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 2016

GENERAL INFORMATION

BOARD OF DIRECTORS	**ENRICO CARRARO**	Chairman
In office until approval of the 2017 financial statements (Appointments, Shareholders' Meeting of 23/03/2015)	**TOMASO CARRARO**	Deputy Chairman
	ALBERTO NEGRI	Chief Executive Officer
	FABIO BUTTIGNON(1) (2)	Director *
	RICCARDO ARDUINI	Director
	MARINA MANNA (1) (2) (3)	Director *
	MARINA PITTINI (1) (2)	Director *
	(1) Members of the Auditing and Risk Committee (2) Members of the Appointments and Remuneration Committee (3) Members of the Supervisory Board * Independent directors	
BOARD OF STATUTORY AUDITORS	**SAVERIO BOZZOLAN**	Chairman
In office until approval of the 2017 financial statements (Appointments, Shareholders' Meeting of 23/03/2015)	**STEFANIA CENTORBI**	Regular Auditor
	ANDREA CORTELLAZZO	Regular Auditor
	BARBARA CANTONI	Alternate Auditor
	GIANMARCO MILANATO	Alternate Auditor
INDEPENDENT AUDITORS from 2016 to 2024	**Deloitte & Touche S.p.A.**	
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 and in court; they carry out their work within the limits of the powers conferred on them by the Board of Directors in the meeting of 27 March 2015, in accordance with applicable legal constraints, in terms of matters which cannot be delegated by the Board of Directors and of responsibilities reserved for the Board itself, as well as the principles and limits provided for in the Company's Code of Conduct.

INCOME STATEMENT

(amounts in Euro)	NOTES	**31/12/2016**	*of which non-recurring*	**31/12/2015**	*of which non-recurring*
A) REVENUES FROM SALES					
1) Products		108,720,004		112,023,407	
2) Services		14,942,851		13,820,929	
3) Other revenues		19,199,732		20,346,866	
TOTAL REVENUES FROM SALES	**1**	**142,862,587**		**146,191,202**	
A bis) of which with related parties		*27,727,029*		*29,963,630*	
B) OPERATING COSTS					
1) Purchases of goods and materials		80,442,171		85,709,865	
2) Services		25,205,733		21,790,185	
3) Use of third-party goods and services					
4) Personnel costs		24,535,413		25,598,376	*162,285*
5) Amortisation, depreciation and impairment of assets		4,199,900		4,978,302	
5.a) depreciation of Property, plant and equipment		*2,274,158*		*2,262,942*	
5.a) amortisation of Intangible assets		*1,866,871*		*1,869,488*	
5.c) impairment of fixed assets		-		*800,000*	*800,000*
5.d) impairment of receivables		*58,871*		*45,872*	
6) Changes in inventories		6,175,320		4,181,813	
7) Provision for risks and other liabilities		3,299,461		2,837,635	*550,000*
8) Other income and expenses		67,366	1,181,000	-1,095,022	
9) Internal construction		-3,335,304		-3,788,393	
TOTAL OPERATING COSTS	**2**	**140,590,060**	*1,181,000*	**140,212,761**	
B-bis) of which with related parties		*18,242,171*		*19,422,834*	
OPERATING PROFIT/(LOSS)		**2,272,527**	**1,181,000**	**5,978,441**	
C) GAINS/(LOSSES) ON FINANCIAL ASSETS					
10) Income from equity investments		6,468,186		1,903,800	
11) Other financial income		269,895		234,102	
12) Financial costs and expenses		-7,432,208		-8,012,060	
13) Net gains/(losses) on foreign exchange		-210,386		126,878	
14) Value adjustments of financial assets		-895,015		-	
NET GAINS/(LOSSES) ON FINANCIAL ASSETS	**3**	**-1,799,528**		**-5,747,280**	
C-bis) of which with related parties		*457,112*		*-3,782,785*	
PROFIT/(LOSS) BEFORE TAXES		**472,999**		**231,161**	
15) Current and deferred income taxes	4	1,910,172	*-371,000*	4,080,497	*1,498,044*
NET PROFIT/(LOSS)		**-1,437,173**	*810,000*	**-3,849,336**	*-3,010,329*
EARNINGS (LOSSES) PER SHARE	**5**				
- basic, for the profit for the period attributable to ordinary shareholders		*-0.033*		*-0.089*	
- diluted, for the profit for the period attributable to ordinary shareholders		*-0.033*		*-0.089*	

STATEMENT OF COMPREHENSIVE INCOME

(amounts in Euro)

	SECTION NOTES	31/12/2016	31/12/2015
NET PROFIT/(LOSS) FOR THE PERIOD		**-1,437,173**	**-3,849,336**
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**	-52,925	-15,224
Taxes on other comprehensive income components		14,555	4,186
Total other income components that will not be recognised in the income statement in subsequent periods:		**-38,370**	**-11,038**
OTHER COMPREHENSIVE INCOME COMPONENTS, NET OF TAX EFFECTS		**-38,370**	**-11,038**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**-1,475,543**	**-3,860,374**

STATEMENT OF FINANCIAL POSITION

(amounts in Euro)	NOTES	31/12/2016	31/12/2015
A) NON-CURRENT ASSETS			
1) Property, plant and equipment	**6**	40,735,880	42,145,752
2) Intangible fixed assets	**7**	17,993,117	16,758,203
3) Real estate investments	**8**	539,703	539,703
4) Holdings in subsidiaries and associates	**9**	108,472,232	98,167,247
4.1) Holdings in subsidiaries and associates		*108,472,232*	*98,167,247*
5) Financial assets	**10**	6,349,398	5,733,288
5.1) Loans and receivables		*6,250,550*	*5,625,912*
5.2) Other financial assets		*98,848*	*107,376*
5 Bis) of which with related parties		*6,250,550*	*5,625,912*
6) Deferred tax assets	**11**	13,351,948	18,229,632
7) Trade receivables and other receivables	**12**	38,218	37,425
7.1) Trade receivables		-	-
7.2) Other receivables		*38,218*	*37,425*
TOTAL NON-CURRENT ASSETS		**187,480,496**	**181,611,250**
B) CURRENT ASSETS			
1) Closing inventory	**13**	10,723,127	16,898,447
2) Trade receivables and other receivables	**12**	29,665,628	26,023,884
2.1) Trade receivables		*22,795,925*	*20,995,687*
2.2) Other receivables		*6,869,703*	*5,028,197*
2 Bis) of which with related parties		*20,077,149*	*17,999,398*
3) Financial assets	**10**	989,271	268,547
3.1) Loans and receivables		*392,177*	*89,774*
3.2) Other financial assets		*597,094*	*178,773*
3 Bis) of which with related parties		*902,724*	*54,774*
4) Cash and cash equivalents	**14**	291,836	493,271
4.1) Cash		*46,571*	*65,572*
4.2) Bank current accounts and deposits		*245,265*	*427,699*
4.3) Other cash and cash equivalents		-	-
TOTAL CURRENT ASSETS		**41,669,862**	**43,684,149**
TOTAL ASSETS		**229,150,358**	**225,295,399**

STATEMENT OF FINANCIAL POSITION

(amounts in Euro)	NOTES	31/12/2016	31/12/2015
A) SHAREHOLDERS' EQUITY	**15**		
1) Share Capital		23,914,696	23,914,696
2) Other Reserves		39,148,173	6,507,577
3) Profits/(Losses) brought forward		-9,122,070	-5,272,734
4) Cash flow hedge reserve		-	-
5) Provision for discounting employee benefits		155,068	193,438
6) Profit/loss for the year		-1,437,173	-3,849,336
TOTAL SHAREHOLDERS' EQUITY		**52,658,694**	**21,493,641**
B) NON-CURRENT LIABILITIES			
1) Financial liabilities	**16**	77,381,268	16,408,326
1.1) Bonds		-	-
1.2) Loans		77,381,268	16,408,326
1-bis) of which with related parties		63,600,000	
2) Trade payables and other payables	**17**	-	-
2.1) Trade payables		-	-
2.2) Other payables		-	-
3) Deferred tax liabilities	**11**	-	-
4) Provisions for employee benefits/retirement	**19**	2,695,326	2,794,389
5) Provision for risks and liabilities	**20**	201,433	1,578
5.1) Provision for warranties		-	-
5.2) Provision for legal claims		*201,433*	*1,578*
5.3) Provision for restructuring and reconversion		-	-
5.4) Other provisions			
TOTAL NON-CURRENT LIABILITIES		**80,278,027**	**19,204,293**
C) CURRENT LIABILITIES			
1) Financial liabilities	**16**	41,632,002	128,524,842
1.1) Bonds		-	-
1.2) Loans		*41,600,023*	*128,366,120*
1.3) Other financial liabilities		*31,979*	*158,722*
1-bis) of which with related parties		*29,093,475*	*108,524,411*
2) Trade payables and other payables	**17**	46,054,379	52,185,863
2.1) Trade payables		*38,477,636*	*44,389,322*
2.2) Other payables		*7,576,743*	*7,796,541*
2-bis) of which with related parties		*8,759,049*	*8,237,744*
3) Current taxes payables	**18**	2,204,329	95,000
4) Provision for risks and liabilities	**20**	6,322,927	3,791,760
4.1) Provision for warranties		*4,838,997*	*3,013,054*
4.2) Provision for legal claims		-	-
4.3) Provision for restructuring and reconversion		*381,998*	*550,000*
4.4) Other provisions		*1,101,932*	*228,706*
TOTAL CURRENT LIABILITIES		**96,213,637**	**184,597,465**
TOTAL LIABILITIES		**176,491,664**	**203,801,758**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**229,150,358**	**225,295,399**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(amounts in Euro)	Share Capital	Other reserves			Profits/ (Losses) brought forward	Provision for discounting employee benefits	Profit/(Loss) for the period	Total
		Capital reserves	Others Reserves	Treasury shares acquired				
Balance as at 1.1.2015 *	**23,914,696**	**49,330,082**	**-35,190,043**	**-6,666,460**	**1,224,738**	**204,476**	**-6,497,472**	**26,320,017**
Total profit/loss for the year						**-11,038**	**-3,849,336**	**-3,860,374**
Transactions with shareholders:								
Allocation of 2014 results					-6,497,472		6,497,472	-
Treasury share purchase								-
Tax rate adjustment Italian Law 2080/2015			-966,002					**-966,002**
Total transactions of the period	-	-	**-966,002**	-	**-6,497,472**	-	**6,497,472**	**-966,002**
Balance as at 31/12/2015 *	**23,914,696**	**49,330,082**	**-36,156,045**	**-6,666,460**	**-5,272,734**	**193,438**	**-3,849,336**	**21,493,641**

(amounts in Euro)	Share Capital	Other reserves			Profits/ (Losses) brought forward	Provision for discounting employee benefits	Profit/(Loss) for the period	Total
		Capital reserves	Others Reserves	Treasury shares acquired				
Balance as at 1.1.2016 *	**23,914,696**	**49,330,082**	**-36,156,045**	**-6,666,460**	**-5,272,734**	**193,438**	**-3,849,336**	**21,493,641**
Total profit/loss for the year						**-38,370**	**-1,437,173**	**-1,475,543**
Transactions with shareholders:								
Allocation of 2015 results					-3,849,336		3,849,336	-
Shareholder contributions for capital increase		32,640,596						32,640,596
Treasury share purchase				-				
Tax rate adjustment Italian Law 2080/2015								
Total transactions of the period	-	**32,640,596**	-	-	**-3,849,336**	-	**3,849,336**	**32,640,596**
Balance as at 31/12/2016 *	**23,914,696**	**81,970,678**	**-36,156,045**	**-6,666,460**	**-9,122,070**	**155,068**	**-1,437,173**	**52,658,694**

* = For a better understanding and highlighting certain opening reserves have been reclassified and restated.

STATEMENT OF CASH FLOWS

(amounts in Euro)	NOTES	31/12/2016	31/12/2015
Profit/(loss) for the year	15	-1,437,173	-3,849,336
Tax for the year		1,910,172	4,080,497
Profit/(loss) before taxes		***472,999***	***231,161***
Depreciation of property, plant and equipment	2	2,274,158	2,262,942
Amortisation of intangible assets	2	1,866,871	1,869,488
Impairment of fixed assets	2	-	800,000
Provisions for risks	2	3,299,461	2,837,635
Provisions for employee benefits	2	1,115,023	1,534,228
Net gains/(losses) on foreign exchange	3	210,386	-126,878
Income from equity investments	3	-6,468,186	-1,903,800
Net adjustments of financial assets	3	895,015	-
Cash flows before changes in Net Working Capital		***3,665,727***	***7,504,776***
Changes in inventory	13	6,175,320	4,181,813
Changes in trade receivables and other receivables	12	-3,642,537	4,856,845
Changes in trade payables and other payables	17	-6,131,485	-10,577,929
Changes in receivables/payables for deferred taxation	11	3,597,945	961,816
Changes in provisions for employee benefits	19	-1,252,456	-1,762,708
Changes in provision for risks	20	-568,439	-2,155,153
Dividends received		6,468,186	1,903,800
Changes of other assets and liabilities		-640,932	156,748
Tax consolidation expense and income		-	-
Tax payments	4	1,478,896	-1,515,036
Cash flows from operating activities		***9,150,225***	***3,554,972***
Investments/divestments:			
Investments in plant, property and equipment and real estate investments	6	-865,778	-3,259,725
Disinvestments and other movements in property, plant and equipment	6	1,492	22,256
Investments in intangible assets	7	-4,345,657	-5,171,381
Disinvestments and other movements in intangible assets	7	1,243,872	948,885
Equity investments/divestments	9	-11,200,000	-
Cash flows from Investing activities		***-15,166,071***	***-7,459,965***
Change in financial assets	10	-1,033,031	-1,178,860
Change in financial liabilities	16	-25,793,155	4,786,569
Treasury share purchase	15	-	-
Other movements of shareholders' equity	15	32,640,597	-966,002
Cash flows from financing activities		***5,814,411***	***2,641,707***
Total cash flows for the period		***-201,435***	***-1,263,286***
Opening cash and cash equivalents		**493,271**	**1,756,557**
Closing cash and cash equivalents		**291,836**	**493,271**

EXPLANATORY AND SUPPLEMENTARY NOTES TO THE ACCOUNTS AS AT 31 DECEMBER 2016

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 Italian 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 15 February 2017.

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 2015, with the exceptions described in the paragraph 2.2 "Accounting standards, amendments and interpretations not relevant for the company or not yet applicable and not adopted in advance by the company".

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

2. 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 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 adoptable since 1 January 2016

Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions.
The amendments made allow accounting down of the current service cost for the period of contributions paid by employees or third parties, which are not related to the number of years of service, instead of allocation of such contributions over the period in which the service is rendered. The new provisions apply for annual periods starting on, or after, 1 February 2015. The adoption of these amendments had no effect on the financial statements of the company.

Annual Improvements to IFRS - 2010–2012 Cycle.
The provisions approved made changes: (i) to IFRS 2, clarifying the definition of "vesting condition" and introducing the definitions of service and result conditions; (ii) to IFRS 3, clarifying that the obligations to pay a contingent consideration, other than those which meet the definition of equity instrument, are measured at fair value at each balance sheet date, with changes recognised in the income statement; (iii) to IFRS 8, requesting information to be given concerning the assessments made by management in the aggregation of operating segments, describing the segments that have been aggregated and the economic indicators that were evaluated to determine that the aggregated segments have similar economic characteristics; (iv) IFRS 13 clarifying that with the issue of IFRS 13, and consequential amendments to IAS 39 and IFRS 9, the possibility of recognising current trade receivables and payables without recognising the discounting effects, if such effects are immaterial, remains valid; (v) to IAS 16 and IAS 38, clarifying the procedures for determining the gross carrying amount of assets, in the event of revaluation resulting from the application of the revaluation model; (vi) to IAS 24, establishing the information to be provided when there is a third entity that provides services related to the management of key managers of the reporting entity. The new provisions apply for annual periods starting on, or after, 1 February 2015. The adoption of these amendments had no effect on the financial statements of the company.

Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operation.
The amendments to the standard provide guidance on the proper accounting of acquisitions resulting from "Interests in Joint Operations". Application of the amendments is effective from 1 January 2016. The adoption of these amendments had no effect on the financial statements of the company.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation.
The amendments clarify the use of "revenue-based methods" to calculate the depreciation of an asset. Application of the amendments is effective from 1 January 2016. The adoption of these amendments had no effect on the financial statements of the company.

Annual Improvements to IFRSs 2012–2014 Cycle
The provisions amended IFRS 5, IFRS 7, IAS 19 and IAS 34. Application of the amendments is effective from 1 January 2016. The adoption of these amendments had no effect on the financial statements of the company.

Amendments to IAS 1 - Disclosure Initiative
The proposed amendments concern the materiality, the aggregation of items, the structure of the notes, the information on the accounting policies adopted and the presentation of other components of comprehensive income arising from measurement of investments using the equity method. Application of the amendments is effective from 1 January 2016. The adoption of these amendments had no effect on the financial statements of the company.

Amendments to IAS 27 - Equity Method in Separate Financial Statements.
On 12 August 2014 the IASB published the amendment to *IAS 27 – "Equity Method in Separate Financial Statements".* The document introduces the option to use the net equity method for the valuation of equity investments in subsidiaries, joint ventures and associates in the separate financial statements of an entity. Consequently, following the introduction of the amendment, an entity may recognise such equity investments in its own separate financial statements either: at cost; or as provided for by IFRS 9 (or by IAS 39); or using the net equity method.
The changes will apply from 1 January 2016 but early application is allowed. The adoption of these amendments had no effect on the financial statements of the company.

Amendments and interpretations of existing standards, effective for periods beginning on or after 1 January 2017 and not adopted by the company in advance.

IFRS 15 – "Revenue from contracts with customers".
On 28 May 2014, the FASB issued IFRS 15 "Revenue from contract with customers". The new standard will be applicable as from the first quarter periods beginning on or after 1 January 2017. The standard replaces IAS 18 – "Revenues," IAS 11 "Construction Contracts", IFRIC 13 "Customers Loyalty Programmes", "IFRIC 15 - Agreements for the Construction of Real Estate", IFRIC 18 – "Transfers of Assets from Customers", SIC 31 – "Revenue—Barter Transactions Involving Advertising Services". Revenue is recognised when the customer obtains control over the goods and services and, therefore, when it has the ability to direct the use and obtain the benefits of the same. When a company agrees to provide goods or services at a price that varies according to the occurrence or otherwise of some future event, an estimate of the variable part is included in the price only if its occurrence is highly probable. For transactions involving the simultaneous sale of several goods and/or services, the sales price must be allocated according to the price that the company would apply to customers if the same goods and services included in the contract were to be sold individually. Companies sometimes incur costs, such as sales commission, to obtain or execute a contract. Such costs, if certain criteria are met, are capitalised and recognised in the income statement over the term of the contract. The standard specifies, moreover, that the sales price must be adjusted in the event that it contains a significant financial component. . The provisions of IFRS 15 are effective for annual periods beginning on, or after, 1 January 2018, subject to any subsequent deferrals established during approval by the European Union. The Company is evaluating the impact that adoption of the new standard will have on its financial statements. The new standard has not been approved by the European Union on the date on which these financial statements were authorised for publication.

IFRS 9 – "Financial instruments".
The final version of the standard, published on 24 July 2014, involves three steps ("classification and measurement", "impairment" and "hedge accounting") of the IASB project aimed at replacing IAS 39 - Financial Instruments: recognition and measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets. The new standard reduces to three the number of categories of financial assets in IAS 39 and requires that all financial assets are (i) classified on the basis of the business model which the company uses to manage its financial assets and of the cash flows characteristic of the financial asset, (ii) initially measured at fair value plus, in the case of financial assets not at fair value with an entry in the income statement, certain ancillary costs ("transaction costs"), and (iii) subsequently measured at fair value or amortised cost. IFRS 9 also envisages that the embedded derivatives that fall within the scope of application of the IFRS standard in question must no longer be separated from the main contract containing them, and that the company may decide to directly recognise in other comprehensive income the changes in fair value of investments that fall within the scope of application of the IFRS standard in question. The new impairment model introduced by IFRS 9 no longer requires a trigger event before being able to account an impairment loss; on the contrary, it envisages that the expected impairment losses are recognised at any time and that their amount is reviewed and adjusted at each balance sheet date to reflect changes in the credit risk of financial instruments. IFRS 9 introduces a three-stage model to account for the impairment loss. The methods of determining impairment losses vary depending on whether the financial assets are in one of the three phases. IFRS 9 better aligns the accounting treatment of hedging instruments with the risk management activities that companies put in place in order to reduce and/or eliminate exposure to financial and other risks. The new model introduced by IFRS 9 allows the use of documentation produced internally as a basis for implementing hedge accounting. IFRS 9 is effective for periods beginning as of 1 January 2018. Early adoption of the standard is permitted. At the date of these financial statements the standard has not yet been approved by the European Union. The Company is evaluating the impact that this standard will have on its financial statements.

IFRS 16 – "Leases".
On 13 January 2016, the IASB published IFRS 16 - Leases which is intended to replace IAS 17 - Leases, as well as the interpretations IFRIC 4 Determining Whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.
The new standard provides a new definition of lease and introduces a criterion based on control (right of use) of an asset for distinguishing lease contracts from service contracts, identifying as discriminating factors: identification of the asset, the right to replace the same, the right to obtain substantially all of the economic benefits arising from the use of the asset and the right to direct the use of the asset underlying the contract.
The standard establishes a single model of recognition and valuation of lease contracts for the lessee which entails recognising the asset covered by the lease, also operating lease, under assets with an offsetting financial payable, while also providing the possibility of not recognising as leases contracts which refer to "low-value assets" and leases with a contract term less than or equal to 12 months. On the contrary, the standard does not include significant changes for lessors.
The standard is applicable as from 1 January 2019 but early application is allowed only for companies that have implemented early adoption of IFRS 15 - Revenue from Contracts with Customers. The Directors expect that application of IFRS 16 may have a significant impact on the accounting treatment of lease contracts and on the related disclosures in the company's financial statements. Nevertheless, it is not possible to provide a reasonable estimate of the effect until the company has completed a detailed analysis of the related contracts.

Amendments to IFRS 10 e IFRS 28:
On 11 September 2014, the IASB published an amendment to IFRS 10 and IAS 28 *Sales or Contribution of Assets between an Investor and its Associate or Joint Venture*. The document was published in order to resolve the current conflict between IAS 28 and IFRS 10.
According to IAS 28, the gain or loss resulting from the sale or contribution of a non-monetary asset to a joint venture or associate in exchange for a share in the capital of the latter is limited to the share in the joint venture or associate held by the other investors extraneous to the transaction. In contrast, IFRS 10 requires the recording of the entire gain or loss in the event of loss of control of a subsidiary, even if the entity continues to hold a non-controlling stake in the same, including in this case also the sale or transfer of a subsidiary to a joint venture or associate. The changes introduced provide that in the case of a sale/contribution of an asset or a subsidiary to a joint venture or associate, the extent of the gain or loss to be recognised in the financial statements of the seller/contributor depends on whether or not the assets or subsidiary sold/contributed constitute a business, in the sense of IFRS 3. In the event that the assets or subsidiary sold /contributed represent a business, the entity must recognise the gain or loss on the entire investment previously held; while, if not, the share of the gain or loss on the stake still held by the entity must be eliminated. At the moment, the IASB has suspended application of this amendment. At the moment, the directors are considering the possible impacts of these changes on the company's financial statements.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses.
The changes introduced by the new amendment dated 19 January 2016 are intended to provide some clarification on the inclusion of deferred tax assets on unrealised losses upon the occurrence of certain circumstances and on the estimated taxable income for future years. The changes will apply from 1 January 2017 but early adoption is allowed. At the moment, the directors are considering the possible impacts of these changes on the company's financial statements.

Amendments to IAS 7: Disclosure Initiative.
On 29 January 2016, the IASB published the document "Disclosure Initiative" which contains amendments to IAS 7. The document aims to provide some clarification to improve disclosures on financial liabilities. In particular, the changes require a disclosure that enables users of the financial statements to understand the changes in liabilities arising from financing operations, including changes resulting from monetary movements and changes resulting from non-monetary movements. The changes do not envisage a specific format to be used for the disclosure. Nevertheless, the changes introduced require an entity to provide a reconciliation of the opening balance and the closing balance for liabilities arising from financial transactions. The changes will apply from 1 January 2017 but early application is allowed. Presentation of comparative information relating to prior years is not required. At the moment, the directors are considering the possible impacts of these changes on the company's financial statements.

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

Annual Improvements to IFRSs 2014–2016 Cycle
On 8 December 2016, the IASB published the document **"***Annual Improvements to IFRSs: 2014-2016 Cycle***"** which incorporates the amendments to certain standards as part of the annual improvement process of the same. The main changes concern:
IAS 28 *Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice.* The amendment clarifies that the option for a venture capital organization or other entity with such qualification (such as a mutual fund or similar entity), in order to measure investments in associates and joint ventures measured at fair value through profit or loss (rather than by applying the equity method) must carried out for each investment at the time of initial recognition. This amendment applies from 1 January 2018.
IFRS 12 *Disclosure of Interests in Other Entities – Clarification of the scope of the Standard.* The amendment clarifies the scope of IFRS 12 specifying that the information required by the standard, except for that provided for in paragraphs B10-B16, applies to all equity interests that are classified as held for sale, held for distribution to shareholders or as discontinued operations in accordance with IFRS 5. This amendment applies from 1 January 2017.
At the moment, the directors are considering the possible impacts of these changes on the company's financial statements.

IFRIC Interpretation 22:
On 8 December 2016, the IASB published the document "*Foreign Currency Transactions and Advance Consideration*". The interpretation aims to provide guidelines for foreign exchange transactions if they are recognized under non-cash advances or down payments, prior to recognition of the related asset, cost or revenue. This document provides guidance on how an entity should determine the date of a transaction and, as a result, the spot exchange rate to be used when there are foreign currency transactions in which the payment is made or received in advance.
The interpretation clarifies that the transaction date is the earlier of:
the date on which the advance payment or down payment received are entered in the accounts of the entity; and the date on which the asset, cost or revenue (or part of the same) is entered in the accounts (with resulting reversal of the advance payment or down payment received).
If there are several advance payments or receipts, a transaction date must be identified for each of them. IFRIC 22 is applicable from 1 January 2018, but earlier application is allowed. At the moment, the directors are considering the possible impacts of these changes on the company's financial statements.

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

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 data 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.

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 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 Revised, actuarial gains and losses were recognised directly in the income statement, without using the corridor approach.
Following the adoption of IAS 19 Revised, actuarial gains/losses are no longer directly recognised in the income statement, but are directly recognised in a reserve of shareholders' equity with immediate recognition in the Statement of Comprehensive Income. The item Interest cost is classified under Financial income/expenses and no longer under the item Personnel Costs.

Recognition of revenues and other positive income components
Sales of goods are recognised when the goods are shipped and the company has transferred to the purchaser the significant risks and rewards associated with ownership of the goods.
Revenues for services are recognised with reference to the stage of completion.
Interest income is recognised in accordance with the accruals concept, on the basis of the amount financed and the effective interest rate applicable, which represents the rate that discounts future collections estimated over the expected life of the financial asset so as to take them back to the carrying amount of the asset itself.
Revenues from dividends are recorded when the right to collection arises, which normally corresponds to the resolution of the shareholders' meeting approving distribution of the dividends. Dividends to shareholders are recognised as payable at the time of the distribution resolution.

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

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

Current taxes
Current income taxes have been provided for on the basis of an estimate of the taxable income for the 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 deferments will be realised, taking into account the rates in force or those which it is known will be subsequently issued.
Deferred tax assets and liabilities are offset, if a legal right exists to offset the current tax assets with current tax liabilities and the deferred taxes refer to the same fiscal entity and the same tax authority.

Value added tax

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

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

Earnings 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 minimise interest rate and exchange rate risk and optimise the cost of debt.
These risks are managed in accordance with the principles of prudence and market best practices and all risk management transactions are centrally managed.

The main objectives indicated by the policy are as follows:
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 2017 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 compared to 31/12/2016) 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 2017, 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. Reporting by business and geographic segment

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 2015 and 2016.

a) economic data (Euros/000)

31/12/2016 *(amounts in Euro thousands)*	**HQ**	**Vehicles**	**Eliminations**	**Total**
Revenues from sales	**24,612**	**119,756**	**-1,505**	**142,863**
Sales to third parties	53	115,081	1	115,135
Sales to other Business Areas	24,559	4,675	-1,506	27,728
Operating costs	**28,539**	**113,556**	**-1,505**	**140,590**
Purchases of goods and materials	1,477	79,057	-92	80,442
Services	11,716	14,903	-1,413	25,206
Use of third-party goods and services	-	-	-	-
Personnel costs	12,646	11,890	-1	24,535
Amortisation, depreciation and impairment of assets	2,555	1,645	-	4,200
Changes in inventories	18	6,157	-	6,175
Provisions for risks	1,698	1,601	-	3,299
Other income and expenses	169	-101	-	68
Internal construction	-1,740	-1,596	1	-3,335
Operating profit/(loss)	**-3,927**	**6,200**	**-**	**2,273**

31/12/2015 *(amounts in Euro thousands)*	**HQ**	**Vehicles**	**Eliminations**	**Total**
Revenues from sales	**27,146**	**120,429**	**-1,384**	**146,191**
Sales to third parties	35	116,192	-1	116,226
Sales to other Business Areas	27,111	4,237	-1,383	29,965
Operating costs	**27,450**	**114,147**	**-1,384**	**140,213**
Purchases of goods and materials	2,371	83,363	-24	85,710
Services	10,167	12,982	-1,359	21,790
Use of third-party goods and services	-	-	-	-
Personnel costs	13,665	11,934	-1	25,598
Amortisation, depreciation and impairment of assets	3,323	1,656	-	4,979
Changes in inventories	282	3,900	-	4,182
Provisions for risks	1,420	1,418	-	2,838
Other income and expenses	-1,032	-64	-	-1,096
Internal construction	-2,746	-1,042	-	-3,788
Operating profit/(loss)	**-304**	**6,282**	**-**	**5,978**

b) equity data (Euro/000)

31/12/2016 *(amounts in Euro thousands)*	**HQ**	**Vehicles**	**Eliminations**	**Total**
Non-current assets	172,116	15,365	-1	187,480
Current assets	22,537	20,546	-1,413	41,670
Shareholders' equity	54,615	-1,956	-	52,659
Non-current liabilities	78,845	1,433	-	80,278
Current liabilities	61,193	36,434	-1,412	96,214

31/12/2015 *(amounts in Euro thousands)*	**HQ**	**Vehicles**	**Eliminations**	**Total**
Non-current assets	166,287	15,325	-1	181,611
Current assets	22,162	22,880	-1,358	43,684
Shareholders' equity	29,902	-8,408	-	21,494
Non-current liabilities	17,992	1,212	-	19,204
Current liabilities	140,555	45,401	-1,359	184,597

c) Other information

31/12/2016 *(amounts in Euro thousands)*	**HQ**	**Vehicles**	**Eliminations**	**Total**
Investments	3,402	1,809	-	5,211
Workforce as at 31/12	155	233	-	388

31/12/2015 *(amounts in Euro thousands)*	**HQ**	**Vehicles**	**Eliminations**	**Total**
Investments	7,153	1,278	-	8,431
Workforce as at 31/12	167	227	-	394

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.

(amounts in Euro thousands)	*31/12/2016*	*31/12/2015*
Switzerland	33,992	44,019
Spain	12,416	7,638
France	9,093	10,162
Turkey	4,087	3,733
Germany	2,857	6,896
India	3,790	5,186
China	1,148	2,442
Poland	808	956
South America	1,967	200
North America	3,130	114
United Kingdom	1,481	1,107
Other E.U. areas	3,160	954
Other non-E.U. areas	7,446	4,059
Total Abroad	**85,375**	**87,466**
Italy	57,488	58,725
Total	**142,863**	**146,191**
of which: Total E.U. area	**87,303**	**86,438**
Total non-E.U. area	**55,560**	**59,753**

4. Non-recurring operations

At 31 December 2016 there are non-recurring operations related to the write-down resulting from the impairment of a Research and Development project. Below are the economic effects:

31/12/2016 *(amounts in Euro)*	**NON-RECURRING OPERATIONS**
Personnel costs	-
Impairment of fixed assets	-
Provision for risks	-
Other income and expenses	1,181,000
EBIT	**1,181,000**
Taxes	-371,000
Net profit/(loss)	**810,000**

5. Detailed explanatory notes

Revenues from sales (note 1)

(amounts in Euro)	**31/12/2016**	**31/12/2015**
SALES OF PRODUCTS	108,746,504	112,023,407
SALES RETURNS	-26,500	-
1) PRODUCTS	108,720,004	112,023,407
WORK ON CONTRACT	-	-
OTHER SERVICES	7,546,029	8,907,624
REVENUES FROM ADVANCES ON ORDERS	7,396,822	4,913,305
2) SERVICES	14,942,851	13,820,929
OTHER GOODS	4,441,993	4,428,725
OTHER REVENUES	14,757,739	15,918,141
CUSTOMER DISCOUNTS	-	-
3) OTHER REVENUES	19,199,732	20,346,866
TOTAL REVENUES FROM SALES	**142,862,587**	**146,191,202**

Operating costs (note 2)

(amounts in Euro)	**31/12/2016**	**31/12/2015**
PURCHASES OF RAW MATERIALS	75,836,136	81,789,926
RETURNS OF RAW MATERIALS	-	-
A) PURCHASES	75,836,136	81,789,926
MISCELLANEOUS CONSUMABLES	344,981	358,449
CONSUMABLE TOOLS	35,552	67,364
MAINTENANCE MATERIAL	156,811	182,150
MAT. AND SERV. FOR RESALE	4,568,016	3,652,277
REBATES AND DISCOUNTS – SUPPLIERS	-499,325	-340,301
B) OTHER PRODUCTION COSTS	4,606,035	3,919,939
1) PURCHASES OF GOODS AND MATERIALS	**80,442,171**	**85,709,865**
A) EXTERNAL SERVICES FOR PRODUCTION	5,711,145	5,987,935
B) SUNDRY SUPPLIES	711,541	771,023
C) GENERAL OVERHEADS	16,331,351	13,018,533
D) COMMERCIAL COSTS	601,934	373,158
E) SALES EXPENSES	1,849,762	1,639,536
2) SERVICES	**25,205,733**	**21,790,185**
RENTAL EXPENSES	-	-
3) USE OF THIRD-PARTY GOODS AND SERVICES	**-**	**-**
A) WAGES AND SALARIES	17,670,745	17,812,584
B) SOCIAL SECURITY CONTRIBUTIONS	5,123,156	5,613,995
D) EMPLOYEE SEVERANCE INDEMNITY AND PENSIONS	1,115,023	1,534,228
E) OTHER COSTS	626,489	637,569
4) PERSONNEL COSTS	**24,535,413**	**25,598,376**
A) DEPREC. PROP., PLANT & EQUIPMENT	2,274,158	2,262,942
B) AMORT. INTANGIBLE ASSETS	1,866,871	1,869,488
C) IMPAIRMENT OF FIXED ASSETS	-	800,000
D) IMPAIRMENT OF RECEIVABLES	58,871	45,872

5) AMORTISATION, DEPRECIATION AND IMPAIRMENT OF ASSETS	**4,199,900**	**4,978,302**
A) CHANGES IN INVENTORIES OF RAW AND ANCILLARY MATERIALS AND GOODS	6,112,573	3,035,268
B) CHANGES IN INVENTORIES OF WORK IN PROG. SEMI-FIN. & FIN. PRODS	62,747	1,146,545
6) CHANGES IN INVENTORIES	**6,175,320**	**4,181,813**
A) WARRANTY	2,900,000	2,287,635
B) COSTS OF LEGAL CLAIMS	198,028	-
C) RENOVATION AND CONV.	-	550,000
D) OTHER PROVISIONS	201,433	-
7) PROVISION FOR RISKS AND OTHER LIABILITIES	**3,299,461**	**2,837,635**
A) SUNDRY INCOME	-1,722,666	-1,864,288
B) GRANTS	-176,748	-51,969
C) OTHER OPERATING EXPENSES	766,570	808,293
D) OTHER NON-ORDINARY OPERATING INCOME/EXPENSES	1,200,210	12,942
8) OTHER INCOME AND EXPENSES	**67,366**	**-1,095,022**
9) INTERNAL CONSTRUCTION	**-3,335,304**	**-3,788,393**

Turnover as at 31/12/2016 amounted to 142.863 million Euros compared to 146.191 million Euros as at 31/12/2015 and was generated largely by Divisione Agritalia.

In 2016, Carraro Divisione Agritalia realised a total turnover of 119.756 million Euros, a decrease compared to 120.429 million Euros in 2016.

The number of tractors invoiced in 2016 was nevertheless down by 206 machines, almost all concentrated in the last quarter of the year. This is justified by the fact that, for the 2017 season, a change in emission level is foreseen (Stage3b and Tier 4) and legislation consequently limited the possibility of registration of current production models to 31 December 2016. Total turnover was positively affected by the gradual introduction during the year of tractors with higher unit value, already updated to Stage3b and Tier 4 emission levels.

In the year costs for “wages and salaries” amounted to 17.671 million Euros against 17.813 million Euros in 2015; the decrease compared to the previous year is mainly due to the decrease in the number of employees.

The item “Other income and expenses” includes rental income of 1.311 million Euros. (1.362 million Euros in 2015) and the overall change of the same compared to the previous year is mainly due to the effect of the write-down of 1.181 million Euros resulting from the impairment of a Research and Development project.

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

(amounts in Euro)	**31/12/2016**	**31/12/2015**
10) INCOME FROM EQUITY INVESTMENTS	**6,468,186**	**1,903,800**
A) FROM FINANCIAL ASSETS	-	-
B) FROM BANK CURRENT ACCOUNTS AND DEPOSITS	237	827
C) FROM OTHER CASH EQUIVALENTS	-	-
D) INCOME OTHER THAN THE ABOVE	269,659	233,275
E) FROM FAIR VALUE CHANGES, INTEREST RATE DERIVATIVES	-1	-
11) OTHER FINANCIAL INCOME	**269,895**	**234,102**
A) FROM FINANCIAL LIABILITIES	-5,724,740	-6,047,864
B) FROM BANK CURRENT ACCOUNTS AND DEPOSITS	-217,528	-685,660
C) EXPENSES OTHER THAN THE ABOVE	-1,489,940	-1,278,536
D) FROM FAIR VALUE CHANGES, INTEREST RATE DERIVATIVES	-	-
12) FINANCIAL COSTS AND EXPENSES	**-7,432,208**	**-8,012,060**
FROM CHANGES IN FAIR VALUE OF DERIVATIVE TRANSACTIONS ON EXCHANGE RATES	-710,118	-1,178,558
OTHER	183,555	-115,223
NEGATIVE EXCHANGE DIFFERENCES:	***-526,563***	***-1,293,781***

FROM CHANGES IN FAIR VALUE OF DERIVATIVE TRANSACTIONS ON EXCHANGE RATES	316,883	361,534
OTHER	-706	1,059,125
POSITIVE EXCHANGE DIFFERENCES:	***316,177***	***1,420,659***
13) NET GAINS/(LOSSES) ON FOREIGN EXCHANGE	**-210,386**	**126,878**
14) ADJUSTMENTS OF FINANCIAL ASSETS	**-895,015**	**-**

Income from equity investments, equal to 6.47 million Euros, refers to the distribution of dividends from the subsidiary Carraro Drive Tech; (1.90 million Euros as at 31 December 2015).
Net financial expenses amounted to 7.16 million Euros (5.01% of turnover), a decrease compared to 7.78 million Euros (5.3% of turnover) as at 31 December 2015. This item includes financial expenses from the discounting of employee benefits relative to interest cost, for a total of 0.03 million Euros.
Net gains and losses on foreign exchange showed a negative balance of 0.21 million Euros compared with a positive figure of 0.13 million Euros in 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)

(amounts in Euro)	**31/12/2016**	**31/12/2015**
TAX CONSOLIDATION EXPENSE AND INCOME	-	-
CURRENT TAXES	304,814	300,000
DEFERRED TAXES	1,279,739	2,698,401
TAXES FROM PREVIOUS YEARS	325,619	1,082,096
PROVISIONS FOR RISKS	-	-
15) CURRENT AND DEFERRED INCOME TAXES	**1,910,172**	**4,080,497**

Current taxes
Current IRAP [Regional Tax on Productive Activities] is calculated on a regional basis (rate of 3.9%) on the estimated taxable income for the year. Current IRES [Italian Tax on Corporate Income] for the year is calculated at the rate of 27.5% on the estimated taxable income for the year. Following the changes envisaged by Law 208/2015 the IRES rate, currently 27.5%, will decrease to 24% with effect from the tax year following that in progress at 31 December 2016.
Carraro S.p.A. has opted, in the course of 2015, as the consolidating company, for establishment of national tax consolidation together with its subsidiaries Carraro Drive Tech Spa, Elettronica Santerno Spa, Siap Spa, Carraro International SA. The option is valid for the three years 2015-2017. The option was interrupted in 2016 with regard to Elettronica Santerno SpA as a result of the loss of control which took place in November 2016. The charges/income deriving from the transfer of the IRES taxable base are booked under current taxes.

Deferred taxes
These are set aside on the timing differences between the carrying amount of the assets/liabilities and the corresponding tax value.
The rates used are 24% for IRES and 3.9% for IRAP.
The company had tax losses to be carried forward of 23.7 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 0.2 million Euros were recognised, calculated on tax losses of 0.7 million Euros.
It was not considered prudent, moreover, to recognise deferred tax assets with reference to temporarily non-deductible financial expenses under the terms of the Thin Cap Rule (17.7 million Euros), as the period of recovery is at the moment unforeseeable; the amount of unrecognised deferred tax assets was 4.3 million Euros.

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

ITALIAN TAX ON CORPORATE INCOME

(amounts in Euro/000)	**31/12/2016**	**%**	**31/12/2015**	**%**
Earnings before tax	**473**		**231**	
Theoretical tax rate 27.50%	**130**	**27.50%**	**64**	**27.50%**
Effect of non-deductible costs	2,210	467.23%	191	82.68%
Untaxable income	-1,690	-357.29%	-498	-215.58%
Use of previous tax losses				
Other unrecognised deferred taxes			1,126	487.45%
Taxes from previous years			88	38.10%
Adjustment of deferred taxes of previous year	634	134.04%	822	355.84%
Deferred tax adjustment Italian Law 208/2015			994	430.30%
Withholding taxes	361	76.32%	930	402.60%
Provisions for tax risks				
Taxation at effective rate	**1,645**	**347.80%**	**3,717**	**1,608.89%**

IRAP [Regional Tax on Productive Activities]

(amounts in Euro/000)	**31/12/2016**	**%**	**31/12/2015**	**%**
Earnings before tax	**473**		**231**	
Theoretical tax rate 3.90%	**18**	**3.90%**	**9**	**3.90%**
Effect of non-deductible costs	81	17.12%	72	31.17%
Other unrecognised deferred taxes				
Income/expenses not relevant for IRAP	201	42.49%	226	97.84%
Taxes from previous years	-35	-7.40%	64	27.71%
Adjustment of deferred taxes of previous year	-		-8	-3.46%
Provisions for tax risks	-			
Taxation at effective rate	**265**	**56.11%**	**363**	**157.16%**

Research and development costs (non-capitalisable)
During 2016, technical and industrial studies and research were carried out which did not give rise to capitalisation (in accordance with the provisions of IAS 38) for a total of 14.548 million Euros. (11.191 million Euros in 2015).

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	**31/12/2016**	**31/12/2015**
Earnings (Losses) for the purposes of calculating basic earnings per share	-1,437,173	-3,849,336
Diluting effect deriving from potential ordinary shares:	-	-
Earnings (Losses) for the purposes of calculating diluted earnings per share	-1,437,173	-3,849,336

Number of shares	**31/12/2016**	**31/12/2015**
Weighted average number of ordinary shares for calculating		
basic earnings (losses) per share:	43,362,812	43,362,812
diluted earnings (losses) per share:	43,362,812	43,362,812
Basic earnings (losses) per share (Euro):	-0.033	-0.089
Diluted earnings (losses) per share (Euro):	-0.033	-0.089

Dividends

No dividends were paid in 2016 or in the previous year.

Property, plant and equipment (note 6)

Items *(amounts in Euro)*	Land and buildings	Plant and machinery	Industrial equipment	Other assets	Investments in progress and deposits	Total
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
Net as at 31/12/2014	**31,767,941**	**4,655,544**	**3,684,951**	**753,841**	**1,108,948**	**41,971,225**
Movements in 2015:						
Increases	111,495	118,257	129,153	51,887	2,848,933	3,259,725
Decreases	-1,664	-13,109	-	-7,483	-	-22,256
Capitalisation	665,655	56,866	1,097,235	-	-1,819,756	-
Depreciation and amortisation	-814,370	-436,936	-749,942	-261,694	-	-2,262,942
Reclassification	-	-	84,600	-	-84,600	-
Impairment	-800,000	-	-	-	-	-800,000
Net as at 31/12/2015	**30,929,057**	**4,380,622**	**4,245,997**	**536,551**	**2,053,525**	**42,145,752**
Made up of:						
Historical cost	44,291,405	15,724,241	16,083,815	6,164,526	2,053,525	84,317,512
Provisions for amortisation and depreciations	-13,362,348	-11,343,619	-11,837,818	-5,627,975	-	-42,171,760

Items *(amounts in Euro)*	Land and buildings	Plant and machinery	Industrial equipment	Other assets	Investments in progress and deposits	Total
Historical cost	44,291,405	15,724,241	16,083,815	6,164,526	2,053,525	84,317,512
Provisions for amortisation and depreciations	-13,362,348	-11,343,619	-11,837,818	-5,627,975	-	-42,171,760
Net as at 31/12/2015	**30,929,057**	**4,380,622**	**4,245,997**	**536,551**	**2,053,525**	**42,145,752**
Movements in 2016:						
Increases	16,014	45,287	425,023	151,031	228,423	865,778
Decreases	288	-1,541	-	-239	-	-1,492
Capitalisation	1,323,011	55,028	472,306	179,592	-2,029,937	-
Depreciation and amortisation	-826,426	-433,301	-781,584	-232,847	-	-2,274,158
Reclassification	-	-	19,650	-	-19,650	-
Impairment	-	-	-	-	-	-
Net as at 31/12/2016	**31,441,944**	**4,046,095**	**4,381,392**	**634,088**	**232,361**	**40,735,880**
Made up of:						
Historical cost	45,630,430	15,778,075	16,969,624	6,474,108	232,361	85,084,598
Provisions for amortisation and depreciations	-14,188,486	-11,731,980	-12,588,232	-5,840,020	-	-44,348,718

The most significant increases regard industrial equipment (0.425 million Euros) and capitalized internal costs (0.228 million Euros) and are mostly in the R&D area

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

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	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
Net as at 31/12/2014	**2,312,588**	**4,955,293**	**119,895**	**7,017,419**	**14,405,195**
Movements in 2015:					
Increases	-	628,134	54,914	4,488,332	5,171,380
Decreases	-	-	-	-948,884	-948,884
Capitalisation of internal costs	895,196	266,204	-	-1,161,400	-
Depreciation and amortisation	-749,942	-1,069,741	-49,805	-	-1,869,488
Reclassification	-	-	-	-	-
Net as at 31/12/2015	**2,457,842**	**4,779,890**	**125,004**	**9,395,467**	**16,758,203**
Made up of:					
Historical cost	4,975,755	15,470,710	1,056,450	9,395,467	30,898,382
Provisions for amortisation and depreciations	-2,517,913	-10,690,820	-931,446	-	-14,140,179

Items *(amounts in Euro)*	**Development costs**	**Licences and Trademarks**	**Royalties and patents**	**Invest. in prog. and deposits**	**Total**
Historical cost	4,975,755	15,470,710	1,056,450	9,395,467	30,898,382
Provisions for amortisation and depreciations	-2,517,913	-10,690,820	-931,446	-	-14,140,179
Net as at 31/12/2015	**2,457,842**	**4,779,890**	**125,004**	**9,395,467**	**16,758,203**
Movements in 2016:					
Increases	-	527,173	36,376	3,782,108	4,345,657
Decreases	-1,239,835	-	-4,037	-	-1,243,872
Capitalisation of internal costs	3,785,077	145,065	-	-3,930,142	-
Depreciation and amortisation	-751,527	-1,062,106	-53,238	-	-1,866,871
Reclassification	-	-	-	-	-
Net as at 31/12/2016	**4,251,557**	**4,390,022**	**104,105**	**9,247,433**	**17,993,117**
Made up of:					
Historical cost	7,520,997	16,142,948	1,088,528	9,247,433	33,999,906
Provisions for amortisation and depreciations	-3,269,440	-11,752,926	-984,423	-	-16,006,789

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 increases in current assets mainly relates to the capitalisation of R&D project activities.

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

Real estate investments (note 8)

(amounts in Euro)	Buildings	Total
Balance as at 31/12/2015	**539,703**	**539,703**
Changes	-	-
Balance as at 31/12/2016	**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 2016:

Name *(amounts in Euro)*	31/12/2015	Increases	Decreases	Impairment	31/12/2016
Carraro Drive Tech S.p.A.	50,674,221	18,200,000	-	-	68,874,221
Carraro Deutschland GmbH	8,893,090	-	-7,000,000	-	1,893,090
Carraro Technologies Ltd	3,035	-	-	-	3,035
Carraro International S.A.	36,579,100	-	-	-	36,579,100
Elettronica Santerno S.p.A.	2,014,691	-	-	-895,015	1,119,676
Elettronica santerno Ind. e com. Ltd	3,110	-	-	-	3,110
TOTAL EQUITY INVESTMENTS	**98,167,247**	**18,200,000**	**-7,000,000**	**-895,015**	**108,472,232**

On 06 April 2016 the company acquired from the subsidiary Carraro Deutschland GmbH 8.01% of the portfolio company Carraro Drive Tech S.p.A. for the amount of 18.2 million Euros.
On 30 November 2016 the portfolio company Carraro Deutschland GmbH distributed to the parent company Carraro S.p.A. a capital reserve of 7 million Euros which reduced the carrying value of the equity investment.

Equity investments are valued at historical cost, except for the investment in Elettronica Santerno S.p.A. for which, during the year, the company changed its valuation criteria following the agreement on 30 November 2016 by Enertronica to invest in the capital of Elettronica Santerno Spa with the consequent transfer of a 51% controlling interest to the same. Therefore, as a result of this operation, the company values its stake in Elettronica Santerno according to the net equity criterion.

Equity investments in associated companies:

Name	Registered office	Holding company	Share capital		Number of shares units	Profit (loss) 31/12/2016	Sh. Equity 31/12/2016	Indirect portion	Carrying amount of the investment
			Currency	Amount	Total	(ctv. Euros)	(ctv. Euros)		31/12/2016
Elettronica Santerno S.p.A.	Castelguelfo (BO) Italy	Carraro S.p.A.	EUR	2,724,500	4,412	-10,667,255	4,060,139	27.36%	1,119,676

Financial assets (note 10)

(amounts in Euro)	**31/12/2016**	**31/12/2015**
LOANS TO SUBSIDIARIES	6,250,550	5,625,912
LOANS AND RECEIVABLES	***6,250,550***	***5,625,912***
AVAILABLE FOR SALE	86,091	86,091
OTHER NON-CURRENT FINANCIAL ASSETS	*12,757*	*21,285*
OTHER FINANCIAL ASSETS	***98,848***	***107,376***
NON-CURRENT FINANCIAL ASSETS	**6,349,398**	**5,733,288**
FROM SUBSIDIARIES	386,626	54,774
FROM THIRD PARTIES	5,551	35,000
LOANS AND RECEIVABLES	***392,177***	***89,774***
CASH FLOW HEDGING DERIVATIVES (exchange rate derivatives)	65,826	170,222
OTHER CURRENT FINANCIAL ASSETS	531,268	8,551
OTHER FINANCIAL ASSETS	***597,094***	***178,773***
CURRENT FINANCIAL ASSETS	**989,271**	**268,547**

Non-current loans and receivables:
- these include receivables past due by more than one year from the company Carraro Argentina S.A. for 6.25 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 0.39 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 *(amounts in Euro)*	**Based in**	**Currency**	**Value of the equity investment**
ASSOCIAZIONE NORD EST	PADUA	EURO	1,033
GRUPPO SPORTIVO PETRARCA RUGBY	PADUA	EURO	10,329
SAPI IMMOBILIARE	PADUA	EURO	25,823
CO.NA.I. Consorzio Nazionale Imballaggi	ROME	EURO	784
Consorzio Padova Ricerche	PADUA	EURO	44,774
Isontina Energia – Consorzio per l’acquisto di risorse energetiche	GORIZIA	EURO	516
Pordenone Energia	PORDENONE	EURO	250
FONDAZIONE TEATRO LA FENICE	VENICE	EURO	2,582
TOTAL			**86,091**

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	**Deferred taxes**	**Reclassification**	**Effect**	**Effect**	**Deferred taxes**
(amounts in Euro)	**31/12/2015**		**on net equity**	**on IS**	**31/12/2016**
Depreciation and amortisation	13,479,994	-1,766,407		-1,693,458	10,020,129
Measurement of receivables	19,912				19,912
Discounting of employee severance indemnity	77,463		14,544	-29,702	62,315
Provisions for risks	1,831,581			555,623	2,387,204
Tax loss 2015	1,879,708	-1,846,092		-33,616	-
Tax loss 2016				148,509	148,509
Prior tax losses	778,240			-600,000	178,240
Others	158,178			113,087	271,265
Personnel bonuses	4,556			259,818	264,374
TOTAL	**18,229,632**	**-3,612,499**	**14,544**	**-1,279,739**	**13,351,948**

It is acknowledged that from the date of approval of the financial statements, the conversion of deferred tax assets, amounting to 217,951 Euros, into a tax credit will take effect, pursuant to Article 2 paragraphs 55/56 of Italian Law Decree 225/2010.

Trade receivables and other receivables (Note 12)

(amounts in Euro)	**31/12/2016**	**31/12/2015**
NON CURRENT TRADE RECEIVABLES	**-**	**-**
FROM THIRD PARTIES	38,218	37,425
OTHER NON-CURRENT RECEIVABLES	***38,218***	***37,425***
NON-CURRENT TRADE RECEIVABLES AND OTHER RECEIVABLES	**38,218**	**37,425**
FROM RELATED PARTIES	16,279,233	16,753,070
FROM THIRD PARTIES	6,516,692	4,242,617
CURRENT TRADE RECEIVABLES	**22,795,925**	**20,995,687**
FROM RELATED PARTIES	3,797,916	1,246,328
FROM THIRD PARTIES	3,071,787	3,781,869
OTHER CURRENT RECEIVABLES	**6,869,703**	**5,028,197**
CURRENT TRADE RECEIVABLES AND OTHER RECEIVABLES	**29,665,628**	**26,023,884**

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

(amounts in Euro)	**31/12/2016**	**31/12/2015**
VAT credits	234,043	1,030,094
Other tax credits	166,121	154,280
Receivables for current taxes	1,743,157	1,539,859
Receivables from employees	3,760	2,814
Receivables from pensions agencies	297,381	90,326
Other receivables	627,325	964,496
OTHER CURRENT RECEIVABLES FROM THIRD PARTIES	**3,071,787**	**3,781,869**

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:

(amounts in Euro)	**31/12/2016**	**31/12/2015**
Trade receivables from related parties	16,279,233	16,753,070
NET CURRENT TRADE RECEIVABLES FROM RELATED PARTIES	**16,279,233**	**16,753,070**
Trade receivables from third parties	6,773,252	4,440,306
Provisions for Depreciations of Receivables	-256,560	-197,689
NET CURRENT TRADE RECEIVABLES FROM THIRD PARTIES	**6,516,692**	**4,242,617**
Other receivables from related parties	3,797,916	1,246,328
NET CURRENT OTHER RECEIVABLES FROM RELATED PARTIES	***3,797,916***	***1,246,328***
Other receivables from third parties	3,071,787	3,781,869
NET CURRENT OTHER RECEIVABLES FROM THIRD PARTIES	***3,071,787***	***3,781,869***

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

	31/12/2016					***31/12/2015***				
(amounts in Euro)	PAST DUE		NOT YET DUE			PAST DUE		NOT YET DUE		
	Less than 1 year	More than 1 year	Less than 1 year	More than 1 year	***TOTAL***	Less than 1 year	More than 1 year	Less than 1 year	More than 1 year	***TOTAL***
Trade receivables	1,917,355	1,158,423	19,976,707	-	**23,052,485**	3,074,995	569,872	17,548,509	-	**21,193,376**
Other receivables	-	-	6,869,703	38,218	**6,907,921**	-	-	5,028,197	37,425	**5,065,622**
TOTAL	**1,917,355**	**1,158,423**	**26,846,410**	**38,218**	**29,960,406**	**3,074,995**	**569,872**	**22,576,705**	**37,425**	**26,258,998**

Provisions for Depreciations of Receivables

Movements in the Provision for Depreciations of Receivables:

(amounts in Euro)	**31/12/2015**	**increases**	**31/12/2016**
Provision for Trade receivables	197,689	58,871	256,560
TOTAL	**197,689**	**58,871**	**256,560**

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 *(amounts in Euro)*	**31/12/2016**	**31/12/2015**
Raw materials	8,811,844	14,747,071
Work in progress and semi-finished products	3,989,695	4,242,128
Finished products	901,093	701,596
Goods in transit	-	-
Total inventories	***13,702,632***	***19,690,795***
Provision for impairment of inventories	-2,979,505	-2,792,348
TOTAL	**10,723,127**	**16,898,447**

Inventories recorded a net balance of 10.72 million Euros compared with Euro 16.89 million Euros as at 31 December 2015.
Provisions for impairment of inventories, recognised to align the value of obsolete or slow-moving stocks with the estimated realisable value, amount to 2.98 million Euros, referred to raw, subsidiary and consumable materials for 2.70 million Euros and to semi-finished products for 0.28 million Euros.

Movements in provisions for impairment of inventories:

(amounts in Euro)	
Balance as at 31 December 2015	**2,792,348**
Provisions set aside	746,553
Utilisation	-559,396
Balance as at 31 December 2016	**2,979,505**

Total provisions set aside during the year amounted to 0.746 million Euros.

Cash and cash equivalents (Note 14)

Items *(amounts in Euro)*	**31/12/2016**	**31/12/2015**
CASH	46,571	65,572
BANK CURRENT ACCOUNTS AND DEPOSITS	245,265	427,699
TOTAL	**291,836**	**493,271**

Shareholders' equity (note 15)

Items *(amounts in Euro)*	31/12/2016	31/12/2015 *
1) Share Capital	23,914,696	23,914,696
2) Other Reserves	40,289,557	7,648,961
3) Profits/(Losses) brought forward	-10,263,454	-6,414,118
4) Cash flow hedge reserve	-	-
5) Provision for discounting employee benefits	155,068	193,438
6) Profit/(Loss) for the period	-1,437,173	-3,849,336
SHAREHOLDERS' EQUITY:	**52,658,694**	**21,493,641**

* = For a better understanding and highlighting certain opening reserves have been reclassified and restated.

The Carraro S.p.A. Shareholders' Meeting of 15 April 2016 resolved to carry forward the loss for 2015 amounting to 3,849,336 Euros.

With effect from 31 December 2009, the share capital of Carraro S.p.A. amounts to 23,914,696 Euros, corresponding to 45,989,800 shares with a face value of 0.52 Euros 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 2016, 2,626,988 shares had been purchased for a total investment of 6.666 million Euros.

On 27 June 2016, the Extraordinary Shareholders' Meeting of Carraro S.p.A. approved a capital increase in subscription rights for the maximum amount of 54 million Euros, of which 34 million Euros subscribed and paid by the shareholders Finaid S.p.A. and Julia Dora Koranyi Arduini. This subscription was conditional on receipt of prior exemption from Consob of a possible mandatory tender offer, following subscription by the Investor, received on 24 June 2016. Payment of the guaranteed minimum amount (34 million Euros) took place 29 June 2016. The capital increase will be executed as soon as clearance to publish the prospectus is obtained, originally scheduled for 31 December 2016 and subsequently extended to 30 June 2017 due to the work which had become necessary for preparation of the Prospectus.

The shareholders' equity of Carraro S.p.A at 31 December 2016 amounts to 52.659 million Euros compared to 21.494 million Euros in 2015.

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

Nature/description	31/12/2015 *	Movements in 2016	31/12/2016	Possibility of 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)	27,107,800
Shareholder contributions for future capital increase	-	34,000,000	34,000,000	A, B	(2)	34,000,000
Future capital increase expenses	-	-1,359,404	-1,359,404	A, B	(3)	-1,359,404
Adjustment of value of property, plant and equipment (FTA)	22,200,392	-	22,200,392	A, B	(4)	22,200,392
Profit reserves:						
Legal reserve	4,761,049	-	4,761,049	B		-
Extraordinary reserve	1,803,976	-	1,803,976	A, B, C		1,803,976
Profits/(Losses) brought forward	-5,272,734	-3,849,336	-9,122,070	A, B, C		-9,122,070
Treasury share reserve	-6,666,460	-	-6,666,460	---	(5)	-6,666,460
IAS positive/negative reserve	-42,721,070	-	-42,721,070	A, B, C	(6)	-42,721,070
Other Shareholders' Equity reserves:						
Provision for discounting employee benefits	193,438	-38,370	155,068	B	(7)	155,068
Profit/(Loss) for the period:	-3,849,336	2,412,163	-1,437,173	---		-1,437,173
Total (A)	**21,493,641**	**31,165,053**	**52,658,694**			**23,961,059**
Non-distributable reserves (B)						-54,996,057
Legal reserve of operating profit (C)						-
Capitalised development costs (D)					(8)	-13,114,329
Distributable portion (E = A+B+C+D)						**-----**

* = For a better understanding and highlighting certain opening reserves have been reclassified and restated.

Key:
A: for capital increases
B: to cover losses
C: for distribution to shareholders

(1) limitations Article 2431 of the Italian Civil Code
(2) extraordinary shareholders' meeting resolution 27/06/16
(3) IAS 32 Paragraph 37
(4) governed by Article 7, paragraph 6 of Italian Legislative Decree no. 38 of 28/02/2005
(5) separate indication in accordance with IAS 1
(6) related to Conferral of Agritalia business unit 2009 and Acquisition of R&D business unit 2014, being transactions under common control
(7) governed by Article 7, paragraph 7 of Italian Legislative Decree no. 38 of 28/02/2005
(8) limitations Article 2426 of the Italian Civil Code no. 5

Financial liabilities (note 16)

On 24 December 2015, the Carraro Group signed a new agreement with its main lending banks, which provides for the rescheduling of medium and long-term financial debts, with a suspension of principal repayments until 2017, confirmation of short-term credit lines to support the current operations of the Group and redefinition of the covenants based on the operating results envisaged by the Group's New Business Plan 2016-19. As at 31 December 2016 Group financial parameters (covenants) contractually specified relative to this date, had been met.

In particular:
- gearing (defined as the ratio of net financial position of operations to owners' equity) stood at 3.92 as at 31 December 2016 (the Framework Agreement defines for that date a minimum value of the parameter of 4.50);
- the Net Financial Position of Operations/ADJUSTED EBITDA ratio stood at 4.10 as at 31 December 2016 (the limit established for this financial parameter covenant for the above date is equal to 6.50).

The classification of financial liabilities is shown below:

Items *(amounts in Euro)*	**31/12/2016**	**31/12/2015**
MEDIUM/LONG-TERM LOANS	*13,781,268*	*16,408,326*
MEDIUM/LONG-TERM LOANS TO RELATED PARTIES	*63,600,000*	-
NON-CURRENT FINANCIAL LIABILITIES	**77,381,268**	**16,408,326**
MEDIUM/LONG-TERM LOANS (SHORT-TERM PORTION)	2,766,655	2,831,631
LOANS TO OTHERS	9,739,893	17,010,078
LOANS TO RELATED PARTIES	29,093,475	108,524,411
FINANCIAL LIABILITIES	**41,600,023**	**128,366,120**
FAIR VALUE OF EXCHANGE RATE DERIVATIVES	-	-
OTHER CURRENT FINANCIAL LIABILITIES	*31,979*	*158,722*
OTHER FINANCIAL LIABILITIES	**31,979**	**158,722**
CURRENT FINANCIAL LIABILITIES	**41,632,002**	**128,524,842**

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**		
nominal value	*effect of amortised cost*	*nominal value*	*effect of amortised cost*	*nominal value*	*effect of amortised cost*	**Total 31/12/2016**
2,900,532	-133,877	10,931,659	-380,605	3,258,390	-28,176	16,547,923

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 *(amounts in Euro)*	**Short-term portion as at 31/12/2016**	**Md/lg-term portion as at 31/12/2016**	**EXPIRY**	**RATE**	**RATE TYPE**	**CURRENCY**
MPS, formerly Banca Antonveneta	872,804	12,422,824	Dec-22	3.28%	variable	EURO
Banca Popolare di Ravenna	906,921	-	Jun-17	3.29%	variable	EURO
Cassa di Risparmio di Bolzano	1,120,807	1,767,225	Jun-19	3.53%	variable	EURO
	2,900,532	**14,190,049**				

Non-current loans (13.78 million Euros) refer to: an amortising mortgage loan (valued at amortised cost) obtained from MPS, formerly Banca Antonveneta (12.01 million Euros), with a nominal balance as at 31 December 2016 of 13.29 million Euros, variable interest rate and maturity as at 31 December 2022; a loan obtained from Cassa di Risparmio di Bolzano

(1.77 million Euros), with a nominal outstanding balance as at 31 December 2016 of 2.89 million Euros, variable interest rate and maturity as at 30 June 2019.

Non-current loans to related parties (63.6 million Euros) refer to a loan received from Carraro International for a credit facility totalling 63.6 million Euros, with a final rate of 4.698%; an origination fee is envisaged;

Current loans (41.60 million Euros) are made up of the following:
- 13.45 million Euros for funding received from Carraro International for a credit facility totalling 45 million Euros, with a final rate of 4.198%; a non-utilisation fee and an origination fee are envisaged;
- 9.60 million Euros for a loan received from Carraro Deutschland against the repurchase of the equity investment of Carraro Drive Tech with a finite rate equal to 4.198%;
- 5.55 million Euros of financial payables to Carraro International relating to invoices for interest on the loan;
- 0.5 million Euros of financial payables to Carraro Deutschland relating to invoices for interest on the loan;
- current-account advances and overdrafts of 9.74 million Euros against revocable credit facilities of 19.4 million Euros usable for current account overdrafts and short-term financing, on a 12-month revolving basis;
- 0.74 million Euros short-term portion of a mortgage obtained from MPS, formerly Banca Antonveneta;
- 0.90 million Euros loan (valued at amortised cost) obtained from Banca Popolare di Ravenna, with a nominal outstanding balance as at 31 December 2016 of 0.91 million Euros, variable interest rate and maturity as at 30 June 2017;
- 1.12 million Euros short-term loan from Cassa di Risparmio di Bolzano.

The net financial position is broken down below:

Net financial position *(amounts in Euro)*	**31/12/2016**	**31/12/2015**
Non-current loans payable	77,381,268	16,408,326
Current loans payable	41,600,023	128,366,120
Other current financial liabilities	31,979	158,722
Financial liabilities:	**119,013,270**	**144,933,168**
Current loans and receivables	-392,177	-89,774
Other current financial assets	-531,268	-8,551
Financial assets:	**-923,445**	**-98,325**
Cash	-46,571	-65,572
Bank current accounts and deposits	-245,265	-427,699
Cash and cash equivalents:	**-291,836**	**-493,271**
Net financial position*	**117,797,989**	**144,341,572**
Non-current loans and receivables	-6,250,550	-5,625,912
Other non-current financial assets	-12,757	-21,285
Net financial position of operations	**111,534,682**	**138,694,375**
of which payables / (receivables):		
- non-current	71,117,961	10,761,129
- current	40,416,721	127,933,246

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

Short-term loans include current accounts payable and loans taken out during 2016, with a short-term maturity.

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 *(amounts in Euro)*	**31/12/2016**	**31/12/2015**
NON-CURRENT TRADE PAYABLES	-	-
OTHER NON-CURRENT PAYABLES	-	-
TRADE PAYABLES AND OTHER NON-CURRENT PAYABLES	-	-
FROM RELATED PARTIES	7,835,988	7,627,581
FROM THIRD PARTIES	30,641,648	36,761,741
CURRENT TRADE PAYABLES	***38,477,636***	***44,389,322***
FROM RELATED PARTIES	923,061	610,163
FROM THIRD PARTIES	6,653,682	7,186,378
OTHER CURRENT PAYABLES	***7,576,743***	***7,796,541***
TRADE PAYABLES AND OTHER CURRENT PAYABLES	**46,054,379**	**52,185,863**

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:

(amounts in Euro)	***31/12/2016***					***31/12/2015***				
	PAST DUE		NOT YET DUE			PAST DUE		NOT YET DUE		
	Less than 1 year	More than 1 year	Within 1 year	More than 1 year	***TOTAL***	Less than 1 year	More than 1 year	Less than 1 year	More than 1 year	***TOTAL***
Trade payables	767,028	41,112	37,669,496	-	**38,477,636**	2,838,604	-	41,550,718	-	**44,389,322**
Other payables	-	-	7,576,743	-	**7,576,743**	-	-	7,796,541	-	**7,796,541**
TOTAL	**767,028**	**41,112**	**45,246,239**	**-**	**46,054,379**	**2,838,604**	**-**	**49,347,259**	**-**	**52,185,863**

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

Items *(amounts in Euro)*	**31/12/2016**	**31/12/2015**
VAT payables	-	-
Amounts due to pensions agencies	1,290,391	1,344,695
Amounts due to employees	2,551,911	3,232,112
IRPEF [Income Tax on Natural Persons] employees & professionals	1,132,803	1,373,616
Board of Directors	1,437,843	898,279
Other payables	240,734	337,676
OTHER CURRENT PAYABLES	**6,653,682**	**7,186,378**

Current taxes payables (note 18)

(amounts in Euro)	**31/12/2016**	**31/12/2015**
Current taxes payables	2,204,329	95,000

Employee severance indemnities and retirement benefits (note 19)

(amounts in Euro)	**31/12/2016**	**31/12/2015**
Factory workers	1,747,657	1,822,485
Clerical staff and executives	3,981,227	3,773,216
Sub Total	**5,728,884**	**5,595,701**
Severance indemnity - Pensions Agency	-3,033,558	-2,801,312
TOTAL PROVISIONS FOR EMPLOYEE BENEFITS	**2,695,326**	**2,794,389**

(amounts in Euro)	**31/12/2016**	**31/12/2015**
Opening severance indemnities in accordance with IAS 19	**2,794,389**	**3,011,831**
Utilisation of employee severance indemnities	-112,031	-283,889
Employee severance indemnities transferred to other companies	-68,511	-28,538
Employee severance indemnities transferred from other companies	-	40,513
Current Service Cost	-	-
Interest Cost	28,554	39,249
Actuarial Exchange Gains/Losses	52,925	15,224
Closing severance indemnities in accordance with IAS 19	**2,695,326**	**2,794,389**

The severance indemnity, calculated according to current Italian laws, is treated for accounting purposes as a defined-benefit fund and as such is recalculated at the end of each accounting period according to a statistical-actuarial criterion which also takes account of the effects of financial discounting.
The actuarial valuation of this obligation is carried out according to the actuarial criterion of the “projected unit credit method” with the support of the data issued by ISTAT, the INPS and the ANIA. The parameters used are as follows: 1) annual discount rate: 0.86%, 2) personnel rotation rate 5%, 3) annual inflation index 1.5%, 4) rate of advances 2%, 5) remuneration increase rate 2.625%.
The accounting treatment of employee benefits recorded in the financial statements complies with IAS 19 Revised for defined-benefit plans. For further details, see section 3.3.
Termination benefits are benefits to employees regulated by the laws in force in Italy and recognised in the financial statements of Italian companies.
On the basis of the changes introduced in Law 296/06, with effect from 30 June 2007, termination benefits maturing after 1 January 2007 must be paid into a specific treasury reserve established at the pensions agency INPS, or, if the employee so chooses, into a special complementary pension fund. There are no more provisions for termination benefits with these contributions.

Sensitivity analysis IAS 19 Revised
The table below indicates the values of the Employee benefits provision as at 31/12/2016 calculated in the case of changes in actuarial assumptions reasonably possible at that date with the following variables:
- turnover frequency
- discount rate (taken from the Iboxx Corporate AA 7-10 index)
- inflation rate

	turnover frequency		*discount rate*		*inflation rate*	
(amounts in Euro)	**+1 %**	**-1%**	**+ 0.25%**	**-0.25%**	**+0.25%**	**- 0.25%**
Provision for employee benefits as at 31/12/2016	2,676,280	2,716,685	2,730,414	2,660,914	2,640,166	2,752,550

Number of employees

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

Employees	**31/12/2015**	**Changes**	**31/12/2016**
Executives	15	-1	14
Clerical staff	188	4	192
Factory workers	189	-12	177
Temporary workers	2	3	5
Total as at 31/12	**394**	**-6**	**388**

Provision for risks and liabilities (note 20)

The item can be broken down as follows:

(amounts in Euro)	**Opening situation**	**Increases**	**Decreases**	**Reclassification**	**Closing situation**
Provisions - non-current portion					
1) WARRANTY	-	-	-	-	-
2) COSTS OF LEGAL CLAIMS	1,578	-	-1,578	-	-
3) RENOVATION AND CONV.	-	-	-	-	-
4) OTHER PROVISIONS	-	201,433	-	-	201,433
TOTAL	**1,578**	**201,433**	**-1,578**	**-**	**201,433**
Provisions - current portion					
1) WARRANTY	3,013,054	2,900,000	-1,074,057	-	4,838,997
2) COSTS OF LEGAL CLAIMS	-	-	-	-	-
3) RENOVATION AND CONV.	550,000	-	-168,002	-	381,998
4) OTHER PROVISIONS	228,706	930,580	-55,368	-1,986	1,101,932
TOTAL	**3,791,760**	**3,830,580**	**-1,297,427**	**-1,986**	**6,322,927**

Warranty reserve:
Of the product warranty reserve, 1.07 million Euros was used for customer claims accepted and the reserve was increased by 2.90 million Euros on the basis of the expected warranty costs which will be incurred in relation to the sales made.

Other provisions:
The item Other provisions for risks and liabilities, amounting to 1.101 million Euros, mainly comprises the MBO (management by objectives) provision equal to 0.95 million Euros as at 31/12/2016.

6. Commitments and risks

(amounts in Euro)

Items	**31/12/2016**	**31/12/2015**
- guarantees given	27,939,160	38,761,985
Commitments:		
- commitments for operating leases	-	-

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

(amounts in Euro)

IN FAVOUR OF	***ON BEHALF OF***	**Expiry**	**Guarantee amount as at 31/12/2016**	**Amount used as at 31/12/2016**
BANCA POP. DI VERONA	ELETTRONICA SANTERNO SPA	ON DEMAND	3,000,000	1,200,000
BANCO BPM	CARRARO GROUP COMPANIES	ON DEMAND	15,000,000	-
UNICREDIT FACTORING	CARRARO DRIVE TECH S.P.A.	ON DEMAND	30,000,000	11,098,625
UNICREDIT FACTORING	ELETTRONICA SANTERNO SPA	ON DEMAND	15,000,000	25,053
UNICREDIT SPA	CARRARO DRIVE TECH S.P.A.	ON DEMAND	2,000,000	-
CASSA DI RISPARMIO DEL VENETO	ELETTRONICA SANTERNO SPA	ON DEMAND	2,500,000	1,172,677
UNICREDIT FACTORING	SANTERNO SOUTH AFRICA	ON DEMAND	10,000,000	1,825,392
BNP PARIBAS	ELETTRONICA SANTERNO SPA	18 MONTHS	750,000	1,300,000
BNP PARIBAS	CARRARO DRIVE TECH S.P.A.	18 MONTHS	650,000	1,200,000
IFITALIA SPA	CARRARO DRIVE TECH S.P.A.	ON DEMAND	10,000,000	3,578,494
BANCA POPOLARE DI VICENZA	ELETTRONICA SANTERNO SPA	ON DEMAND	2,000,000	2,000,000
BANCA MPS	CARRARO DRIVE TECH S.P.A.	ON DEMAND	5,400,000	1,234,148
BANCA MPS	ELETTRONICA SANTERNO SPA	ON DEMAND	5,400,000	125,042
BANCA MPS	SIAP SPA	ON DEMAND	5,400,000	279,729
SACE FCT	ELETTRONICA SANTERNO SPA	ON DEMAND	1,500,000	1,500,000
SACE FCT	CARRARO DRIVE TECH S.P.A.	ON DEMAND	1,400,000	1,400,000
TOTAL				**27,939,160**

7. FINANCIAL INSTRUMENTS

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

31/12/2016	*(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	236	-	-	-	-
A.2) Non-derivative Financial Instruments:						
A.2.1) Financial instruments at fair value (FVTPL)						
A.2.2) Financial instruments held to maturity (HTM):						
A.2.3) Loans and receivables (L&R):						
A.2.3.1) Loans:						
	Loans receivable	-	-	-	-	-
A.2.3.2) Other assets:						
	Trade receivables	-	-	-233,117	184,058	-
	Other financial assets	269,659	-	21	-	-
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	-	-	-104,397	-	-
	profit realised	-	-	421,280	-	-
A.3.1.2) Cash Flow Hedging Derivatives on interest rates:						
	Fair value in shareholders' equity	-	-	-	-	-
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	-	-217,528	-	-	-
	Trade payables	-	-	232,390	-503	-
	Loans payable	-	-5,724,740	-	-	-
	Other financial liabilities	-	-1,489,940	-	-	-
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	-	-	-	-	-
	Fair value in shareholders' equity					-
	loss realised	-	-	-	-710,118	-
B.1.2.2) Cash Flow Hedging Derivatives on interest rates:	loss realised	-	-	-	-	-
TOTAL		**269,895**	**-7,432,208**	**316,177**	**-526,563**	**-**

31/12/2015	*(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	827	-	-	-	-
A.2) Non-derivative Financial Instruments: *A.2.1) Financial instruments at fair value (FVTPL):*						
A.2.2) Financial instruments held to maturity (HTM):						
A.2.3) Loans and receivables (L&R):						
A.2.3.1) Loans:						
	Loans receivable	-	-	-	-	-
A.2.3.2) Other assets:						
	Trade receivables	-	-	1,057,990	-114,967	-
	Other financial assets	233,275	-	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	-	-	170,222	-	-
	profit realised	-	-	191,312	-	-
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	-	-685,660	-	-	-
	Trade payables	-	-	1,134	-29	-
	Loans payable	-	-6,047,864	-	-	-
	Other financial liabilities	-	-1,278,536	-	-227	-
B.2) Derivative Financial Instruments: *B.2.1) Hedging derivatives:*						
B.2.1.1) Cash Flow Hedging Derivatives on currencies						
	Fair value through profit or loss	-	-	-	167,055	-
	loss realised	-	-	-	-1,345,613	-
B.1.2.2) Cash Flow Hedging Derivatives on interest rates:	loss realised	-	-	-	-	-
TOTAL		**234,102**	**-8,012,060**	**1,420,659**	**-1,293,781**	**-**

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 31/12/2016. These are instruments hedging foreign currency in circulation.

a) notional values

CONTRACT	Notional value as at 31/12/2016	Notional value as at 31/12/2015
Swap (DCS) (1)	-	-
Swap (DCS) (2)	9,188,361	8,907,642
Total notional values	**9,188,361**	**8,907,642**

b) reference currencies and expiry dates of contracts

CONTRACT	
Swap (DCS) (1)	
Currencies	-
Expiry dates	-
Swap (DCS) (2)	
Currencies	USD/EUR
Expiry dates	Jan-17

c) Fair value

(amounts in Euro thousands)	31/12/2016	31/12/2015
Swap (DCS) (1)	-	-
Swap (DCS) (2)	65,826	170,222
Total	**65,826**	**170,222**

(1) instruments hedging foreign currency sales budget
(2) instruments hedging current receivables and payables in foreign currencies

d) Details of *fair values*

	31/12/2016		31/12/2015	
	Fair Value positive	Fair Value negative	Fair Value positive	Fair Value negative
Exchange rate risk – Domestic Currency Swaps	65,826	-	-	170,222

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

	31/12/2016	31/12/2015
FV recognised in the income statement	65,826	170,222
FV recognised in net equity	-	-
Total	**65,826**	**170,222**

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 31/12/2016 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.
Financial instruments on foreign currency are used, in accordance with the financial risk management policies adopted by the group, to hedge short and medium term receipts and payments of receivables and payables compared to the historical value.
For accounting recognition purposes, particularly Domestic Currency Swaps, in the presence of all the conditions envisaged by IAS/IFRS, hedge accounting was applied with reference to the type of fair value hedge (hedging of the fair value of assets and liabilities). Consequently, the corresponding changes in fair values are reflected in the income statement, net of the tax effect.

7.3 Derivative financial instruments on interest rates

There are no derivative contracts on interest rates outstanding as at 31/12/2016.

Sensitivity analysis
The table below shows the economic and financial effects generated by financial statement assets and liabilities (as at 31/12/2015 and 31/12/2014 respectively), in the event of sudden changes in the following market variables:

- main foreign currencies with respect to the Euros: +/- 10%
- interest rates: +100/-15 basis points.

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

Balances as at 31/12/2016	**INTEREST RATE RISK**				**EXCHANGE RATE RISK**			
(amounts in Euro)	1%		-0.15%		10%		-10%	
		EFFECT ON EQUITY		EFFECT ON EQUITY		EFFECT ON EQUITY		EFFECT ON EQUITY
	FINANCIAL EFFECT	EFFECT ON EQUITY	FINANCIAL EFFECT	EFFECT ON EQUITY	FINANCIAL EFFECT	EFFECT ON EQUITY	FINANCIAL EFFECT	EFFECT ON EQUITY
ASSETS								
Trade receivables					-392,346		479,534	
Other fin. ass. - derivatives on currencies					827,353	-	-1,011,210	-
Other fin. ass. - derivatives on interest rates								
Loans					-		-	
Cash and cash equivalents					-		-	
Total gross effect	**-**	**-**	**-**	**-**	**435,007**	**-**	**-531,676**	**-**
Taxes (27.50%)	-	-	-	-	-119,627	-	146,211	-
Total net effect	**-**	**-**	**-**	**-**	**315,380**	**-**	**-385,465**	**-**
LIABILITIES								
Trade payables					-3,659		4,472	
Loans	1,238,126		-185,719		-		-	
Total gross effect	**1,238,126**	**-**	**-185,719**	**-**	**-3,659**	**-**	**4,472**	**-**
Taxes (27.50%)	-340,485	-	51,073	-	1,006	-	-1,230	-
Total net effect	**897,641**	**-**	**-134,646**	**-**	**-2,653**	**-**	**3,242**	**-**
TOTAL	**897,641**	**-**	**-134,646**	**-**	**312,727**	**-**	**-382,223**	**-**

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

Balances as at 31/12/2015 *(amounts in Euro)*	**INTEREST RATE RISK**				**EXCHANGE RATE RISK**			
	1%		-0.15%		10%		-10%	
	FINANCIAL EFFECT	EFFECT ON EQUITY EFFECT ON EQUITY	FINANCIAL EFFECT	EFFECT ON EQUITY EFFECT ON EQUITY	FINANCIAL EFFECT	EFFECT ON EQUITY EFFECT ON EQUITY	FINANCIA L EFFECT	EFFECT ON EQUITY EFFECT ON EQUITY
ASSETS								
Trade receivables					-631,539		771,881	
Other fin. ass. - derivatives on currencies					792,892	-	-969,090	-
Other fin. ass. - derivatives on interest rates	-	-	-	-	-	-	-	-
Loans	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-		-	-
Total gross effect	-	-	-	-	**161,353**	-	**-197,209**	-
Taxes (27.50%)	-	-	-	-	-44,372	-	54,233	-
Total net effect	-	-	-	-	**116,981**	-	**-142,976**	-
LIABILITIES								
Trade payables					-3,789		4,632	
Loans	1,233,371		-185,006		-		-	
Total gross effect	**1,233,371**	-	**-185,006**	-	**-3,789**	-	**4,632**	-
Taxes (27.50%)	-339,177	-	50,877	-	1,042	-	-1,274	-
Total net effect	**894,194**	-	**-134,129**	-	**-2,747**	-	**3,358**	-
TOTAL	**894,194**	-	**-134,129**	-	**114,234**	-	**-139,618**	-

Positive sign: expense (economic) - decrease (equity)
Negative sign: income (economic) - increase (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 31/12/2015	Number of shares purchased	Number of shares sold	No. of shares held as at 31/12/2016
Mario Carraro	Directly held	1,903,250	557,485	-	2,460,735
	through Finaid S.p.A.	18,372,203	-	-	18,372,203
Julia Dora Koranyi Arduini	Directly held	9,098,449	-	-	9,098,449
Alberto Negri	Directly held	-	100,857	-	100,857
Antonio Cortellazzo	Directly held	37,500	-	-	37,500

(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			**832**			**6**								
Subsidiary Companies														
Carraro Drive Tech S.p.A.			11,094	5,174	1,002	3,762	15,548	15,645	192		-1,168	6,468	100	
Siap SpA			1,019	1,407	2	778	421	2,059		6	-327		5	
Carraro India Ltd			1.560	1,070		1,494	2,299	60			-1		4	
Carraro Technologies			54	244		54			1,367					
Carraro Argentina	6,251		2,533	260	437	-11	113	1	260					
Carraro Drive Tech Do Brasil			195				107						28	
Carraro International S.A.	903	82,594		19		6			60					5,729
Carraro Deutschland		10,099												499
F.O.N. S.A.			1											
Carraro North America Inc			392			14								
Carraro China Drives Sys. Co Ltd			752	583	7	637	518	28	63					
TOTAL	**7,154**	**92,693**	**17,600**	**8,757**	**1,448**	**6,734**	**19,006**	**17,793**	**1,942**	**6**	**-1,496**	**6,468**	**137**	**6,228**
Associated companies														
Elettronica Santerno Spa			940	2		225			3				32	
Elettronica Santerno Ind.e Comercio Ltda			111			8								
Elettronica Santerno USA			377										8	
Elettronica Santerno South Africa Pty Ltd			115			42							40	
O&K Antriebstechnik GmbH			103			258								
TOTAL			**1,646**	**2**		**533**			**3**				**80**	
TOTAL	**7,154**	**92,693**	**20,078**	**8,759**	**1,448**	**7,273**	**19,006**	**17,793**	**1,945**	**6**	**-1,496**	**6,468**	**217**	**6,228**

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.

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

The auditing of the Carraro Group's financial statements will be carried out, until the financial year ending on 31 December 2016, by *Deloitte & Touche S.p.A.*, while auditing until 2015 was carried out by *PricewaterhouseCoopers S.p.A.* The fees paid to the auditing companies accruing in the financial year, for auditing and other services, are summarised below.

(amounts in Euro thousands)	**2016**	**2015**
Accounting audit	286	250
Other services	39	1
Total fees	**325**	**251**

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 2016 (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 2016 results	Profit (loss) 31/12/2016	Sh. Equity 31/12/2016	Direct portion
			Currency	Amount	Total	(ctv. Euros)	(ctv. Euros)	(ctv. Euros)	
Carraro International S.A.	Luxembourg	Carraro SpA	EUR	39,318,000	39,318	14,429,152	-5,721,777	8,707,375	100.00%
Carraro Deutschland GmbH	Hattingen (Germany)	Carraro SpA	EUR	10,507,048	10,507,048	2,293,969	8,594,914	10,888,883	100.00%
Carraro Technologies India Pvt. Ltd.	Pune (India)	Carraro SpA	INR	18,000,000	1,800,000	1,602,159	141,711	1,743,870	1.00%
Carraro Drive Tech S.p.A.	Campodarsego (Padua)	Carraro SpA	EUR	30,102,365	30,102,365	82,957,088	11,867,961	94,825,049	56.69%
Elettronica Santerno S.p.A.	Campodarsego (Padua)	Carraro SpA	EUR	2,724,500	4,412	14,727,394	-10,667,255	4,060,139	27.36%
Elettronica Santerno Ind. e Com. Ltd.	Campodarsego (Padua)	Carraro SpA	BRL	14,157,475	14,157,475	370,039	-700,716	-330,677	0.34%

2) SUBSIDIARY COMPANIES INDIRECTLY HELD

Name	Registered office	Holding company (indirect parent)	Share capital		Number of shares/ units	Profit (loss) 31/12/2016	Sh. Equity 31/12/2016	Portion Holding company	Indirect portion	Carrying amount of the investment
			Currency	Amount	Total	(ctv. Euros)	(ctv. Euros)			31/12/2016
Carraro Technologies India Pvt. Ltd.	Pune (India)	Carraro Drive Tech S.P.A	INR	18,000,000	1,800,000	141,711	1,743,870	99.00%	99.00%	447,265
O&K Antriebstechnik GmbH & Co. KG	Hattingen (Germany)	Carraro Drive Tech S.P.A	EUR	4,000,000	1,800,000	-	-	45.00%	45.00%	16,552,000
Carraro Argentina S.A.	Haedo (Argentina)	Carraro Drive Tech S.P.A	ARS	105,096,503	105,096,503	-4,726,811	1,534,507	99.95%	99.95%	9,138,795
Carraro China Drive System	Qingdao (China)	Carraro Drive Tech S.P.A	CNY	168,103,219	-	1,481,042	25,233,247	100.00%	100.00%	16,901,673
Carraro India Ltd.	Pune (India)	Carraro Drive Tech S.P.A	INR	568,515,380	56,851,538	1,408,360	34,091,674	100.00%	100.00%	42,119,666
Carraro North America Inc.	Norfolk (USA)	Carraro Drive Tech S.P.A	USD	1,000	1,000	-4,521	-283,590	100.00%	100.00%	-
Fon S.A.	Radomsko (Poland)	Carraro Drive Tech S.P.A	PLN	-	-	-86,201	-27,969	98.64%	98.64%	97,069
Carraro Drive Tech Do Brasil	Santo Andrè (State of Sao Paulo)	Carraro Drive Tech S.P.A	REAL	5,701,954	5,701,954	-1,080,208	-1,242,843	100.00%	100.00%	-
Siap SpA	Maniago (Pordenone)	Carraro Drive Tech S.P.A	EUR	35,582,616	35,582,616	1,638,508	33,062,286	100.00%	100.00%	30,845,421
Carraro Drive Tech S.p.A.	Campodarsego (Padua)	Carraro International S.A.	EUR	30,102,365	30,102,365	11,867,961	94,825,049	43.31%	43.31%	38,797,634
Elettronica Santerno S.p.A.	Campodarsego (Padua)	Carraro International S.A.	EUR	2,724,500	4,412	-10,667,255	4,060,139	21.65%	21.65%	885,908
Mini Gears Inc	Virginia Beach (USA)	Carraro International S.A.	USD	8,910,000	-	-4,839	3,805	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%	-

Annex to the explanatory notes to the Financial Statements as at 31/12/2016 – 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

Amounts in Euro	REVALUATION HIST. COST		REVALUATION PROV. FOR DEPRECIATION		NET BALANCE - REVALUATION	
Description	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.	105,751	105,751	11,693	11,693	94,058	94,058
GENERAL PLANT	24,107	24,107	6,477	6,477	17,630	17,630
SPECIFIC PLANT	-	-	-	-	-	-
**TOTAL PLANT	24,107	24,107	6,477	6,477	17,630	17,630
**TOTAL MACHINERY	-	-	-	-	-	-
2) TOTAL PLANT AND MACHINERY	24,107	24,107	6,477	6,477	17,630	17,630
3) TOTAL IND. COMM. EQUIP.	-	-	-	-	-	-
4) TOTAL OTHER GOODS	-	-	-	-	-	-
TOTAL BII	129,858	129,858	18,170	18,170	111,688	111,688

REVALUATION LAW 72/1983

Amounts in Euro	REVALUATION HIST. COST		REVALUATION PROV. FOR DEPRECIATION		NET BALANCE - REVALUATION	
Description	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
LAND, YARDS & EQUIP.	15,841	15,841	1,309	1,309	14,531	14,531
1) TOTAL LAND AND BUILDINGS	463,398	463,398	89,004	89,004	374,393	374,393
GENERAL PLANT	104,042	104,042	58,689	58,689	45,353	45,353
**TOTAL PLANT	104,042	104,042	58,689	58,689	45,353	45,353
**TOTAL MACHINERY	-	-	-	-	-	-
2) TOTAL PLANT AND MACHINERY	104,042	104,042	58,689	58,689	45,353	45,353
PROT. AREA EQUIPMENT	7,080	7,080	1,126	1,126	5,954	5,954
3) TOTAL IND. COMM. EQUIP.	7,080	7,080	1,126	1,126	5,954	5,954
4) TOTAL OTHER GOODS	-	-	-	-	-	-
TOTAL BII	574,520	574,520	148,819	148,819	425,700	425,700

REVALUATION LAW 413/1991

Amounts in Euro	REVALUATION HIST. COST		REVALUATION PROV. FOR DEPRECIATION		NET BALANCE REVAL.	
Description	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.	2,392,197	2,392,197	-	-	2,392,197	2,392,197
TOTAL BII	2,392,197	2,392,197	-	-	2,392,197	2,392,197

During the 1976 financial year, a monetary 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

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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 2016.

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 accounting records;

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: 15 February 2017

Alberto Negri	Enrico Gomiero
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Chief Executive Officer	Financial Reporting Officer