without being entered as intangible assets, they must be entered in the income statement at the time the enterprise has access to the asset, in the event of the acquisition of assets, or when the service is provided, for the acquisition of services. This amendment, which must be applied from Jan. 1, 2009, does not apply to the company as at the date of these financial statements.

Amendment to IAS 39 - Financial instruments: Recognition and measurement: the amendment clarifies how the new effective rate of return must be calculated for a financial instrument on completion of a fair value hedging arrangement. It also clarifies that the prohibition against re-classifying as financial instruments via the adjustment of the fair value in the income statement must not be applied to derivative financial instruments which cannot be qualified as for hedging purposes or that become qualified for hedging purposes. This amendment, which must be applied from Jan. 1, 2009, does not apply to the company as at the date of these financial statements.

Amendment to IAS 39 - Financial instruments: recognition. The amendment clarifies the application of the standard for the definition of the underlying subject to hedging in specific situations. As at today's date the ratification process necessary for its application by the presiding bodies has not yet been completed. This amendment should be applied from Jan. 1, 2010.

IFRS - Operating segments.
On Nov. 30, 2006 the IASB issued accounting standard IFRS 8 - Operating segments, which will be applicable from Jan. 1, 2009 and will replace IAS 14 - Segment reporting. The new accounting standard requires that companies base information disclosure on elements that the Company uses for making operational decisions, it requires the identification of the operating segments based on internal reporting that is regularly revised by the management with the aim of allocating resources to the various segments and for the purposes of performance analysis. The Company does not consider that this disclosure will have a significant effect.

IFRIC 13 - Customer loyalty programmes - to be applied from Jan. 1, 2009

IFRIC 15 - Agreements for the construction of real estate - To be applied from Jan. 1, 2009. As at today's date this document has not yet been ratified by the European Union

**Discretional evaluations and relevant accounting estimates**

*Estimates and hypotheses*

In the application of the accounting standards, the directors have not made decisions based on discretional evaluations (excluding those which involve estimates) having a significant effect on the values in the balance sheet.
The key hypotheses are given below concerning the future and other sources of uncertainty in the estimates related to the closing of the financial statements, which could bring about significant changes in the book values of assets and liabilities within the next fiscal year.

Deferred tax assets
Deferred tax assets are recognized in accordance with IAS 12 to an extent that makes it likely there will be adjusted taxable future profits against which to absorb their return. A significant discretional evaluation is required of the company administrators 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. Deferred tax assets entered in 2008 amount to 3.13 mln euro. (7.16 mln euro in 2007). Further information is provided in note 12.
Employee severance indemnity provision and other post employment benefits
The cost of the defined benefit plans, which include the employee severance indemnity, was determined using actuarial valuations. The actuarial valuation requires hypothetical discount rates, future salary increments, mortality rates and future pay increases. Because of the long-term nature of these plans, these estimates are subject to a significant level of uncertainty. The net liability to employees as at Dec. 31, 2008 stands at 2.67 mln euro (11.47 mln euro in 2007). Further information is provided in note 20.

Development costs

Development costs have been capitalised based on the following accounting principle. In order to determine the values to be capitalised the company administrators must use hypothetical anticipated future cash flows from assets, discount rates to apply and the period of the anticipated benefits. Total capitalised costs were 2.67 mln euro in 2008 (1.6 mln euro in 2007).

Provision for risk and charges
The Company made estimates for the valuation of the provision for credit risk, guarantees granted to customers, stock depreciation and for other risks and charges.

**Business combinations and goodwill**
Business combinations are posted according to the purchase method. This requires the posting, at equal value, of recognizable assets (including intangible assets previously not recognized) and recognizable liabilities (including potential liabilities and excluding future restructuring) of the acquired company.
The goodwill acquired through company merger is initially calculated at the cost represented by the merger cost surplus with respect to the share attributable to the Group of the net fair value of assets liabilities and potential liabilities (of the acquired company). In order to analyse appropriateness, goodwill acquired in a merger is allocated at the date of acquisition, to the individual cash generating units or to groups of cash generating units, which would benefit from the synergies of the merger, regardless of the fact that other 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 company, at which the goodwill is monitored for internal management purposes; and
- is not larger than the business segments identified on the basis of the primary or secondary schedule of presentation of the segment reporting, determined on the basis of the indications of IAS 14 - Segment reporting.

When the goodwill represents part of a cash generating unit (group of cash generating units) and part of that unit internal asset is transferred, the goodwill associated with the transfer is included in the asset book value in order to calculate profit or loss generated by the transfer. Goodwill transferred in such cases is calculated on the basis of the values relative to the assets transferred and portion of the unit maintained in existence.
When the transfer concerns a subsidiary company, the difference between transfer price and net equity and non-amortised goodwill is posted in the income statement.

**3. Information on business segments and geographical areas**
Operations of Carraro S.p.A. up to Jun. 30, 2008 were organised into two industrial divisions (Business Units) that followed combination criteria according to the main product types.

The Business Units are therefore divided as follows:

1) *Drives and Drivelines*, which as of Jul. 1, 2008 comprised the industrial sub-holding Carraro Drive Tech S.p.A., combining the industrial units in Campodarsego (PD), Gorizia and Rovigo dedicated to the manufacture and marketing of transmission Systems (axial and transmissions).

**2) *Vehicles*, made up of the Rovigo site, which is leased to Carraro S.p.A. by Agritalia S.p.A. and is dedicated to the production of agricultural tractors.**

**Following the company restructuring (which came into effect from Jul. 1, 2008), as at Dec. 31, 2008 Carraro S.p.A. is subdivided into the Vehicles Business Unit (the Agritalia Division which produces and markets tractors) and Head Quarters operations, or HQ, (the central level services provided by Carraro S.p.A. to the various companies of the Group).**

## 3.1 Sectors of activity

The more significant information by sector of activity is presented in the tables below, with comparisons between 2007 and 2008.

**a) income statement** (euro/000)

| 2008 | DRIVES & DRIVELINES | VEHICLES | HQ | CARRARO SPA TOTAL |
|---|---|---|---|---|
| **Sales** | **212,793** | **105,877** | **4,814** | **323,484** |
| | | | | |
| *Sales to third parties* | *202,966* | *104,687* | - | *307,653* |
| *Sales between divisions* | *9,827* | *1,190* | *4,814* | *15,831* |
| | | | | |
| **Operating costs** | **214,891** | **97,280** | **4,406** | **316,577** |
| | | | | |
| *Direct and indirect materials* | **151,168** | **76,616** | - | ***227,784*** |
| *Leases and rents* | *32,866* | *7,112* | ***1,573*** | ***41,551*** |
| *Personnel* | *24,145* | *10,284* | ***3,445*** | ***37,874*** |
| *Amortisation* | *3,901* | *234* | ***1,258*** | ***5,393*** |
| *Provision for risk* | *1,993* | *3,027* | *0* | ***5,020*** |
| *Other income and expenses* | *818* | *7* | ***(1,870)*** | ***(1,045)*** |
| | | | | |
| **Operating result** | **-2,098** | **8,597** | **408** | **6,907** |

| 2007 | DRIVES & DRIVELINES | VEHICLES | CARRARO SPA TOTAL |
|---|---|---|---|
| **Sales** | **362,811** | **93,214** | **456,025** |
| | | | |
| *Sales to third parties* | *352,109* | *93,152* | *445,261* |
| *Sales between divisions* | *10,702* | *62* | *10,764* |
| | | | |
| **Operating costs** | **359,112** | **86,576** | **445,688** |
| | | | |
| *Direct and indirect materials* | *252,553* | *69,502* | ***322,055*** |
| *Leases and rents* | *51,968* | *6,060* | ***58,028*** |
| *Personnel* | *42,382* | *9,274* | ***51,656*** |
| *Amortisation* | *7,804* | *141* | ***7,945*** |
| *Provision for risk* | *3,653* | *1,559* | ***5,212*** |
| *Other income and expenses* | *752* | *40* | ***792*** |
| | | | |
| **Operating result** | **3,699** | **6,638** | **10,337** |

**b) balance sheet**

| 2008 | HQ | VEHICLES | CARRARO SPA TOTAL |
|---|---|---|---|
| NON CURRENT ASSETS | 125,724 | 6,310 | **132,034** |
| CURRENT ASSETS | 31,654 | 37,460 | **69,114** |
| NON CURRENT LIABILITIES | 2,583 | 3,040 | **5,623** |
| CURRENT LIABILITIES | 78,121 | 32,927 | **111,048** |

| 2007 | DRIVES & DRIVELINES | VEHICLES | CARRARO SPA TOTAL |
|---|---|---|---|
| NON CURRENT ASSETS | 147,427 | 3,729 | **151,156** |

| | | | |
|---|---|---|---|
| CURRENT ASSETS | 131,358 | 31,751 | **163,109** |
| NON CURRENT LIABILITIES | 12,321 | 2,295 | **14,616** |
| CURRENT LIABILITIES | 186,601 | 28,557 | **215,158** |

**c) other information**

| **2008** | **HQ** | **VEHICLES** | **CARRARO SPA TOTAL** |
|---|---|---|---|
| INVESTMENTS *(euro/000)* | 6,897 | 2,347 | 9,244 |
| EMPLOYEES | 71 | 249 | 320 |

| **2007** | **DRIVES & DRIVELINES** | **VEHICLES** | **CARRARO SPA TOTAL** |
|---|---|---|---|
| INVESTMENTS *(euro/000)* | 7,876 | 766 | 8,642 |
| EMPLOYEES | 882 | 225 | 1,107 |

## 3.2 Geographic areas

Carraro S.p.A.'s business activities are located in Italy.
Sales are to customers located in Europe, Asia and the Americas for the first half-year, while the second half of the year was focused on Europe as it is the Vehicles Business Unit's main market.
Investments are made in Italy.

The more significant information by geographic area is presented in the tables below.

**a) Sales**

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

| **CARRARO S.P.A. TURNOVER** | **Dec. 31, 2008 (euro/000)** | **Dec. 31, 2007 (euro/000)** |
|---|---|---|
| Italy | 65,982 | 87,696 |
| Other E.U. countries | 175,074 | 253,040 |
| North America | 29,205 | 68,481 |
| South America | 6,209 | 8,279 |
| Asia (*) | 8,924 | 12,493 |
| Other countries | 38,090 | 26,035 |

| | | |
|---|---|---|
| **TOTAL** | **323,484** | **456,024** |

(*): Japan, China, Korea, India, Singapore and Taiwan

## 4. Detailed explanatory notes

### Revenues from sales (note 1)

| | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| 1) PRODUCTS | | |
| PRODUCT SALES | 314,729,393 | 451,732,337 |
| SALES RETURNS | -1,927,250 | -4,443,286 |
| | **312,802,143** | **447,289,051** |
| 2) SERVICES | | |
| WORK - THIRD-PARTY ACCOUNTS | 90,628 | 45,778 |
| OTHER SERVICES | 7,084,388 | 3,593,406 |
| **REVENUE FROM ADVANCED ORDERS** | 139,168 | |
| | **7,314,184** | **3,639,184** |
| 3) OTHER REVENUES | | |
| OTHER GOODS | 2,584,624 | 4,159,441 |
| OTHER REVENUES | 786,157 | 938,413 |
| CUSTOMER DISCOUNTS | -2,949 | -2,247 |
| | **3,367,832** | **5,095,607** |
| **TOTAL REVENUES FROM SALES** | **323,484,159** | **456,023,842** |

*(Figures in euro)*

## **Operating costs** (note 2)

| | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| 1) PURCHASES OF GOODS AND MATERIALS | | |
| PURCHASES OF RAW MATERIALS | 232,296,638 | 332,121,546 |
| RAW MATERIALS RETURNS | -1,410,438 | -3,010,491 |
| A) PURCHASES | 230,886,200 | 329,111,055 |
| MISCELLANEOUS CONSUMABLES | 290,992 | 411,321 |
| CONSUMABLE TOOLS | 558,038 | 1,021,258 |
| MAINTENANCE MATERIAL | 673,115 | 882,978 |
| MATERIALS AND SERVICES FOR RESALE | 2,023,996 | 3,079,615 |
| REBATES AND DISCOUNTS - SUPPLIERS | -202,632 | -865,347 |
| B) OTHER PRODUCTION COSTS | 3,343,509 | 4,529,825 |
| **1) PURCHASES OF GOODS AND MATERIALS** | **234,229,709** | **333,640,880** |
| 2) SERVICES | | |
| A) EXTERNAL SERVICES FOR PRODUCTION | 25,491,164 | 39,009,164 |
| B) SUNDRY SUPPLIES | 2,047,732 | 2,762,494 |
| C) GENERAL CORPORATE COSTS | 12,490,800 | 14,360,508 |
| D) COMMERCIAL COSTS | 929,001 | 995,682 |
| E) SALES EXPENSES | 2,996,156 | 3,962,932 |
| **2) SERVICES** | **43,954,853** | **61,090,780** |
| 3) LEASES AND RENTS | | |
| RENTAL EXPENSE | 1,645,346 | 1,651,166 |
| INDUSTRIAL LEASING | | 3,384 |
| **3) LEASES AND RENTS** | **1,645,346** | **1,654,550** |
| 4) PERSONNEL COSTS | | |
| A) WAGES AND SALARIES | 25,919,056 | 35,723,373 |
| B) SOCIAL SECURITY CONTRIBUTIONS | 8,190,417 | 11,559,391 |
| D) EMPLOYEE SEVERANCE INDEMNITY AND PENSIONS | 1,938,918 | 2,394,716 |
| E) OTHER COSTS | 1,084,772 | 1,089,207 |
| **4) PERSONNEL COSTS** | **37,133,163** | **50,766,687** |
| 5) AMORTISATION AND DEPRECIATION OF ASSETS | | |
| A) DEPRECIATION OF TANGIBLE FIXED ASSETS | 4,221,751 | 6,697,936 |
| B) AMORTISATION OF INTANGIBLE ASSETS | 1,170,765 | 1,247,067 |
| D) WRITE-DOWN OF RECEIVABLES | | 139,191 |
| **5) AMORTISATION AND DEPRECIATION OF ASSETS** | **5,392,516** | **8,084,194** |
| 6) CHANGES IN STOCKS | | |
| CHANGES IN STOCKS OF RAW MATERIALS | -385,190 | -1,397,021 |
| CHANGES IN STOCKS OF FINISHED PRODUCTS | -816,684 | -12,099,957 |
| CHANGES IN STOCKS OF ANCILLARY MATERIALS | -40,625 | -148,165 |
| CHANGES IN PROVISION FOR LOSS IN VALUE OF PRODUCTS | 1,723,586 | -33,106 |
| A) CHANGES IN STOCKS OF RAW & ANCILLARY MATERIALS & GOODS | **481,087** | **-13,678,249** |
| CHANGES IN STOCKS OF SEMI-FINISHED PRODUCTS | -1,095,695 | -9,616 |
| CHANGES IN STOCKS OF WORK IN PROGRESS | -3131,893 | -1,622,291 |
| CHANGES IN STOCKS OF FINISHED PRODUCTS | -1,666,238 | 3,637,300 |
| CHANGES IN STOCKS OF SPARE PARTS | -3,311,087 | -1,839,820 |
| CHANGES IN STOCKS OF ORDERS FOR SALE | 883,614 | -327,362 |
| CHANGES IN STOCKS OF PURCHASES FOR RESALE | 2,325 | 937 |
| CHANGES IN PROVISION FOR LOSS IN VALUE OF PRODUCTS | 305,333 | 434,845 |
| B) CHANGES IN STOCKS OF WK IN PROGRESS, SEMI-FINISHED & FINISHED PROD.S | **-8,013,641** | **273,993** |
| **6) CHANGES IN STOCKS** | **-7,532,554** | **-13,404,256** |

| | | |
|---|---|---|
| 7) PROVISION FOR RISK AND OTHER LIABILITIES | | |
| A) WARRANTY | 4,071,560 | 5,073,209 |
| B) CHARGES FOR DISPUTES | 81,362 | 100,000 |
| D) OTHER PROVISIONS | 948,084 | |
| **7) PROVISION FOR RISK AND OTHER LIABILITIES** | **5,101,006** | **5,173,209** |
| 8) OTHER INCOME AND EXPENSES | | |
| A) SUNDRY INCOME | -2,812,570 | -1,967,672 |
| C) OTHER OPERATING EXPENSE | 1,446,260 | 930,485 |
| NON-ORDINARY OPERATING EXPENSE | 696,705 | 605,907 |
| NON-ORDINARY OPERATING INCOME | -2,266,848 | -503,770 |
| D) OTHER NON-ORDINARY OPERATING INCOME/EXPENSE | -1,570,143 | 102,137 |
| **8) OTHER INCOME AND EXPENSES** | **-2,936,453** | **-935,050** |
| 9) INTERNAL CONSTRUCTION | **-410,544** | **-384,392** |

*(Figures in euro)*

Income from products is lower than that for 2007 through the effects of splitting the Drive and Drivelines Business Unit. Income from services of 3.675 mln euro is an increase over the previous year specifically through charge-backs from the companies of the group for the services carried out centrally.
The trend for the cost of purchasing raw materials (also taking into account the changes in stocks), personnel and related costs, services, amortisations is lower in absolute terms through the effect of breaking down the Drives and Drivelines Business Unit.
The item, Other income and expense is made up in particular of royalties and rental income.

Further analysis is provided in the Directors' Report.

**Income from financial assets** (note 3)

| | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| 10) INCOME FROM EQUITY INTERESTS | 7,573.400 | 6,400,000 |
| 11) OTHER FINANCIAL INCOME | | |
| A) FROM FINANCIAL ASSETS | 136,066 | 131,300 |
| B) FROM BANK CURRENT AND DEPOSIT ACCOUNTS | 88,078 | 210,785 |
| D) INCOME OTHER THAN THE ABOVE | 402,350 | 885,087 |
| **OTHER FINANCIAL INCOME** | **626,494** | **1,227,172** |
| 12) FINANCIAL INCOME AND EXPENSES | | |
| A) FROM FINANCIAL LIABILITIES | -3,952,798 | -4,787,819 |
| B) FROM BANK CURRENT AND DEPOSIT ACCOUNTS | -890,584 | -1,050,737 |
| C) EXPENSE OTHER THAN FROM THE ABOVE | -596,827 | -36,802 |
| **FINANCIAL COSTS AND EXPENSES** | **-5,440,209** | **-5,875,358** |
| 13) NET FOREIGN EXCHANGE INCOMES/EXPENSES | | |
| FROM FAIR VALUE CHANGES IN DERIVATIVE TRANSACTIONS ON EXCHANGE RATES | 10,606 | 78,761 |
| OTHER AMOUNTS REALISED | -282,345 | -723,491 |
| OTHER FROM ADJUSTMENT | -616,788 | -367,653 |
| | -888,527 | -1,012,383 |
| EXCHANGE GAINS: | | |
| FROM DERIVATIVE TRANSACTIONS ON EXCHANGE RATES | - | 125,463 |
| FROM FAIR VALUE CHANGES IN DERIVATIVE TRANSACTIONS ON EXCHANGE RATES | - | -35,992 |
| OTHER AMOUNTS REALISED | 612,065 | 731,906 |
| OTHER FROM ADJUSTMENT | 13,8129, | 120,114 |

| | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| | 625,877 | 941,491 |
| **NET FOREIGN EXCHANGE INCOME/EXPENSES** | **-262,650** | **-70,892** |

*(Figures in euro)*

Income from equity investments refers to the distribution of dividends from Carraro International (5 mln euro), Elettronica Santerno (2.010 mln euro) and AE (0.56 mln euro).
Profits and losses on net current exchange, negative for 0.07 mln euro in 2007 are slightly worse in 2008 (a loss of 0.26 mln euro).

**Current and deferred income taxes** (note 4)

| | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| *IRES* [company earnings tax] | - | - |
| *SUBSTITUTE TAXES* | *525,315* | *689,545* |
| *INCOME AND CHARGES FROM TAX CONSOLIDATION* | *1,640,195* | *2,691,176* |
| *IRAP* [regional business tax] | *962,235* | *1,990,454* |
| *DEFERRED TAX LIABILITIES* | *(2,310,628)* | *(984,017)* |
| TAXATION FOR THE YEAR | | |
| **15) CURRENT AND DEFERRED TAXATION** | **817,117** | **4,387,158** |

*(Figures in euro)*

Current taxes – IRAP
Current IRAP for the year is calculated at 3.9% on the estimated taxable income for the year.

The company has made use of the option provided by Law no. 244 of Dec. 24, 2007 (Finance Law 2008) to realign the tax value of some corporate goods. This choice has produced an economic effect determined by the difference between the deferred tax reserves in the financial statements at Dec. 31, 2007 calculated at the rate of 31.40% and those deriving from the application of the substitute tax specified by Law 244/2007.

## *Current taxes - Income and charges from tax consolidation*

During the accounting period, Carraro S.p.A. renewed the option for complying with the national tax consolidation system of the parent company Finaid Srl. The charges/income deriving from the transfer of the IRES taxable base are booked under current taxes.
Carraro S.p.A. has the right to receive "relief" from Finaid Srl equating to 3% of the tax losses of the consolidation offset by means of the taxable base being transferred from Carraro S.p.A.

## *Deferred tax liabilities*

These are provided on the timing differences between the book value of the assets/liabilities and the corresponding tax value.
The rates used are 27.5% for IRES and 3.9% for IRAP.
The deferred tax liabilities include the additional effect of the tax realignment (1.19 mln euro) over the amount estimated and allocated in the financial statements to Dec. 31, 2007 (1.7 2 mln euro).
The positive economic effect is due to the reversal of the deferred taxes payable following the realignment between the tax values and the book values.
There were no tax losses for the year or for previous accounting periods to be recovered.
Further information is provided in note 12.

Current taxes on income are calculated at a rate of 27.5% for IRES and 3.9% for IRAP on the estimated taxable income for the year (rates unchanged with respect to 2007).

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

| | **Dec. 31, 2008** | **Dec. 31, 2007** |
|---|---|---|

| | euro/000 | % | euro/000 | % |
|---|---|---|---|---|
| **Income before taxes** | **9,404** | | **12,018** | |
| **Theoretical tax rate** | **2,953** | **31.4%** | **4,477** | **37.25%** |
| Tax realignment | -667 | -7.09% | -1,026 | -8.54% |
| Effect of non-deductible costs | 88 | 0.94% | 1,937 | 16.12% |
| Income not taxable | -843 | -8.97% | -2,025 | -16.85% |
| Deferred tax liabilities Rate changes | | | 1,024 | 8.52% |
| Other deferred taxes not recorded | | | | |
| Taxes for previous periods | -714 | -7.59% | | |
| **Taxation at effective rate** | **817** | **8.68%** | **4,387** | **36.50%** |

**Research and development costs (which cannot be capitalised)**
**During 2008, technical and industrial studies and research were carried out which did not give rise to capitalisation (in accordance with the provisions of IAS 38) for a total of 7.828 mln euro.**

**Earnings per share** (note 6)
The basic earnings per share is calculated by dividing the net earnings for the year attributable to the company's ordinary shareholders by the weighted average number of ordinary shares in circulation during the year.

| | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| ***Earnings*** | *euro/000* | *euro/000* |
| Income for the purposes of calculation of basic earnings per share | 8,587 | 7,631 |
| Diluting effect deriving from potential ordinary shares | 0 | 0 |
| Income for the purposes of calculation of the diluted earnings per share | 8,587 | 7,631 |

| | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| ***Number of shares*** | *No./1,000* | *No./1,000* |
| Weighted average number of ordinary shares for the calculation | | |
| of basic earnings per share: | 42,000 | 42,000 |
| of diluted earnings per share: | 42,000 | 42,000 |
| | | |
| Basic earnings per share: | 0.204 | 0.182 |
| Diluted earnings per share: | 0.204 | 0.182 |

## Dividends

### *Dividends paid*

The dividends in 2008 (in relation to distribution of the profit for financial year 2007, following the general meeting resolution of Apr. 23, 2008) amounted to a total of 6,930,000 euro, or 0.165 euro per ordinary share.
The Company has not issued shares other than ordinary shares.
In the previous year the dividends paid (in relation to distribution of the 2006 profit) amounted to a total of 5.25 mln euro, or 0.125 euro per ordinary share.

### *Dividends proposed*

There is no distribution proposed in 2009 of dividends for the profits of the 2008 period.

**Tangible fixed assets (property, plant and equipment)** (note 7)

| | Dec. 31, 2006 | Increases | Int. wk orders | Decreases | Dec. 31, 2007 |
|---|---|---|---|---|---|
| **COST OR VALUE RE-VALUED:** | | | | | |
| INDUSTRIAL LAND | 9,279,000 | | | | 9.279.000 |
| INDUSTRIAL BUILDINGS | 13,168,383 | 122,305 | | | 13.290.688 |
| **1) LAND AND BUILDINGS** | **22,447,383** | **122,305** | | | **22.569.688** |
| PLANT | 14,479,172 | 674,392 | 335,195 | -91,271 | 15.397.488 |
| EQUIPMENT | 18,619,629 | 83,055 | 282,382 | -545,764 | 18.439.302 |
| **2) PLANT AND EQUIPMENT** | **33,098,801** | **757,447** | **617,577** | **-637,035** | **33.836.790** |
| EQUIPMENT | 11,848,236 | 739,752 | 92,283 | -23,180 | 12.657.091 |
| DIES AND MODELS | 13,540,036 | 2,769,057 | | | 16.309.093 |
| **3) INDUSTRIAL EQUIPMENT** | **25,388,272** | **3,508,809** | **92,283** | **-23,180** | **28.966.184** |
| FURNITURE AND FURNISHINGS | 1,262,556 | 51,808 | | -4,549 | 1.309.815 |
| OFFICE EQUIPMENT | 2,920,817 | 775,072 | 27,632 | -40,458 | 3.683.063 |
| MOTOR VEHICLES | 667,240 | | | -124,325 | 542.915 |
| **4) OTHER GOODS** | **4,850,613** | **826,880** | **27,632** | **-169,332** | **5.535.793** |
| **5) ASSETS. IN PROG. & ADVANCES** | **371,175** | **786,023** | **-737,492** | **-131,069** | **288.637** |
| **TANGIBLE FIXED ASSETS** | **86.156.244** | **6,001,464** | | **-960,616** | **91,197,092** |
| **AMORTISATION AND DEPRECIATION OF ASSETS:** | Dec. 31, 2006 | Amm. Dep & Write-downs | | Decreases | Dec. 31, 2007 |
| INDUSTRIAL LAND | - | | | | |
| INDUSTRIAL BUILDINGS | -2,085,157 | -728,025 | | | -2,813,182 |
| **1) LAND AND BUILDINGS** | **-2,085,157** | **-728,025** | | | **-2,813,182** |
| PLANT | -3,969,640 | -1,121,545 | | 57,154 | -5,034,031 |
| EQUIPMENT | -8,458,295 | -1,421,997 | | 271,027 | -9,609,265 |
| WRITE-DOWNS ON EQUIPMENT | -250,000 | | | 135,968 | -114,032 |
| **2) PLANT AND EQUIPMENT** | **-12,677,935** | **-2,543,542** | | **464,149** | **-14,757,328** |
| EQUIPMENT | -5,218,358 | -1,208,339 | | 7,227 | -6,419,470 |
| DIES AND MODELS | -6,937,812 | -1,565,990 | | | -8,503,802 |
| **3) INDUSTRIAL EQUIPMENT** | **-12,156,170** | **-2,774,329** | | **7,227** | **-14,923,272** |
| TOTAL FURNITURE AND FURNISHINGS | -514,064 | -111,134 | | 1,364 | -623,834 |
| TOTAL OFFICE EQUIPMENT | -1,610,230 | -483,303 | | 31,886 | -2,061,647 |
| TOTAL MOTOR VEHICLES | -306,777 | -57,603 | | 75,521 | -288,859 |
| **4) TOTAL OTHER GOODS** | **-2,431,071** | **-652,040** | | **108,771** | **-2,974,340** |
| **ORDINARY SINKING FUND** | **-29,350,333** | **-6,697,936** | | **580,147** | **-35,468,122** |
| **BOOK VALUE:** | Dec. 31, 2006 | | | | Dec. 31, 2007 |
| INDUSTRIAL LAND | 9,279,000 | | | | 9,279,000 |
| INDUSTRIAL BUILDINGS | 11,083,226 | | | | 10,477,506 |
| **1) LAND AND BUILDINGS** | **20,362,226** | | | | **19,756,506** |
| PLANT | 10,509,532 | | | | 10,363,457 |
| EQUIPMENT | 9,911,334 | | | | 8,716,005 |
| **2) PLANT AND EQUIPMENT** | **20,420,866** | | | | **19,079,462** |
| EQUIPMENT | 6,629,878 | | | | 6,237,621 |
| DIES AND MODELS | 6,602,224 | | | | 7,805,291 |
| **3) INDUSTRIAL EQUIPMENT** | **13,232,102** | | | | **14,042,912** |

| | Dec. 31, 2006 | Increases | Int. wk orders | Decreases | Dec. 31, 2007 |
|---|---|---|---|---|---|
| FURNITURE AND FURNISHINGS | 748,492 | | | | 685,981 |
| OFFICE EQUIPMENT | 1,310,587 | | | | 1,621,416 |
| MOTOR VEHICLES | 360,463 | | | | 254,056 |
| **4) OTHER GOODS** | **2,419,542** | | | | **2,561,453** |
| **5) ASSETS, IN PROG, & ADVANCES** | **371,175** | | | | **288,637** |
| **TOTAL BOOK VALUE** | **56,805,911** | | | | **55,728,970** |

*(Figures in euro)*

| | | Dec. 31, 2007 | Increases | Int. wk orders | Decreases | Conferment / Other reclassifications | Dec. 31, 2008 |
|---|---|---|---|---|---|---|---|
| **COST OR VALUE RE-VALUED:** | | | | | | | |
| | INDUSTRIAL LAND | 9,279,000 | | | | | 9,279,000 |
| | INDUSTRIAL BUILDINGS | 13,290,688 | 229,876 | | | | 13,520,564 |
| 1) | **LAND AND BUILDINGS** | **22,569,688** | **229,876** | | | | **22,799,564** |
| | PLANT | 15,397,488 | 325,775 | 57,980 | -38,915 | -10,741,488 | 5,000,840 |
| | EQUIPMENT | 18,439,302 | | | -19,050 | -18,391,312 | 28,940 |
| 2) | **PLANT AND EQUIPMENT** | **33,836,790** | **325,775** | **57,980** | **-57,965** | **-29,132,800** | **5,029,780** |
| | EQUIPMENT | 12,657,091 | 759,603 | | -105,120 | -12,594,643 | 716,931 |
| | DIES AND MODELS | 16,309,093 | 2,676,065 | | -1,017,839 | -15,694,805 | 2,272,514 |
| 3) | **INDUSTRIAL EQUIPMENT** | **28,966,184** | **3,435,668** | | **-1,122,959** | **-28,289,448** | **2,989,445** |
| | FURNITURE AND FURNISHINGS | 1,309,815 | 72,701 | | -3,556 | -1,340,925 | 38,035 |
| | OFFICE EQUIPMENT | 3,683,063 | 990,885 | | -43,036 | -584,537 | 4,046,375 |
| | MOTOR VEHICLES | 542,915 | 166,392 | | -121,321 | -209,560 | 378,426 |
| 4) | **OTHER GOODS** | **5,535,793** | **1,229,978** | | **-167,913** | **-2,135,022** | **4,462,836** |
| 5) | **ASSETS. IN PROG. & ADVANCES** | **288,637** | **522,305** | **-57,980** | | **-312,241** | **440,721** |
| **TANGIBLE FIXED ASSETS** | | **91,197,092** | **5,743,602** | | **-1,348,837** | **-59,869,511** | **35,722,346** |
| **AMORTISATION AND DEPRECIATION OF ASSETS:** | | | | | | | |
| | INDUSTRIAL LAND | | | | | | |
| | INDUSTRIAL BUILDINGS | -2,813,182 | -733,278 | | | | -3,546,460 |
| 1) | **LAND AND BUILDINGS** | **-2,813,182** | **-733,278** | | | | **-3,546,460** |
| | PLANT | -5,034,031 | -784,224 | | 5,026 | 3,864,872 | -1,948,357 |
| | EQUIPMENT | -9,609,265 | -663,846 | | 9,102 | 10,258,798 | -5,211 |
| | WRITE-DOWNS ON EQUIPMENT | -114,032 | | | 114,032 | | |
| 2) | **PLANT AND EQUIPMENT** | **-14,757,328** | **-1,448,070** | | **128,160** | **14,123,670** | **-1,953,568** |
| | EQUIPMENT | -6,419,470 | -620,578 | | 59,354 | 6,860,430 | -120,264 |
| | DIES AND MODELS | -8,503,802 | -785,603 | | 685,306 | 8,479,624 | -124,475 |
| 3) | **INDUSTRIAL EQUIPMENT** | **-14,923,272** | **-1,406,181** | | **744,660** | **15,340,054** | **-244,739** |
| | TOTAL FURNITURE AND FURNISHINGS | -623,834 | -56,962 | | 2,139 | 674,924 | -3,733 |
| | TOTAL OFFICE EQUIPMENT | -2,061,647 | -525,713 | | 14,512 | 368,217 | -2,204,631 |
| | TOTAL MOTOR VEHICLES | -288,859 | -51,547 | | 92,371 | 129,493 | -118,542 |
| 4) | **TOTAL OTHER GOODS** | **-2,974,340** | **-634,222** | | **109,022** | **1,172,634** | **-2,326,906** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **ORDINARY SINKING FUND** | **-35,468,122** | **-4,221,751** | | **981,842** | **30,636,358** | **-8,071,673** |
| | | | | | | |
| **BOOK VALUE:** | | | | | | |
| INDUSTRIAL LAND | 9,279,000 | | | | | 9,279,000 |
| INDUSTRIAL BUILDINGS | 10,477,506 | | | | | 9,974,104 |
| **1) LAND AND BUILDINGS** | **19,756,506** | | | | | **19,253,104** |
| PLANT | 10,363,457 | | | | | 3,052,483 |
| EQUIPMENT | 8,716,005 | | | | | 23,729 |
| **2) PLANT AND EQUIPMENT** | **19,079,462** | | | | | **3,076,212** |
| EQUIPMENT | 6,237,621 | | | | | 596,667 |
| DIES AND MODELS | 7,805,291 | | | | | 2,148,039 |
| **3) INDUSTRIAL EQUIPMENT** | **14,042,912** | | | | | **2,744,706** |
| FURNITURE AND FURNISHINGS | 685,981 | | | | | 34,302 |
| OFFICE EQUIPMENT | 1,621,416 | | | | | 1,841,744 |
| MOTOR VEHICLES | 254,056 | | | | | 259,884 |
| **4) OTHER GOODS** | **2,561,453** | | | | | **2,135,930** |
| **5) ASSETS. IN PROG. & ADVANCES** | **288,637** | | | | | **440,721** |
| | | | | | | |
| **TOTAL BOOK VALUE** | **55,728,970** | | | | | **27,650,673** |

*(Figures in euro)*

The increases, which include capitalised internal costs and purchases, amount to 5.74 mln euro and relate to the intensification of production capacity. Please note that plant, dies, equipment, office machinery were conferred to Carraro Drive Tech S.p.A.

**Intangible assets** (note 8)

| Description | Historical cost | Net value - start of year | Increases during the year | Int. wk orders for the year | Decreases during the year | Other changes | Total Dec. 31, 2007 |
|---|---|---|---|---|---|---|---|
| 2) DEVELOPMENT COSTS | 3,387,927 | 2,299,439 | | | -719,777 | - | 1,579,662 |
| 3) COPYRIGHTS AND PATENTS | 414,816 | 163,920 | 57,541 | | -76,252 | - | 145,209 |
| 4) CONCESSIONS, LICENCES AND TRADEMARKS | 3,309,052 | 1,357,601 | 912,555 | 35,495 | -451,038 | -85,845 | 1,768,768 |
| 5) ASSETS. IN PROG. & ADVANCES | 769,606 | 901,731 | 1,670,370 | -35,495 | - | 58,587 | 2,595,193 |
| **TOTAL INTANGIBLE ASSETS** | **7,881,401** | **4,722,691** | **2,640,466** | **-** | **-1,247,067** | **-27,258** | **6,088,832** |

*(Figures in euro)*

| Description | Historical cost | Net value - start of year | Increases during the year | Int. wk orders for the year | Decreases during the year | Conferment / other changes | Total Dec. 31, 2008 |
|---|---|---|---|---|---|---|---|
| 2) DEVELOPMENT COSTS | 407,188 | 1,579,662 | | 407,188 | -400,607 | -1,219,774 | 366,469 |
| 3) COPYRIGHTS AND PATENTS | 0 | 145,209 | 254,509 | | -48,732 | -350,986 | |
| 4) CONCESSIONS, LICENCES AND | 5,350,993 | 1,768,768 | 896,789 | 2,258,400 | -721,427 | | 4,202,530 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| TRADEMARKS | | | | | | | |
| 5) ASSETS. IN PROG. & ADVANCES | 0 | 2,595,193 | 2,348,239 | -2,665,588 | | -264,716 | 2,013,128 |
| **TOTAL INTANGIBLE ASSETS** | | **6,088,832** | **3,499,537** | **0** | **-1,170,766** | **-1,835,476** | **6,582,127** |

*(Figures in euro)*

The historic cost refers to the original costs of the individual items capitalised which, at the start of the year, were not completely amortised. It is estimated that the useful life of the intangible assets is 3-5 years.

The main increases were due to studies concerning products still at the design stage, and recorded under assets in progress. Carraro S.p.A. projects relate to the various business units and are subsequently charged back to the relative companies of the Group by means of royalties.
Development costs generated internally are capitalised at cost.

**Real estate investments** (note 9)

| COST OR VALUE RE-VALUED: | Start of year | Increases | Decreases | Reclassification | Total |
|---|---|---|---|---|---|
| LAND | - | - | - | - | - |
| BUILDINGS | 539,703 | - | - | - | 539,703 |
| **TOTAL** | **539,703** | **-** | **-** | **-** | **539,703** |

*(Figures in euro)*

Property investments refer to non-industrial buildings.
The fair value of these investments does not differ greatly from the recorded cost, taking account of the fact that at the time of initial application of the IFRS, they were recorded at fair value as "deemed cost".

**Shareholdings: Shares in subsidiary, associate and parent companies** (note 10)
Changes in equity investments in 2008:

| | Initial situation | Increases | Conferment | Decreases | End situation |
|---|---|---|---|---|---|
| A.E. SRL | 36,000 | | -36,000 | | |
| ELETTRONICA SANTERNO | 2,014,691 | | | | 2,014,691 |
| CARRARO DRIVE TECH | | 25,886,040 | | | 25,886,040 |
| ELETTRONICA SANTERNO BRASIL | | 3,110 | | | 3,110 |
| CARRARO DEUTSCHLAND GMBH | 8,893,090 | | | | 8,893,090 |
| CARRARO INDIA PRIVATE LTD | 4,512,703 | 20,140,199 | -24,652,902 | | |
| CARRARO TECHNOLOGIES | 3,035 | | | | 3,035 |
| CARRARO ARGENTINA S.A. | 16,292,996 | | -16,292,996 | | |
| CARRARO INTERNATIONAL S.A. | 32,429,100 | 4,150,000 | | | 36,579,100 |
| CARRARO FINANCE | | | | | |
| CARRARO NORTH AMERICA | 675 | 0 | | -675 | |
| GEAR WORLD SPA | 16,139,000 | 0 | | | 16,139,000 |
| 1) SUBSIDIARY COMPANIES | 80,321,290 | 0 | 0 | | 89,518,066 |
| TOTAL B.4.1 EQUITY INVESTMENTS | 80,321,290 | 50,179,349 | -40,981,898 | -675 | 89,518,066 |

*(Figures in euro)*

The changes during the year reflect the following:

A.E. S.r.l.: on Jun. 27, 2008 the investment was conferred to Carraro Drive Tech S.p.A.

Carraro Argentina S.A.: on Jun. 27, 2008 the investment was conferred to Carraro Drive Tech S.p.A.

Carraro North America: on Oct. 31, 2008 the investment was transferred to Carraro Drive Tech S.p.A.

Carraro India Private Ltd: on Jun. 27, 2008 the investment was increased by 20,140,199 euro by means of the acquisition of 49% from Carraro International (book value entered on the Carraro International financial statements); on Sep. 26, 2008 the investment was conferred to Carraro Drive Tech S.p.A.

Carraro International S.A.: on Dec. 16, 2008 the share capital was increased by 4,150,000 euro.

Carraro Drive Tech: on Jun. 4, 2008 the company, Carraro Drive Tech S.p.A., was incorporated (with share capital of 120,000 euro). As of Jul., 1 2008, Carraro S.p.A. conferred the company division consisting of all the tangible and intangible assets relating to the industrial activities of the factories of Campodarsego, Gorizia and, for replacement parts, Rovigo, including the equity interests held in the companies active in the Business Unit Drivelines A.E. S.r.l. and Carraro Argentina S.A. (for an amount of 1.11 mln euro) and with conferment by Carraro International S.A. of the equity interests held in the companies involved in the Business Unit Drivelines Fon S.A. (1.37 mln euro), Carraro Qingdao Drive System (1050 mln euro), Carraro Qingdao Trading (0.17 mln euro), and Carraro China Drive System Co. Ltd (7.38 mln euro). Subsequently on Sep. 26, 2008, Carraro S.p.A. conferred the equity interest in Carraro India Ltd (24.65 mln euro) to Carraro Drive Tech S.p.A., while Carraro International increased the capital of Carraro Drive Tech via an injection of cash (for a 14.9 mln euro).

The following table shows the costs of acquisition/subscription of the shares and the write-downs reinstatements applied during the financial periods:

| | Cost of acquisition or subscription | Write-downs | Write-ups | Book value Dec. 31, 2008 |
|---|---|---|---|---|
| **Subsidiary companies:** | | | | |
| Elettronica Santerno SpA | 2,014,691 | | | 2,014,691 |
| Gear World S.p.A. | 16,139,000 | | | 16,139,000 |
| Carraro Deutschland GmbH | 21,041,025 | -12,147,935 | 0 | 8,893,090 |
| Carraro Technologies | 3,035 | | | 3,035 |
| Carraro International SA | 43,468,000 | -6,888,900 | 0 | 36,579,100 |
| Carraro Drive Tech | 25,886,040 | | | 25,886,040 |
| **Elettronica Santerno Do Brasil** | 3,110 | | | 3,110 |

*(Figures in euro)*

**Financial assets** (note 11)

| | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| **NON-CURRENT FINANCIAL ASSETS** | | |
| LOANS AND RECEIVABLES | | |
| due from subsidiaries | 4,428,523 | - |
| | 4,428,523 | - |
| OTHER FINANCIAL ASSETS | | |
| available for sale | 85,841 | 85,841 |
| cash flow hedge derivatives | - | - |

| | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| | 85,841 | 85,841 |
| **CURRENT FINANCIAL ASSETS** | | |
| LOANS AND RECEIVABLES | | |
| due from subsidiary companies | 194,666 | 1,600,160 |
| due from associated companies | | 83,940 |
| due from third parties | 35,000 | - |
| | 229,666 | 1,684,100 |
| OTHER FINANCIAL ASSETS | | |
| cash flow hedge derivatives | - | 198,902 |
| | - | 198,902 |
| FINANCIAL ACCRUALS AND DEFERRALS | | |
| due from third parties | - | 233,185 |
| | - | 233,185 |

*(Figures in euro)*

## Non-current loans and receivables:

- please note that unlike the previous year the receivables from previous periods due from Carraro Argentina S.A. were reclassified as borrowing.

## Current loans and receivables:

– due from Subsidiary companies (0.2 mln euro) are represented by loans granted to Carraro International;
– from third parties (0.04 mln euro): represented by finance granted to Elcon Srl.

## Other non-current financial assets

– Available for sale (0.09 mln euro): since these include minority interests, they do not have a pre-established redemption date and can be analysed as follows:

| Name | Based in | Currency | Value of the holding |
|---|---|---|---|
| ASSOCIAZIONE NORD EST | PADUA | EURO | 1,033 |
| GRUPPO SPORTIVO PETRARCA RUGBY | PADUA | EURO | 10,329 |
| SAPI IMMOBILIARE | PADUA | EURO | 25,823 |
| CO.NA.I. Consorzio Nazionale Imballaggi | ROME | EURO | 784 |
| Consorzio Padova Ricerche | PADUA | EURO | 44,774 |
| Isontina Energia – Consorzio per l'acquisto di risorse energetiche | GORIZIA | EURO | 516 |
| FONDAZIONE TEATRO LA FENICE | VENICE | EURO | 2,582 |
| TOTAL | | | 85,841 |

*(Figures in euro)*

**Trade receivables and other receivables** (note 13)

| | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| **NON-CURRENT TRADE RECEIVABLES & OTHER RECEIVABLES** | | |
| TRADE RECEIVABLES | | |
| OTHER RECEIVABLES | | |
| due to related parties | | 1,549 |
| due from third parties | 97,718 | 1,213,869 |
| | 97,718 | 1,215,418 |

| | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| **CURRENT TRADE RECEIVABLES & OTHER RECEIVABLES** | | |
| TRADE RECEIVABLES | | |
| due from subsidiary companies | 12,248,086 | 12,861,846 |
| due from associated companies | - | -7,892 |
| due from related parties | 252,827 | 140,134 |
| due from third parties | 18,129,797 | 48,489,804 |
| | 30,630,710 | 61,483,892 |
| OTHER RECEIVABLES | | |
| due from parent companies | - | 2,596,904 |
| due from subsidiary companies | 11,300,133 | 3,897,631 |
| due from third parties | 4,084,202 | 10,553,083 |
| | 15,384,335 | 17,047,618 |

*(Figures in euro)*

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

| | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| VAT credits | 2,125,419 | 5,285,459 |
| VAT credits due for rebate | 235,154 | 2,825,895 |
| Other amounts due from the tax authorities | 195,983 | 456,356 |
| Credits for current taxes | 623,299 | 444,224 |
| Amounts due from employees | 420 | 359 |
| Amounts due from social security and welfare institutions | 62,163 | 110,272 |
| Accrued income and prepayments | 285,938 | 1,072,004 |
| Other receivables | 555,826 | 358,514 |
| | 4,084,202 | 10,553,083 |

*(Figures in euro)*

Other non-current receivables (0.1 mln euro) are made up of guarantee deposits (0.04 mln euro) and medium/long-term prepayments (0.06 mln euro).

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

Other receivables due from third parties include the greater value of 4.15 mln euro conferred by Carraro S.p.A. to Carraro Drive Tech for the conferment described above.

Other receivables due from third parties include VAT credits of 2.36 mln euro, paid with interest at a rate of 2.75%.

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

| | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| Trade receivables due from third parties | 18,266,572 | 50,616,008 |
| Credit risk fund | -136,775 | -2,126,204 |
| Net balance | 18,129,797 | 48,489,804 |

| | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|

| | | |
|---|---|---|
| Other receivables due from subsidiary companies | 11,300,133 | 5,189,257 |
| Provision for depreciation | - | -1,291,626 |
| | 11,300,133 | 3,897,631 |

*(Figures in euro)*

The breakdown of trade and other receivables by maturity is shown in the following table:

| *(figures in euro/000)* | **Dec. 31, 2008** | | | | | **Dec. 31, 2007** | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | FALLEN DUE | | FALLING DUE | | | FALLEN DUE | | FALLING DUE | | |
| | Within 1 year | Over 1 year | Within 1 year | Over 1 year | *TOTAL* | Within 1 year | Over 1 year | Within 1 year | Over 1 year | *TOTAL* |
| Trade receivables | 3,534 | 2,099 | 25,135 | 0 | **30,767** | 19,492 | 3,242 | 40,876 | - | **63,610** |
| Other receivables | 0 | 0 | 15,384 | 98 | **15,482** | - | - | 18,339 | 1,215 | **19,554** |
| **TOTAL** | 3,534 | 2,099 | **40,520** | **98** | **46,250** | **19,492** | **3,242** | **59,215** | **1,215** | **83,164** |

## *Credit risk fund*

| *(figures in euro/000)* | Dec. 31, 2007 | increases | decreases | conferment | Dec. 31, 2008 |
|---|---|---|---|---|---|
| | | | | | |
| Risk fund - trade receivables | 2,126 | | -838 | -1,151 | 137 |
| Risk fund - receivables from subsidiary companies | 1,292 | | -1,292 | | 0 |
| **TOTAL** | **3,418** | | **-2,130** | **-1,151** | **137** |

The provision for the trade receivables and other receivables is entered as hedging the risk on past due positions according to the loss estimate currently considered probable.
The amount of the depreciation fund is significantly reduced through the effect of the conferment operation to Carraro Drive Tech.
The fund for subsidiary companies was used completely during the period to cover the losses on the receivables from the subsidiary company Carraro Korea Ltd.

**Closing inventory** (note 14)

| | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| 1) raw, subsidiary and consumable materials | 11,698,843 | 42,490,455 |
| 2) working progress and semi-finished products | 4,525,960 | 13,268,518 |
| 4) finished products and goods | 5,285,953 | 20,277,369 |
| 6) goods in transit | 66,350 | 405,013 |
| TOTAL STOCKS | 21,577,106 | 76,441,355 |

*(Figures in euro)*

Leftover stock presents a balance of 21.58 mln euro against the 76.44 mln euro in 2007. The significant reduction in the value of stocks is linked to the extraordinary operation for the conferment of the Drive and Drivelines business unit.

The provision for loss in value of products, recorded to align the value of obsolete or slow-moving stocks to the realisation value, amounts to 2.98 mln euro and can be summarised as follows:

- raw, subsidiary and consumable materials for 2.61 mln euro;
- semi-finished products for 0.02 mln euro;
- finished products for 0.35 mln euro.

| | |
|---|---|
| FUND Dec. 31, 2007 | 7,654 |
| CONFERMENT | -6,702 |
| UTILISATION | -671 |
| PROVISION | 2,700 |
| FUND Dec. 31, 2008 | 2,981 |

*Figures in euro/000*

The total provision made amounts to 2.7 mln euro. During the year 0.67 mln euro was used for the disposal and breaking-up of assets no longer usable.

**Cash and cash equivalents** (note 15)

| | Dec. 31, 2008 | | Dec. 31, 2007 |
|---|---|---|---|
| | | | |
| 1) cash | 36,116 | | 92,317 |
| 2) Bank current accounts and deposits | 1,256,439 | | 5,928,000 |
| TOTAL | 1,292,555 | | 6,020,317 |

*(Figures in euro)*

Short-term bank deposits are remunerated at a floating rate.
The changes in cash and cash equivalents compared to the previous accounting period is in line with the general trend of the financial position, subsequently analysed and by the conferment operation. See also the cash flow statement.

**Shareholders' equity** (note 16)

**Share capital:**

| Authorised shares: | Dec. 31, 2008 euro/000 | Dec. 31, 2007 euro/000 |
|---|---|---|
| 42 mln ordinary shares with a par value of 0.52 euro each: | 21,840 | 21,840 |
| Shares issued and fully paid in: | | |
| At the start of the year: | 21,840 | 21,840 |
| At the end of the year: | 21,840 | 21,840 |

The company has issued a single category of ordinary shares which do not assign a fixed dividend.
No other financial instruments have been issued which assign equity and investment rights.
No share capital increases were carried out during the year.

**Other reserves:**

## *Capital reserves*

| | Share premium reserve |
|---|---|
| Reserves at Jan. 1, 2008 | 17,833,456 |
| Other changes during the year | -1,525,969 |
| At Dec. 31, 2008 | 16,307,487 |

*(Figures in euro)*

There were no changes in the Share Premium Reserve during the year.

## *Net income reserves*

| | Legal reserve | Other reserves profits | Total Other reserves |
|---|---|---|---|
| Reserve at Jan. 01, 2008 | 4,458,341 | 8,791,127 | 13,249,468 |
| Allocation of 2007 results (resolution of the shareholders' meeting Apr. 23, 2008) | | 701,003 | 701,003 |
| Reserve at Dec. 31, 2008 | 4,458,341 | 9,492,130 | 13,950,471 |

*(Figures in euro)*

The following table shows the total of the shareholders' equity items broken down by origin, utilisation possibility and distribution.

| Nature/description | Amount | Utilisation possibility | Portion available | |
|---|---|---|---|---|
| **Share capital:** | 21,840,000 | --- | --- | |
| **Capital reserves:** | | | | |
| Share premium reserve | 17,833,456 | A, B, C | 17,833,456 | (1) |
| **Reserve for IAS/IFRS - First Time Adoption:** | | | | |
| Reinstatement value non-ammortisable assets | 5,210 | A, B, C | 5,210 | (2) |
| Adjustment of value of tangible assets | 22,195,182 | A | --- | (3) |
| Adjustment of employee severance indemnity | 451,264 | A, B | --- | (4) |
| Valuation of financial instruments | 1,141,384 | A, B, C | 1,141,384 | (5) |
| **Net income reserves:** | | | | |
| Legal reserve | 4,458,341 | B | --- | |
| Retained earnings | 9,492,130 | A, B, C | 9,492,130 | |
| Treasury shares reserve | -1,525,969 | | -1,525,969 | |
| **Shareholders' Equity Reserves:** | | | | |
| Cash flow hedge reserve | -- | --- | | (6) |
| **Result for the period:** | 8,587,035 | A, B, C | 8,587,035 | |
| **Total** | **84,478,033** | | **35,533,246** | |
| Non-distributable portion | | | -366,469 | (7) |
| **Remaining distributable portion** | | | **35,166,777** | |

Key:

**A**: capital increases
**B**: hedge losses
**C**: distribution to shareholders

(1) in accordance with article 2431, subsection 1 of the Civil Code, the share premium reserve cannot be distributed until the legal reserve has reached 1/5 of the share capital
(2) available pursuant to Article 7, subsection 4 of Italian Legislative Decree no. 38, of Dec. 28, 2005
(3) not available pursuant to Article 7, subsection 6 of Italian Legislative Decree no. 38, of Dec. 28, 2005
(4) not available pursuant to Article 7, subsection 7 of Italian Legislative Decree no. 38, of Dec. 28, 2005
(5) available pursuant to Article 7, subsection 2 of Italian Legislative Decree no. 38, of Dec. 28, 2005
(6) not available pursuant to Article 6, subsection 4 of Italian Legislative Decree no. 38, of Dec. 28, 2005
(7) Non-distributable portion: is the amount of the non-distributable portion through the effect of the part allocated to cover the multi-year costs not yet amortised (subsection 5 of article 2426 of the Italian Civil Code). Having reached a maximum limit of the legal reserve, the share premium reserve can be distributed.

**Financial liabilities** (note 17)

| | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| **NON-CURRENT FINANCIAL LIABILITIES** | | |
| LOANS | | |
| due to subsidiary companies | 95,900 | |
| due to third parties | 1,423,450 | 2,093,879 |
| | 1,519,350 | 2,093,879 |
| **CURRENT FINANCIAL LIABILITIES** | | |
| AMOUNTS PAYABLE THROUGH FINANCING | | |
| due to subsidiary companies | 50,226,569 | 47,044,271 |
| due to third parties | 5,745,607 | 5,970,248 |
| | 55,972,176 | 53,014,519 |
| ACCRUED INCOME AND DEFERRED CHARGES | | |
| due to third parties | 12,169 | 37,627 |
| | 12,169 | 37,627 |
| OTHER FINANCIAL LIABILITIES | | |
| further value derivatives on exchange rates | | 10,606 |
| | | 10,606 |

*(Figures in euro)*

**Financial liabilities** (note 17)

| | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| **NON-CURRENT FINANCIAL LIABILITIES** | | |

| | | |
|---|---|---|
| LOANS | | |
| due to subsidiary companies | 95,900 | |
| due to third parties | 1,423,450 | 2,093,879 |
| | 1,519,350 | 2,093,879 |
| **CURRENT FINANCIAL LIABILITIES** | | |
| AMOUNTS PAYABLE THROUGH FINANCING | | |
| due to subsidiary companies | 50,226,569 | 47,044,271 |
| due to third parties | 5,745,607 | 5,970,248 |
| | 55,972,176 | 53,014,519 |
| ACCRUED INCOME AND DEFERRED CHARGES | | |
| due to third parties | 12,169 | 37,627 |
| | 12,169 | 37,627 |
| OTHER FINANCIAL LIABILITIES | | |
| further value derivatives on exchange rates | | 10,606 |
| | | 10,606 |

*(Figures in euro)*

## Financial liabilities

The breakdown of the financing payables by maturity is as follows:

| *(figures in euro/000)* | Dec. 31, 2008 | | | | Dec. 31, 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| **COMPANY** | within the year | between one and five years | more than five years | **TOTAL** | within the year | between one and five years | more than five years | **TOTAL** |
| Carraro S.p.A. | 690 | 1,519 | | 2,209 | 686 | 2,093 | | 2,779 |

Information relating to the financing liabilities (medium/long term portion) is illustrated below.

*(figures in euro/000)*

| COMPANY | LENDER | Equivalent balance in euro | EXPIRY | RATE | RATE TYPE | CURRENCY |
|---|---|---|---|---|---|---|
| Carraro S.p.A. | San Paolo IMI (F.I.T.) | 551 | Jun-11 | 1.01% | fixed | euro |
| Carraro S.p.A. | Mps Leasing | 872 | Feb-11 | 3.934% | variable | euro |

The non-current loan totalling 0.55 mln euro was obtained for a technological innovation project relating to a new type of product (Law 46/82). Granted in Jun. 2002 under the Decree of the Ministry of Productive Activities, it was subsequently paid out in 2004 and 2005 by San Paolo IMI. It has a five-year term and a subsidised fixed rate of 1.01%. The remaining amount relates to payables to leasing companies relating to the substitution in respect of the contract already in place in Agritalia.

Current loans (55.97 mln euro) are made up of the following:

- 47.74 mln euro for funding received from Carraro International involving a credit line totalling 50 mln euro, maturing on Dec. 31, 2008 and renewable, at the Euribor rate + 1.60%, non-utilisation fee 1.20%, origination fee 1%);
- 2.49 mln euro of borrowing payables with Carraro International relating to interest on loans;
- current-account advances and overdrafts for 5.06 mln euro of revocable credit lines for 22.40 mln euro that can be utilised for current account overdrafts and short-term financing, on a 12 month revolving basis.

The average interest rate for the period was around 4.6%;

- Amounts payable to leasing companies (0.41 mln euro) and financing under Law 46/82 from the Ministry of Industry (0.27 mln euro).

Accruals and deferrals for 0.04 mln euro refer to interest accrued on other loans outstanding.

**Trade payables and other payables** (note 18)

| | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| **TRADE PAYABLES AND OTHER PAYABLES CURRENT** | | |
| TRADE PAYABLES | | |
| due to parent companies | | 12,225 |
| due to subsidiary companies | 13,194,408 | 19,729,116 |
| due to associated companies | | 172,907 |
| due to related parties | 22,000 | 371,561 |
| due to third parties | 32,163,297 | 119,464,045 |
| | 45,379,705 | 139,749,854 |
| OTHER PAYABLES | | |
| due to parent companies | 524,702 | 2,746,732 |
| due to third parties | 5,918,318 | 13,478,618 |
| | 6,443,020 | 16,225,350 |

*(Figures in euro)*

Trade payables are non-interest-bearing and on average are settled at 120 days.

Other payables due to parent companies are represented by payables due to Finaid Srl for tax consolidation charges.

*Trade payables and other payables*

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

| | **Dec. 31, 2008** | | | | | **Dec. 31, 2007** | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | FALLEN DUE | | FALLING DUE | | | FALLEN DUE | | FALLING DUE | | |
| *(figures in euro/000)* | Within 1 year | Over 1 year | Within 1 year | Over 1 year | *TOTAL* | Within 1 year | Over 1 year | Within 1 year | Over 1 year | *TOTAL* |
| Trade payables | 12,697 | 142 | 32,541 | 0 | **45,380** | 8,961 | 557 | 130,232 | - | **139,750** |
| Other payables | 0 | 0 | 6,43 | 0 | **6,443** | - | - | 16,225 | - | **16,225** |
| **TOTAL** | **12,697** | **141,717** | **38,984** | **0** | **51,823** | **8,961** | **557** | **146,457** | **-** | **155,975** |

Other payables due to third parties can be analysed as follows:

| | Dec. 31, 2007 | Dec. 31, 2008 |
|---|---|---|
| Amounts due to social security & welfare institutions | 2,645,226 | 894,258 |
| Amounts due to employees | 6,927,696 | 2,709,706 |
| Accrued amounts due to employees | 763,811 | 269,686 |
| IRPEF (personal income tax) employees & professionals | 1,860,394 | 884,552 |
| Board of Directors | 461,594 | 591,813 |
| Other payables | 819,897 | 568,303 |
| | 13,478,618 | 5,918,318 |

*(Figures in euro)*

**Net financial position**

The company's net financial position compared to the previous year is illustrated below:

| NET FINANCIAL POSITION | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| **Amounts in euro/000** | | |
| | | |
| Loans and financing payable: | | |
| Other non-current financing payables | 1,519 | 2,094 |
| | | |
| Other current financing payables | 55,983 | 53,014 |
| *of which to related parties* | *50,322* | *47,044* |
| | | |
| Current financing accruals and deferrals | 12 | -195 |
| | | |
| Net of: | | |
| Cash and cash equivalents: | | |
| Cash | -36 | -92 |
| Bank current accounts and deposits | -1,256 | -5,928 |
| Loans and receivables | -4,659 | -1,684 |
| *of which with related parties* | | *-1,684* |
| Securities | | |
| Other financing receivables | | |
| | | |
| **NET FINANCIAL POSITION** | **51,563** | **47,209** |
| | | |
| Of which payables / (receivables): | | |
| Not current | 1,519 | 2,094 |
| Current | 50,044 | 45,115 |
| | | |
| **NET FINANCIAL POSITION** | **51,563** | **47,209** |

**Deferred tax assets** (note 12)

The table below illustrates the composition of taxation deferred by nature of the timing differences. The change corresponds to the effect of the deferred taxation on net equity and income.

| Description of differences | Deferred taxes Dec. 31, 2006 | Economic effect on income | Economic effect net equity | Deferred taxes Dec. 31, 2007 |
|---|---|---|---|---|
| Write-down of equity investments | 161,436 | -213,401 | | -51,965 |
| Provision for risk | 5,265,015 | -449,595 | | 4,815,420 |
| Write-down of receivables | -430,224 | 430,224 | | 0 |
| Adjustment of severance indemnities | -317,467 | -80,251 | | -397,718 |
| Valuation of financial assets/liabilities | -99,559 | | 44,861 | -54,698 |
| Depreciation of tangible fixed assets | 1,302,093 | 1,221,290 | | 2,523,383 |
| Other | 253,504 | 75,750 | | 329,254 |
| **TOTAL** | **6,134,798** | **984,017** | **44,861** | **7,163,676** |

*(Figures in euro)*

| Description of differences | Deferred taxes Dec. 31, 2007 | Conferment to Carraro Drive Tech | Economic effect net equity | Economic effect on income | Deferred taxes Dec. 31, 2008 |
|---|---|---|---|---|---|
| Write-down of equity investments | -51,965 | | | 51,965 | |
| Provision for risk | 4,815,420 | -3,754,024 | | 773,342 | 1,834,738 |
| Write-down of receivables | 0 | | | | |
| Adjustment of severance indemnities | -397,718 | 385,648 | | -27,247 | - 39,317 |
| Valuation of financial assets/liabilities | -54,698 | | 54,698 | | |
| Depreciation of tangible fixed assets | 2,523,383 | - 3,008,634 | | 1,090,251 | 605,000 |
| Other | 329,254 | -20,243 | | 192,190 | 501,203 |
| Thin Cap Rule | | | | 230,130 | 230,130 |
| **TOTAL** | **7,163,676** | **-6,397,253** | **54,698** | **2,310,631** | **3,131,754** |

*(Figures in euro)*

**Current taxes payable** (note 19)

| | Dec. 31, 2007 | Dec. 31, 2008 |
|---|---|---|
| <u>Current taxes payable</u> | 518,554 | 851,026 |

The balance of liabilities for current taxes is made up of the substitute tax on the tax realignment.

**Provision for severance indemnity and retirement benefits** (note 20)

| | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| Blue-collar workers | 1,079,261 | 7,034,590 |
| White-collar workers and executives | 2,028,398 | 5,221,124 |
| Severance indemnity - Social Security | -432,855 | -782,484 |
| TOTAL EMPLOYEE SEVERANCE INDEMNITIES | 2,674,804 | 11,473,230 |

*(Figures in euro)*

<u>Changes in the severance indemnity/pension fund</u>

| START | INCREASE | TRANSFERS | DECREASE | 0.5% TO PENSION FUND | END |
|---|---|---|---|---|---|
| 12,255,714 | 1,961,252 | -10,006,104 | 10,886 | -1,114,089 | 3,107,659 |

| | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| Severance indemnity - Social Security | 432,855 | 782,484 |

| | |
|---|---|
| EMPLOYEE SEVERANCE INDEMNITIES IN ACCORDANCE WITH IAS 19 AT Dec. 31, 2007 | 11,473 |
| UTILISATION OF EMPLOYEE SEVERANCE INDEMNITIES | -1,006 |
| EMPLOYEE SEVERANCE INDEMNITIES TRANSFERRED TO ANOTHER COMPANY | -9,230 |
| EMPLOYEE SEVERANCE INDEMNITIES TRANSFERRED FROM ANOTHER COMPANY | 37 |
| CURRENT SERVICE COST | 0 |
| INTEREST COST | 113 |
| ACTUARIAL GAINS / LOSSES | 1,287 |
| EMPLOYEE SEVERANCE INDEMNITIES IN ACCORDANCE WITH IAS 19 AT Dec. 31, 2008 | 2,674 |

*Figures in euro/000*

It should be pointed out that part of the fund is not adjusted insofar as it refers to personnel relating to the Agritalia Division business unit, which is currently managed under a business lease agreement.

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

The severance indemnity refers to employee benefits governed by current Italian laws.
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:
- annual rate of interest: 5%
- annual rate of effective increase in remuneration: 3%
- annual inflation index: 2%

The accounting treatment of employee benefits recorded in the financial statements complies with standard IAS 19 for fixed benefit plans; the change in liability noted between the end of the period and the previous one is booked in full to the income statement and classified under payroll and related costs.

**Number of employees**

The number of employees shown below is broken down by category:

| **Employees** | **Dec. 31, 2007** | **Changes** | **Dec. 31, 2008** |
|---|---|---|---|
| Executives | 43 | -29 | 14 |
| White-collar workers | 327 | -272 | 55 |
| Blue-collar workers | 660 | -658 | 2 |
| Temporary workers | 77 | -77 | 0 |
| **Total** | **1,107** | **-1,036** | **71** |

**Provision for liabilities and charges** (note 21)
The item can be broken down as follows:

| | opening balance | increases | decreases | reclassification | closing balance |
|---|---|---|---|---|---|
| **PROVISION FOR LIABILITIES AND CHARGES** | | | | | |
| **NON-CURRENT PORTION** | | | | | |
| 1) Warranty | 949,000 | 0 | | -550,000 | 399,000 |
| 2) Charges pertaining to disputes | 100,000 | 81,362 | -99,766 | | 81,596 |
| 4) Other provisions | | 948,084 | | | 948,084 |
| TOTAL | 1,049,000 | 1,029,446 | -99,766 | -550,000 | 1,428,680 |

*(Figures in euro)*

| | opening balance | increases | decreases | reclassification | closing balance |
|---|---|---|---|---|---|
| **PROVISION FOR RISK AND CHARGES** | | | | | |
| **CURRENT PORTION** | | | | | |
| 1) Warranty | 5,601,757 | 4,071,560 | -3,588,005 | -3,695,502 | 2,389,810 |
| TOTAL | 5,601,757 | 4,071,560 | -3,588,005 | -3,695,502 | 2,389,810 |

*(Figures in euro)*

3.59 mln euro of the product warranty reserve was used for customer claims accepted and the reserve was increased by 4.07 mln euro on the basis of expected warranty costs which will be incurred in relation to the sales made.

## 5. Commitments and risks

| | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| Risks: | - | - |
| - guarantees given | 21,358,107 | 94,562,214 |
| | | |
| Commitments for operating leases: | 1,778,000 | 1,778,000 |
| Other commitments: | | |

The guarantees given on behalf of subsidiary companies are illustrated below:

| DATE ISSUED | IN FAVOUR OF | ON BEHALF OF | EXPIRY | ORIGINAL AMOUNT | CLOSING AMOUNT |
|---|---|---|---|---|---|
| Dec. 31, 2003 | ECA SRL and | ASSALI EMILIANI SRL | Jun. 30, 2009 | 186,000 | 186,000 |
| Mar. 29, 2007 | BANCA POP DI VERONA | ASSALI EMILIANI SRL | ON DEMAND | 3,000,000 | 3,000,000 |
| Nov. 07, 2003 | CASSA RISPARMIO PD E RO | CARRARO ARGENTINA SA | ON DEMAND | 8,000,000 | 600,000 |
| Feb. 06,2006 | MCC SPA | TURBO GEARS LTD | Dec. 31, 2014 | 8,150,000 | 4,782,143 |

| DATE ISSUED | IN FAVOUR OF | ON BEHALF OF | EXPIRY | ORIGINAL AMOUNT | CLOSING AMOUNT |
|---|---|---|---|---|---|
| Jan. 01, 2006 | MCC SPA | CARRARO INDIA | Apr. 07, 2011 | 2,276,429 | 2,171,214 |
| Jan. 01,2007 | BANCA POP VERONA | ELETTONICA SANTERNO SPA | ON DEMAND | 3,000,000 | 3,000,000 |
| Nov. 09, 2006 | CAPITALIA LUXEMBOURG | CARRARO INTERNATIONAL | Sep. 12, 2011 | 7,700,000 | 7,218,750 |
| Feb. 26, 2008 | BNP PARIBAS | FON | ON DEMAND | 400,000 | 400,000 |
| | *TOTAL* | | | | 21,358,107 |

**Operating lease instalments:**
This refers to the rental contract for the business segment stipulated on Mar. 24, 2005, with duration of three years subsequently extendable year by year. To date, this contract has been extended by a further year. The lessor is Agritalia S.p.A. (a related party) and the annual fee (1.422 mln euro) was determined on the basis of an independent appraisal. The contract also envisages the possibility of exercising an option to purchase the division at a determinable price. Taking into account the prescriptions of IAS 17 it is not believed that the contract has the nature of a financial lease. The commitments for instalments still to be paid at Dec. 31, 2007 have maturity dates within 12 months for a total of 1.422 mln euro and beyond 12 months but less than five years for a total of 0.356 mln euro.

## 6. Events subsequent to the year end date.
There were no significant events worthy of mention which would have had any effect on the financial statements and related information.

### 7. Transactions with related parties
Carraro S.p.A. is directly controlled by Finaid S.p.A., which at Dec. 31, 2008 held 51.9134% of the shares in circulation.

The details of the transactions between Carraro S.p.A. and other related parties are illustrated below (see note 10).

During the 2005 accounting period, Carraro S.p.A. exercised the option to comply with the tax consolidation system of the Parent Company Finaid SpA. The charges/income deriving from the transfer of the IRES taxable base are booked under current taxes. According to the current regulations of the Tax Consolidation Agreement, Carraro SpA has the right to "relief" for the use of the tax losses of the subsidiary companies by Finaid. This "relief" amounts to 3% of the tax loss offset with the taxable amount of Carraro Spa.

### 8. Fair value
When an essential coincidence between the book value and the fair value of financial assets and liabilities does not exist, steps are taken to include a comparison between the various values.
At the end of the 2008 period, it was not possible to detect any significant differences between the book value and the fair value for the financial assets and liabilities which have not already been recorded at fair value in accordance with the standards indicated previously.

### 9. DERIVATIVE FINANCIAL INSTRUMENTS
### 9.1 Derivative financial instruments on currencies
The following table indicates all the key information relating to the portfolio of derivative financial instruments on currencies outstanding at Dec. 31, 2008.
These instruments are raised to hedge sales budgets in foreign currencies for the next accounting period (*cash flow hedge*).

**Details of fair values**

*(Figures in euro)*

| | Dec. 31, 2008 | | Dec. 31, 2007 | |
|---|---|---|---|---|
| | Positive fair value | Negative fair value | Positive fair value | Negative fair value |
| **CASH FLOW HEDGE** | | | | |
| Exchange rate risk – Domestic Currency Swap | 0 | 0 | 188,296 | 0 |

(1) instruments hedging foreign currency sales budget

The fair values at Dec. 31, 2007 of the financial instruments on exchange rates have been calculated by a leading appraisal firm with the aid of the following financial models:

- *Swaps*: have been calculated using the forward exchange rate method.

**Effects on Income Statement**

The following table gives a breakdown of the effects on the Income Statement:

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

| Dec. 31, 2007 | *(figures in euro/000)* | FINANCIAL INCOME | FINANCIAL EXPENSE | EXCHANGE GAINS | EXCHANGE LOSSES | REVENUE |
|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | | |
| Financial instruments at fair value | | | | | | |
| Assets held until maturity | | | | | | |
| Loans and receivables | Bank accounts | 1,005 | | | | |
| | Loans to third parties | 131 | | | | |
| | Trade receivables | 56 | | 44 | 702 | |
| Assets available for sale | | | | | | |
| Cash Flow Hedge Derivatives on currencies | Transfer from net equity reserve | | | 43 | | 385 |
| | Gain/loss | | | 125 | | |
| **FINANCIAL LIABILITIES** | | | | | | |
| Loans | Bank accounts payable | | 5,709 | | | |
| | Bank loans | | 12 | 588 | 372 | |
| | Other loans | | 154 | | | |
| **Other liabilities** | Trade payables | | | 220 | 17 | |
| **TOTAL** | | **1,192** | **5,875** | **1,020** | **1,091** | **385** |

| Dec. 31, 2008 | *(figures in euro/000)* | FINANCIAL INCOME | FINANCIAL EXPENSE | EXCHANGE GAINS | EXCHANGE LOSSES | REVENUE |
|---|---|---|---|---|---|---|
| FINANCIAL ASSETS | | | | | | |
| Financial instruments at fair value | | | | | | |
| Loans and receivables | Bank accounts | 454 | | | | |
| | Loans to third parties | 136 | | | | |
| | Trade receivables | 4 | | 92 | 520 | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Cash Flow Hedge Derivatives on currencies | Transfer from net equity reserve | | | 10,606 | | |
| | Gain/loss | | | | | |
| **Cash Flow Hedge Derivatives on rates** | | | | | | |
| **FINANCIAL LIABILITIES** | | | | | | |
| Loans | Bank accounts payable | | 5,342 | | | |
| | Bank loans | | 9 | 240 | 136 | |
| | Other loans | | 66 | | | |
| **Other liabilities** | Trade payables | | | 294 | 244 | |
| **TOTAL** | | **594** | **5,418** | **636** | **899** | **0** |

The source for foreign currency exchange rates is provided by the ECB for all exchange rates with the euro and by the EMTA for the ARS/USD exchange rate.
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 historic value.

For accounting purposes in relation to the hedge contracts of sales budgets in foreign currencies effective at the date of the closing of the period, it should be noted that for the transactions activated, especially Domestic Currency Swaps, and in accordance with all the conditions provided by IAS/IFRS standards, the hedge accounting principle with reference to the types of "cash flow hedges" has been applied. Consequently, the corresponding changes in fair values are reflected in a net equity reserve, less the tax effect.

### 9.2 Derivative financial instruments on interest rates

There are no derivative contracts on interest rates outstanding at Dec. 31, 2008.

## *Sensitivity analysis*

The table below shows the economic and equity effects generated on the balance sheet assets and liabilities (at Dec. 31, 2008 and Dec. 31, 2007 respectively), in the event there were sudden changes in the following market variables:

- main foreign currencies with respect to the euro: +/- 10%
- interest rates: +/- 100 "basis points"

| Balances at Dec. 31, 2007 | **EXCHANGE RISK** | | | |
|---|---|---|---|---|
| | +10% | | -10% | |
| *(figures in euro/000)* | EFFECT ON INCOME | EFFECT ON NET EQUITY | EFFECT ON INCOME | EFFECT ON NET EQUITY |

| | | | | |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Trade receivables | (556) | | 679 | |
| Other financial assets - derivatives on currencies | (12) | 384 | (9) | (28) |
| Cash and cash equivalents | (16) | | 20 | |
| ***Total gross effect*** | ***(584)*** | ***384*** | ***690*** | ***(28)*** |
| Taxes (33%) | 193 | (127) | (228) | 9 |
| ***Total net effect*** | **(391)** | **257** | **462** | **(19)** |

| | | | | |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| Trade payables | 272 | | (333) | |
| Loans | 314 | | (384) | |
| ***Total gross effect*** | ***586*** | | ***(717)*** | |
| Taxes (33%) | (193) | | 237 | |
| ***Total net effect*** | **393** | | **(480)** | |

| | | | | |
|---|---|---|---|---|
| **TOTAL** | **1** | **257** | **(18)** | **(19)** |

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

| Balances at Dec. 31, 2008 | **EXCHANGE RISK** | | | |
|---|---|---|---|---|
| | +10% | | -10% | |
| *(figures in euro/000)* | EFFECT ON INCOME | EFFECT ON NET EQUITY | EFFECT ON INCOME | EFFECT ON NET EQUITY |
| **ASSETS** | | | | |
| Trade receivables | ***(61)*** | | ***75*** | |
| Cash and cash equivalents | ***16*** | | ***(20)*** | |
| ***Total gross effect*** | ***45*** | | ***55*** | |
| Taxes (27.5%) | ***12*** | | ***(15)*** | |
| ***Total net effect*** | ***(33)*** | | ***40*** | |

| | | | | |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| Trade payables | ***(24)*** | | ***29*** | |
| Loans | | | | |
| ***Total gross effect*** | ***(24)*** | | ***29*** | |
| Taxes (33%) | 7 | | (8) | |
| ***Total net effect*** | **(17)** | | **21** | |

| **TOTAL** | | | | |
|---|---|---|---|---|

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

| Balances at Dec. 31, 2008 | **RATE RISK** | | | |
|---|---|---|---|---|
| | +1% | | -1% | |
| *(figures in euro/000)* | EFFECT ON INCOME | EFFECT ON NET EQUITY | EFFECT ON INCOME | EFFECT ON NET EQUITY |
| | | | | |
| | 500 | | (500) | |

**Management of capital**

The company's main management objective is to ensure that a sound credit rating is maintained, together with adequate levels of the capital indicators so as to support its activities and maximise value for the shareholders.
The company manages and modifies the capital structure in line with changes in economic conditions. To maintain or alter the capital structure, the company can adjust the dividends paid to the shareholders, redeem the capital or issue new shares.
Particular attention is placed on the level of debt in relation to the net equity and EBITDA, thereby pursuing the objectives of profitability and the generation of cash for the company business.

**10. Information on related parties**

The following statements present information relating to transactions with related parties in accordance with the IAS 24 and CONSOB requirements.

**REMUNERATION PAID TO THE ADMINISTRATION, MANAGEMENT AND AUDITING BODIES.**

**(IAS 24, Consob communication DEM/2064231 of Sep. 30, 2002)**

| INDIVIDUAL | DESCRIPTION OF OFFICE | | | REMUNERATION euro/000 |
|---|---|---|---|---|
| **Name and surname** | **Company** | **Office held** | **Term of office** | **2008** |
| | | | | |
| **Mario Carraro** | Carraro S.p.A. | Chairman | Three-year period 2006-2008 (from AGM May 11,2006) | 900.0 |
| | Siap S.p.A. | Chairman | Three-year period 2006-2008 (from AGM Apr. 27, 2006) | 30.0 |
| | STM S.r.l. | Chairman | Three-year period 2007-2009 (from AGM Apr. 24, 2007) | 30.0 |
| | | | | |
| **Carlo Borsari** | Carraro S.p.A. | Managing Director | Three-year period 2006-2008 (from AGM May 11, 2006) | Employee sal. 486.0<br>Admn.stn. fee 470.0 |
| | Siap S.p.A. | Managing Director | Three-year period 2006-2008 (from AGM Apr. 27, 2006) | **0.0** |
| | Stm Srl | Director | Three-year period 2007-2009 (from AGM Apr. 24, 2007) | **0.0** |
| | Elettronica Santerno S.p.A. | Managing Director | Three-year period 2006-2008 (from AGM Jun. 30, 2006) | **0.0** |
| | Gear World S.p.A. | Director | Three-year period 2007-2009 (from AGM Jul. 19, 2007) | **20.0** |

| | | | | |
|---|---|---|---|---|
| | MiniGears S.p.A. | Director | Three-year period 2007-2009 (from AGM Jul. 30, 2007) | **0.0** |
| | Carraro Drive Tech S.p.A. | Managing Director | 2008 trading period (from AGM Jun. 4, 2008) | **0.0** |
| **Francesco Carraro** | Carraro S.p.A. | Director | Three-year period 2006-2008 (from AGM May 11, 2006) | 50.0 |
| **Enrico Carraro** | Carraro S.p.A. | Director | Three-year period 2006-2008 (from AGM May 11, 2006) | 220.0 |
| | Siap S.p.A. | Director | Three-year period 2006-2008 (from AGM Apr. 27, 2006) | 0.0 |
| | Elettronica Santerno S.p.A. | Chairman | Three-year period 2006-2008 (from AGM Jun. 30, 2006) | 150.0 |
| | Assali Emiliani Srl | Chairman | Three-year period 2006-2008 (from AGM Apr. 27, 2006) | 80.0 |
| | Gear World S.p.A. | Director | Three-year period 2007-2009 (from AGM Jul. 19, 2007) | 20.0 |
| | MiniGears S.p.A. | Director | Three-year period 2007-2009 (from AGM Jul. 30, 2007) | **0.0** |
| | Carraro Drive Tech S.p.A. | Chairman | 2008 trading period (from AGM Jun. 4, 2008) | **0.0** |
| **Tomaso Carraro** | Carraro S.p.A. | Director | Three-year period 2006-2008 (from AGM May 11, 2006) | 200.0 |
| | Siap S.p.A. | Managing Director | Three-year period 2006-2008 (from AGM Apr. 27, 2006) | 120.0 |
| | Gear World S.p.A. | Chairman | Three-year period 2007-2009 (from AGM Jul. 19, 2007) | 200.0 |
| | MiniGears S.p.A. | Chairman | Three-year period 2007-2009 (from AGM Jul. 30, 2007) | **0.0** |
| **Onofrio Tonin** | Carraro S.p.A. | Director | Three-year period 2006-2008 (from AGM May 11, 2006) | 105.0 |
| **Giorgio Brunetti** | Carraro S.p.A. | Director | Three-year period 2006-2008 (from AGM May 11, 2006) | 95.0 |
| **Sergio Erede** | Carraro S.p.A. | Director | Three-year period 2006-2008 (from AGM May 11, 2006) | 60.0 |
| **Antonio Cortellazzo** | Carraro S.p.A. | Director | Three-year period 2006-2008 (from AGM May 11, 2006) | 93.5 |
| **Saccomani Roberto** | Carraro S.p.A. | Chairman of the Board of Statutory Auditors | Three-year period 2006-2008 (from AGM May 11, 2006) | 24.9 |
| **Secchieri Francesco** | Carraro S.p.A. | Statutory Auditor | Three-year period 2006-2008 (from AGM May 11, 2006) | 16.6 |
| | Siap S.p.A. | Statutory Auditor | Three-year period 2006-2008 (from AGM Apr. 27, 2006) | 14.7 |
| | STM S.r.l. | Statutory Auditor | Three-year period 2008-2010 (from AGM Apr. 22, 2008) | 5.4 |
| | Elettronica Santerno S.p.A. | Statutory Auditor | Three-year period 2006-2008 (from AGM Jun. 30, 2006) | 8.5 |
| | Assali Emiliani | Statutory Auditor | Three-year period 2006-2008 (from AGM Apr. 27, 2006) | 5.1 |
| | Mini Gears Spa | Statutory Auditor | Three-year period 2007-2009 (from AGM Jul. 30, 2007) | 8.9 |
| | Gear World Spa | Statutory Auditor | Three-year period 2007-2009 (from AGM Jul. 19, 2007) | 11.4 |
| **Meo Federico** | Carraro S.p.A. | Statutory Auditor | Three-year period 2006-2008 (from AGM May 11, 2006) | 16.6 |

Other information on related parties: (CONSOB Resolution 10310 of Nov. 12, 1996, encl. 3C Issuer Regulations)

During the 2008 accounting period, fees were paid for professional services to the following individuals, associated with members of the corporate bodies:
(in euro/000)

| | |
|---|---|
| Studio Bonelli, Erede, Pappalardo | 200 |
| Studio Mocellini | 62 |

| EQUITY INVESTMENTS HELD BY DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS AND THEIR IMMEDIATE FAMILIES | | | | | |
|---|---|---|---|---|---|
| **Name and surname** | Investee company: Carraro S.p.A. | No. Shares held Dec 31, 2007 | No. Shares purchased | No. Shares sold | No. Shares held Dec 31, 2008 |
| | | | | | |
| Mario Carraro | Directly held | 1,679,650 | 223,600 | - | 1,903,250 |
| | via Finaid S.p.A. | 21,001,005 | 802,622 | - | 21,803,627 |
| | | | | | |
| Francesco Carraro | Directly held | 1,182,395 | - | - | 1,182,395 |
| | | | | | |
| Valentina Carraro | Directly held | 223,600 | - | 223,600 | 0 |
| | | | | | |
| Chiara Allessandri | Directly held | 20,000 | - | - | 20,000 |
| | | | | | |
| Onofrio Tonin | Directly held | 1,550 | 4,199 | 1,924 | 3,825 |
| | | | | | |
| Carlo Borsari | Directly held | 0 | 10,000 | | 10,000 |
| | | | | | |

**CARRARO S.P.A. TRANSACTIONS WITH RELATED PARTIES AT Dec. 31, 2008**

(euro/000)

| | Financial and equity transactions | | | | Economic transactions | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | FINANCIAL RECEIVABLES | FINANCIAL PAYABLES | TRADE AND OTHER RECEIVABLES | TRADE AND OTHER PAYABLES | PRODUCT SALES | SALES OF SERVICES | OTHER REVENUES | PURCHASES OF GOODS AND MATERIALS | PURCHASE OF SERVICES | LEASES AND RENTS | OTHER EXPENSES AND INCOME | PURCHASE OF ASSETS | TAX CONSOLIDATION INCOME | OTHER FINANCIAL INCOME | FINANCIAL COSTS AND EXPENSES |
| **Parent companies** | | | | | | | | | | | | | | | |
| Finaid SpA | | | | 525 | | | | | | | | | | | |
| **Subsidiary companies** | | | | | | | | | | | | | | | |
| Carraro Drive Tech | | | 9,248 | 8,661 | 1,134 | 1,503 | 11 | 8,375 | 332 | | 1,595 | | | | |
| Siap S.p.A. | | | 2,602 | 169 | 2,175 | 590 | 32 | 23,327 | 35 | | 2 | 149 | | | |
| Carraro India Ltd. | | | 1,312 | 3,547 | 5 | 355 | 101 | 14,913 | 28 | | 224 | | | 21 | |
| Turbo Gears India Ltd- | | | 390 | -18 | | 195 | | 2,342 | | | | | | 99 | |
| Carraro Technologies | | | 435 | 34 | | 24 | | 189 | 292 | | | | | | |
| Carraro Argentina S.A. | 4,428 | 96 | | | 338 | 272 | 451 | 2,846 | 2 | | 164 | | | 5 | |
| South America gears | | | 89 | 15 | | 88 | | 19 | | | | | | | |
| Carraro International S.A. | 195 | 50,226 | 5,003 | 85 | | 3 | | 4,582 | 45 | | | | | 5,162 | 3,944 |
| F.O.N. S.A. | | | 374 | 5 | 3,215 | 244 | 750 | 1,743 | 3 | | 147 | | | 3 | |
| O&K Antriebstechnik GmbH | | | 261 | 146 | | 331 | 1 | 590 | 116 | | 50 | | | | |
| Carraro North America Inc. | | | 153 | 20 | | | | | 521 | | | | | | |
| Carraro China | | | 370 | 39 | 85 | 275 | 150 | 25 | 38 | | 41 | | | | |
| Carraro Qingdao Trading | | | 96 | 5 | | | | 2,263 | | | | | | | |
| A.E. S.r.l. | | | 72 | 2 | 22 | | 77 | 1,181 | 64 | | | | | 764 | |
| Elettronica Santerno | | | 289 | 484 | | 286 | | | | | | | | 2,025 | |
| Stm S.r.l. | | | 54 | | | 76 | | 39 | | | | | | | |
| MG Mini Gears | | | 329 | | 360 | 332 | 244 | 241 | | | 81 | | | | |
| MG Mini Gears USA | | | 32 | | | 32 | | | | | | | | | |
| MG Mini Gears Suzhou | | | 98 | | | 98 | | | | | | | | | |
| Gear World | | | 2,341 | | | 1,975 | | | | | | | | | |
| TOTAL | 4,623 | 50,322 | 23,548 | 13,194 | 7,334 | 6,679 | 1,817 | 62,675 | 1,476 | | 2,304 | 149 | | 8,079 | 3,944 |
| **Other related parties** | | | | | | | | | | | | | | | |
| Agritalia S.p.A. | | | 203 | | | | | | -203 | 1,422 | | | | | |
| Maus S.p.A. | | | 28 | 22 | | 58 | | 15 | 22 | | | | | | |
| European Power System Srl | | | 5 | | | 6 | | 7 | 100 | | | | | | |
| MGT S.r.l. | | | 17 | | | 2 | | | | | | | | | |
| TOTAL | | | 253 | 22 | | 66 | | 22 | -81 | | | | | | |
| TOTAL | 4,623 | 50,322 | 23,801 | 13,741 | 7,334 | 6,745 | 1,817 | 62,697 | 1,395 | 1,422 | 2,304 | 149 | | 8,079 | 3,944 |

**Notes:**

1. **Financial transactions**

Financial transactions relate to short and long-term loans.

2. **Economic transactions**

The most significant economic transactions represent trade transactions for the purchase and sale of raw materials, semi-finished products, transactions of purchase and sale of raw materials, semi-finished products and component technology for the production of systems for auto-traction; the purchases of services refer mainly to services for industrial processing. Purchases from Maus S.p.A. relate to the supply of specific machine tools and the related spare parts and accessories.

The main sales of services include amounts charged for the utilisation of central information systems and the organisational support provided by the Parent company in the various operating areas.

Commission and royalties refer to specific commercial agency agreements and the sale of rights to use industrial "know-how".
Interest income is generated by outstanding loans; interest expense is generated by the loan received in relation to Carraro International.
Income from the tax consolidation system relates to the "relief" to the benefit of Carraro S.p.A. on the use of tax losses deriving from the adoption of tax consolidation by Finaid S.rl.

## INFORMATION IN ACCORDANCE WITH ARTICLE 149-*DUODECIES* OF THE CONSOB ISSUER REGULATIONS

The following statement, drawn up in accordance with Article 149-*duodecies* of the Consob Issuer Regulations, shows the fees payable for the 2008 accounting period for auditing services and for other services provided by the same audit firm. No services were provided by entities belonging to its network.

| | **Fees applicable to the 2008 accounting period -** (figures in euro/000) |
|---|---|
| Accounting audit | 183 |
| | |
| **Total** | **183** |

These fees refer to PricewaterhouseCoopers.

## CARRARO S.p.A.

**STATEMENT OF EQUITY INVESTMENTS EXCEEDING 10% AT DEC. 31, 2008** (article 126 of Consob Draghi Regulation 1 1971/99)

### 1) INVESTEE COMPANIES DIRECTLY HELD

| Name | Registered office | Share capital | | Total no. shares/units | gain (loss) Dec. 31, 2008 (Equiv. val. euro) | Net equity at Dec. 31, 2008 (Equiv. val. euro) | Direct share at Dec. 31, 2008 | Indirect share at Dec. 31, 2008 | Book value of equity investment (euro) |
|---|---|---|---|---|---|---|---|---|---|
| | | Currency | Amount | | | | | | |
| GEAR WORLD S.p.A. | PADUA | EURO | 35,084,397 | 35,084,397 | -78,492 | 50,348,702 | 45.60% | 73.82% | 16,139,000 |
| CARRARO DRIVE TECH SPA | Campodarsego (PD) | EURO | 50,758,291 | 50,758,291 | -1,234,879 | 49,523,412 | 51% | 100.00% | 25,886,040 |
| CARRARO DEUTSCHLAND GmbH | HATTINGEN (GERMANY) | EURO | 10,507,048 | 1 | 286,804 | 9,193,129 | 100.00% | 100.00% | 8,893,090 |
| CARRARO INTERNATIONAL S.A. | LUXEMBOURG | EURO | 39,318,000 | 39,318 | 6,880,848 | 40,856,720 | 100.00% | 100.00% | 36,579,100 |
| ELETTRONICA SANTERNO S.p.A. | Campodarsego (PD) | EURO | 2,500,000 | 2,500 | 10,202,300 | 14,074,520 | 67.00% | 67.00% | 2,014,691 |
| ELETTRONICA SANTERNO INDUSTRIA E COMERCIO Ltda | SAO PAULO (BRAZIL) | REAL | 831,551 | 831,551 | -216,697 | 77,742 | 0.1% | 67.00% | 3,110 |
| CARRARO TECHNOLOGIES INDIA Pvt. Ltd. | PUNE (INDIA) | INR | 18,000,000 | 1,800,000 | 6,197 | 220,070 | 1.00% (*) | 100.00% | 3,035 |

## 2) INVESTEE COMPANIES INDIRECTLY HELD

| Name | Registered office | Via company (direct parent) | Share capital | | Total no. shares/units | gain (loss) Dec. 31, 2008 (Equiv. val. euro) | Net equity at Dec. 31, 2008 (euro) | Direct share at Dec. 31, 2007 | Indirect share at Dec. 31, 2008 | Value of the holding (euro) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Currency | Amount | | | | | | |
| Carraro Argentina S.A.: | HAEDO (ARGENTINA) | CARRARO DRIVE TECH S.P.A | ARS | 77,327,617 | 77,327,617 | 2,072,687 | 21,302,853 | 99.94% | 99.94% | 16,292,996 |
| STM S.r.l. | MANIAGO (PN) | SIAP S.p.A. | EURO | 1,549,080 | 1,549,080 | 1,452,419 | 9,993,851 | 50.0001% | 36.91% | 769,763 |
| SIAP SPA | MANIAGO (PN) | GEAR WORLD S.p.A. | EURO | 10,122,616 | 10,122,616 | 2,216,019 | 28,835,118 | 100.00% | 73.82% | 11,747,181 |
| O&K Antriebstechnik & Co. GmbH KG | HATTINGEN (D) | CARRARO DEUTSCHLAND GmbH | EURO | 2,045,168 | 1 | 3,649,555 | 10,811,757 | 100.00% | 100.00% | 8,040,315 |
| A.E. S.r.l. | CASTELLO D'ARGILE (BO) | CARRARO DRIVE TECH S.P.A | EURO | 40,000 | 40,000 | -314,797 | 351,983 | 90.00% | 90.00% | 36,000 |
| CARRARO NORTH AMERICA Inc. | NORFOLK (USA) | CARRARO DRIVE TECH S.P.A | $ | 1,000 | 1,000 | -60,116 | -62,812 | 100% | 100.00% | 675 |
| CARRARO PNH COMPONENTS INDIA Lt.d. | BOMBAY (INDIA) | CARRARO INDIA Ltd. | INR | 10,000,200 | 1,000,020 | -4,347 | 119,266 | 99.99% | 99.99% | 171,534 |
| TURBO GEARS INDIA Ltd. | PUNE (INDIA) | GEAR WORLD | INR | 550,000,000 | 55,000,000 | -1,348,862 | 12,119,794 | 99.99% | 73.82% | 15,808,999 |
| TURBO GEARS INDIA Ltd. | PUNE (INDIA) | SIAP SPA | INR | 550,000,000 | 55,000,000 | -1,348,862 | 12,119,794 | 0.01% | 73.82% | 0 |
| CARRARO INDIA Ltd. | NEW DELHI (INDIA) | CARRARO DRIVE TECH S.P.A. | INR | 568,260,000 | 56,826,000 | -586,763 | 12,133,064 | 100.00% | 100.00% | 30,538,834 |
| CARRARO QINGDAO TRADING CO Ltd. | QINGDAO E.T.D.A. (CHINA) | CARRARO DRIVE TECH S.P.A | EURO | 170,000 | 1 | -198,273 | -16,337 | 100.00% | 100.00% | 170,000 |
| CARRARO CHINA DRIVE SYSTEM | QINGDAO E.T.D.A. (CHINA) | CARRARO DRIVE TECH S.P.A | $ | 14,763,456 | 1 | -3,464,190 | 7,854,831 | 100.00% | 100.00% | 10,373,073 |
| FON S.A. | RADOMSKO (POLAND) | CARRARO DRIVE TECH S.P.A | PLN | 14,418,220 | 1,441,822 | -2,974,234 | 1,787,113 | 95.43% | 95.43% | 3,482,724 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| CARRARO TECHNOLOGIES INDIA Pvt. Ltd. | PUNE (INDIA) | CARRARO INTERNATIONAL S.A. | INR | 18,000,000 | 1,800,000 | 6,197 | 220,070 | 99.00% | 100.00% | 319,236 |
| CARRARO FINANCE Ltd. | Dublin (IRELAND) | CARRARO INTERNATIONAL S.A. | EURO | 100,000 | 100,000 | -16,480 | 9,067,682 | 100.00% | 100.00% | 19,000,000 |

| Name | Registered office | Via company (direct parent) | Share capital | | Total no. shares/units | gain (loss) Dec. 31, 2008 (Equiv. val. euro) | Net equity at Dec. 31, 2008 (euro) | share at Dec. 31, 2008 | Indirect share at Dec. 31, 2008 | Value of the holding (euro) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Currency | Amount | | | | | | |
| CARRARO DRIVE TECH DO BRASIL | Santo Andrè (State of Sao Paulo) | CARRARO ARGENTINA S.A. | REAL | 25,000 | 25,000 | 3,969 | 14,498 | 99,90% | 99,84% | 0 |
| SOUTH AMERICA GEARS | HAEDO (ARGENTINA) | GEAR WORLD S.p.A. | ARS | 27,768,888 | 27,768,888 | -216,785 | 6,800,633 | 99.95% | 73.78% | 5,615,333 |
| M.G. MINI GEARS S.p.A. | PADUA | GEAR WORLD S.p.A. | EURO | 5,000,000 | 5,000,000 | -1,778,134 | 8,666,379 | 100% | 73.82% | 26,279,930 |
| MINI GEARS SUZHOU CO LtD | SUZHOU (CHINA) | MINI GEARS S.p.A. | USD | 4,300,000 | - | 1,295,117 | 7,111,053 | 100% | 73.82% | 3,533,658 |
| MINI GEARS SHANGAI TRADING Ltd | SHANGHAI (CHINA) | MINI GEARS S.p.A. | USD | 200,000 | - | 62,856 | 345,347 | 100% | 73.82% | 196,059 |
| MINI GEARS INC | VIRGINIA BEACH (USA) | MINI GEARS S.p.A. | USD | 8,910,000 | 100 | -482,696 | 8,204,016 | 100% | 73.82% | 9,300,353 |
| MINI GEARS NA | VIRGINIA BEACH (USA) | MINI GEARS INC | USD | 20,000 | - | - | - | 100% | 73.82% | - |
| MINI GEARS PROPERTY | VIRGINIA BEACH (USA) | MINI GEARS INC | USD | 20,000 | - | - | - | 100% | 73.82% | 14,285 |
| ZAO SANTERNO | MOSCOW (RUSSIA) | ELETTRONICA SANTERNO S.p.A. | RUBLI | 100,000 | 100 | -85,767 | -72,318 | 100% | 67.00% | 234 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ELETTRONICA SANTERNO INDUSTRIA E COMERCIO Ltda | Santa Rita do Sapucaí (BRAZIL) | ELETTRONICA SANTERNO S.p.A. | REAL | 831,551 | 831,551 | -216,697 | 77,742 | 99.9% | 67.00% | 0 |

**NOTE: The net equity and the result for the period pertaining to the foreign companies shown in the above tables have been converted using the same criteria as those used to prepare the consolidated financial statements.**

**Annex to the explanatory notes to the Financial Statements at Dec. 31, 2008 – Carraro S.p.A.**

**Information on the corporate assets subject to fiscal re-evaluation.**

In accordance with the provisions of article 10 of Law no 72/1993, the following tables show the categories of the assets at Dec. 31, 2008 which, in the past, have been re-valued, with the corresponding amount.

RE-EVALUATION LAW 576/1975

| | RE-EVAL. HISTORIC COST | | RE-EVAL. SINKING FUND | | NET BALANCE RE-EVAL. | |
|---|---|---|---|---|---|---|
| Description | opening balance | closing balance | opening balance | closing balance | Opening remaining | Closing remaining |
| INDUSTRIAL LAND | 2,479 | 2,479 | | | 2,479 | 2,479 |
| INDUSTRIAL BUILDINGS | 103,272 | 103,272 | 11,693 | 11,693 | 91,579 | 91,579 |
| 1) TOTAL LAND AND BUILDINGS | 105,751 | 105,751 | 11,693 | 11,693 | 94,058 | 94,058 |
| GENERAL PLANT | 24,107 | 24,107 | 6,477 | 6,477 | 17,630 | 17,630 |
| SPECIFIC PLANT | 566 | 0 | 130 | 0 | 436 | 0 |
| **TOTAL EQUIPMENT | 24,673 | 24,107 | 6,607 | 6,477 | 18,066 | 17,630 |
| AUTOMATIC EQUIPMENT | 795 | 0 | 119 | 0 | 676 | 0 |
| GENERAL EQUIPMENT | 6,571 | 0 | 2,208 | 0 | 4,363 | 0 |
| **TOTAL EQUIPMENT | 7,366 | 0 | 2,327 | 0 | 5,039 | 0 |
| 2) TOTAL PLANT AND EQUIPMENT | 32,039 | 24,107 | 8,934 | 6,477 | 23,105 | 17,630 |
| TOOLING EQUIPMENT | 174 | 0 | 116 | 0 | 58 | 0 |
| SUNDRY EQUIPMENT | 232 | 0 | 97 | 0 | 135 | 0 |
| WORK CANTEEN EQUIP. | 202 | 0 | 61 | 0 | 141 | 0 |
| TRANS, STORAGE & OTHER EQUIP. | 2,016 | 0 | 512 | 0 | 1,504 | 0 |
| 3) TOTAL INDUSTRIAL & COMMERCIAL EQUIP. | 2,624 | 0 | 786 | 0 | 1,838 | 0 |
| OFFICE FURNITURE & FITTINGS | 3,284 | 0 | 1,892 | 0 | 1,392 | 0 |
| WORKSHOP FURNITURE & | 547 | 0 | 262 | 0 | 285 | 0 |

| | | | | | | |
|---|---|---|---|---|---|---|
| FITTINGS | | | | | | |
| **TOTAL FURNITURE & FITTINGS | 3,831 | 0 | 2,154 | 0 | 1,677 | 0 |
| ORD OFFICE MACHINES. | 159 | 0 | 87 | 0 | 72 | 0 |
| ELEC. OFFICE MACHINES | 2,809 | 0 | 1,716 | 0 | 1,093 | 0 |
| **TOTAL OFFICE MACHINES | 2,968 | 0 | 1,803 | 0 | 1,165 | 0 |
| 4) TOTAL OTHER ASSETS | 6,799 | 0 | 3,957 | 0 | 2,842 | 0 |
| TOTAL BII | 147,213 | 129,858 | 25,370 | 18,170 | 121,843 | 111,688 |

RE-EVALUATION LAW 72/1983

| Description | RE-EVAL. HISTORIC COST opening balance | RE-EVAL. HISTORIC COST closing balance | RE-EVAL. SINKING FUND opening balance | RE-EVAL. SINKING FUND closing balance | NET BALANCE RE-EVAL. Opening remaining | NET BALANCE RE-EVAL. Closing remaining |
|---|---|---|---|---|---|---|
| INDUSTRIAL LAND | 16,390 | 16,390 | 1,838 | 1,838 | 14,552 | 14,552 |
| INDUSTRIAL BUILDINGS | 447,008 | 431,167 | 87,166 | 85,857 | 359,842 | 345,310 |
| 1) TOTAL LAND AND BUILDINGS | 463,398 | 447,557 | 89,004 | 87,695 | 374,394 | 359,862 |
| GENERAL PLANT | 104,042 | 104,042 | 58,689 | 58,689 | 45,353 | 45,353 |
| SPECIFIC PLANT | 22,069 | 0 | 5,875 | 0 | 16,194 | 0 |
| TREATMENT FURNACES | 773 | 0 | 167 | 0 | 606 | 0 |
| PURIFICATION PLANT | 7 | 0 | 1 | 0 | 6 | 0 |
| **TOTAL EQUIPMENT | 126,891 | 104,042 | 64,732 | 58,689 | 62,159 | 45,353 |
| AUTOMATIC EQUIPMENT | 44,828 | 0 | 12,773 | 0 | 32,055 | 0 |
| GENERAL EQUIPMENT | 40,914 | 0 | 19,413 | 0 | 21,501 | 0 |
| **TOTAL EQUIPMENT | 85,742 | 0 | 32,186 | 0 | 53,556 | 0 |
| 2) TOTAL PLANT AND EQUIPMENT | 212,633 | 104,042 | 96,918 | 58,689 | 115,715 | 45,353 |
| EXTERIOR EQUIPMENT | 15,841 | 15,841 | 1,309 | 1,309 | 14,531 | 14,531 |
| SPEC. EQUIP. X MACH | 185,566 | 0 | 126,926 | 0 | 58,640 | 0 |
| TOOLS | 119,081 | 0 | 56,528 | 0 | 62,553 | 0 |
| TOOLING EQUIPMENT | 28,541 | 0 | 10,334 | 0 | 18,207 | 0 |
| SUNDRY EQUIPMENT | 26,113 | 0 | 12,639 | 0 | 13,474 | 0 |
| WORK CANTEEN EQUIP. | 3,204 | 0 | 1,483 | 0 | 1,721 | 0 |
| TRANS, STORAGE & OTHER EQUIP. | 57,079 | 0 | 28,997 | 0 | 28,082 | 0 |
| DIES | 21,333 | 0 | 9,809 | 0 | 11,524 | 0 |
| CASTING MODELS | 119,566 | 0 | 59,164 | 0 | 60,402 | 0 |
| 3) TOTAL INDUSTRIAL & COMMERCIAL EQUIP. | 576,324 | 15,841 | 307,189 | 1,309 | 269,134 | 14,531 |
| OFFICE FURNITURE & FITTINGS | 19,391 | 0 | 11,283 | 0 | 8,108 | 0 |
| WORKSHOP FURNITURE & FITTINGS | 5,290 | 0 | 2,315 | 0 | 2,975 | 0 |
| **TOTAL FURNITURE & FITTINGS | 24,681 | 0 | 13,598 | 0 | 11,083 | 0 |
| ORD OFFICE MACHINES. | 867 | 0 | 560 | 0 | 307 | 0 |
| ELEC. OFFICE MACHINES | 27,362 | 0 | 13,363 | 0 | 13,999 | 0 |
| **TOTAL OFFICE MACHINES | 28,229 | 0 | 13,923 | 0 | 14,306 | 0 |
| GOODS TRANS. VEH.S | 0 | 0 | 0 | 0 | 0 | 0 |

| | | | | | | |
|---|---|---|---|---|---|---|
| INTERNAL TRANS VEH.S | 6,515 | 0 | 2,686 | 0 | 3,829 | 0 |
| **TOT. MOTOR VEHICLES | 6,515 | 0 | 2,686 | 0 | 3,829 | 0 |
| 4) TOTAL OTHER ASSETS | 59,425 | 0 | 30,207 | 0 | 29,218 | 0 |
| TOTAL BII | 1,311,780 | 567,440 | 523,318 | 147,693 | 788,461 | 419,746 |

**RE-EVALUATION LAW 413/1991**

| | RE-EVAL. HISTORIC COST | | RE-EVAL. SINKING FUND | | NET BALANCE RE-EVAL. | |
|---|---|---|---|---|---|---|
| Description | opening balance | closing balance | opening balance | closing balance | opening balance | closing balance |
| INDUSTRIAL LAND | 537,164 | 537,164 | | | 537,164 | 537,164 |
| INDUSTRIAL BUILDINGS | 1,783,182 | 1,783,182 | | | 1,783,182 | 1,783,182 |
| EXTERIOR EQUIPMENT | 66,113 | 66,113 | | | 66,113 | 66,113 |
| LIGHT BUILDINGS | 5,738 | 5,738 | | | 5,738 | 5,738 |
| 1) TOTAL LAND AND BUILDINGS | 2,392,197 | 2,392,197 | | | 2,392,197 | 2,392,197 |
| TOTAL BII | 2,392,197 | 2,392,197 | | | 2,392,197 | 2,392,197 |

During the 1976 financial year, a monetary re-evaluation was made in accordance with law no. 576/75, which produced a positive balance of 230,122 euro in Carraro S.p.A. and 129,114 euro in the incorporated company Carraro PNH S.p.A. During the course of 1983, the assets were re-valued in accordance with the provisions of Law no. 72/83, which produced a positive balance of 2,386,070 euro in Carraro S.p.A. The re-evaluation balances relating to these laws were utilised in Carraro S.p.A. during the course of 1984 for a free capital increase.
During the course of 1991, the immovable assets were re-valued in Carraro S.p.A. in accordance with law no. 413/91, which produced a positive balance of 1,084,804 euro gross of the substitute tax of 173,569 euro. A free increase in the share capital was utilised in accordance with the resolution of May 31, 1995. In 1991, a re-evaluation of the assets was carried out in the incorporated company Carraro PNH S.p.A. in accordance with Law no. 413/91, which produced a positive re-evaluation balance of 1,312,399 euro.

The Chairman
Mario Carraro

## Certification of the financial statements for the year pursuant to article 154-*bis*, subsection 5 of legislative decree 58/1998 (Consolidated Finance act) and article 81-*ter* of Consob Regulation no. 11971 of May 14, 1999 as amended.

**1**. The undersigned, Carlo Borsari, Managing Director, and Enrico Gomiero, Manager Responsible for preparing the corporate accounting documents of Carraro S.p.A., declare, taking account also of the provisions of Art. 154-*bis*, subsections 3 and 4, of Legislative Decree 58 of Feb. 24, 1998:

**-** adequacy in relation to the characteristics of the enterprise and

**-** the effective application of the administrative and accounting procedures used to prepare the financial statements of 2008.

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

**3.** We also declare that:

**3.1** the financial statements:

a) are drawn up in accordance with the IAS/IFRS international accounting standards recognized in the European Community under the terms of Regulation (CE) no. 1606/2002 of the European Parliament and Council, of Jul. 19, 2002;

b) correspond to the figures in the accounting documents and books;

c) provide a truthful and correct representation of the economic, financial and equity position of the issuer.

**3.2** the management report includes a reliable analysis of the progress and results of operations as well as the issuer's situation, together with a description of the key risks and uncertainties the issuer is exposed to.

Date: Mar. 20, 2009

/signature/*Carlo Borsari* /signature/ *Enrico Gomiero*

______________________ ______________________

Carlo Borsari
Managing Director

Enrico Gomiero
Chief Financial Officer