

CARRARO S.p.A.

Registered office in Campodarsego, Padua (Italy) – Via Olmo 37

Share Capital 23,914,696 Euros, fully paid-up.

Tax Code/VAT Registration Number and

In the Padua Companies Register 00202040283

R.E.A. no. 84033

FINANCIAL STATEMENTS 31 DECEMBER 2014

| | | |
|---|--|-------------------------------|
| BOARD OF DIRECTORS | ENRICO CARRARO (2) | Chairman |
| In office until approval of the 2014 financial statements | TOMASO CARRARO | Deputy Chairman |
| (Appointments, Shareholders' Meeting of 20.04.2012) | ALBERTO NEGRI | Chief Executive Officer ** |
| | ALEXANDER JOSEF BOSSARD (1) | Director |
| | ARNALDO CAMUFFO (1) (2) | Director * |
| | ANTONIO CORTELLAZZO (1) (2) | Director * |
| | GABRIELE DEL TORCHIO | Director * |
| | MARINA PITTINI (2) (1) | Director * |
| | MARCO REBOA (1) | Director * |
| | (1) Members of the Auditing and Risk Committee | |
| | (2) Members of the Nominations, Human Resources and Remuneration Committee | |
| | * Independent directors | |
| | ** Co-opted by the Board of Directors on 29 October 2014 | |
| BOARD OF STATUTORY AUDITORS | ROBERTO SACCOMANI | Chairman |
| In office until approval of the 2014 financial statements | SAVERIO BOZZOLAN | Regular Auditor |
| (Appointments, Shareholders' Meeting of 20.04.2012) | MARINA MANNA | Regular Auditor |
| | BARBARA CANTONI | Alternate Auditor |
| | STEFANIA CENTORBI | Alternate Auditor |
| INDEPENDENT AUDITORS | PricewaterhouseCoopers S.p.A. | |
| from 2007 to 2015 | | |
| PARENT COMPANY | Finaid S.p.A. | |

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

The Chairman, Mr Enrico Carraro and the Chief Executive Officer, Mr Alberto Negri, have been given severally powers of legal representation and use of the corporate signature in relations with third parties; they carry out their work within the limits of the powers conferred on the Chairman by the Board of Directors in the meeting of 20 April 2012 and on the CEO in the meeting of 29 October 2014, in accordance with applicable legal constraints, in terms of matters which cannot be delegated by the Board of Directors and of responsibilities reserved for the Board itself, as well as the principles and limits provided for in the Company's Code of Conduct.

INCOME STATEMENT

| (amounts in Euro) | NOTES | 31.12.2014 | of which non- recurring | 31.12.2013 | of which non- recurring |
|--|----------|--------------------|-------------------------------|--------------------|-------------------------------|
| A) REVENUES FROM SALES | | | | | |
| 1) Products | | 97,610,901 | | 97,011,429 | |
| 2) Services | | 15,287,959 | | 15,808,837 | |
| 3) Other revenues | | 59,147 | | 611,061 | |
| TOTAL REVENUES FROM SALES | 1 | 112,958,007 | | 113,431,327 | |
| <i>A bis) of which with related parties</i> | | <i>14,217,642</i> | | <i>14,061,811</i> | |
| B) OPERATING COSTS | | | | | |
| 1) Purchases of goods and materials | | 87,347,056 | | 71,767,472 | |
| 2) Services | | 17,104,910 | | 18,574,939 | |
| 3) Use of third-party goods and services | | 17,679 | | 29,883 | |
| 4) Personnel costs | | 21,864,686 | 1,058 | 20,083,533 | |
| 5) Amortisation, depreciation and impairment of assets | | 3,157,533 | | 3,265,635 | |
| 5.a) depreciation of Property, plant and equipment | | 2,162,674 | | 2,105,857 | |
| 5.a) amortisation of Intangible assets | | 966,362 | | 1,143,843 | |
| 5.c) impairment of fixed assets | | - | | - | |
| 5.d) impairment of receivables | | 28,497 | | 15,935 | |
| 6) Changes in inventories | | -11,289,160 | | 3,748,017 | |
| 7) Provision for risks and other liabilities | | 2,402,991 | 400 | 1,639,974 | |
| 8) Other income and expenses | | -3,176,675 | | -3,146,506 | |
| 9) Internal construction | | -293,206 | | - | |
| TOTAL OPERATING COSTS | 2 | 117,135,814 | | 115,962,947 | |
| <i>B-bis) of which with related parties</i> | | <i>14,391,873</i> | | <i>13,863,821</i> | |
| OPERATING PROFIT/(LOSS) | | -4,177,807 | | -2,531,620 | |
| C) GAINS/(LOSSES) ON FINANCIAL ASSETS | | | | | |
| 10) Income from equity investments | | 400,000 | | 2,150,000 | |
| 11) Other financial income | | 212,234 | | 254,975 | |
| 12) Financial costs and expenses | | -4,631,497 | | -4,279,285 | |
| 13) Net gains/(losses) on foreign exchange | | 6,966 | | 68,068 | |
| 14) Value adjustments of financial assets | | - | | - | |
| NET GAINS/(LOSSES) ON FINANCIAL ASSETS | 3 | -4,012,297 | | -1,806,242 | |
| <i>C-bis) of which with related parties</i> | | <i>-2,198,002</i> | | <i>-138,879</i> | |
| PROFIT/(LOSS) BEFORE TAXES | | -8,190,104 | | -4,337,862 | |
| 15) Current and deferred income taxes | 4 | -1,692,632 | 401 | -1,124,205 | |
| NET PROFIT/(LOSS) | | -6,497,472 | -1,057 | -3,213,657 | |
| EARNINGS (LOSSES) PER SHARE | | | | | |
| | 5 | | | | |
| - basic, for the profit for the period attributable to ordinary shareholders of the parent company | | -0.150 | | -0.074 | |
| - diluted, for the profit for the period attributable to ordinary shareholders of the parent company | | -0.150 | | -0.074 | |

STATEMENT OF COMPREHENSIVE INCOME

(amounts in Euro)

| | SECTION NOTES | 31.12.2014 | 31.12.2013 |
|---|------------------|--------------------|-------------------|
| NET PROFIT / (LOSS) FOR THE PERIOD | | - 6,497,472 | 3,213,657 |
| Other income components that could be recognised in the income statement in subsequent periods: | | | |
| Change in cash flow hedge reserve | 7,2 | - | - |
| Taxes on other comprehensive income components | | - | - |
| Total other income components that could be recognised in the income statement in subsequent periods: | | - | - |
| Other income components that will not be recognised in the income statement in subsequent periods: | | | |
| Change in the provision for discounting employee benefits | 19 | -225,300 | 9,392 |
| Taxes on other comprehensive income components | | 61,958 | -2,583 |
| Total other income components that will not be recognised in the income statement in subsequent periods: | | -163,343 | 6,809 |
| OTHER COMPREHENSIVE INCOME COMPONENTS, NET OF TAX EFFECTS | | -163,343 | 6,809 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | -6,660,815 | -3,206,848 |

STATEMENT OF FINANCIAL POSITION

| <i>(amounts in Euro)</i> | NOTES | 31.12.2014 | 31.12.2013 |
|---|-----------|--------------------|--------------------|
| A) NON-CURRENT ASSETS | | | |
| 1) Property, plant and equipment | 6 | 41,971,225 | 40,002,252 |
| 2) Intangible fixed assets | 7 | 14,405,195 | 10,139,674 |
| 3) Real estate investments | 8 | 539,703 | 539,703 |
| 4) Holdings in subsidiaries and associates | 9 | 98,167,247 | 93,669,674 |
| 4.1) <i>Holdings in subsidiaries and associates</i> | | 98,167,247 | 93,669,674 |
| 5) Financial assets | 10 | 4,643,478 | 3,450,841 |
| 5.1) <i>Loans and receivables</i> | | 4,527,800 | 3,365,000 |
| 5.2) <i>Other financial assets</i> | | 115,678 | 85,841 |
| 5 Bis) <i>of which with related parties</i> | | 4,527,800 | 3,365,000 |
| 6) Deferred tax assets | 11 | 21,889,849 | 5,375,172 |
| 7) Trade receivables and other receivables | 12 | 45,020 | 53,499 |
| 7.1) <i>Trade receivables</i> | | - | - |
| 7.2) <i>Other receivables</i> | | 45,020 | 53,499 |
| TOTAL NON-CURRENT ASSETS | | 181,661,717 | 153,230,815 |
| B) CURRENT ASSETS | | | |
| 1) Closing inventory | 13 | 21,080,259 | 9,456,459 |
| 2) Trade receivables and other receivables | 12 | 30,873,134 | 22,194,879 |
| 2.1) <i>Trade receivables</i> | | 25,081,390 | 17,762,972 |
| 2.2) <i>Other receivables</i> | | 5,791,744 | 4,431,907 |
| 2 Bis) <i>of which with related parties</i> | | 22,663,688 | 16,490,785 |
| 3) Financial assets | 10 | 63,539 | 182,781 |
| 3.1) <i>Loans and receivables</i> | | 52,620 | 97,297 |
| 3.2) <i>Other financial assets</i> | | 10,919 | 85,484 |
| 3 Bis) <i>of which with related parties</i> | | 17,620 | 62,297 |
| 4) Cash and cash equivalents | 14 | 1,756,557 | 4,738,903 |
| 4.1) <i>Cash</i> | | 107,545 | 84,439 |
| 4.2) <i>Bank current accounts and deposits</i> | | 1,649,012 | 4,654,464 |
| 4.3) <i>Other cash and cash equivalents</i> | | - | - |
| TOTAL CURRENT ASSETS | | 53,773,489 | 36,573,022 |
| TOTAL ASSETS | | 235,435,206 | 189,803,837 |

STATEMENT OF FINANCIAL POSITION

| <i>(amounts in Euro)</i> | NOTES | 31.12.2014 | 31.12.2013 |
|---|-----------|--------------------|--------------------|
| A) SHAREHOLDERS' EQUITY | 15 | | |
| 1) Share Capital | | 23,914,696 | 23,914,696 |
| 2) Other Reserves | | 16,390,206 | 54,344,652 |
| 3) Profits/(Losses) brought forward | | 83,354 | 83,354 |
| 4) Other IAS/IFRS reserves | | -7,141,566 | -7,141,566 |
| 5) Provision for discounting employee benefits | | -429,202 | -265,859 |
| 6) Profit/loss for the year | | -6,497,472 | -3,213,657 |
| TOTAL SHAREHOLDERS' EQUITY | | 26,320,016 | 67,721,620 |
| B) NON-CURRENT LIABILITIES | | | |
| 1) Financial liabilities | 16 | 17,701,367 | 18,412,892 |
| 1.1) Bonds | | - | - |
| 1.2) Loans | | 17,701,367 | 18,412,892 |
| 2) Trade payables and other payables | 17 | - | - |
| 2.1) Trade payables | | - | - |
| 2.2) Other payables | | - | - |
| 2-bis) of which with related parties | | - | - |
| 3) Deferred tax liabilities | 11 | - | 19,900 |
| 4) Provisions for employee benefits/retirement | 19 | 3,011,831 | 2,022,724 |
| 5) Provision for risks and liabilities | 20 | 421,216 | 816,953 |
| 5.1) Provision for warranties | | - | 399,000 |
| 5.2) Provision for legal claims | | 15,000 | 201,905 |
| 5.3) Provision for restructuring and reconversion | | - | - |
| 5.4) Other provisions | | 406,216 | 216,048 |
| TOTAL NON-CURRENT LIABILITIES | | 21,134,414 | 21,272,469 |
| C) CURRENT LIABILITIES | | | |
| 1) Financial liabilities | 16 | 122,299,404 | 58,856,263 |
| 1.1) Bonds | | - | - |
| 1.2) Loans | | 122,119,455 | 58,811,557 |
| 1.3) Other financial liabilities | | 179,949 | 44,706 |
| 1-bis) of which with related parties | | 105,515,419 | 44,170,459 |
| 2) Trade payables and other payables | 17 | 62,763,792 | 38,719,610 |
| 2.1) Trade payables | | 53,529,027 | 31,849,431 |
| 2.2) Other payables | | 9,234,765 | 6,870,179 |
| 2-bis) of which with related parties | | 4,369,260 | 5,633,953 |
| 3) Current taxes payables | 18 | 227,940 | 166,250 |
| 4) Provision for risks and liabilities | 20 | 2,689,640 | 3,067,625 |
| 4.1) Provision for warranties | | 1,679,097 | 1,728,147 |
| 4.2) Provision for legal claims | | - | - |
| 4.3) Provision for restructuring and reconversion | | 945,853 | 600,000 |
| 4.4) Other provisions | | 64,690 | 739,478 |
| TOTAL CURRENT LIABILITIES | | 187,980,776 | 100,809,748 |
| TOTAL LIABILITIES | | 209,115,190 | 122,082,217 |
| TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES | | 235,435,206 | 189,803,837 |

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| <i>(amounts in Euro)</i> | Share Capital | Capital reserves | Others Reserves | Treasury stock acquired | Provision for discounting employee benefits | Reserve cash flow hedge | Profit/(Loss) for the period | Total |
|---|-------------------|-------------------|-------------------|-------------------------|---|-------------------------|------------------------------|-------------------|
| Balance as at 1/1/2013 | 23,914,696 | 27,129,689 | 30,830,107 | -6,434,757 | -272,668 | - | -4,134,183 | 71,032,884 |
| Total profit/loss for the year | | | | | 6,809 | - | -3,213,657 | -3,206,848 |
| Transactions with shareholders: | | | | | | | | |
| Allocation of 2012 results | | | -4,134,183 | | | | 4,134,183 | - |
| Own share purchase | | | - | -104,416 | | | | -104,416 |
| Total transactions of the period | - | - | -4,134,183 | -104,416 | - | - | 4,134,183 | -104,416 |
| Balance as at 31.12.2013 | 23,914,696 | 27,129,689 | 26,695,924 | -6,539,173 | -265,859 | - | -3,213,657 | 67,721,620 |

| <i>(amounts in Euro)</i> | Share Capital | Capital reserves | Others Reserves | Treasury stock acquired | Provision for discounting employee benefits | Reserve cash flow hedge | Profit/(Loss) for the period | Total |
|---|-------------------|-------------------|--------------------|-------------------------|---|-------------------------|------------------------------|--------------------|
| Balance as at 1/1/2014 | 23,914,696 | 27,129,689 | 26,695,924 | -6,539,173 | -265,859 | - | -3,213,657 | 67,721,620 |
| Total profit/loss for the year | | | | | -163,342 | | -6,497,472 | -6,660,814 |
| Transactions with shareholders: | | | | | | | | |
| Allocation of 2013 results | | | -3,213,657 | | | | 3,213,657 | - |
| Own share purchase | | | - | -127,287 | | | | -127,287 |
| Board Meeting of 31.2.2014 (1) | | | -34,613,502 | | | | | -34,613,502 |
| Total transactions of the period | - | - | -37,827,159 | -127,287 | - | - | 3,213,657 | -34,740,789 |
| Balance as at 31.12.2014 | 23,914,696 | 27,129,689 | -11,131,235 | -6,666,460 | -429,201 | - | -6,497,472 | 26,320,017 |

- (1) Establishment of a provision for transactions with companies under common control. On 3 December 2014, the Board of Directors approved the purchase of the R&D business unit, to which reference is made in section 4.

STATEMENT OF CASH FLOWS

| <i>(amounts in Euro)</i> | NOTES | 31.12.2014 | 31.12.2013 |
|--|-------|--------------------|-------------------|
| Profit/(loss) for the year | 15 | -6,497,472 | -3,213,657 |
| Tax for the year | | -1,692,632 | -1,124,205 |
| Profit/(loss) before taxes | | -8,190,104 | -4,337,862 |
| Depreciation of property, plant and equipment | 2 | 2,162,674 | 2,105,857 |
| Amortisation of intangible assets | 2 | 966,362 | 1,143,843 |
| Provisions for risks | 2 | 2,402,991 | 1,639,974 |
| Provisions for employee benefits | 2 | 2,030,453 | 950,890 |
| Net gains/(losses) on foreign exchange | 3 | -6,966 | -68,068 |
| Income from equity investments | 3 | -400,000 | -2,150,000 |
| Cash flows before changes in Net Working Capital | | -1,034,590 | -715,366 |
| Changes in inventory | 13 | -11,289,160 | 3,748,017 |
| Changes in trade receivables and other receivables | 12 | -8,662,059 | -2,421,170 |
| Changes in trade payables and other payables | 17 | 20,417,733 | -4,763,765 |
| Changes in receivables/payables for deferred taxation | 11 | -61,957 | 2,582 |
| Changes in provisions for employee benefits | 19 | -1,892,750 | -973,663 |
| Changes in provision for risks | 20 | -3,176,713 | -2,190,457 |
| Dividends received | | 400,000 | 2,150,000 |
| Changes of other assets and liabilities | | -10,617 | 124,618 |
| Tax consolidation expense and income | | 2,453,236 | - |
| Tax payments | 4 | -1,328,036 | 176,317 |
| Cash flows from operating activities | | -4,184,913 | -4,862,887 |
| Investments/divestments: | | | |
| Investments in plant, property and equipment and real estate investments | 6 | -2,655,933 | -2,608,639 |
| Disinvestments and other movements in property, plant and equipment | 6 | 213,648 | 51,432 |
| Investments in intangible assets | 7 | -3,220,623 | -3,941,347 |
| Disinvestments and other movements in intangible assets | 7 | 6,677,875 | - |
| Investment in the R&D business unit | | -56,700,000 | - |
| Cash flows from Investing activities | | -60,182,606 | -6,498,554 |
| Change in financial assets | 10 | -1,087,624 | -402,499 |
| Change in financial liabilities | 16 | 62,763,427 | 13,444,843 |
| Other movements of shareholders' equity | 15 | -290,630 | -97,607 |
| Cash flows from financing activities | | 61,385,173 | 13,042,344 |
| Total cash flows for the period | | -2,982,346 | 1,583,296 |
| Opening cash and cash equivalents | | 4,738,903 | 3,155,607 |
| Closing cash and cash equivalents | | 1,756,557 | 4,738,903 |

EXPLANATORY AND SUPPLEMENTARY NOTES TO THE ACCOUNTS AS AT 31 DECEMBER 2014

1. Introduction

Carraro S.p.A. (or the “company”) is a joint-stock company registered in Italy at the Padua Companies Register and controlled by Finaid S.p.A.

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

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

The purpose of the company is:

- a) the production, sale and design of axles, drives and mechanical components in general for tractors, construction machinery, fork-lift trucks, automobiles, trucks, buses and special machines, and the production of tractors;
- b) the assumption of equity investments in other companies or entities; to finance and coordinate technically and financially the companies and entities in which it has an interest. The company may also buy, sell, exchange, build with its own workforce or through contracts real estate assets both in the country and in urban areas, both civil and industrial, and rent out and manage such properties;
- c) to assume agencies, for the same or similar businesses, or for businesses connected in any way with those specified in point a); sale of replacement parts;
- d) the Company may also give endorsements and sureties of any kind and nature, for any amount and period of time, with or without real guarantees, in favour of third parties, persons, entities, or companies; this option may be exercised by the Board of Directors under the terms of Art. 28 of the articles of association;
- e) to sign and execute including through the signing of atypical contracts, any other financial transaction that interests the company or that involves or is connected even indirectly with its corporate purpose or with that of any company in which it has an interest.

Authorisation for the publication of these Financial Statements was issued by the Board of Directors on 10 February 2015.

The present financial statements are expressed in Euros and amounts are rounded to the nearest Euro unit, unless otherwise indicated.

Carraro, as the parent company, has functions of strategic guidance, control and coordination of the single units of the Carraro Group business. At the corporate facility in Rovigo, entitled “Divisione Agritalia”, it designs and manufactures agricultural machines.

Reporting criteria and accounting principles

The annual Financial Statements are drawn up in compliance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and endorsed by the European Union, and with the measures issued implementing Article 9 of Legislative Decree 38/2005. The term IFRS also includes the revised International Accounting Standards (IAS) and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC) previously known as the Standard Interpretation Committee (SIC). These standards are the same as those used for the Financial Statements as at 31 December 2013, with the exceptions described in the paragraph “Accounting standards, amendments and interpretations adopted since 1 January 2014”.

The financial statements were prepared assuming that the company is a going concern.

2. Form and content of the financial statements

The present financial statements were prepared in conformity with the International Accounting Standards (IAS/IFRS) endorsed by the European Union.

2.1 Format of the financial statements

With regard to the format of the financial statements, the Company opted to present the following types of accounting statements.

Income Statement

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

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

Statement of Comprehensive Income

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

Statement of Financial Position

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

Assets and Liabilities in the financial statements for the period are in turn presented according to their classification as "current" and "non-current".

Statement of Changes in Shareholders' Equity

As required by the international accounting standards, the changes in shareholders' equity are presented 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 shareholders' equity in accordance with specific IAS/IFRS standards.

Statement of Cash Flows

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

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

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

Non-recurring costs and revenues and/or costs and revenues resulting from atypical and/or unusual operations are entered in the Income Statement; further details are provided in section 4 below.

2.2 Accounting standards and measurement criteria**Accounting standards, amendments and interpretations adopted since 1 January 2014**

The main new standards, amendments and interpretations of existing standards, which are mandatory for annual financial statements for years commencing on or after 1 January 2014 are reported below:

- Amendment to IAS 32 – "Financial Instruments: presentation" (retroactive application from 1 January 2014).
- Amendment to IAS 36 "Impairment of assets" (retroactive application as from 1 January 2014).
- Amendment to IAS 39 – "Financial Instruments: Recognition and Measurement" (retrospective application as from 1 January 2014).
- IFRS 10 "Consolidated Financial Statements" which replaces SIC 12 "Consolidation: Special Purpose Entities (special purpose vehicles) and parts of IAS 27 "Consolidated and Separate Financial Statements" (retroactive application as from 1 January 2014).
- IFRS 11 "Joint Arrangements" which replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities: Non-Monetary Contributions by Venturers" (retrospective application as from 1 January 2014)
- IFRS 12 "Disclosure of Interest in Other Entities" which is a new standard on additional disclosure for all types of interest (retroactive application as from 1 January 2014).

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

At the date of these Financial Statements, the competent bodies of the European Union had not completed the process to endorse the adoption of the following standards and amendments:

- IFRS 9 "Financial Instruments", published by the IASB on 12 November 2009 and subsequently amended (retroactive application as from 1 January 2018, early adoption is permitted).
- Amendments to IAS 19 – "Employee Benefits" (retrospective application as from 1 July 2014, early adoption is permitted).

The IASB also issued a series of changes to the IFRSs ("improvements"). The items listed below are those indicated by the IASB as improvements that entail a change in the presentation, recognition and measurement of financial statement items, leaving aside instead those that will determine only terminological changes or those that refer to issues not present in the Company.

- IFRS 11 "Joint Arrangements": the purpose of the amendment is to clarify the accounting treatment of investments purchased in a joint operation that is a business (applicable for years commencing on or after 1 January 2016, early adoption is permitted)

- IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortisation”: the amendment clarifies that revenue-based depreciation and amortisation methods are not considered appropriate as they only reflect the flow of revenues generated by the asset and not the consumption of the economic benefits embodied in the asset. (applicable for years commencing on or after 1 January 2016, early adoption is permitted)
- IFRS 15 “Revenue from Contracts with Customers”: the standard should improve quality and uniformity in the recognition of revenues (applicable as from 1 January 2017, early adoption is permitted)
- IAS 16 and IAS 41: the amendments clarify the accounting treatment of bearer plants (applicable as from 1 January 2016)
- Amendment to IAS 1 “Presentation of Financial Statements: the amendment clarifies procedures for presenting information if the company changes accounting standards and if the company carries out retrospective restatement or reclassification and if it provides financial information in addition to that required by the standard (applicable as from 1 January 2016).
- On 20 May 2013, the IASB issued IFRIC 21 - Levies, an interpretation of IAS 37 - Provisions, Contingent Liabilities and Contingent Assets. The interpretation clarifies the recognition of liabilities for the payment of levies other than income tax.
- On 12 December 2013, the IASB issued a set of amendments to IFRS (Annual Improvements to IFRSs - 2010-2012 Cycle and Annual Improvements to IFRSs - 2011-2013 Cycle). The most important aspects of the amendments concern: the definition of vesting condition in IFRS 2 (share-based payment), the aggregation of operating segments in IFRS 8 (operating segments), the definition of key management personnel in IAS 24 (related party disclosures), the exclusion of all joint control agreements from the scope of IFRS 3 (business combinations), (as defined in IFRS 11 – joint arrangements), and some clarifications concerning exceptions to the scope of IFRS 13 (fair value measurement).

Property, plant and equipment

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

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

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

The asset’s residual value, its useful life and the methods applied are reviewed annually and adjusted if necessary, at the end of each accounting period. On average the useful life, in years, is as follows:

| Category | Useful Life |
|------------------------|-------------|
| INDUSTRIAL BUILDINGS | 20-50 |
| PLANT | 15-25 |
| MACHINERY | 15-18 |
| EQUIPMENT | 3-15 |
| DIES AND MODELS | 5-8 |
| FURNITURE AND FITTINGS | 15 |
| OFFICE MACHINES | 5-10 |
| MOTOR VEHICLES | 5-15 |

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 recognised at fair value and are not depreciated.

Intangible fixed assets

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

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

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

Goodwill

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

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

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

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 the following conditions are fulfilled:

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

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

Software

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

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

Impairment losses

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

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

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

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

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

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

Equity investments in subsidiaries and associated companies

Subsidiaries are companies in which the Company exercises control. The Company controls another company when it is exposed, or has rights, to the variability of results of the subsidiary based on its involvement with the subsidiary and has the capacity to influence such results through the exercise of its power. Control may be exercised through directly or indirectly holding the majority of shares with voting rights, or on the basis of contractual or legal agreements, also regardless of shareholder relations. The existence of potential voting rights that may be exercised at the reporting date is considered for the purposes of determining control. In general, the existence of control is assumed when the Parent Company holds, directly or indirectly, more than half the voting rights.

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

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

For the purposes of separate financial statements, equity investments in subsidiaries and associated companies are measured at reduced cost in the presence of impairment.

Equity investments in other companies and other securities

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

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

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

Financial assets

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

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

Financial assets at fair value through profit or loss

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

Investments held to maturity

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

Loans and receivables

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

Available-for-sale financial assets

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

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

Inventories

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

Works in progress to order

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

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

Trade receivables and other receivables

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

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

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

Cash and cash equivalents

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

Loans and bonds

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

Derecognition of financial assets and liabilities***Financial assets***

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

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

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

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

Financial liabilities

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

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

Impairment losses on financial assets

The 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 measured on the basis of amortised cost

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

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

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

Assets recognised at cost

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

Available-for-sale financial assets

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

Allowances and provisions

Provisions for risks and liabilities

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

Employee and similar benefits

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

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

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

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

Recognition of revenues and other positive income components

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

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

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

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

Public grants

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

Taxes

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

Current taxes

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

Deferred taxes

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

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

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

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

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

Value added tax

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

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

Earnings or losses per share

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

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

Translation of foreign currency balances

Functional currency

The company's functional currency is the Euro, which represents the currency in which the financial statements are prepared and published.

Accounting transactions and entries

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

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

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

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

Derivative financial instruments and hedging transactions

The company's financial risk management strategy conforms to the company objectives set out in the policies approved by the Board of Directors of Carraro 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) to hedge all commercial and financial transactions against the risk of fluctuation;
- 2) to apply the "currency balancing" method of hedging the risk, where possible, favouring the offsetting of revenues and expenses and payables and receivables in foreign currencies in order to engage in hedging solely for the excess balance not offset;
- 3) not to permit the use and ownership of derivatives or similar instruments for mere trading purposes;
- 4) to permit only the use of instruments traded on regulated markets for hedging transactions.

B) Interest-rate risks:

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

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

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

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

For hedge accounting purposes, hedges are classified as:

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

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

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

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

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

Fair value hedges

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

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

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

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

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

Cash flow hedges

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

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

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

Hedges of a net investment in a foreign operation

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

Credit risk

The management of credit is designed to prioritise the acquisition of customers of national and international standing for multi-annual supplies; on this basis consolidated historical relationships have been built up with the main customers. Generally speaking, these relationships are governed by *ad hoc* supply contracts. Credit control requires periodic monitoring of the main financial and economic data (including the delivery schedules) relating to each customer. Except in special circumstances to do with country or counterparty risk, guarantees are not normally obtained on credit. Receivables are recognised in the accounts net of any write-downs determined by assessing the counterparty's risk of insolvency based on the information available.

Liquidity risk

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

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

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

The cash flows envisaged for 2015 include, besides the trend in working capital and investments, the effects of current liabilities and the short-term portions of medium- and long-term loans reaching maturity, as well as the effects (assuming the same rates of exchange with respect to 31.12.2014) of the closure of derivative financial instruments on currencies in existence at the reporting date.

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

In 2015, the Company expects to be able to generate financial resources through its operations such as to ensure adequate support for investments.

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

Uncertainties of financial markets have had an effect on the borrowing of banks and as a consequence on credit granted to businesses. This instability could also continue in 2015, preventing the normal execution of financial transactions.

Lastly, regardless of the fact that the company has continued refinancing its debts with the support of its banking counterparties and the financial markets, the situation could arise of having to seek additional financing in less favourable market conditions, with the limited availability of such sources and an increase in financial expenses. The maturity features of the company's liabilities and financial assets are shown in notes 10 and 16 relating respectively to non-current financial receivables and non-current financial liabilities. The maturity features of derivative financial instruments are described in paragraph 7.2.

Exchange-rate risk and interest rate risk

The company is exposed to exchange rate risks by virtue of the fact that a significant portion of sales and some of the purchases are made in currencies other than the functional 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.

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

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

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

Transactions with related parties

In accordance with the Consob recommendations of 20 February 1997 (DAC/97001574) and 27 February 1998 (DAC/98015375) we can confirm that:

- a) intra-group transactions and transactions with related parties which took place during the period, gave rise to trade, financial or consultancy-related relationships, and were carried out under market terms, in the financial interest of the individual companies involved in the transactions;
- b) the interest rates and terms applied (paid and received) in financial relationships between the various companies are in line with market terms.

Discretionary assessments and significant accounting estimates

Estimates and assumptions

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

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

Deferred tax assets

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

Pension funds and other post employment benefits

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

Development costs

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

Provisions for risks and liabilities

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

3. Information on business segments and geographical areas

Carraro S.p.A. is divided into the "Vehicles Business Area" (with reference to Divisione Agritalia which produces and markets tractors) and "Headquarters operations", henceforth HQ, relative to central level services provided by Carraro S.p.A. to the various companies of the Group given its function of strategic guidance, control and coordination of individual business units.

3.1 Business segments

The most significant information by business segment is presented in the tables below, with comparisons between financial years 2013 and 2014.

a) economic data (Euros/000)

| 31.12.2014 | HQ | Vehicles | Total |
|---|---------------|-----------------|----------------|
| <i>(amounts in Euro thousands)</i> | | | |
| Revenues from sales | 10,121 | 102,837 | 112,958 |
| Sales to third parties | 272 | 98,468 | 98,740 |
| Sales to other Business Areas | 9,849 | 4,369 | 14,218 |
| Operating costs | 15,133 | 102,003 | 117,136 |
| Purchases of goods and materials | -6 | 87,353 | 87,347 |
| Services | 8,690 | 8,414 | 17,104 |
| Use of third-party goods and services | 13 | 5 | 18 |
| Personnel costs | 7,603 | 14,262 | 21,865 |
| Amortisation, depreciation and impairment of assets | 1,703 | 1,454 | 3,157 |
| Changes in inventories | - | -11,289 | -11,289 |
| Provisions for risks | 215 | 2,188 | 2,403 |
| Other income and expenses | -3,085 | -91 | -3,176 |
| Internal construction | - | -293 | -293 |
| Operating profit/(loss) | -5,012 | 834 | -4,178 |
| Gains/(losses) on financial assets | -3,914 | -98 | -4,012 |
| Current and deferred income taxes | -1,927 | 235 | -1,692 |
| Net profit/(loss) | -6,999 | 501 | -6,498 |

| 31.12.2013 | HQ | Vehicles | Total |
|---|---------------|-----------------|----------------|
| <i>(amounts in Euro thousands)</i> | | | |
| Revenues from sales | 10,444 | 102,987 | 113,431 |
| Sales to third parties | - | 99,369 | 99,369 |
| Sales to other Business Areas | 10,444 | 3,618 | 14,062 |
| Operating costs | 17,176 | 98,788 | 115,964 |
| Purchases of goods and materials | -2 | 71,770 | 71,768 |
| Services | 10,574 | 8,001 | 18,575 |
| Use of third-party goods and services | 22 | 8 | 30 |
| Personnel costs | 7,545 | 12,539 | 20,084 |
| Amortisation, depreciation and impairment of assets | 2,002 | 1,264 | 3,266 |
| Changes in inventories | - | 3,748 | 3,748 |
| Provisions for risks | 220 | 1,420 | 1,640 |
| Other income and expenses | -3,185 | 38 | -3,147 |
| Internal construction | - | - | - |
| Operating profit/(loss) | -6,732 | 4,199 | -2,533 |
| Gains/(losses) on financial assets | -1,703 | -104 | -1,807 |
| Current and deferred income taxes | -1,496 | 372 | -1,124 |
| Net profit/(loss) | -6,939 | 3,724 | -3,214 |

b) equity data (Euro/000)

| 31.12.2014 | HQ⁽¹⁾ | Vehicles | Total |
|------------------------------------|-------------------------|-----------------|--------------|
| <i>(amounts in Euro thousands)</i> | | | |
| Non-current assets | 165,765 | 15,897 | 181,662 |
| Current assets | 26,005 | 27,768 | 53,773 |
| Shareholders' equity | 15,082 | 11,238 | 26,320 |
| Non-current liabilities | 19,454 | 1,680 | 21,134 |
| Current liabilities | 157,234 | 30,747 | 187,981 |

| 31.12.2013 | HQ | Vehicles | Total |
|------------------------------------|-----------|-----------------|--------------|
| <i>(amounts in Euro thousands)</i> | | | |
| Non-current assets | 139,820 | 13,411 | 153,231 |
| Current assets | 23,269 | 13,304 | 36,573 |
| Shareholders' equity | 55,663 | 12,059 | 67,722 |
| Non-current liabilities | 19,453 | 1,819 | 21,272 |
| Current liabilities | 87,973 | 12,837 | 100,810 |

⁽¹⁾ Figures as at 31 December 2014 include the purchase of R&D assets, to which reference is made in section 4.

c) Other information

| 31.12.2014 | HQ | Vehicles | Total |
|------------------------------------|-----------|-----------------|--------------|
| <i>(amounts in Euro thousands)</i> | | | |
| Investments | 3,988 | 3,733 | 5,877 |
| Workforce as at 31.12 | 166 | 275 | 441 |

| 31.12.2013 | HQ | Vehicles | Total |
|------------------------------------|-----------|-----------------|--------------|
| <i>(amounts in Euro thousands)</i> | | | |
| Investments | 4,806 | 1,744 | 6,550 |
| Workforce as at 31.12 | 79 | 255 | 334 |

3.2 Geographic areas

Carraro S.p.A.'s industrial business, with reference to the Divisione Agritalia, is located in Italy.

Sales, with reference to the Vehicles business area are mainly to European customers. Investments are made in Italy.

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

a) Sales

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

| <i>(amounts in Euro thousands)</i> | 31.12.2014 | 31.12.2013 |
|------------------------------------|-------------------|-------------------|
| Switzerland | 43,217 | 38,176 |
| France | 19,899 | 29,884 |
| Germany | 7,342 | 5,149 |
| India | 2,374 | 2,677 |
| China | 987 | 1,176 |
| Poland | 1,311 | 1,164 |
| South America | 868 | 808 |
| North America | 154 | 63 |
| Turkey | 2,288 | 4,907 |
| United Kingdom | 451 | 537 |
| Other E.U. areas | 10,320 | 8,004 |
| Other non-E.U. areas | 498 | 1,247 |
| Total Abroad | 89,709 | 93,792 |
| Italy | 23,249 | 19,639 |
| Total | 112,958 | 113,431 |
| of which: Total E. U. area | 62,572 | 64,377 |
| Total non-E. U. area | 50,386 | 49,054 |

4. Non-recurring operations

Restructuring

As at 31 December 2014, non-recurring transactions concerning the personnel restructuring programme were recognised; with the following economic effects:

| 31.12.2014 | PERSONNEL COSTS |
|------------------------------------|------------------------|
| <i>(amounts in Euro thousands)</i> | |
| Personnel costs | 1,058 |
| Provision for risks | 400 |
| EBIT | 1,458 |
| Taxes | - 401 |
| Net profit/(loss) | 1,057 |

“R&D” – Engineering Business Unit

The meeting of the Board of Directors of Carraro SpA on 3 December 2014 approved the sale of the R&D business unit from Carraro Drive Tech SpA with the aim of centralising within Carraro SpA the R&D function, promoting synergies between the innovation processes of the Drivelines and Vehicles engineering areas.

The R&D business unit was purchased by Carraro SpA from the subsidiary Carraro Drive Tech SpA for a value, estimated by a specific appraisal of an independent expert as equal to 56.7 million Euros.

As the above is a business transfer between companies under common control and the transaction is qualified according to the definition of OPII, the capital gain generated is recognised in a specific provision of shareholders' equity (OPI 1 section 1.1.a) net of the relative tax effect (IAS 12).

The accounting effects of the purchase of the F&D business unit are indicated below:

| Effect of the purchase of the “R&D” business unit | |
|--|----------------|
| <i>(amounts in Euro thousands)</i> | |
| 1) Property, plant and equipment | 1,689 |
| 2) Intangible fixed assets | 8,689 |
| 6) Deferred tax assets | 15,843 |
| TOTAL NON-CURRENT ASSETS | 26,221 |
| 1) Closing inventory | 335 |
| 2) Trade receivables and other receivables | 8 |
| TOTAL CURRENT ASSETS | 343 |
| TOTAL ASSETS | 26,564 |
| TOTAL SHAREHOLDERS' EQUITY | -34,614 |
| 1) Financial liabilities | 56,700 |
| 3) Differed liabilities | - |
| 4) Provision for severance indemnity and retirement benefits | 851 |
| TOTAL NON-CURRENT LIABILITIES | 57,551 |
| 1) Financial liabilities | - |
| 2) Trade payables and other payables | 3,627 |
| TOTAL CURRENT LIABILITIES | 3,627 |
| TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES | 26,564 |

5. Detailed explanatory notes**Revenues from sales** (note 1)

| <i>(amounts in Euro)</i> | 31.12.2014 | 31.12.2013 |
|---|--------------------|--------------------|
| SALES OF PRODUCTS | 97,635,356 | 97,104,283 |
| SALES RETURNS | -24,455 | -92,854 |
| 1) <i>PRODUCTS</i> | 97,610,901 | 97,011,429 |
| WORK ON CONTRACT | - | 18,620 |
| OTHER SERVICES | 10,566,040 | 10,979,558 |
| <i>REVENUES FROM ADVANCES ON ORDERS</i> | 4,721,919 | 4,810,659 |
| 2) <i>SERVICES</i> | 15,287,959 | 15,808,837 |
| OTHER GOODS | 56,686 | 609,888 |
| OTHER REVENUES | 2,461 | 1,173 |
| <i>CUSTOMER DISCOUNTS</i> | - | - |
| 3) <i>OTHER REVENUES</i> | 59,147 | 611,061 |
| TOTAL REVENUES FROM SALES | 112,958,007 | 113,431,327 |

Operating costs (note 2)

| <i>(amounts in Euro)</i> | 31.12.2014 | 31.12.2013 |
|--|--------------------|-------------------|
| PURCHASES OF RAW MATERIALS | 83,415,055 | 69,775,668 |
| RETURNS OF RAW MATERIALS | - | -291,815 |
| A) PURCHASES | 83,415,055 | 69,483,853 |
| MISCELLANEOUS CONSUMABLES | 279,128 | 270,712 |
| CONSUMABLE TOOLS | 50,653 | 78,011 |
| MAINTENANCE MATERIAL | 235,841 | 433,873 |
| MAT. AND SERV. FOR RESALE | 3,477,043 | 1,645,481 |
| REBATES AND DISCOUNTS – SUPPLIERS | -110,664 | -144,458 |
| B) OTHER PRODUCTION COSTS | 3,932,001 | 2,283,619 |
| 1) PURCHASES OF GOODS AND MATERIALS | 87,347,056 | 71,767,472 |
| A) EXTERNAL SERVICES FOR PRODUCTION | 5,721,230 | 4,420,778 |
| B) SUNDRY SUPPLIES | 649,613 | 682,104 |
| C) GENERAL OVERHEADS | 9,659,012 | 12,125,340 |
| D) COMMERCIAL COSTS | 343,948 | 361,244 |
| E) SALES EXPENSES | 731,107 | 985,473 |
| 2) SERVICES | 17,104,910 | 18,574,939 |
| RENTAL EXPENSES | 17,679 | 29,883 |
| 3) USE OF THIRD-PARTY GOODS AND SERVICES | 17,679 | 29,883 |
| A) WAGES AND SALARIES | 14,814,793 | 14,362,798 |
| B) SOCIAL SECURITY CONTRIBUTIONS | 4,442,733 | 4,190,868 |
| D) EMPLOYEE SEVERANCE INDEMNITY AND PENSIONS | 2,030,453 | 950,890 |
| E) OTHER COSTS | 576,707 | 578,977 |
| 4) PERSONNEL COSTS | 21,864,686 | 20,083,533 |
| A) DEPREC. PROP., PLANT & EQUIPMENT | 2,162,674 | 2,105,857 |
| B) AMORT. INTANGIBLE ASSETS | 966,362 | 1,143,843 |
| C) IMPAIRMENT OF FIXED ASSETS | - | - |
| D) IMPAIRMENT OF RECEIVABLES | 28,497 | 15,935 |
| 5) AMORTISATION, DEPRECIATION AND IMPAIRMENT OF ASSETS | 3,157,533 | 3,265,635 |
| A) CHANGES IN INVENTORIES OF RAW AND ANCILLARY MATERIALS AND GOODS | -6,914,285 | 2,631,586 |
| B) CHANGES IN INVENTORIES OF WORK IN PROG. SEMI-FIN. & FIN. PRODS | -4,374,875 | 1,116,431 |
| 6) CHANGES IN INVENTORIES | -11,289,160 | 3,748,017 |
| A) WARRANTY | 1,291,362 | 1,260,433 |
| B) COSTS OF LEGAL CLAIMS | 15,000 | - |
| C) RENOVATION AND CONV. | 400,000 | 219,541 |
| D) OTHER PROVISIONS | 696,629 | 160,000 |
| 7) PROVISION FOR RISKS AND OTHER LIABILITIES | 2,402,991 | 1,639,974 |
| A) SUNDRY INCOME | -3,876,601 | -4,000,765 |
| B) GRANTS | -18,336 | - |
| C) OTHER OPERATING EXPENSES | 763,840 | 858,909 |
| D) OTHER NON-ORDINARY OPERATING INCOME/EXPENSES | -45,578 | -4,650 |
| 8) OTHER INCOME AND EXPENSES | -3,176,675 | -3,146,506 |
| 9) INTERNAL CONSTRUCTION | -293,206 | - |

Turnover as at 31.12.2014 amounted to 112.958 million Euros compared to 113.431 million Euros as at 31.12.2013 and was generated largely by Divisione Agritalia.

In 2014, Carraro Divisione Agritalia realised a total turnover of 102.837 million Euros, which was stable compared to 102.987 million Euros in 2013.

The target market has remained stable and the number of tractors sold increased by 39 units, from 3,683 tractors in 2013 to 3,722 in 2014.

In the year costs for "wages and salaries" amounted to 14.815 million Euros against 14.363 million Euros in 2013; the increase compared to the previous year is due to the increase in the number of employees and restructuring, to which reference is made in section 4.

"Other income and expenses" mainly consist of royalties receivable amounting to 2.114 million Euros and rental income of 1.358 million Euros.

Gains/(losses) on financial assets (note 3)

| <i>(amounts in Euro)</i> | 31.12.2014 | 31.12.2013 |
|---|-------------------|-------------------|
| 10) INCOME FROM EQUITY INVESTMENTS | 400,000 | 2,150,000 |
| A) FROM FINANCIAL ASSETS | - | - |
| B) FROM BANK CURRENT ACCOUNTS AND DEPOSITS | 1,034 | 1,523 |
| C) FROM OTHER CASH EQUIVALENTS | - | - |
| D) INCOME OTHER THAN THE ABOVE | 211,200 | 253,452 |
| E) FROM FAIR VALUE CHANGES, INTEREST RATE DERIVATIVES | - | - |
| 11) OTHER FINANCIAL INCOME | 212,234 | 254,975 |
| A) FROM FINANCIAL LIABILITIES | -3,788,402 | -3,030,389 |
| B) FROM BANK CURRENT ACCOUNTS AND DEPOSITS | -300,591 | -603,013 |
| C) EXPENSES OTHER THAN THE ABOVE | -542,193 | -645,883 |
| E) FROM FAIR VALUE CHANGES, INTEREST RATE DERIVATIVES | -311 | - |
| 12) FINANCIAL COSTS AND EXPENSES | -4,631,497 | -4,279,285 |
| FROM CHANGES IN FAIR VALUE OF DERIVATIVE TRANSACTIONS ON EXCHANGE RATES | -804,455 | -95,033 |
| OTHER | 142,333 | -219,815 |
| NEGATIVE EXCHANGE DIFFERENCES: | -662,122 | -314,848 |
| FROM CHANGES IN FAIR VALUE OF DERIVATIVE TRANSACTIONS ON EXCHANGE RATES | 24,129 | 272,665 |
| OTHER | 644,959 | 110,251 |
| POSITIVE EXCHANGE DIFFERENCES: | 669,088 | 382,916 |
| 13) NET GAINS/(LOSSES) ON FOREIGN EXCHANGE | 6,966 | 68,068 |
| 14) ADJUSTMENTS OF FINANCIAL ASSETS | - | - |

Income from equity investments, equal to 0.4 million Euros, refers to the distribution of dividends from the subsidiary Carraro International S.A.; (2.15 million Euros as at 31 December 2013). Financial expenses, equal to 4.63 million Euros, increased compared to the figure of 4.28 million Euros for 2013. This item includes financial expenses from the discounting of employee benefits relative to interest cost, for a total of 0.06 million Euros.

Net exchange gains and losses recorded a positive balance of 0.007 million Euros, compared to a positive figure of 0.068 million Euros for the previous year.

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

Current and deferred income taxes (note 4)

| <i>(amounts in Euro)</i> | 31.12.2014 | 31.12.2013 |
|--|-------------------|-------------------|
| TAX CONSOLIDATION EXPENSE AND INCOME | -2,453,236 | - |
| CURRENT TAXES | 1,510,263 | 301,952 |
| DEFERRED TAXES | -629,122 | -1,073,794 |
| TAXES FROM PREVIOUS YEARS | -120,537 | -352,363 |
| PROVISIONS FOR RISKS | - | - |
| 15) CURRENT AND DEFERRED INCOME TAXES | -1,692,632 | -1,124,205 |

Current taxes

Current income taxes are calculated at rates of 27.5% for IRES and 3.9% for IRAP.

Current taxes - Tax consolidation expense and income

The company adheres to the tax consolidation area of parent company Finaid S.p.A. The charges/income deriving from the transfer of the IRES taxable base are booked under current taxes. According to the regulations of the Tax Consolidation Agreement, companies of the Carraro Group have the right to "relief" for use of the tax losses of companies controlled by Finaid, other than those belonging to the Carraro Group. This "relief" amounts to 3% of the tax losses of the other companies of the Finaid Consolidation area possibly offset with the taxable amounts of Carraro Group companies.

The regulations also provide for a mechanism of priority offsetting of the positive and negative taxable amounts between Carraro Group companies with respect to offsetting with the other companies of the Finaid Consolidation. The same mechanism is provided for with reference to the non-deductible expenses as an effect of the Thin Cap Rule.

Deferred taxes

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

The rates used are 27.5% for IRES and 3.9% for IRAP.

The company had tax losses to be carried forward of 23.5 million Euros. On the basis of the taxable income forecasts for the next five years in the scope of Tax Consolidation, deferred tax assets of 1.9 million Euros were recognised, calculated on tax losses of 7.0 million Euros.

It was not considered prudent, moreover, to recognize deferred tax assets with reference to temporarily non-deductible financial expenses under the terms of the Thin Cap Rule (8.3 million Euros), as the period of recovery is at the moment unforeseeable; the amount of unrecognised deferred tax assets was 2.3 million Euros.

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

| <i>(amounts in Euro/000)</i> | 31.12.2014 | % | 31.12.2013 | % |
|---|-------------------|---------------|-------------------|---------------|
| Earnings before tax | -8,190 | | -4,338 | |
| Theoretical tax rate 31.4% | -2,572 | 31.40% | -1,362 | 31.40% |
| Effect of non-deductible costs | 214 | -2.61% | -212 | 4.89% |
| Untaxable income | - | 0.00% | - | 0.00% |
| Use of previous tax losses | -1,312 | 16.02% | 1,563 | -36.03% |
| Other unrecognised deferred taxes | 1,215 | -14.84% | - | 0.00% |
| Income/expenses not relevant for IRAP | 512 | -6.25% | 641 | -14.78% |
| Taxes from previous years | -121 | 1.48% | -352 | 8.11% |
| Adjustment of deferred taxes of previous year | -629 | 7.68% | -1,402 | -32.33% |
| Withholding taxes | 1,000 | -12.21% | - | 0.00% |
| Provisions for tax risks | - | 0.00% | - | 0.00% |
| Taxation at effective rate | -1,693 | 20.67% | -1,124 | 25.91% |

Taxes for the year were affected in particular by the recognition of deferred tax assets on previous tax losses for 1.3 million Euros and income from the tax consolidation area for 2.5 million Euros. Moreover, impairment was recognised, due to the uncertain recoverability of receivables from withholding taxes on foreign income accrued in previous years (1 million Euros).

Research and development costs (non-capitalisable)

During 2014, technical and industrial studies and research were carried out which did not give rise to capitalisation (in accordance with the provisions of IAS38) for a total of 2.648 million Euros. (3.863 million Euros in 2013).

Earning (loss) per share (note 5)

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

| Results | 31.12.2014 | 31.12.2013 |
|--|-------------------|-------------------|
| Earnings (Losses) for the purposes of calculating basic earnings per share | -6,497,472 | -3,213,657 |
| Diluting effect deriving from potential ordinary shares: | - | - |
| Earnings (Losses) for the purposes of calculating diluted earnings per share | -6,497,472 | -3,213,657 |

| Number of shares | 31.12.2014 | 31.12.2013 |
|--|-------------------|-------------------|
| Weighted average number of ordinary shares for calculating | | |
| basic earnings (losses) per share: | 43,246,626 | 43,295,198 |
| diluted earnings (losses) per share: | 43,246,626 | 43,295,198 |
| Basic earnings (losses) per share (Euro): | -0.150 | -0.074 |
| Diluted earnings (losses) per share (Euro): | -0.150 | -0.074 |

Dividends

No dividends were paid in 2014 or in the previous year.

Property, plant and equipment (note 6)

| Items | Land and buildings | Plant and machinery | Industrial equipment | Other assets | Fixed assets in progress and deposits | Total |
|---|--------------------|---------------------|----------------------|----------------|---------------------------------------|-------------------|
| <i>(amounts in Euro)</i> | | | | | | |
| Historical cost | 40,904,209 | 13,960,982 | 10,443,273 | 6,416,621 | 1,941,406 | 73,666,491 |
| Provisions for amortisation and depreciations | -10,217,216 | -10,378,413 | -8,052,823 | -5,467,137 | - | -34,115,589 |
| Net as at 31.12.2012 | 30,686,993 | 3,582,569 | 2,390,450 | 949,484 | 1,941,406 | 39,550,902 |
| Movements in 2013: | | | | | | |
| Increases | 169,557 | 821,879 | 809,625 | 343,398 | 464,183 | 2,608,642 |
| Decreases | -24,186 | -2,854 | - | -24,395 | - | -51,435 |
| Capitalisation | 1,897,433 | 6,148 | - | - | -1,903,581 | - |
| Depreciation and amortisation | -758,848 | -433,654 | -541,223 | -372,132 | - | -2,105,857 |
| Net as at 31.12.2013 | 31,970,949 | 3,974,088 | 2,658,852 | 896,355 | 502,008 | 40,002,252 |
| Made up of: | | | | | | |
| Historical cost | 42,929,385 | 14,504,019 | 11,213,444 | 6,470,981 | 502,008 | 75,619,837 |
| Provisions for amortisation and depreciations | -10,958,436 | -10,529,931 | -8,554,592 | -5,574,626 | - | -35,617,585 |
| <i>(amounts in Euro)</i> | | | | | | |
| Historical cost | 42,929,385 | 14,504,019 | 11,213,444 | 6,470,981 | 502,008 | 75,619,837 |
| Provisions for amortisation and depreciations | -10,958,436 | -10,529,931 | -8,554,592 | -5,574,626 | - | -35,617,585 |
| Net as at 31.12.2013 | 31,970,949 | 3,974,088 | 2,658,852 | 896,355 | 502,008 | 40,002,252 |
| Movements in 2014: | | | | | | |
| Increases | 447,978 | 722,753 | 175,452 | 146,930 | 1,162,820 | 2,655,933 |
| Decreases | -8,381 | - | -3,641 | -15,526 | - | -27,548 |
| Capitalisation | 154,493 | 424,763 | - | - | -579,256 | - |
| Purchase of the R&D business unit | - | - | 1,479,886 | - | 209,476 | 1,689,362 |
| Depreciation and amortisation | -797,989 | -474,048 | -621,571 | -269,066 | - | -2,162,674 |
| Reclassification | 891 | 7,988 | -4,027 | -4,852 | -186,100 | -186,100 |
| Net as at 31.12.2014 | 31,767,941 | 4,655,544 | 3,684,951 | 753,841 | 1,108,948 | 41,971,225 |
| Made up of: | | | | | | |
| Historical cost | 43,519,615 | 15,638,182 | 14,772,878 | 6,310,075 | 1,108,948 | 81,349,698 |
| Provisions for amortisation and depreciations | -11,751,674 | -10,982,638 | -11,087,927 | -5,556,234 | - | -39,378,473 |

Increases in buildings mainly refer to the new roofing and parking area of the Rovigo site, amounting to 0.38 million Euros.

Increases in plants mainly refer to the expansion of the tractor painting plant and new test bench at the Rovigo site, amounting to 0.46 million Euros.

The purchase of the R&D business unit from Carraro Drive Tech SpA, to which reference is made in section 4, increased the item Industrial Equipment and Work in progress, for a total of 1.689 million Euros

Increases in capitalised internal costs mainly refer to the renovation of the property in Via Olmo (new roofing for the incoming goods warehouse, new site roofing, renovation of canteen areas, new ecological area, new electrical system and modernisation of the ENEL cabin) and new lighting at Rovigo.

Decrease values are highlighted by the net value of the historical cost and accumulated depreciation.

Intangible fixed assets (note 7)

| Items (amounts in Euro) | Development costs | Licences and Trademarks | Royalties and patents | Invest. in prog. and deposits | Total |
|---|-------------------|-------------------------|-----------------------|-------------------------------|-------------------|
| Historical cost | 3,930,164 | 11,044,552 | 17,560 | 3,743,829 | 18,736,105 |
| Provisions for amortisation and depreciations | -3,768,009 | -7,608,366 | -17,560 | - | -11,393,935 |
| Net as at 31.12.2012 | 162,155 | 3,436,186 | - | 3,743,829 | 7,342,170 |
| Movements in 2013: | | | | | |
| Increases | - | 753,739 | - | 3,187,608 | 3,941,347 |
| Decreases | - | - | - | - | - |
| Capitalisation of internal costs | - | 7,666 | - | -7,666 | - |
| Depreciation and amortisation | -52,591 | -1,091,252 | - | - | -1,143,843 |
| Net as at 31.12.2013 | 109,564 | 3,106,339 | - | 6,923,771 | 10,139,674 |
| Made up of: | | | | | |
| Historical cost | 3,930,164 | 11,805,957 | 17,560 | 6,923,771 | 22,677,452 |
| Provisions for amortisation and depreciations | -3,820,600 | -8,699,618 | -17,560 | - | -12,537,778 |

| Items (amounts in Euro) | Development costs | Licences and Trademarks | Royalties and patents | Invest. in prog. and deposits | Total |
|---|-------------------|-------------------------|-----------------------|-------------------------------|-------------------|
| Historical cost | 3,930,164 | 11,805,957 | 17,560 | 6,923,771 | 22,677,452 |
| Provisions for amortisation and depreciations | -3,820,600 | -8,699,618 | -17,560 | - | -12,537,778 |
| Net as at 31.12.2013 | 109,564 | 3,106,339 | - | 6,923,771 | 10,139,674 |
| Movements in 2014: | | | | | |
| Increases | - | 552,965 | - | 2,667,658 | 3,220,623 |
| Decreases | - | -34,430 | - | -6,829,545 | -6,863,975 |
| Capitalisation of internal costs | - | 2,058,090 | - | -2,058,090 | - |
| Purchase of the R&D business unit | 2,255,615 | - | 119,895 | 6,313,625 | 8,689,135 |
| Depreciation and amortisation | -52,591 | -913,771 | - | - | -966,362 |
| Reclassification | - | 186,100 | - | - | 186,100 |
| Net as at 31.12.2014 | 2,312,588 | 4,955,293 | 119,895 | 7,017,419 | 14,405,195 |
| Made up of: | | | | | |
| Historical cost | 4,080,559 | 14,576,371 | 1,001,536 | 7,017,419 | 26,675,885 |
| Provisions for amortisation and depreciations | -1,767,971 | -9,621,078 | -881,641 | - | -12,270,690 |

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 fixed assets is 3, 5 and 10 years.

The purchase of the R&D business unit from Carraro Drive Tech SpA, to which reference is made in section 4, increased the item Development Costs, Patents and Works in progress, for a total of 8.689 million Euros.

Other changes in works in progress mainly refer to the new SAP management system, and increased in the year by 2.3 million Euros. The total of the SAP job order was then transferred, for portions attributable to subsidiaries taking part in the project, for 6.8 million Euros, and with the own portion of 2 million Euros wholly capitalised.

Decrease values are highlighted by the net value of the historical cost and accumulated depreciation.

Real estate investments (note 8)

| <i>(amounts in Euro)</i> | Buildings | Total |
|---------------------------------|------------------|----------------|
| Balance as at 31.12.2013 | 539,703 | 539,703 |
| Changes | - | - |
| Balance as at 31.12.2014 | 539,703 | 539,703 |

Real estate investments relate to non-industrial buildings. The fair value of these investments does not differ significantly from the cost of initial recognition.

Equity investments in subsidiaries, associates and parent companies (note 9)

Movements in equity investments during financial year 2014:

| <i>(amounts in Euro)</i> | 31.12.2013 | In creases | Decreases | 31.12.2014 |
|--------------------------------------|-------------------|-------------------|------------------|-------------------|
| Name | | | | |
| ELETTRONICA SANTERNO S.p.A. | 2,014,691 | - | - | 2,014,691 |
| CARRARO DRIVETECH S.p.A. | 46,176,648 | 4,497,573 | - | 50,674,221 |
| ELETTRONICA SANTERNO Ind. E Com. Ltd | 3,110 | - | - | 3,110 |
| CARRARO DEUTSCHLAND GMBH | 8,893,090 | - | - | 8,893,090 |
| CARRARO TECHNOLOGIES Ltd | 3,035 | - | - | 3,035 |
| CARRARO INTERNATIONAL S.A. | 36,579,100 | - | - | 36,579,100 |
| TOTAL EQUITY INVESTMENTS | 93,669,674 | 4,497,573 | - | 98,167,247 |

During 2014, the equity investment in the subsidiary Carraro Drive Tech S.p.A. increased, due to the purchase of the minority interest of GE Capital Interbanca in the subsidiary Drive Tech S.p.A. (2.89%). No impairment was recognised in the period.

Financial assets (note 10)

| <i>(amounts in Euro)</i> | 31.12.2014 | 31.12.2013 |
|---|-------------------|-------------------|
| LOANS TO SUBSIDIARIES | 4,527,800 | 3,365,000 |
| LOANS AND RECEIVABLES | 4,527,800 | 3,365,000 |
| AVAILABLE FOR SALE | 85,841 | 85,841 |
| OTHER NON-CURRENT FINANCIAL ASSETS | 29,837 | - |
| OTHER FINANCIAL ASSETS | 115,678 | 85,841 |
| NON-CURRENT FINANCIAL ASSETS | 4,643,478 | 3,450,841 |
| FROM SUBSIDIARIES | 17,620 | 62,297 |
| FROM THIRD PARTIES | 35,000 | 35,000 |
| LOANS AND RECEIVABLES | 52,620 | 97,297 |
| CASH FLOW HEDGING DERIVATIVES (exchange rate derivatives) | - | 23,533 |
| OTHER CURRENT FINANCIAL ASSETS | 10,919 | 61,951 |
| OTHER FINANCIAL ASSETS | 10,919 | 85,484 |
| CURRENT FINANCIAL ASSETS | 63,539 | 182,781 |

Non-current loans and receivables:

- these include receivables past due by more than one year from the company Carraro Argentina S.A. for 4.53 million Euros. The value of these receivables approximates their fair value.

Current loans and receivables:

- these mainly refer to financial receivables from the subsidiary Carraro International S.A. for 0.02 million Euros;

Other non-current financial assets:

- available for sale (0.09 mln Euros): these are assets relating to non-controlling equity investments, and therefore have no set redemption date; details are provided below:

| Name <i>(amounts in Euro)</i> | Based in | Currency | Value of the equity investment |
|--|-----------------|-----------------|---|
| ASSOCIAZIONE NORD EST | PADUA | EURO | 1,033 |
| GRUPPO SPORTIVO PETRARCA RUGBY | PADUA | EURO | 10,329 |
| SAPIIMMOBILIARE | 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 |

Deferred tax assets and liabilities (note 11)

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

| Description of differences <i>(amounts in Euro)</i> | Deferred taxes 31.12.2012 | reclassification | Effect on net equity | Effect on IS | Deferred taxes 31.12.2013 |
|---|--|-------------------------|---------------------------------------|-------------------------------|--|
| Depreciation and amortisation | 854,078 | - | - | 1,007,622 | 1,861,700 |
| Measurement of receivables | 22,816 | - | - | - | 22,816 |
| Discounting of employee severance indemnity | 11,432 | - | -2,583 | 13,156 | 22,005 |
| Provisions for risks | 1,525,514 | - | - | -12,747 | 1,512,767 |
| Tax losses | 1,204,038 | - | - | -140,000 | 1,064,038 |
| Others | 501,630 | - | - | 166,959 | 668,589 |
| Personnel bonuses | 164,552 | - | - | 38,804 | 203,356 |
| Measurement of financial assets/liabilities | - | - | - | - | - |
| TOTAL | 4,284,060 | - | -2,583 | 1,073,794 | 5,355,271 |

| Description of differences <i>(amounts in Euro)</i> | Deferred taxes 31.12.2013 | Reclassification | Effect on net equity | Effect on IS | Deferred taxes 31.12.2014 |
|---|--|-------------------------|---------------------------------------|-------------------------------|--|
| Depreciation and amortisation | 1,861,700 | -69,531 | 15,843,498 | 50,262 | 17,685,929 |
| Measurement of receivables | 22,816 | - | - | - | 22,816 |
| Discounting of employee severance indemnity | 22,005 | - | 61,958 | - | 83,963 |
| Provisions for risks | 1,512,767 | - | - | 219,043 | 1,731,810 |
| Tax losses | 1,064,038 | - | - | 900,000 | 1,964,038 |
| Others | 668,589 | 69,531 | - | -354,616 | 383,504 |
| Personnel bonuses | 203,356 | - | - | -185,567 | 17,789 |
| Measurement of financial assets/liabilities | - | - | - | - | - |
| TOTAL | 5,355,271 | - | 15,905,456 | 629,122 | 21,889,849 |

As regards the operation as of section 4, deferred tax assets of 15.8 million Euros were recognised, following the recognition of the capital gain under shareholders' equity, in accordance with OPI1.

Trade receivables and other receivables (note 12)

| <i>(amounts in Euro)</i> | 31.12.2014 | 31.12.2013 |
|--|-------------------|-------------------|
| NON CURRENT TRADE RECEIVABLES | | |
| FROM THIRD PARTIES | 45,020 | 53,499 |
| OTHER NON-CURRENT RECEIVABLES | 45,020 | 53,499 |
| NON-CURRENT TRADE RECEIVABLES AND OTHER RECEIVABLES | 45,020 | 53,499 |
| FROM RELATED PARTIES | 19,409,908 | 15,253,707 |
| FROM THIRD PARTIES | 5,671,482 | 2,509,265 |
| CURRENT TRADE RECEIVABLES | 25,081,390 | 17,762,972 |
| FROM RELATED PARTIES | 3,253,980 | 1,237,078 |
| FROM THIRD PARTIES | 2,537,764 | 3,194,829 |
| OTHER CURRENT RECEIVABLES | 5,791,744 | 4,431,907 |
| CURRENT TRADE RECEIVABLES AND OTHER RECEIVABLES | 30,873,134 | 22,194,879 |

Other receivables due from third parties can be broken down as follows:

| <i>(amounts in Euro)</i> | 31.12.2014 | 31.12.2013 |
|---|-------------------|-------------------|
| VAT credits | - | 221,268 |
| Other tax credits | 116,428 | 131,402 |
| Receivables for current taxes | 1,405,084 | 1,925,328 |
| Receivables from employees | 4,606 | 2,558 |
| Receivables from pensions agencies | 152,391 | 72,910 |
| Other receivables | 859,255 | 841,363 |
| OTHER CURRENT RECEIVABLES FROM THIRD PARTIES | 2,537,764 | 3,194,829 |

Other non-current receivables (0.04 million Euros) mainly refer to guarantee deposits,
Trade receivables bear no interest and mature on average at 60 days,
Current tax receivables also include the receivable for withheld taxes paid abroad (India and China).

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

| <i>(amounts in Euro)</i> | 31.12.2014 | 31.12.2013 |
|---|-------------------|-------------------|
| Trade receivables from related parties | 19,409,908 | 15,253,707 |
| NET CURRENT TRADE RECEIVABLES FROM RELATED PARTIES | 19,409,908 | 15,253,707 |
| Trade receivables from third parties | 5,823,299 | 2,632,585 |
| Provision for Depreciations of Receivables | -151,817 | -123,320 |
| NET CURRENT TRADE RECEIVABLES FROM THIRD PARTIES | 5,671,482 | 2,509,265 |
| Other receivables from related parties | 3,253,980 | 1,237,078 |
| NET CURRENT OTHER RECEIVABLES FROM RELATED PARTIES | 3,253,980 | 1,237,078 |
| Other receivables from third parties | 2,537,764 | 3,194,829 |
| NET OTHER CURRENT RECEIVABLES FROM THIRD PARTIES | 2,537,764 | 3,194,829 |

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

| (amounts in Euro) | 31.12.2014 | | | | | 31.12.2013 | | | | |
|----------------------|---------------------|---------------------|---------------------|------------------------|-------------------|---------------------|---------------------|---------------------|------------------------|-------------------|
| | PAST DUE | | NOT YET DUE | | TOTAL | PAST DUE | | NOT YET DUE | | TOTAL |
| | Less than 1 year | More than 1 year | Less than 1 year | More than 1 year | | Less than 1 year | More than 1 year | Less than 1 year | More than 1 year | |
| Trade receivables | 1,358,261 | 274,948 | 23,599,998 | - | 25,233,207 | 1,964,787 | 3,827,982 | 12,093,523 | - | 17,886,292 |
| Other receivables | - | - | 5,791,744 | 45,020 | 5,836,764 | - | - | 4,431,907 | 53,499 | 4,485,406 |
| TOTAL | 1,358,261 | 274,948 | 29,391,742 | 45,020 | 31,069,971 | 1,964,787 | 3,827,982 | 16,525,430 | 53,499 | 22,371,698 |

Provision for Depreciations of Receivables

Movements in the Provision for Depreciations of Receivables:

| (amounts in Euro) | 31.12.2013 | increases | 31.12.2014 |
|---------------------------------|----------------|---------------|----------------|
| Provision for Trade receivables | 123,320 | 28,497 | 151,817 |
| TOTAL | 123,320 | 28,497 | 151,817 |

Provisions for Trade receivables and other receivables are entered as hedging the risk on past due positions according to the estimated loss currently considered probable.

Closing inventory (note 13)

| Items | 31.12.2014 | 31.12.2013 |
|---|-------------------|-------------------|
| (amounts in Euro) | | |
| Raw materials | 17,586,773 | 7,354,918 |
| Work in progress and semi-finished products | 4,245,028 | 109,905 |
| Finished products | 1,950,403 | 3,940,604 |
| Goods in transit | - | - |
| Total inventories | 23,782,204 | 11,405,427 |
| Provision for impairment of inventories | -2,701,945 | -1,948,968 |
| TOTAL | 21,080,259 | 9,456,459 |

Inventories recorded a net balance of 21.08 million Euros compared with Euro 9.456 million Euros as at 31 December 2013.

The increase is mainly due to the storage of bunkering engines, following European Directives on diesel engine emissions (2011/88/EC and 2011/72/EC).

Provisions for impairment of inventories, recognised to align the value of obsolete or slow-moving stocks with the estimated realisable value, amount to 2.70 million Euros, referred to raw, subsidiary and consumable materials for 2.33 million Euros and to semi-finished products for 0.37 million Euros.

Movements in provisions for impairment of inventories:

| (amounts in Euro) | |
|---------------------------------------|------------------|
| Balance as at 31 December 2013 | 1,948,968 |
| Provisions set aside | 652,977 |
| Purchase of the R&D business unit | 100,000 |
| Balance as at 31 December 2014 | 2,701,945 |

Total provisions set aside during the year amounted to 0.653 million Euros.

Cash and cash equivalents (note 14)

| Items | 31.12.2014 | 31.12.2013 |
|------------------------------------|-------------------|-------------------|
| <i>(amounts in Euro)</i> | | |
| CASH | 107,545 | 84,439 |
| BANK CURRENT ACCOUNTS AND DEPOSITS | 1,649,012 | 4,654,464 |
| TOTAL | 1,756,557 | 4,738,903 |

Shareholders' equity (note 15)

| Items | 31.12.2014 | 31.12.2013 |
|--|-------------------|-------------------|
| <i>(amounts in Euro)</i> | | |
| 1) Share Capital | 23,914,696 | 23,914,696 |
| 2) Other Reserves | 16,390,206 | 54,344,652 |
| 3) Profits/(Losses) brought forward | 83,354 | 83,354 |
| 4) Other IAS/IFRS reserves | -7,141,566 | -7,141,566 |
| 5) Provision for discounting employee benefits | -429,202 | -265,859 |
| 6) Profit/(Loss) for the period | -6,497,472 | -3,213,657 |
| SHAREHOLDERS' EQUITY: | 26,320,016 | 67,721,620 |

The Shareholders' Meeting of Carraro S.p.A. held on 17 April 2014 approved a Own share purchase and disposal plan involving no more than 10% of paid up shares, for a term of 18 months, which provides for: a price for the purchase of each common share not less than, at the minimum, 30% and, at the maximum, 20% below the reference price of the share on the stock market on the day preceding each individual transaction; a price for the sale of each common share not less than, at the minimum, 20% below and, at the maximum, not more than 20% above the reference price of the share on the stock market on the day preceding each individual transaction.

The Shareholders' Meeting also resolved to cover the loss for the financial year of 3,213,657 Euros by taking the same amount from the Extraordinary Reserve.

With effect from 31 December 2009, the share capital of Carraro S.p.A. is 23,914,696 Euro, corresponding to 45,989,800 shares with a face value of 0.52 Euro each.

The company has issued a single category of ordinary shares which do not give the right to a fixed dividend.

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

As at 31 December 2014, 2,626,988 shares had been purchased for a total investment of 6.666 million Euros.

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

| Nature/description | 31.12.2013 | Movements in 2014 | 31.12.2014 | Possible use | Notes | Portion available |
|--|-------------------|--------------------|-------------------|--------------|-------|-------------------|
| Share capital: | 23,914,696 | - | 23,914,696 | --- | | - |
| Capital reserves: | | | | | | |
| Share premium reserve | 27,129,690 | - | 27,129,690 | A, B, C | (1) | 27,129,690 |
| Reserve for IAS/IFRS - First Time Adoption: | | | | | | |
| Reinstatement of value of non-amortisable assets | 5,210 | - | 5,210 | A, B, C | (2) | 5,210 |
| Adjustment of value of property, plant and equipment | 22,195,182 | - | 22,195,182 | A, B | (3) | 22,195,182 |
| Adjustment of employee severance indemnity | 633,677 | - | 633,677 | A, B | (4) | 264,371 |
| Measurement of financial instruments | 1,141,384 | - | 1,141,384 | A, B | (5) | 1,141,384 |
| Profit reserves: | | | | | | |
| Legal reserve | 4,761,049 | - | 4,761,049 | B | | - |
| Extraordinary reserve and Retained profits | 5,100,986 | -3,213,657 | 1,887,329 | A, B, C | | 1,887,329 |
| Treasury share reserve | -6,539,173 | -127,287 | -6,666,460 | --- | (6) | -6,666,460 |
| IAS negative reserve | -7,141,566 | -34,613,502 | -41,755,068 | A, B, C | (7) | -41,755,068 |
| Provision for discounting employee benefits (re-statement) | -83,354 | | -83,354 | A, B, C | | -83,354 |
| Shareholders' Equity Reserves: | | | | | | |
| Provision for discounting employee benefits | -182,505 | -163,342 | -345,847 | B | | -345,847 |
| Profit / (Loss) for the period | -3,213,657 | -3,283,815 | -6,497,472 | --- | | -6,497,472 |
| Total | 67,721,621 | -41,401,604 | 26,320,017 | | | |

Key:

A: for capital increases

B: to cover losses

C: for distribution to shareholders

(1) limitations Article 2431 of the Italian Civil Code

(2) governed by Article 7, paragraph 4 of Legislative Decree 38 of 28 February 2005

(3) governed by Article 7, paragraph 6 of Legislative Decree 38 of 28 February 2005

(4) governed by Article 7, paragraph 7 of Legislative Decree 38 of 28 February 2005

(5) governed by Article 7, paragraph 3 of Legislative Decree 38 of 28 February 2005

(6) separate indication in accordance with IAS1

(7) adjustment for alignment to IAS following the transfer of the Agritalia and R&D business unit, as the operation is under common control (OPI1 section 1.1.a)

(8) governed by Article 6, paragraph 4 of Legislative Decree 38 of 28 February 2005

(9) limitations Article 2426 of the Italian Civil Code no. 5

Financial liabilities (note 16)

On 14 May 2013, the Carraro Group signed a Debt Restructuring Agreement with leading banks for the restructuring of medium/long-term debt, renewal of credit lines for short-term debt for 24 months and the redefinition of covenants, which were subsequently revised on 10 June 2014. As at 31 December 2014 financial parameters (covenants) contractually specified relative to this date, had been met.

In particular:

- gearing (defined as the ratio of net financial position to owners' equity) stood at 5.44 as at 31 December 2014 (the Framework Agreement defines for that date a minimum value of the parameter of 6);

- the Net Financial Position/EBITDA ratio stood at 4.94 as at 31 December 2014 (the limit established for this financial parameter covenant for the above date is equal to 6.25).

The classification of financial liabilities is shown below:

| Items | 31.12.2014 | 31.12.2013 |
|---|--------------------|-------------------|
| <i>(amounts in Euro)</i> | | |
| MEDIUM/LONG-TERM LOANS | 17,701,367 | 18,412,892 |
| NON-CURRENT FINANCIAL LIABILITIES | 17,701,367 | 18,412,892 |
| MEDIUM/LONG-TERM LOANS (SHORT-TERM PORTION) | 4,313,381 | 2,431,098 |
| LOANS FROM SUBSIDIARIES | 12,290,655 | 44,170,459 |
| SHORT-TERM LOANS | 105,515,419 | 12,210,000 |
| FINANCIAL LIABILITIES | 122,119,455 | 58,811,557 |
| FAIR VALUE OF EXCHANGE RATE DERIVATIVES | 167,055 | - |
| OTHER CURRENT FINANCIAL LIABILITIES | 12,894 | 44,706 |
| OTHER FINANCIAL LIABILITIES | 179,949 | 44,706 |
| CURRENT FINANCIAL LIABILITIES | 122,299,404 | 58,856,263 |

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

(amounts in Euro)

| up to one year | | from 1 to 5 years | | more than 5 years | | Total 31.12.2014 |
|----------------|--------------------------|-------------------|--------------------------|-------------------|--------------------------|------------------|
| nominal value | effect of amortised cost | nominal value | effect of amortised cost | nominal value | effect of amortised cost | |
| 4,483,337 | -169,956 | 15,113,723 | -444,025 | 3,065,160 | -33,491 | 22,014,748 |

The following table provides further detailed information on the financial liabilities illustrated above. For an analysis of the maturities of trade payables see note 17, while a description of how the company manages liquidity risk can be found in paragraph 2.2.

| LENDER | Short-term portion as at 31.12.2014 | Md/lg-term portion as at 31.12.2014 | EXPIRY | RATE | RATE TYPE | CURRENCY |
|---------------------------------|-------------------------------------|-------------------------------------|--------|--------|-----------|----------|
| <i>(amounts in Euro)</i> | | | | | | |
| MPS, formerly Banca Antonveneta | 1,751,520 | 11,544,108 | Dec-20 | 3.805% | variable | EURO |
| Banca Popolare di Ravenna | 1,696,871 | 2,669,721 | Jun-17 | 3.693% | variable | EURO |
| Cassa di Risparmio di Bolzano | 1,034,946 | 3,965,054 | Jun-19 | 4.085% | variable | EURO |
| | 4,483,337 | 18,178,883 | | | | |

Non-current loans (17.70 million Euros) refer to: an amortising mortgage loan (valued at amortised cost) obtained from MPS, formerly Banca Antonveneta (11.07 million Euros), with a nominal balance as at 31 December 2014 of 13.29 million Euros, variable interest rate and maturity as at 31 December 2020; a loan (valued at *amortised cost*) obtained from Banca Popolare di Ravenna (2.66 million Euros), with a nominal outstanding balance as at 31 December 2014 of 4.36 million Euros, variable interest rate and maturity as at 30 June 2017; a loan obtained from Cassa di risparmio di Bolzano (3.97 million Euros), with a nominal outstanding balance as at 31 December 2014 of 5.00 million Euros, variable interest rate and maturity as at 30 June 2019.

Current loans (122.12 million Euros) are made up of the following:

- 104.77 million Euros for funding received from Carraro International for a credit facility totalling 111,7 million Euros, with a final rate of 4.582%; a non-utilisation fee and an origination fee are envisaged;
- 0.74 million Euros of financial payables to Carraro International relating to invoices for interest on the loan;
- 1.5 million Euros of a financial payable to GE Capital S.p.A.;
- current-account advances and overdrafts of 10.80 million Euros against revocable credit facilities of 23 million Euros usable for current-account overdrafts and short-term financing, on a 12-month revolving basis;
- 1.59 million Euros short-term portion of an MPS, formerly Banca Antonveneta, mortgage;
- 1.69 million Euros short-term loan from Banca Popolare di Ravenna;
- 1.03 million Euros short-term loan from Cassa di Risparmio di Bolzano.

The net financial position is broken down below:

| Net financial position <i>(amounts in Euro)</i> | 31.12.2014 | 31.12.2013 |
|--|--------------------|-------------------|
| Non-current loans payable | 17,701,367 | 18,412,892 |
| Current loans payable | 122,119,455 | 58,811,557 |
| Other current financial liabilities | 12,894 | 44,706 |
| Financial liabilities: | 139,833,716 | 77,269,155 |
| Non-current loans and receivables | -4,527,800 | -3,365,000 |
| Current loans and receivables | -5,2620 | -97,297 |
| Other non-current financial assets | -29,837 | - |
| Other current financial assets | -10,919 | -61,951 |
| Financial assets: | -4,621,176 | -3,524,248 |
| Cash | -107,545 | -84,439 |
| Bank current accounts and deposits and other cash and cash equivalents | -1,649,012 | -4,654,464 |
| Cash and cash equivalents: | -1,756,557 | -4,738,903 |
| Net financial position | 133,455,983 | 69,006,004 |
| of which payables / (receivables): | | |
| - non-current | 13,143,730 | 15,047,892 |
| - current | 120,312,253 | 53,958,112 |

The change compared to the previous year is mainly due to the purchase of the "R&D" business unit previously described in section 4.

Fair Value

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

Trade payables and other payables (note 17)

| Items | 31.12.2014 | 31.12.2013 |
|--|-------------------|-------------------|
| <i>(amounts in Euro)</i> | | |
| NON-CURRENT TRADE PAYABLES | - | - |
| FROM RELATED PARTIES | - | - |
| OTHER NON-CURRENT PAYABLES | - | - |
| TRADE PAYABLES AND OTHER NON-CURRENT PAYABLES | - | - |
| FROM RELATED PARTIES | 3,952,037 | 5,345,544 |
| FROM THIRD PARTIES | 49,576,990 | 26,503,887 |
| CURRENT TRADE PAYABLES | 53,529,027 | 31,849,431 |
| FROM RELATED PARTIES | 417,223 | 288,409 |
| FROM THIRD PARTIES | 8,817,542 | 6,581,770 |
| OTHER CURRENT PAYABLES | 9,234,765 | 6,870,179 |
| TRADE PAYABLES AND OTHER CURRENT PAYABLES | 62,763,792 | 38,719,610 |

Trade payables on average are settled at 120 days.

Trade payables and other payables

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

| <i>(amounts in Euro)</i> | 31.12.2014 | | | | | 31.12.2013 | | | | |
|--------------------------|-------------------|------------------|-------------------|------------------|-------------------|-------------------|------------------|-------------------|------------------|-------------------|
| | PAST DUE | | NOT YET DUE | | TOTAL | PAST DUE | | NOT YET DUE | | TOTAL |
| | Less than 1 year | More than 1 year | Within 1 year | More than 1 year | | Less than 1 year | More than 1 year | Less than 1 year | More than 1 year | |
| Trade payables | 11,743,042 | 58,355 | 41,727,630 | - | 53,529,027 | 6,651,999 | 49,968 | 25,147,464 | - | 31,849,431 |
| Other payables | - | - | 9,234,765 | - | 9,234,765 | - | - | 6,870,179 | - | 6,870,179 |
| TOTAL | 11,743,042 | 58,355 | 50,962,395 | - | 62,763,792 | 6,651,999 | 49,968 | 32,017,643 | - | 38,719,610 |

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

| Items | 31.12.2014 | 31.12.2013 |
|---|-------------------|-------------------|
| <i>(amounts in Euro)</i> | | |
| VAT payables | 195,953 | - |
| Amounts due to pensions agencies | 1,411,430 | 1,004,545 |
| Amounts due to employees | 3,546,480 | 2,120,566 |
| IRPEF (personal income tax) employees & professionals | 1,627,726 | 1,223,661 |
| Board of Directors | 1,757,499 | 2,134,281 |
| Other payables | 278,454 | 98,717 |
| OTHER CURRENT PAYABLES | 8,817,542 | 6,581,770 |

Current taxes payable (note 18)

As at 31 December 2014, current taxes payable amounted to 0.23 million Euros.

Employee severance indemnities and retirement benefits (note 19)

| <i>(amounts in Euro)</i> | 31.12.2014 | 31.12.2013 |
|---|-------------------|-------------------|
| Factory workers | 1,715,409 | 1,112,534 |
| Clerical staff and executives | 3,788,279 | 2,542,217 |
| Sub Total | 5,503,688 | 3,654,750 |
| Severance indemnity - Pensions Agency | -2,491,858 | -1,632,027 |
| TOTAL PROVISIONS FOR EMPLOYEE BENEFITS | 3,011,830 | 2,022,724 |

| <i>(amounts in Euro)</i> | 31.12.2014 | 31.12.2013 |
|---|-------------------|-------------------|
| Opening severance indemnities in accordance with IAS 19 | 2,022,724 | 2,045,498 |
| Utilisation of employee severance indemnities | -216,778 | -122,913 |
| Employee severance indemnities transferred to other companies | -60,702 | -68,696 |
| Employee severance indemnities transferred from other companies | 985,748 | 115,625 |
| Current Service Cost | - | - |
| Interest Cost | 55,539 | 62,601 |
| Actuarial Exchange Gains/Losses | 225,300 | -9,391 |
| Closing severance indemnities in accordance with IAS 19 | 3,011,830 | 2,022,724 |

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

The actuarial valuation of this obligation is carried out according to the actuarial criterion of the "projected unit credit method" with the support of the data issued by ISTAT, the INPS and the ANIA. The parameters used are as follows: 1) annual discount rate: 1.49%, 2) personnel rotation rate 5%, 3) annual inflation index 2%, 4) advances rate 2%, 5) remuneration increase rate 3%.

As from the 2012 Financial Statements, the accounting treatment of employee benefits recognised in the financial statements complies with IAS 19 Revised for defined benefit plans. For further details, see section 3.3.

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

Sensitivity analysis IAS 19 revised

The table below indicates the values of the Employee benefits provision as at 31.12.2014 calculated in the case of changes in actuarial assumptions reasonably possible at that date with the following variables:

- turnover frequency
- discount rate (taken from the Iboxx Corporate AA 10+ index);
- inflation rate.

| <i>(amounts in Euro)</i> | <i>turnover frequency</i> | | <i>discount rate</i> | | <i>inflation rate</i> | |
|--|---------------------------|------------|----------------------|---------------|-----------------------|----------------|
| | +1% | -1% | + 0.25% | -0.25% | +0.25% | - 0.25% |
| Provision for employee benefits as at 31.12.2014 | 2,147,560 | 2,175,041 | 2,190,078 | 2,131,391 | 2,114,105 | 2,208,596 |

Number of employees

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

| Employees | 31.12.2013 | Changes | 31.12.2014 |
|--------------------------|-------------------|----------------|-------------------|
| Executives | 14 | 7 | 21 |
| Clerical staff | 146 | 44 | 190 |
| Factory workers | 145 | 36 | 181 |
| Temporary workers | 29 | 20 | 49 |
| Total as at 31.12 | 334 | 107 | 441 |

Changes include the transfer of R&D business unit personnel, amounting to 82 employees.

Provision for risks and liabilities (note 20)

The item can be broken down as follows:

| <i>(amounts in Euro)</i> | Opening situation | In creases | Decreases | Reclassification | Closing situation |
|--|--------------------------|-------------------|-------------------|-------------------------|--------------------------|
| Provisions - non -current portion | | | | | |
| 1) WARRANTY | 399,000 | - | -399,000 | - | - |
| 2) COSTS OF LEGAL CLAIMS | 201,905 | 15,000 | -201,905 | - | 15,000 |
| 3) RENOVATION AND CONV. | - | - | - | - | - |
| 4) OTHER PROVISIONS | 216,048 | 696,629 | -506,461 | - | 406,216 |
| TOTAL | 816,953 | 711,629 | -1,107,366 | - | 421,216 |
| Provisions - current portion | | | | | |
| 1) WARRANTY | 1,728,147 | 1,291,362 | -1,340,412 | - | 1,679,097 |
| 2) COSTS OF LEGAL CLAIMS | - | - | - | - | - |
| 3) RENOVATION AND CONV. | 600,000 | 400,000 | -54,147 | - | 945,853 |
| 4) OTHER PROVISIONS | 739,478 | 233,054 | -902,765 | -5,077 | 64,690 |
| TOTAL | 3,067,625 | 1,924,416 | -2,297,324 | - 5,077 | 2,689,640 |

Warranty reserve:

Of the product warranty reserve allocated in previous years, 1.34 million Euros was used for customer claims accepted and the reserve was increased by 1.29 million Euros on the basis of the expected warranty costs which will be incurred in relation to sales made.

Provision for costs of legal claims:

The Venice Tax Police Unit Tax started an audit on 14 May 2014 of Carraro S.p.a. for the years 2008/2009/2010/2011/2012, investigating relations between the Company and other Carraro Group Companies. From the Formal Notice of Assessment (PVC), signed on 24 September 2014, no significant liabilities were identified.

The Company Carraro Drive Tech S.p.a. accepted the Formal Notice of Assessment, submitting the relative form according to times required by the procedure.

On 16 September 2014, the Venice Tax Police Unit audited some foreign Group companies (Carraro India PVT Ltd, Turbo Gears PVT Ltd, Carraro Technologies PVT Ltd, Elettronica Santerno Espana Slu, Carraro China Drives Co. Ltd, MG MiniGears Suzhou Co. Ltd, MG MiniGears Shanghai Co. Ltd and Carraro International SA), as regards corporate income tax only, for the years 2008/2009/2010/2011/2012.

The audit was completed on 23 October 2014, with the issue of a Formal Notice of Assessment for each company above and for all years indicated. In brief, the inspectors consider the administrative headquarters of the above companies to be located in Italy, and therefore the companies should have been subject to tax, in Italy, for income generated elsewhere. Moreover, the audit claimed that mandatory accounting and tax records were not kept.

At the end of December 2014, the Inland Revenue Office, Provincial Department of Padua, notified the assessment, for corporate income tax purposes, for the year 2008, of the Companies Carraro India PVT Ltd, Turbo Gears PVT Ltd, Carraro Technologies PVT Ltd, Carraro China Drives Co. Ltd, MG MiniGears Shanghai Co. Ltd and Carraro International SA.. No assessment for the company MiniGears Suzhou Co. Ltd. was notified.

The notified assessments recognised that the Companies registering a profit were not subject to paying taxes abroad, while for Companies registering a loss, investigations were made.

In February 2015, the above companies started a Settlement Procedure with the Inland Revenue Office, Provincial Department of Padua, in order to verify the possibility of settling at least some of the claims and/or substantially re-evaluating them. At present, the outcome of the procedure cannot yet be forecast.

The Board of Directors of the Parent Company Carraro Spa consulted its external advisers as regards the grounds of the claims made, and it followed that there are valid reasons to appeal against the claims in fact and in law for all companies involved.

Based on the above, at present, no provision is considered necessary for claims made in various formal records and subsequent notices.

Provision for restructuring and reconversion

As regards changes to the Provision for restructuring, reference is made to section 4.

Other provisions:

The item "Other provisions" includes amounts recognised for future expenses and liabilities.

At the end of the year, the MBO (Management By Objectives) provision had not been allocated, as decided by the Board of Directors on 29 October 2014.

The Board of Directors also approved a reorganisation process, proposed by management, aimed at reducing overheads by 15% and envisaging the exit from the Group of approximately 50 executives and office workers, and some 100 manual workers, mainly at foreign sites. These personnel changes were partly implemented in the last months of 2014.

6. Commitments and risks*(amounts in Euro)*

| Items | 31.12.2014 | 31.12.2013 |
|------------------------------------|-------------------|-------------------|
| - guarantees given | 38,638,853 | 48,391,396 |
| Commitments: | | |
| - commitments for operating leases | - | - |

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

(amounts in Euro)

| IN FAVOUR OF | ON BEHALF OF | Expiry | opening amount | closing amount |
|-------------------------------|-----------------------------|---------------|-----------------------|-----------------------|
| BNP PARIBAS | CIL (EX TURBO GEARS LTD) | ON DEMAND | 8,000,000 | 1,023,215 |
| MCC SPA | CIL (EX TURBO GEARS LTD) | 31/12/2014 | 8,150,000 | 1,471,428 |
| BANCA POP, DI VERONA | ELETTRONICA SANTERNO SPA | ON DEMAND | 3,000,000 | 1,200,000 |
| UNICREDIT FACTORING | CARRARO DRIVE TECH S.P.A. | ON DEMAND | 30,000,000 | 5,776,883 |
| UNICREDIT FACTORING | SIAP SPA | ON DEMAND | 3,500,000 | 4,193,616 |
| UNICREDIT FACTORING | MG MINI GEARS – POGGIOFIOR. | ON DEMAND | 3,500,000 | 319,702 |
| UNICREDIT FACTORING | ELETTRONICA SANTERNO SPA | ON DEMAND | 15,000,000 | 24,383 |
| PVR | ELETTRONICA SANTERNO SPA | ON DEMAND | 15,000,000 | 526,961 |
| UNICREDIT SPA | SIAP SPA | ON DEMAND | 300,000 | 300,000 |
| CASSA DI RISPARMIO DEL VENETO | ELETTRONICA SANTERNO SPA | ON DEMAND | 2,500,000 | 1,462,979 |
| UNICREDIT FACTORING | O&K | ON DEMAND | 11,000,000 | 625,873 |
| BNP PARIBAS | CARRARO INTERNATIONAL | 18 MONTHS | 2,500,000 | 2,500,000 |
| BNP PARIBAS | O&K | 18 MONTHS | 150,000 | 150,000 |
| SACE FCT SPA | ELETTRONICA SANTERNO SPA | ON DEMAND | 3,500,000 | 350,000 |
| BNP PARIBAS | ELETTRONICA SANTERNO SPA | 18 MONTHS | 750,000 | 750,000 |
| BNP PARIBAS | CARRARO DRIVE TECH S.P.A. | 18 MONTHS | 650,000 | 650,000 |
| IFITALIA SPA | O&K | ON DEMAND | 26,500,000 | 1,069,710 |
| IFITALIA SPA | CARRARO DRIVE TECH S.P.A. | ON DEMAND | 26,500,000 | 4,211,540 |
| SACE FCT SPA | ELETTRONICA SANTERNO SPA | ON DEMAND | 16,895,000 | 12,032,563 |
| TOTAL | | | | 38,638,853 |

7. FINANCIAL INSTRUMENTS

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

| 31.12.2014 | (amounts in Euro) | INCOME FINANCIAL | EXPENSES FINANCIAL | DIFF. EXCHANGE POSITIVE | DIFF. EXCHANGE NEGATIVE | COSTS /FINANCIAL SUSPENDED |
|---|-----------------------------------|---------------------|-----------------------|-------------------------------|-------------------------------|----------------------------------|
| A) FINANCIAL ASSETS: | | | | | | |
| A.1) Cash and Cash Equivalents: | | | | | | |
| | Bank accounts, positive balance | 1,034 | - | - | - | - |
| A.2) Non-derivative Financial Instruments: | | | | | | |
| A.2.1) Financial instruments at fair value (FVTPL) | | | | | | |
| A.2.2) Financial instruments held to maturity (HIM): | | | | | | |
| A.2.3) Loans and receivables (L&R): | | | | | | |
| A.2.3.1) Loans: | | | | | | |
| | Loans receivable | - | - | - | - | - |
| A.2.3.2) Other assets: | | | | | | |
| | Trade receivables | 211,200 | - | 756,388 | 142,933 | - |
| | Other financial assets | - | - | -1 | - | - |
| A.2.4) Financial instruments available for sale (AVS): | | | | | | |
| A.3) Derivative Financial Instruments: | | | | | | |
| A.3.1) Hedging derivatives: | | | | | | |
| A.3.1.1) Cash Flow Hedging Derivatives on currencies: | | | | | | |
| | Fair value through profit or loss | - | - | -23,533 | - | - |
| | cross-chg from sh. eq. reserve | - | - | - | - | - |
| | profit realised | - | - | 47,662 | - | - |
| B) FINANCIAL LIABILITIES | | | | | | |
| B.1) Non-derivative Financial Instruments: | | | | | | |
| B.1.1) Financial Instruments at fair value: | | | | | | |
| B.1.2) Other Financial Instruments: | | | | | | |
| | Bank accounts, negative balance | - | -300,591 | - | - | - |
| | Trade payables | - | - | -111,428 | -462 | - |
| | Loans payable | - | -3,788,402 | - | - | - |
| | Other financial liabilities | - | -542,193 | - | -138 | - |
| B.2) Derivative Financial Instruments: | | | | | | |
| B.2.1) Hedging derivatives: | | | | | | |
| B.1.2.1) Cash Flow Hedging Derivatives on currencies: | | | | | | |
| | Fair value through profit or loss | - | - | - | -167,055 | - |
| | cross-chg from sh. eq. reserve | - | - | - | - | - |
| | loss realised | - | - | - | -637,400 | - |
| B.1.2.2) Cash Flow Hedging Derivatives on interest rates: | | | | | | |
| | loss realised | - | -311 | - | - | - |
| TOTAL | | 212,234 | -4,631,497 | 669,088 | -662,122 | - |

| 31.12.2013 | (amounts in Euro) | INCOME FINANCIAL | EXPENSES FINANCIAL | DIFF. EXCHANGE POSITIVE | DIFF. EXCHANGE NEGATIVE | COSTS/ REVENUES SUSPENDED |
|---|---|---------------------|-----------------------|-------------------------------|-------------------------------|---------------------------------|
| A) FINANCIAL ASSETS: | | | | | | |
| A.1) Cash and Cash Equivalents: | | | | | | |
| | Bank accounts, positive balance | 1,523 | - | - | - | - |
| A.2) Non-derivative Financial Instruments: | | | | | | |
| <i>A.2.1) Financial instruments at fair value (FVTPL):</i> | | | | | | |
| <i>A.2.2) Financial instruments held to maturity (HTM):</i> | | | | | | |
| <i>A.2.3) Loans and receivables (L&R):</i> | | | | | | |
| <i>A.2.3.1) Loans:</i> | | | | | | |
| | Loans receivable | - | - | - | - | - |
| <i>A.2.3.2) Other assets:</i> | | | | | | |
| | Trade receivables | | | -4,908 | -201,187 | |
| | Other financial assets | 253,451 | - | - | - | - |
| <i>A.2.4) Financial instruments available for sale (AVS):</i> | | | | | | |
| A.3) Derivative Financial Instruments: | | | | | | |
| <i>A.3.1) Hedging derivatives:</i> | | | | | | |
| <i>A.3.1.1) Cash Flow Hedging Derivatives on currencies:</i> | | | | | | |
| | Fair value through profit or loss | - | - | -4,088 | - | - |
| | cross-chge from sh. eq. reserve profit realised | - | - | 276,753 | - | - |
| B) FINANCIAL LIABILITIES | | | | | | |
| B.1) Non-derivative Financial Instruments: | | | | | | |
| <i>B.1.1) Financial Instruments at fair value:</i> | | | | | | |
| <i>B.1.2) Other Financial Instruments:</i> | | | | | | |
| | Bank accounts, negative balance | | -603,013 | | | |
| | Trade payables | | | 115,159 | -7,135 | |
| | Loans payable | | -3,030,389 | | | |
| | Other financial liabilities | | -645,883 | | -11,493 | |
| B.2) Derivative Financial Instruments: | | | | | | |
| <i>B.2.1) Hedging derivatives:</i> | | | | | | |
| <i>B.2.1.1) Cash Flow Hedging Derivatives on currencies:</i> | | | | | | |
| | Fair value through profit or loss | | | | - | |
| | cross-chge from sh. eq. reserve loss realised | - | - | - | -95,033 | - |
| TOTAL | | 254,974 | -4,279,285 | 382,916 | -314,848 | - |

The source for foreign currency exchange rates is provided by the ECB for all exchange rates with the Euro.

7.2 Derivative financial instruments on currencies

The following tables indicate all the key information relating to the portfolio of derivative financial instruments on currencies outstanding as at 31.12.2014. These are instruments hedging foreign currency in circulation.

a) notional values

| CONTRACT | Notional value as at 31.12.2014 | Notional value as at 31.12.2013 |
|------------------------------|---------------------------------|---------------------------------|
| Swap (DCS) (1) | - | - |
| Swap (DCS) (2) | 6,260,032 | 4,447,546 |
| Total notional values | 6,260,032 | 4,447,546 |

b) reference currencies and expiry dates of contracts

| CONTRACT | |
|------------------------|----------|
| Swaps (DCS) (1) | |
| Currencies | - |
| Expiry dates | - |
| Swap (DCS) (2) | |
| Currencies | USD/EUR |
| Expiry dates | Feb. -15 |

c) Fair value

| (amounts in Euro thousands) | 31.12.2014 | 31.12.2013 |
|-----------------------------|-----------------|---------------|
| Swap (DCS) (1) | - | - |
| Swap (DCS) (2) | -167,055 | 23,533 |
| Total | -167,055 | 23,533 |

(1) instruments hedging foreign currency sales budget

(2) instruments hedging imbalances of current receivables and payables in foreign currencies

d) Details of fair values

| | 31.12.2014 | | 31.12.2013 | |
|--|---------------------|---------------------|---------------------|---------------------|
| | Fair Value positive | Fair Value negative | Fair Value positive | Fair Value negative |
| CASH FLOW HEDGES | | | | |
| Exchange rate risk – Domestic Currency Swaps | | -167,055 | 23,533 | - |

e) Summary of fair values recognised before tax effect according to their accounting treatment

| | 31.12.2014 | 31.12.2013 |
|--|-----------------|---------------|
| FV recognised in the income statement | -167,055 | 23,533 |
| FV recognised in net equity | - | - |
| Total | -167,055 | 23,533 |

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

The fair values as at 31.12.2014 of financial instruments on exchange rates were calculated using the forward exchange rate method.

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

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

For accounting purposes in relation to contracts hedging sales budgets in foreign currencies effective at the reporting date, it should be noted that for the transactions executed, especially Domestic Currency Swaps, and in accordance with all the conditions provided by the IAS/IFRS standards, hedge accounting was applied with reference to the type of "cash flow hedge". Consequently, the corresponding changes in fair values are reflected in a shareholders' equity reserve, net of the tax effect.

7.3 Derivative financial instruments on interest rates

There are no derivative contracts on interest rates outstanding as at 31.12.2014.

Sensitivity analysis

The table below shows the economic and financial effects generated by financial statement assets and liabilities (as at 31.12.2014 and 31.12.2013 respectively), in the event of sudden changes in the following market variables:

- main foreign currencies with respect to the Euros: +/- 10%
- interest rates: +100/-15 "basis points" (in 2013 + 100 / -50 "basis points").

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

| Balances as at 31.12.2014 (amounts in Euro) | INTEREST RATE RISK | | | | EXCHANGE RATE RISK | | | |
|---|--------------------|------------------|------------------|------------------|--------------------|------------------|------------------|------------------|
| | 1% | | -0.15% | | 10% | | -10% | |
| | FINANCIAL EFFECT | EFFECT ON EQUITY | FINANCIAL EFFECT | EFFECT ON EQUITY | FINANCIAL EFFECT | EFFECT ON EQUITY | FINANCIAL EFFECT | EFFECT ON EQUITY |
| ASSETS | | | | | | | | |
| Trade receivables | - | - | - | - | -590,000 | - | 721,112 | - |
| Other fin. ass. - derivatives on currencies | - | - | - | - | 583,790 | - | -713,521 | - |
| Other fin. ass. - derivatives on interest rates | - | - | - | - | - | - | - | - |
| Loans | - | - | - | - | - | - | - | - |
| Cash and cash equivalents | - | - | - | - | - | - | - | - |
| Total gross effect | - | - | - | - | -6,210 | - | 7,591 | - |
| Taxes (27.50%) | - | - | - | - | 1,708 | - | -2,088 | - |
| Total net effect | - | - | - | - | -4,502 | - | 5,503 | - |
| LIABILITIES | | | | | | | | |
| Trade payables | - | - | - | - | -3,074 | - | 3,757 | - |
| Loans | 655,159 | - | -98,274 | - | - | - | - | - |
| Total gross effect | 655,159 | - | -98,274 | - | -3,074 | - | 3,757 | - |
| Taxes (27.50%) | -180,169 | - | 27,025 | - | 845 | - | -1,033 | - |
| Total net effect | 474,990 | - | -71,249 | - | -2,229 | - | 2,724 | - |
| TOTAL | 474,990 | - | -71,249 | - | -6,731 | - | 8,227 | - |

Positive sign: income (economic) - increase (equity)

Negative sign: expense (economic) - decrease (equity)

| Balances as at 31.12.2013 (amounts in Euro) | INTEREST RATE RISK | | | | EXCHANGE RATE RISK | | | |
|---|---------------------|------------------------|---------------------|------------------------|---------------------|------------------------|---------------------|------------------------|
| | 1% | | -0.50% | | 10% | | -10% | |
| | FINANCIAL EFFECT | EFFECT ON EQUITY | FINANCIAL EFFECT | EFFECT ON EQUITY | FINANCIAL EFFECT | EFFECT ON EQUITY | FINANCIAL EFFECT | EFFECT ON EQUITY |
| ASSETS | | | | | | | | |
| Trade receivables | - | - | - | - | -424,377 | - | 518,683 | - |
| Other fin. ass. - derivatives on currencies | - | - | - | - | 401,968 | - | -491,294 | - |
| Total gross effect | - | - | - | - | -22,409 | - | 27,389 | - |
| Taxes (27.50%) | - | - | - | - | 6,162 | - | -7,532 | - |
| Total net effect | - | - | - | - | -16,247 | - | 19,857 | - |
| LIABILITIES | | | | | | | | |
| Trade payables | - | - | - | - | -10,453 | - | 12,776 | - |
| Loans | 545,485 | - | -272,743 | - | - | - | - | - |
| Total gross effect | 545,485 | - | -272,743 | - | -10,453 | - | 12,776 | - |
| Taxes (27.50%) | -150,008 | - | 75,004 | - | 2,875 | - | -3,513 | - |
| Total net effect | 395,477 | - | -197,739 | - | -7,578 | - | 9,263 | - |
| TOTAL | 395,477 | - | -197,739 | - | -23,825 | - | 29,120 | - |

Positive sign: income (economic) - increase (equity)

Negative sign: expense (economic) - decrease (equity)

8. Transactions with related parties (note 21)

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

EQUITY INVESTMENTS HELD BY DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS AND IMMEDIATE FAMILY MEMBERS

| Name and surname | Subsidiary company: Carraro S.p.A. | No. of shares held as at 31.12.2013 | Number of shares purchased | Number of shares sold | No. of shares held as at 31.12.2014 |
|----------------------------------|---------------------------------------|---|----------------------------------|--------------------------|---|
| Mario Carraro | Directly held | 1,903,250 | - | - | 1,903,250 |
| | through Finaid S.p.A. | 26,775,564 | - | - | 26,775,564 |
| Francesco Carraro ⁽¹⁾ | Directly held | 1,000,000 | - | - | 1,000,000 |
| Chiara Alessandri | Directly held | 202,395 | - | - | 202,395 |
| Alexander Josef Bossard | Directly held | 10,000 | - | - | 10,000 |
| Antonio Cortellazzo | Directly held | 37,500 | - | - | 37,500 |

⁽¹⁾ pending the succession of Francesco Carraro

| (amounts in Euro thousands) | Financial and commercial transactions | | | | Economic transactions | | | | | | | | | |
|--|---------------------------------------|-----------------|---|-----------------------------------|-----------------------|-------------------|----------------|----------------------------------|-----------------------|---------------------|-------------------------|--------------------------------|------------------------|------------------------------|
| | Financial receivables | Financial debts | Trade receivables and other receivables | Trade payables and other payables | Sales of products | Sales of services | Other revenues | Purchases of goods and materials | Purchases of services | Purchases of assets | Other income (expenses) | Income from equity investments | Other financial income | Financial costs and expenses |
| Parent Companies | | | | | | | | | | | | | | |
| Finaid Spa | | | 3,259 | | | | 7 | | | | | | | |
| Subsidiary Companies | | | | | | | | | | | | | | |
| Carraro Drive Tech S.p.A. | | | 6,623 | 511 | | 3,426 | 4,354 | 4,139 | 3 | | 1,939 | | 59 | 1 |
| Siap SpA | | | 2,789 | 1,150 | | 1,153 | | 2,442 | 15 | | 491 | | 13 | |
| Carraro India Ltd | | | 2,666 | 2,207 | | 1,690 | 15 | 11,066 | | | 519 | | 37 | |
| Carraro Technologies | | | 118 | 132 | | 63 | | | 43 | | | | | |
| Carraro Argentina | 4,528 | | 2,768 | 285 | | 764 | | | | | 249 | | | |
| Carraro Drive Tech Do Brasil | | | 76 | | | 36 | | | | | | | | |
| Carraro International S.A. | 18 | 105,515 | | | | 5 | | | 38 | | | 400 | 13 | 2,807 |
| F.O.N. S.A. | | | 1 | | | | | | | | | | | |
| O&K Antriebstechnik | | | 1,314 | | | 909 | | | | | | | 12 | |
| Carraro North America | | | 215 | | | 13 | | | | | | | | |
| Carraro China | | | 1,530 | 10 | | 931 | | 44 | 1 | | 275 | | | |
| Elettronica Santerno | | | 351 | 96 | | 300 | | | 72 | | | | 40 | |
| Elettronica Santerno Industria e Comercio Ltda | | | 82 | | | 25 | | | | | | | | |
| Elettronica Santerno USA | | | 302 | | | | | | | | | | 31 | |
| MG Mini Gears Poggioforito S.p.A. | | | 563 | -22 | | 465 | | 1 | | | | | 5 | |
| MG Mini Gears USA | | | | | | | | | | | | | | |
| MG Mini Gears Suzhou | | | | | | 55 | | | | | | | | |
| Gear World | | | | | | | | | | | | | | |
| TOTAL | 4,546 | 105,515 | 22,657 | 4,369 | | 9,842 | 4,369 | 17,692 | 172 | | 3,473 | 400 | 210 | 2,808 |
| Other related parties | | | | | | | | | | | | | | |
| Mario Carraro | | | | | | | | | 480 | | | | | |
| Suam S.p.A. | | | 7 | | | 7 | | | | | | | | |
| TOTAL | | | 7 | | | 7 | | | 480 | | | | | |
| TOTAL | 4,546 | 105,515 | 22,664 | 4,369 | | 9,849 | 4,369 | 17,692 | 652 | | 3,473 | 400 | 210 | 2,808 |

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 drive systems; purchases of services refer mainly to services for industrial processing.

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. Fees 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 from Carraro International.

The income and expenses from tax consolidation refer to the remuneration paid for taxable income and losses transferred in the context of the tax consolidation under Finaid SpA.

Significant related-party transactions include the purchase of the R&D business unit, to which reference is made in section 4.

INFORMATION IN ACCORDANCE WITH ARTICLE 149-DUODECIES OF THE CONSOB ISSUERS' REGULATIONS

The following statement, drawn up in accordance with Article 149-*duodecies* of the Consob Issuers' Regulations, shows the fees payable for the 2014 accounting period for auditing services and for other services provided by the same auditing company.

| <i>(amounts in Euro thousands)</i> | 2014 | 2013 |
|------------------------------------|-------------|-------------|
| Accounting audit | 294 | 252 |
| Other services | 5 | 5 |
| Total fees | 299 | 257 |

These fees refer to the company PricewaterhouseCoopers SpA.

9. Events subsequent to the reporting date

There were no events such as to have any significant effect on the financial statements and related disclosures.

10. STATEMENT OF EQUITY INVESTMENTS EXCEEDING 10% AS AT 31 DECEMBER 2014 (Article 126 of Consob Draghi Regulation 11971/'99)

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

1) SUBSIDIARY COMPANIES DIRECTLY HELD

| Name | Registered office | Parent Company | Share capital | | Number of shares/ units | Sh. Equity before 2014 results (ctv. Euros) | Profit (loss) 31.12.2014 (ctv. Euros) | Sh. Equity 31.12.2014 (ctv. Euros) | Direct portion |
|---|--------------------------|----------------|---------------|------------|----------------------------|--|---|---|-------------------|
| | | | Currency | Amount | | | | | |
| Carraro International S.A. | Luxembourg | CarraroSpA | EUR | 39,318,000 | 39,318 | 40,782,537 | 326,423 | 41,108,960 | 100.00% |
| Carraro Deutschland GmbH | Hattingen (Germany) | CarraroSpA | EUR | 10,507,048 | 10,507,048 | 9,584,139 | 236,248 | 9,820,387 | 100.00% |
| Carraro Technologies India Pvt. Ltd. | Pune (India) | CarraroSpA | INR | 18,000,000 | 1,800,000 | 999,460 | 260,880 | 1,260,340 | 1.00% |
| Carraro Drive Tech S.p.A. | Cam podarsego (PD) | CarraroSpA | EUR | 30,102,365 | 30,102,365 | 71,777,500 | 1,156,819 | 72,934,320 | 48.68% |
| Elettronica Santerno S.p.A. | Cam podarsego (PD) | CarraroSpA | EUR | 2,500,000 | 2,500 | 13,279,018 | -8,260,061 | 5,018,957 | 67.00% |
| Eletronica Santerno Industria e Comercio Ltda | Minas Gerais (Brazil) | CarraroSpA | REAL | 8,265,367 | 8,265,367 | 463,423 | -209,195 | 254,228 | 0.34% |

2) SUBSIDIARY COMPANIES INDIRECTLY HELD

| Name | Registered office | Holding company (indirect parent) | Share capital | | Number of shares/ units | Profit (loss) 31.12.2014 | Sh. Equity 31.12.2014 | Porti on Hold ing company | In di rect porti on | Carrying amount of the investment |
|--|-------------------------------------|--------------------------------------|---------------|-------------|-------------------------------|--------------------------------|--------------------------|---------------------------------|------------------------|--------------------------------------|
| | | | Currency | Amount | | | | | | |
| Carraro Drive Tech S.p.A. | Cam podarsego (PD) | Carraro Deutschland GmbH | EUR | 30,102,365 | 30,102,365 | 1,156,819 | 72,934,320 | 8.01% | 8.01% | 9,758,436 |
| Carraro Technologies India Pvt. Ltd. | Pune (India) | Carraro Drive Tech S.P.A | INR | 18,000,000 | 1,800,000 | 260,880 | 1,260,340 | 99.00% | 99.00% | 447,265 |
| O&K Antriebstechnik GmbH & Co. KG | Hattingen (Germany) | Carraro Drive Tech S.P.A | EUR | 4,000,000 | 4,000,000 | -3,556,215 | 18,369,392 | 100.00% | 100.00% | 9,754,000 |
| Carraro Argentina S.A. | Haedo (Argentina) | Carraro Drive Tech S.P.A | ARS | 105,096,503 | 105,096,503 | -1,336,102 | 9,092,366 | 99.95% | 99.95% | 21,907,996 |
| Carraro China Drive System | Qingdao (China) | Carraro Drive Tech S.P.A | CNY | 168,103,219 | - | 3,333,982 | 23,115,608 | 100.00% | 100.00% | 16,901,673 |
| Carraro India Ltd. | Pune (India) | Carraro Drive Tech S.P.A | INR | 586,492,900 | 62,586,000 | 13,834,996 | 33,562,559 | 100.00% | 100.00% | 43,451,569 |
| Carraro North America Inc. | Norfolk (USA) | Carraro Drive Tech S.P.A | USD | 1,000 | 1,000 | -15,147 | -209,777 | 100.00% | 100.00% | - |
| Fon S.A. | Radomsko (Poland) | Carraro Drive Tech S.P.A | PLN | - | - | -142,837 | 43,243 | 98.62% | 98.62% | 97,069 |
| Carraro Drive Tech Do Brasil | Santo André (State of Sao Paulo) | Carraro Drive Tech S.P.A | REAL | 5,701,929 | 5,701,929 | -355,511 | 1,232,645 | 100.00% | 100.00% | 1,232,645 |
| Carraro Drive Tech Poggiofiorito S.P.A. | Padua | Carraro Drive Tech S.P.A | EUR | 5,256,951 | 5,256,951 | 441,949 | 4,646,033 | 100.00% | 100.00% | 4,646,033 |
| Siap SpA | Maniago (PN) | Carraro Drive Tech S.P.A | EUR | 35,582,616 | 35,582,616 | 878,592 | 33,770,867 | 91.57% | 91.57% | 26,856,951 |
| Carraro Drive Tech S.p.A. | Cam podarsego (PD) | Carraro International S.A. | EUR | 30,102,365 | 30,102,365 | 1,156,832 | 72,934,332 | 43.31% | 43.31% | 38,797,634 |
| Elettronica Santerno S.p.A. | Cam podarsego (PD) | Carraro International S.A. | EUR | 2,500,000 | 2,500 | -8,260,061 | 5,018,957 | 33.00% | 33.00% | 19,000,000 |
| Mini Gears Inc | Virginia Beach (USA) | Carraro International S.A. | USD | 8,910,000 | - | 4,499 | 10,488 | 100.00% | 100.00% | 1,489 |
| Gear World North America Inc. | Virginia Beach (USA) | Carraro International S.A. | USD | - | - | - | - | 100.00% | 100.00% | - |
| Mini Gears Property | Virginia Beach (USA) | Carraro International S.A. | USD | - | - | - | - | 100.00% | 100.00% | - |
| Elettronica Santerno Industria e Comercio Ltda | Minas Gerais (Brazil) | Elettronica Santerno S.p.A. | REAL | 8,265,367 | 8,265,367 | -209,195 | 254,228 | 99.66% | 99.66% | 254,228 |
| Elettronica Santerno Espana S.L. | Valencia (Spain) | Elettronica Santerno S.p.A. | EURO | 1,003,006 | 1,003,006 | -171,589 | 950,072 | 100.00% | 100.00% | 950,072 |
| Santerno Inc. | San Francisco (USA) | Elettronica Santerno S.p.A. | USD | 1,000 | 1,000 | -1,209,410 | -2,451,942 | 100.00% | 100.00% | - |
| Zao Santerno | Moscow (Russia) | Elettronica Santerno S.p.A. | RUBLES | 100,000 | 100 | -686,154 | -322,536 | 100.00% | 100.00% | - |
| Santerno India Pvt Ltd | Pune (India) | Elettronica Santerno S.p.A. | INR | 166,560 | 16,656 | - | 2,171 | 100.00% | 0.00% | 2,000 |
| Santerno Shanghai Trading Ltd | Shanghai (China) | Elettronica Santerno S.p.A. | CNY | 5,553,010 | - | -196,298 | -393,595 | 100.00% | 100.00% | - |
| Santerno South Africa Pty Ltd | Cape Town (South Africa) | Elettronica Santerno S.p.A. | ZAR | 100 | - | -46,196 | -45,726 | 100.00% | 100.00% | - |

Annex to the explanatory notes to the Financial Statements as at 31.12.2014 – Carraro S.p.A.**Information on the corporate assets subject to fiscal revaluation.**

In accordance with the provisions of Article 10 of Law 72/1993, the following tables show the categories of the assets as at 31 December 2006 which, in the past, have been revalued, with the corresponding amount.

REVALUATION LAW 576/1975

| Description | REVALUATION HIST. COST | | REVALUATION PROV. FOR DEPRECIATION | | NET BALANCE - REVALUATION | |
|------------------------------|------------------------|-----------------------|---------------------------------------|----------------------|------------------------------|-----------------------|
| | Sit. Opening | Sit. Closing | Sit. Opening | Sit. Closing | Opening remainder | Closing remainder |
| INDUST. LAND | 2,479 | 2,479 | - | - | 2,479 | 2,479 |
| INDUST. BUILDINGS - | 103,272 | 103,272 | 11,693 | 11,693 | 91,579 | 91,579 |
| 1) TOTAL LAND AND BUILDINGS | <u>105,751</u> | <u>105,751</u> | <u>11,693</u> | <u>11,693</u> | <u>94,058</u> | <u>94,058</u> |
| GENERAL PLANT | 24,107 | 24,107 | 6,477 | 6,477 | 17,630 | 17,630 |
| SPECIFIC PLANT | - | - | - | - | - | - |
| **TOTAL PLANT | <u>24,107</u> | <u>24,107</u> | <u>6,477</u> | <u>6,477</u> | <u>17,630</u> | <u>17,630</u> |
| **TOTAL MACHINERY | - | - | - | - | - | - |
| 2) TOTAL PLANT AND MACHINERY | <u>24,107</u> | <u>24,107</u> | <u>6,477</u> | <u>6,477</u> | <u>17,630</u> | <u>17,630</u> |
| 3) TOTAL IND. COMM. EQUIP. | - | - | - | - | - | - |
| 4) TOTAL OTHER GOODS | - | - | - | - | - | - |
| TOTAL BII | <u><u>129,858</u></u> | <u><u>129,858</u></u> | <u><u>18,170</u></u> | <u><u>18,170</u></u> | <u><u>111,688</u></u> | <u><u>111,688</u></u> |

REVALUATION LAW 72/1983

| Description | REVALUATION HIST. COST | | REVALUATION PROV. FOR DEPRECIATION | | NET BALANCE - REVALUATION | |
|------------------------------|------------------------|-----------------|---------------------------------------|-----------------|------------------------------|----------------------|
| | Sit. Opening | Sit. Closing | Sit. Opening | Sit. Closing | Opening remaining | Closing remaining |
| INDUST. LAND | 16,390 | 16,390 | 1,838 | 1,838 | 14,552 | 14,552 |
| INDUST. BUILDINGS - | 431,167 | 431,167 | 85,857 | 85,857 | 345,310 | 345,310 |
| 1) TOTAL LAND AND BUILDINGS | <u>447,557</u> | <u>447,557</u> | <u>87,695</u> | <u>87,695</u> | <u>359,862</u> | <u>359,862</u> |
| GENERAL PLANT | 104,042 | 104,042 | 58,689 | 58,689 | 45,353 | 45,353 |
| **TOTAL PLANT | <u>104,042</u> | <u>104,042</u> | <u>58,689</u> | <u>58,689</u> | <u>45,353</u> | <u>45,353</u> |
| **TOTAL MACHINERY | - | - | - | - | - | - |
| 2) TOTAL PLANT AND MACHINERY | <u>104,042</u> | <u>104,042</u> | <u>58,689</u> | <u>58,689</u> | <u>45,353</u> | <u>45,353</u> |
| LAND, YARDS & EQUIP. | 15,841 | 15,841 | 1,309 | 1,309 | 14,531 | 14,531 |
| 3) TOTAL IND. COMM. EQUIP. | <u>15,841</u> | <u>15,841</u> | <u>1,309</u> | <u>1,309</u> | <u>14,531</u> | <u>14,531</u> |
| 4) TOTAL OTHER GOODS | - | - | - | - | - | - |
| TOTAL BII | <u>567,440</u> | <u>567,440</u> | <u>147,693</u> | <u>147,693</u> | <u>419,746</u> | <u>419,746</u> |

REVALUATION LAW 413/1991

| Description | REVALUATION HIST. COST | | REVALUATION PROV. FOR DEPRECIATION | | NET BALANCE REVAL. | |
|-----------------------------|------------------------|------------------|---------------------------------------|-----------------|--------------------|------------------|
| | Sit. Opening | Sit. Closing | Sit. Opening | Sit. Closing | Sit. Opening | Sit. Closing |
| INDUST. LAND | 537,164 | 537,164 | - | - | 537,164 | 537,164 |
| INDUST. BUILDINGS - | 1,783,182 | 1,783,182 | - | - | 1,783,182 | 1,783,182 |
| LAND, YARDS & EQUIP. | 66,113 | 66,113 | - | - | 66,113 | 66,113 |
| LIGHT BUILDINGS | 5,738 | 5,738 | - | - | 5,738 | 5,738 |
| 1) TOTAL LAND AND BUILDINGS | <u>2,392,197</u> | <u>2,392,197</u> | <u>-</u> | <u>-</u> | <u>2,392,197</u> | <u>2,392,197</u> |
| TOTAL BII | <u>2,392,197</u> | <u>2,392,197</u> | <u>-</u> | <u>-</u> | <u>2,392,197</u> | <u>2,392,197</u> |

During the 1976 financial year, a monetary revaluation was made in accordance with Law 576/75, which produced a positive balance of 230,122 Euros in Carraro S.p.A. and 129,114 Euros in the incorporated company Carraro PNH S.p.A. During 1983, the assets were revalued in accordance with the provisions of Law no. 72/83, which produced a positive balance of 2,386,070 Euros in Carraro S.p.A. The revaluation balances relating to these laws were utilised in Carraro S.p.A. in 1984 for a free capital increase.

During 1991, the real estate assets were revalued in Carraro S.p.A. in accordance with Law no. 413/91, which produced a positive balance of 1,084,804 Euros gross of the substitute tax of 173,569 Euros. This was utilised for a free increase in the share capital in accordance with the resolution of 31 May 1995. In 1991, a revaluation 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 revaluation balance of 1,312,399 Euros.

The Chairman

Enrico 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 14 May 1999 as amended.

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

- the adequacy in relation to the characteristics of the enterprise and
- the effective application of the administrative and accounting procedures used to prepare the financial statements during financial year 2014.

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

3. We can also certify that:

3.1 the financial statements:

- a) are drawn up in accordance with the IAS/IFRS international accounting standards recognised in the European Community under the terms of Regulation (EC) no. 1606/2002 of the European Parliament and Council, of 19 July 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 report on operations 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: 10 February 2015

Alberto Negri

Enrico Gomiero

Chief Executive Officer

Financial Reporting Officer