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Carraro Group

Annual Report 2014

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Annual Report 2014

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Directors' Report on Operations
as at 31 December 2014

Balance Sheet and Financial Data

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Turnover

The Group's turnover as at 31 December 2014 amounted to 727.757 million Euros, down 16.5% compared to turnover for 2013, equal to 871.936 million Euros.

The following table breaks turnover down by business segment:

			Sales			**Sales to third parties**			**Intra-group sales**
	31.12.14	**31.12.13**	**Diff %**	**31.12.14**	**31.12.13**	**Diff %**	**31.12.14**	**31.12.13**	**Diff %**
Carraro Drivetech	610,453	714,724	-14.6	592,462	697,599	-15.1	17,991	17,125	5.1
Carraro div. Agritalia	102,837	102,987	-0.1	98,468	99,369	-0.9	4,369	3,618	20.8
Elettronica Santerno	36,633	74,424	-50.8	36,542	74,341	-50.8	91	83	9.6
Non allocated business	11,584	12,364	-6.3	285	627	-54.5	11,299	11,737	-3.7
Total segments	**761,507**	**904,499**	**-15.8**	**727,757**	**871,936**	**-16.5**	**33,750**	**32,563**	**3.6**
Intra-group eliminations	-33,750	-32,563	3.6	-	-		-	-	
Consolidated total	**727,757**	**871,936**	**-16.5**	**727,757**	**871,936**	**-16.5**	**33,750**	**32,563**	**3.6**

Amounts in Euro/000

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

The following table breaks down turnover by geographical area:

Geographical Area	**31.12.2014**	**%**	**31.12.2013**	**%**	**Difference % '14-'13**
South America	93,250	12.8	106,920	12.3	-12.8
North America	84,387	11.6	115,729	13.3	-27.1
Germany	83,024	11.4	103,108	11.8	-19.5
United Kingdom	58,824	8.1	55,183	6.3	6.6
India	58,685	8.1	49,607	5.7	18.3
Turkey	50,960	7.0	69,160	7.9	-26.3
Switzerland	49,308	6.8	43,702	5.0	12.8
France	43,479	6.0	61,295	7.0	-29.1
China	29,816	4.1	51,015	5.9	-41.6
Poland	12,901	1.8	19,001	2.2	-32.1
Belgium	11,516	1.6	16,205	1.9	-28.9
Other non-E.U. areas	18,901	2.6	33,456	3.8	-43.5
Other E.U. areas	43,118	5.9	48,159	5.5	-10.5
Total Abroad	**638,169**	**87.7**	**772,540**	**88.6**	**-17.4**
Italy	89,588	12.3	99,396	11.4	-9.9
Total	**727,757**	**100.0**	**871,936**	**100.0**	**-16.5**
of which:					
Total E.U. area	**342,450**	**47.1**	**402,347**	**46.1**	**-14.9**
Total non-E.U. area	**385,307**	**52.9**	**469,589**	**53.9**	**-17.9**

Amounts in Euro/000

In analysing turnover, it should be noted that the Group mainly sells to the production sites of OEMs that may reside in different countries from the nations of end users of their products. In the context of a generalised contraction of sales in all geographic areas, the only exceptions being India, which grows by 18.3%, Great Britain +6.6% and Switzerland +12.8%. In terms of positioning, this year South America is in first place, exchanging positions with North America, while Germany is in third place as in the previous year.

It should be noted that the turnover in the United States in 2013 included Santerno contracts for approx. 20.5 million Euros.

Ebitda e Ebit

Figures as at 31.12.2014

Amounts in Euro/000

	31.12.14	% of turnover	31.12.13	% of turnover	Diff. %
Ebitda [a]	38,763	5.3	61,544	7.1	-37.0
Non-recurrent costs	6,655		-		
Adjusted Ebitda	45,418	6.2	61,544	7.1	-26.2
Ebit [b]	12,106	1.7	31,222	3.6	-61.2
Non-recurrent costs	6,655		-		
Adjusted Ebit	18,761	2.6	31,222	3.6	-39.9

[a] Understood as the sum of operating profit/(loss), amortisation, depreciation and impairment of fixed assets
[b] Understood as operating profit/(loss) in the income statement

Ebitda as at 31 December 2014 came to 38.763 million Euros (5.3% of sales), down 37.0% compared to 61.544 million Euros (7.1% of turnover) in 2013. 2014 Ebit was equal to 12.106 million Euros (1.7% of turnover) compared to 31.222 million Euros (3.6% of turnover) in 2013. Net of non-recurring costs, 2014 Ebitda was equal to 45.418 million Euros (6.2% of turnover) compared to 18.761 million Euros (2.6% of turnover).

Normalising the results for the two years, excluding Mini Gears, adjusted Ebitda in 2014 (excluding non-recurring costs) would amount to 42.669 million Euros (6.0% of turnover) compared to 52.896 million Euros (6.6% of turnover); adjusted Ebit would amount to 17.800 million Euros (2.5% of turnover) compared to 28.792 million Euros (3.6% of turnover) in 2013.

Information from the two indices differentiating the evolution of the core business (Business Areas operating in the mechanical engineering sectors) from that of the Electronics Business Area is shown below:

Amounts in Euro/000

Carraro Drivetech and Divisione Agritalia	31.12.14	% of turnover	31.12.13	% of turnover	Diff. %
Ebitda [a]	50,281	7.0	66,055	8.1	-23.9
Non-recurrent costs	4,080		-		
Adjusted Ebitda	54,361	7.6	66,055	8.1	-17.7
Ebit [b]	28,394	4.0	40,325	4.9	-29.6
Non-recurrent costs	4,080		-		
Adjusted Ebit	32,474	4.6	40,325	4.9	-19.5

With reference to the business areas operating in the mechanical industry, aggregate Ebitda as at 31 December 2014 amounted to 50.281 million Euros (7.0% of turnover) compared to 66.055 million Euros (8.1% of turnover) for the previous year. Ebit as at 31 December 2014 was equal to 28.394 million Euros (4.0% of turnover) compared to 40.325 million Euros (4.9% of turnover). Excluding non-recurring costs, aggregated Ebitda in 2014 amounted to 54.361 million Euros (7.6% of turnover), and Ebit to 32.474 million Euros (4.6% of turnover). Normalising the results of the two years, excluding Mini Gears, the adjusted 2014 Ebitda (net of non-recurring costs) would be 51.612 million Euros (7.5% of turnover) compared to 57.407 million Euros (7.7% of turnover); adjusted Ebit would amount to 31.513 million Euros (4.6% of turnover) compared to 37.895 million Euros (5.1% of turnover) in 2013.

Electronics Business Area	31.12.14	% of turnover	31.12.13	% of turnover	Diff. %
Ebitda [(a)]	-7,005	-19.1	171	0.2	n.r.
Non-recurrent costs	2,375		-		
Adjusted Ebitda	-4,630	-12.6	171	0.2	n.r.
Ebit [(b)]	-9,897	-27.0	-2,405	-3.2	n.r.
Non-recurrent costs	2,375		-		
Adjusted Ebit	-7,522	-20.5	-2,405	-3.2	n.r.

Amounts in Euro/000

The profitability of the Business Area in 2014 was affected by lower sales volumes and reorganisation costs of 2.375 million Euros.

Financial expenses

Figures as at 31.12.2014

	31.12.14	% of turnover	31.12.13	% of turnover	Diff. %
Financial expenses	-18,552	-2.6	-19,695	-2.3	-5.8

Amounts in Euro/000

Despite a slightly higher average financial indebtedness compared to the previous year, in 2014 financial expenses decreased from 19.695 million Euros in 2013 to 18.552 million Euros, due to the general improvement in interest rates.

Exchange differences

Figures as at 31.12.2014

	31.12.14	% of turnover	31.12.13	% of turnover	Diff. %
Exchange differences	-2,905	-0.4	-1,428	-0.2	n.r.

Exchange differences as at 31 December 2014 were negative, amounting to 2.905 million Euros (-0.4% of turnover) compared to a negative value of 1.428 million Euros (-0.2% of turnover) as at 31 December 2013. The deterioration is due to the important devaluation effects of certain currencies, such as Pesos and Rupees, limited to conversion of capital balances. These devaluation effects do not represent significant risk factors since revenues and purchases in foreign currency are adequately hedged with structured instruments in accordance with Group policy.

Net profit/(loss)

Figures as at 31.12.2014

Amounts in Euro/000

	31.12.14	% of turnover	31.12.13	% of turnover	Diff. %
Net profit/(loss)	-7,913	-1.1	1,290	0.2	n.r.
Non-recurrent costs net of the tax effect	4,822		-		
Adjusted net profit/(loss)	-3,091	-0.4	1,290	0.2	n.r.

	31.12.14	% of turnover	31.12.13	% of turnover	Diff. %
Earnings before tax	-4,970	-0.7	12,748	1.5	n.r.
Current and deferred income taxes	-2,871	-0.4	-10,698	-1.2	n.r.
Profit/(loss) pertaining to minorities	-72	-0.0	-760	0.1	n.r.
Net profit/(loss)	-7,913	-1.1	1,290	0.2	n.r.

2014 closed with a loss of 7.913 million Euros (-1.1% of turnover) compared to a profit of 1.290 million Euros (0.2% of turnover) in 2013. Net of non-recurrent costs, the net loss was equal to 3.091 million Euros (-0.4% of turnover). The tax item includes, in addition to current taxes of companies showing a profit and Irap for Italian companies, the effects resulting from the disposal of the R&D arm of Carraro Drive Tech Spa to the parent company Carraro Spa.

Amortisation, depreciation and impairment of assets

Figures as at 31.12.2014

Amounts in Euro/000

	31.12.14	% of turnover	31.12.13	% of turnover	Diff. %
Amortisation, depreciation and impairment	26,657	3.7	30,322	3.5	-12.1

Amortisation and depreciation for the year decreased by 12.1% compared to 2013 mainly due to the sale of the activities of Mini Gears.

Investments

Figures as at 31.12.2014

Amounts in Euro/000

	31.12.14	31.12.13
Investments	34,674	37,539

In 2014 investments for 34,674 million Euros were made, compared to 37.539 million Euros in 2013. The reduction is due to the sale of the activities of Mini Gears and the presence of the important investment for the start up of the new management system (Erp) in 2013.

Research and innovation

Technological innovation and new product development are still core strategies and have enabled the Group to increase its market shares, penetrate new markets and gain new customers, also in particularly complex market conditions. Expenses for Research and Innovation, the purposes and applications of which are commented on in a specific paragraph, amounted in 2014 to 14.276 million Euros, accounting for 2.0% of turnover, compared with 18.671 million Euros, representing 2.1% of turnover in 2013.

Net financial position and gearing

Figures at 31.12.2014

	31.12.14	30.09.14	30.06.14	31.12.13
Net financial position*	-224,273	-281,928	-263,718	-248,150

* Understood as the sum of amounts payable to banks, short-, medium- and long-term bonds and loans, net of cash and cash equivalents, negotiable securities and financial receivables

Amounts in Euro/000

The consolidated net financial position as at 31 December 2014 was negative, amounting to 224.273 million Euros, improving compared to the negative figure of 263.718 million Euros as at 30 June 2014 and 248.150 million Euros as at 31 December 2013, thanks to the reduction in net working capital, made possible by the harmonisation of payments, the use of inventory put in place in the last quarter and the positive cash flows deriving from the recovery of tax credits in certain foreign Group companies, from the sale of the Mini Gears business unit and from the sale of the Gear World North America property in Virginia Beach.

Gearing (the ratio between the net financial position and owners' equity) stood at 5.44 as at 31 December 2014 below the limit established for this covenant by the Debt Rescheduling Agreement with reference to the date of 31 December 2014 (6.00), as updated following the request for review of the covenant dated 10 June 2014.

The adjusted Net Financial Position/Ebitda ratio stood at 4.94 as at 31 December 2014, below the limit set for this financial parameter (covenant) with reference to the date of 31 December 2014 (6.25).

This shows that as at 31 December 2014, the contractually stipulated covenants were complied with on such date.

Cash flow statements in the directors' report on operations represent the movements of the net financial position during the year and include effects arising from the translation into Euros of financial items in local currencies.

Personnel

Workforce trend

Figures as at 31.12.2014

	31.12.2014	31.12.2013	31.12.2012
Executives	43	50	58
Clerical staff	929	1,035	1,044
Factory workers	2,472	2,964	2,865
Temporary workers	310	314	43
Total	**3,754**	**4,363**	**4,010**

Group personnel as at 31 December 2014 (including temporary workers, trainees and interim workers), amounted to 3,754 resources compared to 4,363 actually working as at 31 December 2013.

The reduction in personnel compared to 31 December 2013 is attributable, for 528 people, to the sale of the Mini Gears business unit and, for 72 people, to the reorganisation process implemented during the year.

Action taken

Regarding Elettronica Santerno, in 2014 recourse was made to wage supplements, covering the period from January to September, after which operations resumed with normal working hours with an overall workforce reduced by approx. 20% compared to the initial situation.

Following the positive negotiations with the national, regional and company union organisations, concluded in 2013, during the current financial year 24-hour working hours were introduced in Drivetech plants in Italy and certain supplementary terms redefined.

In the latter part of the year a process of rationalisation of management personnel was initiated in the Divisione Agritalia, Carraro SpA and in Carraro Drive Tech SpA and redundancy procedure for 35 people working as employees, middle managers and senior managers were initiated.

The Performance Management programme (management process to improve individual and team performance) which is also related to the Management Review process (that identifies career and professional development plans to empower key resources), involved over 200 people in 2014, at all Group units and sites where it operates.

In addition, during 2014, in Carraro India the "Gurukul Excellence Centre" got up to full speed, a training facility designed to provide technical training, through practical tests and theoretical courses, to new resources working in the plant. The same structure also has the objective of strengthening internal skills with a lifelong learning approach, thanks to the involvement of both internal trainers and external experts.

In China, at the same time, the participatory initiative of the "Dome Projects", aimed at collecting ideas for improvement from all company personnel, had a record involvement index of 75% (204 people out of the total of 272), with over 230 suggestions collected in all areas: from maintenance to R&D, from purchasing to finance, from logistics to human resources and from production to quality.

The new Sap Erp system went live during the year, as scheduled, and was followed up by training on new processes and tools, involving more than 500 people in Italy, with a total of over 12,000 hours of training.

Risks regarding health and safety at work

The group carries out industrial processes that feature mechanical works and the assembly of mechanical components. The risks associated with health and safety in the workplace are those typical of manufacturing.

The Italian manufacturing facilities continually monitor compliance with current legislation. The other manufacturing facilities operate in compliance with local requirements while maintaining the standards envisaged by Italian legislation as a reference. Group management is attentive to all efforts to ensure and improve occupational safety, paying particular attention to situations with a greater degree of risk, also in accordance with Legislative Decree 231/2001.

In 2014 many new initiatives were implemented in the EH&S (Environment, Health & Safety) area and several programmes were developed that made it possible to achieve the set goals. The EH&S Management System approach was extended to many business processes, thus constituting the pillars of this development. This resulted in a marked improvement in this area and in the last quarter of 2014 the percentage of recordable injuries and days of absence due to prognosis decreased, at the Group level, by 66% and 73%, respectively.

Performance of the Parent Company

Carraro Spa

Carraro Spa is the parent company, with functions of strategic guidance, control and co-ordination of the individual Business Areas of the Carraro Group. The company also has a production site, Divisione Agritalia, based in Rovigo, for the development, manufacture and distribution of agricultural tractors based on agreements with major international manufacturers (Agco, John Deere, Claas). As previously mentioned, on 31 December 2014 Carraro Spa acquired from the subsidiary Carraro Drive Tech Spa the R&D business unit, which as from 2015 will be integrated with the Divisione Agritalia R&D area.

In 2014, Carraro Spa realised sales revenues of 112.958 million Euros (113.431 million Euros as at 31 December 2013), mostly generated by Divisione Agritalia.

Ebitda was negative amounting to 1.049 million Euros, accounting for -0,9% of turnover, against a positive figure of 0.718 million Euros (0.6% of turnover) in the previous year. Ebit was negative amounting to 4.178 million Euros (-3.7% of turnover), compared to -2.532 million Euros (-2.2% of turnover) as at 31 December 2013. Net of non-recurring costs, concerning the repeatedly mentioned reorganisation process, Ebitda would have been positive at 409 thousand Euros (0.4% of turnover) and Ebit would have been negative at 2.720 million Euros (-2.4% of turnover).

Financial expenses amounted to 4.631 million Euros (4.1% of turnover), an increase compared to the 4.024 million Euros (3.5% of turnover) as at 31 December 2013, due to the higher average indebtedness.

Income from equity investments amounted to 400 thousand Euros (2.150 million Euros as at 31 December 2013) and refers to dividends paid in the year by the subsidiary Carraro International.

With taxes receivable amounting to 1.693 million Euros (1.124 million Euros in 2013) 2014 closed with a net loss of 6.497 million Euros (-5.8% of turnover) compared to 3.214 million Euros (-2.8% of turnover) as at 31 December 2013.

In 2014, amortisation and depreciation were equal to 3.129 million Euros in line with the previous year (3.250 million Euros).

Gross investments in 2014 amounted to 5,877 million Euros (6.549 million Euros as at 31 December 2013) and refer, in addition to maintaining facilities at Divisione Agritalia, to capitalising costs for the start up of the new ERP management system.

The net financial position recorded debt amounting to 133.456 million Euros, compared to debt of 69.006 million Euros as at 31 December 2013. The increased debt exposure compared to the previous year is mainly attributable to the purchase of the R&D business unit from the subsidiary Carraro Drive Tech Spa.

The workforce as at 31 December 2014 totalled 359 persons (of which 84 at the holding in Campodarsego and 275 at the Rovigo site of Divisione Agritalia).

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

	Carraro Spa[1]					Carraro Deutschland GmbH				
	31.12.14	**% of turnover**	**31.12.13**	**% of turnover**	**Diff.%**	**31.12.14**	**% of turnover**	**31.12.13**	**% of turnover**	**Diff.%**
Turnover	112,958		113,431		-0.4	-		-		n.r.
Ebitda	-1,049	-0.9	718	0.6	n.r.	284		-321		n.r.
Ebit	-4,178	-3.7	-2,532	-2.2	-65.0	284		-321		n.r.
Net Profit/(loss)	-6,497	-5.8	-3,214	-2.8	n.r.	236		-440		n.r.
Amortisation, depreciation and impairment	3,129	2.8	3,250	2.9	-3.7	-		-		n.r.
Investments	5,877		6,549			-		-		
Net financial position	-133,456		-69,006			-588		-524		
Shareholders' equit	26,320		67,722			9,820		9,584		

[1] The financial balances include the effects of the acquisition of the R&D business unit from the subsidiary Carraro Drive Tech Spa

	Carraro International Sa[2]					Mini Gears Inc.				
	31.12.14	**% of turnover**	**31.12.13**	**% of turnover**	**Diff.%**	**31.12.14**	**% of turnover**	**31.12.13**	**% of turnover**	**Diff.%**
Turnover	302		866		-65.1	-		1,064		n.r.
Ebitda	-703		-546	-63.0	28.8	82		386	36.3	-78.8
Ebit	-715		-565	-65.2	26.5	-4		234	22.0	n.r.
Net Profit/(loss)	326		581	67.1	-43.9	4		5	0.5	-20.0
Amortisation, depreciation and impairment	12	4.0	19	2.2	-36.8	86		152	14.3	-43.4
Investments	11		51			-		-		
Net financial position	-16,514		-12,523			24		-3,178		
Shareholders' equit	41,109		41,145			10		5		

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

Performance and Results
Carraro Group Business Areas

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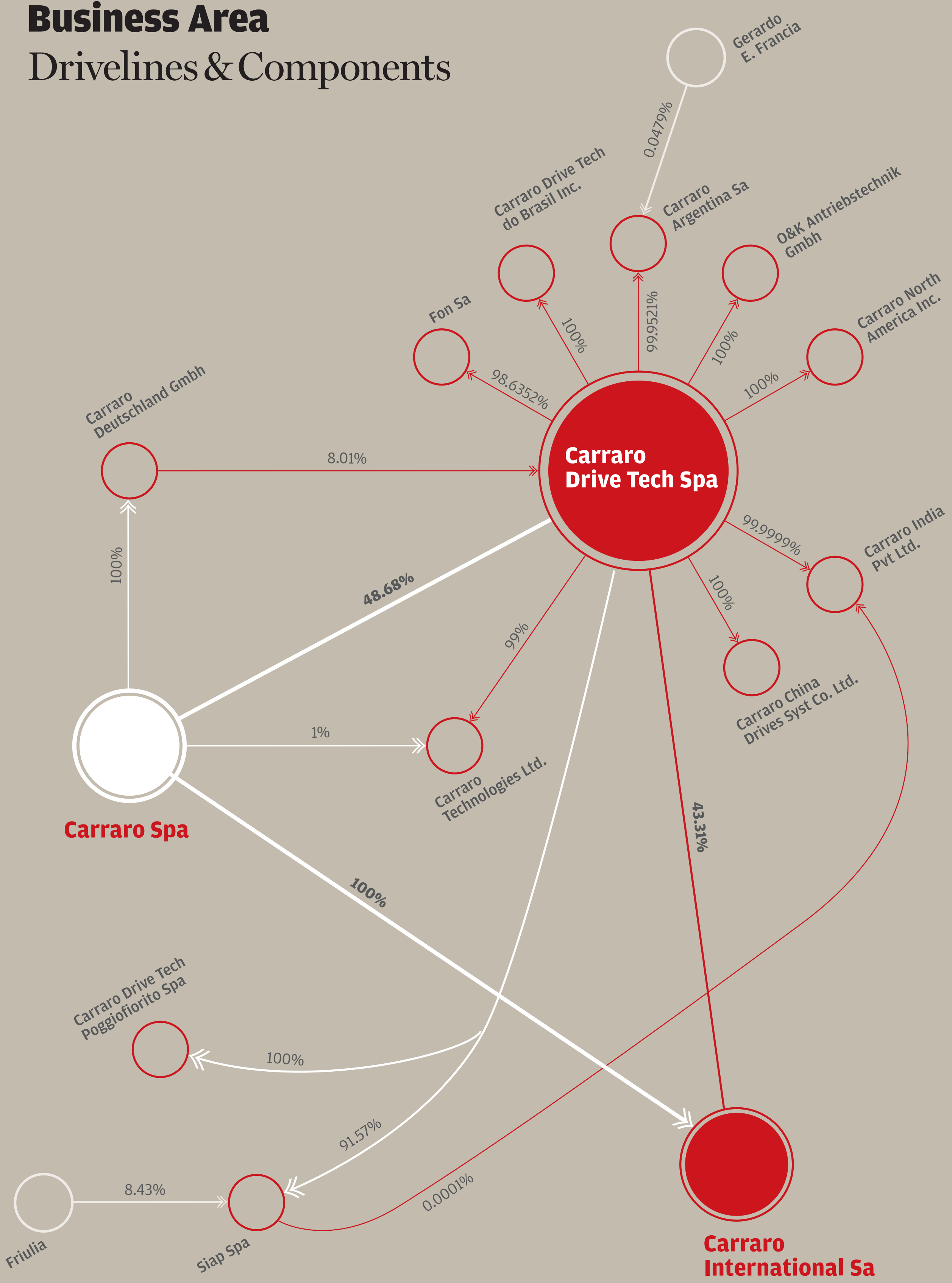
Business Area
Drivelines & Components



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Subconsolidated Income Statement as at 31.12.2014

Drivelines & Components - Drivetech business area

Amounts in Euro/000

	31.12.14	%	31.12.13	%	Changes	
					31.12.14	31.12.13
Revenues from sales	**610,453**	**100.00%**	**714,724**	**100.00%**	**-104,271**	**-14.59%**
Purchases of goods and materials (net of changes in inventories)	-358,346	-58.70%	-419,010	-58.63%	60,664	-14.48%
Services and Use of third-party goods and services	-102,541	-16.80%	-118,523	-16.58%	15,982	-13.48%
Personnel costs	-99,188	-16.25%	-113,060	-15.82%	13,872	-12.27%
Amortisation, depreciation and impairment of assets	-21,442	-3.51%	-24,907	-3.48%	3,465	-13.91%
Provisions for risks	-7,648	-1.25%	-8,410	-1.18%	762	-9.06%
Other income and expenses	4,238	0.69%	4,103	0.57%	135	3.29%
Internal construction	3,240	0.53%	2,316	0.32%	924	39.90%
Operating costs	**-581,687**	**-95.29%**	**-677,491**	**-94.79%**	**95,804**	**-14.14%**
Operating profit/loss (Ebit)	**28,766**	**4.71%**	**37,233**	**5.21%**	**-8,467**	**-22.74%**
Income from equity investments	475	0.08%	1	0.00%	474	
Other financial income	3,795	0.62%	2,434	0.34%	1,361	55.92%
Financial costs and expenses	-14,197	-2.33%	-15,978	-2.24%	1,781	-11.15%
Net gains/(losses) on foreign exchange	-2,568	-0.42%	-1,580	-0.22%	-988	62.53%
Value adjustments of financial assets	-	0.00%	-	0.00%	-	
Gains/(losses) on financial assets	**-12,495**	**-2.05%**	**-15,123**	**-2.12%**	**2,628**	**-17.38%**
Profit/(loss) before taxes	**16,271**	**2.67%**	**22,110**	**3.09%**	**-5,839**	**-26.41%**
Current and deferred income taxes	-9,600	-1.57%	-9,751	-1.36%	151	-1.55%
Net profit/(loss)	**6,671**	**1.09%**	**12,359**	**1.73%**	**-5,688**	**-46.02%**
Profit/(loss) pertaining to minorities	-72	-0.01%	-93	-0.01%	21	-22.58%
Business Area consolidated result	**6,599**	**1.08%**	**12,266**	**1.72%**	**-5,667**	**-46.20%**
Ebitda	**49,227**	**8.06%**	**61,715**	**8.63%**	**-12,488**	**-20.23%**

Subconsolidated Statement of Financial Position as at 31.12.2014

Drivelines & Components - Drivetech business area

Amounts in Euro/000

	31.12.14	31.12.13
Property, plant and equipment	138,145	153,256
Intangible fixed assets	48,943	50,399
Real estate investments	168	170
Holdings in subsidiaries and associates	-	-
Financial assets	6,778	2,348
Deferred tax assets	17,724	17,416
Trade receivables and other receivables	3,776	3,039
Non-current assets	**215,534**	**226,628**
Closing inventory	117,478	127,071
Trade receivables and other receivables	92,900	110,436
Financial assets	4,707	3,035
Cash and cash equivalents	39,228	48,920
Current assets	**254,313**	**289,462**
Total assets	**469,847**	**516,090**
Share Capital	30,102	30,102
Reserves	81,982	37,478
Foreign currency translation reserve	-13,566	-19,300
Profit/loss for the year	6,599	12,266
Minority interests	2,848	2,796
Shareholders' equity	**107,965**	**63,342**
Financial liabilities	26,127	27,560
Trade payables and other payables	1,231	1,603
Deferred tax liabilities	5,352	2,482
Provision for severance indemnity and retirement benefits	15,838	16,717
Provisions for risks and liabilities	3,395	4,211
Non-current liabilities	**51,943**	**52,573**
Financial liabilities	80,865	184,995
Trade payables and other payables	212,816	198,633
Current taxes payables	4,250	5,295
Provisions for risks and liabilities	12,008	11,252
Current liabilities	**309,939**	**400,175**
Total shareholders' equity and liabilities	**469,847**	**516,090**

Cash Flow as at 31.12.2014

Drivelines & Components - Drivetech business area

Amounts in Euro/000

	31.12.14	31.12.13
Opening Net Financial Position	**-157,809**	**-140,655**
Group profit/(loss)	*6,599*	*12,266*
Profit/(loss) pertaining to minorities	*72*	*93*
Amortisation, depreciation and impairment of fixed assets	*20,461*	*24,482*
Cash flow before Net Working Capital	27,132	36,841
Change in Net Working Capital	33,614	-36,664
Investments in fixed assets	-34,293	-29,227
Disinvestments in fixed assets	1,172	1,717
Operating Free Cash Flow	**27,625**	**-27,333**
Other operating flows	3,915	7,405
Other investing flows	29,244	12,626
Change in Share Capital	-	-
Dividends paid	-	-
Conversion differences and other movements	37,952	-9,852
Free Cash Flow	**98,736**	**-17,154**
Closing Net Financial Position	**-59,073**	**-157,809**

Analysis of Net Working Capital as at 31.12.2014

Drivelines & Components - Drivetech business area

Amounts in Euro/000

	31.12.14	31.12.13
Trade Receivables	65,813	79,448
Inventory	117,478	127,071
Trade Payables	-186,389	-176,003
Net Working Capital (NWC)	**-3,098**	**30,516**

The total 2014 turnover of the Drivetech Business Area decreased by 14.6%, from 714.724 million Euros in 2013 to 610.453 million Euros with an unfavourable exchange rate effect of approx. 8.393 million Euros. Net of the effects of the sale of the Mini Gears business unit, the reduction would have been equal to 9.1%.

Turnover from third parties, which accounts for 97.1% of total turnover, was equal to 592.462 million Euros compared to 697.599 million for the previous year (97.6% of total turnover) down by 15.1%. Turnover from Group Companies amounted to 17.991 million Euros (2.9% of total turnover), with a 5.1% increase compared to 17.125 million Euros (2.4% of total turnover) in 2013.

The main reference markets are analysed in more detail below. It should be said that demand remained weak throughout 2014 and constantly lower than the previous year. If, on the one hand, the material handling sector slightly increased its volumes compared to 2013, the agricultural, construction equipment and automotive markets achieved performances well below the previous year.

Agricultural market

Sales in the agricultural market suffered a reduction of 10.3% compared to 2013, mainly due to the decrease in the Brazilian, French, German and Turkish markets, in the latter case mainly due to the unfavourable exchange rate, while there are encouraging signs of growth in the Indian market.

The analysis by application shows lower sales of traditional axles while transmissions are growing.

Construction equipment market

The decrease in sales of products for construction and mining machines amounted to 17.0%, essentially related to the reduction in the drives segment in the Chinese and German markets.

For the other segments, there were significant reductions in the Brazilian and Turkish markets, less marked in the American market. In contrast there were positive signs in the UK (+8%) and Italian (+5.4%) markets, the latter mainly for exports.

Replacement parts

Replacement parts sales increased compared to 2013 by 4.1%, thanks to the development of sales on a growing installed base and to the commercial penetration initiatives in the After Market segment. The most significant increase was in the agricultural sector (+ 5.9%) while the other segments were substantially stable.

Automotive market

In the segment, the Drive Tech Business Area also operated under the miniGears brand, outside the Group perimeter since 30 April 2014. Turnover after the sale decreased by 7.4% compared to the same perimeter of 2013, mainly in fast axles.

Turnover by geographical area, net of the sale of Mini Gears, confirmed United States, Germany, Italy and Brazil as the main target markets. India, Argentina and the United Kingdom grew while there were significant reductions in the turnover of the Chinese, Turkish and French markets.

The improvement in profitability, already recorded in previous years, continued, thanks mainly to production efficiencies, to insourcing and to the good performance of the supply chain related to the Partnership project, initiated with the main suppliers.

Ebitda stood at 49.227 million Euros compared to 61.715 million Euros in 2013, accounting for 8.1% of turnover as at 31 December 2014 compared to 8.6% of turnover as at 31 December 2013, a reduction of 20.2%. Net of non-recurring costs, relating to the reorganisation process, it would have amounted to 52.049 million Euros (8.5% of turnover) and therefore in percentage terms in line with the previous year, a sign of the company's ability to keep the main economic variables under control in the presence of a significant reduction in turnover.

Ebit amounted to 28.766 million Euros (4.7% of turnover) down by 22.7% compared to 37.233 million Euros as at 31 December 2013 (5.2 % of turnover). Net of non-recurring costs, it would have been 31.588 (5.2% of turnover), in percentage terms in line with the previous year, as for Ebitda.

Normalising the results of the two years, excluding Mini Gears, adjusted Ebitda would have been 49.300 million Euros (8.4% of turnover) compared to 53.067 million Euros (8.2% of turnover) and adjusted Ebit would have been 30.627 million Euros (5.2% of turnover) compared to 34.803 million Euros (5.4% of turnover).

Net profit decreased compared to the previous year, from 12.266 million Euros in 2013 (1.7% of turnover) to 6.599 million Euros in 2014 (1.1% of turnover). Net of non-recurrent costs, the net profit would have 8.645 million Euros (1.4% of turnover).

The net financial position as at 31 December 2014 was negative at 59.073 million Euros, a decrease compared to 150.116 million Euros as at 30 June 2014, thanks to improved management of net working capital, collection of significant tax credits, mainly from abroad, and cash flows deriving from the sale of the R&D business unit to Carraro Spa. Compared with the 157.810 million Euros as at 31 December 2013, there is an improvement thanks to the cash flow deriving from the sale of Mini Gears.

Turnover

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

Amounts in Euro/000

	Sales			Sales to third parties			Intra-group Sales		
	31.12.14	31.12.13	Diff %	31.12.14	31.12.13	Diff %	31.12.14	31.12.13	Diff %
Carraro Drivetech	610,453	714,724	-14.6	592,462	697,599	-15.1	17,991	17,125	5.1

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

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

Amounts in Euro/000

Geographical Area	31.12.14	%	31.12.13	%	Diff. % '14-'13
North America	81,045	13.7	88,203	12.6	-8.1
South America	78,070	13.2	103,912	14.9	-24.9
Germany	77,072	13.0	97,911	14.0	-21.3
United Kingdom	58,328	9.8	54,595	7.8	6.8
India	58,135	9.8	47,262	6.8	23.0
Turkey	48,363	8.2	64,004	9.2	-24.4
China	29,227	4.9	49,549	7.1	-41.0
France	23,033	3.9	31,470	4.5	-26.8
Poland	11,541	1.9	17,756	2.6	-35.0

Geographical Area	31.12.14	%	31.12.13	%	Diff. % '14-'13
Belgium	11,494	1.9	16,203	2.3	-29.1
Sweden	8,889	1.5	15,581	2.2	-42.9
Other	38,956	6.6	35,454	5.1	9.9
Total Abroad	**524,153**	**88.5**	**621,900**	**89.1**	**-15.7**
Italy	68,309	11.5	75,699	10.9	-9.8
Total	**592,462**	**100.0**	**697,599**	**100.0**	**-15.1**

In the context of a generalised reduction in sales a different market positioning emerges: in first place is North America, which ranked third in 2013; South America, which was in first place, falls to second place; in third place is Germany, falling by one position, and in fourth place is Great Britain, regaining a position compared to 2013.

Turnover from Germany, Great Britain and the United States mainly concerns the local production sites of clients who in turn generate sales mainly on non-European markets.

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

Amounts in Euro/000

Sector	31.12.14	%	31.12.13	%	Diff. % '14-'13
Construction Equipment	252,642	42.6	304,213	43.6	-17.0
Agricultural	200,444	33.8	223,443	32.0	-10.3
Automotive	22,318	3.8	38,621	5.5	-42.2
Material Handling	25,280	4.3	31,955	4.6	-20.9
Gardening &Powertools	10,710	1.8	29,280	4.2	-63.4
Industrial	3,452	0.6	3,043	0.4	13.4
Renewable Energy	1,235	0.2	2,246	0.3	-45.0
Replacement parts	50,844	8.6	49,169	7.0	3.4
Other	25,537	4.3	15,629	2.4	63.4
Total	**592,462**	**100.0**	**697,599**	**100.0**	**-15.1**

The reduction in sales in the Gardening, Powertools and Automotive markets is due to the sale of Mini Gears, which took place in April and previously illustrated.

Ebitda and Ebit

Figures as at 31.12.2014

	31.12.14	% of turnover	31.12.13	% of turnover	Diff. %
Ebitda [a]	49,227	8.1	61,715	8.6	-20.2
Non-recurrent costs	2,822		-		
Adjusted Ebitda	52,049	8.5	61,715	8.6	-15.7
Ebit [b]	28,766	4.7	37,233	5.2	-22.7
Non-recurrent costs	2,822		-		
Adjusted Ebit	31,588	5.2	37,233	5.2	-15.2

[a] Understood as the sum of operating profit/(loss), amortisation, depreciation and impairment of fixed assets
[b] Understood as operating profit/(loss) in the income statement

Amounts in Euro/000

Normalising the results of the two years, excluding Mini Gears, adjusted Ebitda would have been 49.300 million Euros (8.4% of turnover) compared to 53.067 million Euros (8.2% of turnover) and adjusted Ebit would have been 30.627 million Euros (5.2% of turnover) compared to 34.803 million Euros (5.4% of turnover).

Financial expenses

Figures as at 31.12.2014

	31.12.14	% of turnover	31.12.13	% of turnover	Diff. %
Financial expenses	-14,197	- 2.3	- 15,978	- 2.2	-11.2

Amounts in Euro/000

Financial expenses as at 31 December 2014 amounted to 14.197 million Euros (2.3% of turnover) a reduction compared to 15.978 million Euros (2.2% of turnover) as at 31 December 2013, thanks to lower average indebtedness compared to the previous year.

Exchange differences

Figures as at 31.12.2014

	31.12.14	% sul fatt.	31.12.13	% sul fatt.	Diff. %
Exchange differences	-2,568	-0.4	-1,580	-0.2	62.5

Amounts in Euro/000

Exchange differences as at 31 December 2014 were negative amounting to 2.568 million Euros (and were negative amounting to 1.580 million Euros as at 31 December 2013). The deterioration is due to the important devaluation effects of certain currencies, such as Pesos and Rupees, limited to conversion of capital balances.

Net profit/(loss)

Figures as at 31.12.2014

Amounts in Euro/000

	31.12.14	% of turnover	31.12.13	% of turnover	Diff. %
Net profit/(loss)	6,599	1.1	12,266	1.7	-46.2
Non-recurrent costs net of the tax effect	2,028		-		
Adjusted net profit/(loss)	8,627	1.4	12,266	1.7	-29.7

After tax of 9.600 million Euros, the Business Area shows a profit of 6.599 million Euros (1.1% of turnover), a decrease of 46.2% compared to the previous year which stood at 12.265 million Euros (1.7% of turnover).

Amortisation, depreciation and impairment of assets

Figures as at 31.12.2014

Amounts in Euro/000

	31.12.14	% of turnover	31.12.13	% of turnover	Diff. %
Amortisation, depreciation and impairment	20,461	3.4	24,482	3.4	-16.4

Investments

Figures as at 31.12.2014

Amounts in Euro/000

	31.12.14	31.12.13
Investments	34,293	29,227

Investments amount to 34,293 million Euros, for the development of new projects to improve production efficiency and upgrade existing systems.

Research and innovation

Expenditure for research and development, the purposes and application of which are described in a specific section “Research and innovation”, remained high in 2014, amounting 9.673 million Euros (1.6% of turnover), compared to 12.590 million Euros (1.7% of turnover) in 2013.

Net financial position

Figures as at 31.12.2014

Amounts in Euro/000

	31.12.14	30.09.14	30.06.14	31.12.13
Net financial position*	- 59,073	- 156,890	- 150,116	- 157,809

* Understood as the sum of amounts payable to banks, short-, medium- and long-term bonds and loans, net of cash and cash equivalents, negotiable securities and financial receivables

The net financial position as at 31 December 2014 registered a negative balance of 59.073 million Euros compared to the negative balance of 157.809 million Euros as at 31 December 2013, thanks to cash flows deriving from the sale of Mini Gears activities.

Compared to 30 June 2014, the net financial position improved thanks to better management of net working capital, collection of important tax credits, mainly from abroad, and cash flows deriving from the sale of the R&D business unit to Carraro Spa.

Personnel

Workforce trend

Figures as at 31.12.2014

	31.12.14	31.12.13	31.12.12
Executives	20	26	30
Clerical staff	644	706	700
Factory workers	2,328	2,819	2,723
Temporary workers	261	284	23
Total	**3,253**	**3,835**	**3,476**

The reduction in the workforce compared to 31 December 2013 is attributable to the sale of the Mini Gears business unit (528 people) and to redundancies within the scope of the Group's reorganisation process (20 people).

Summary data of companies belonging to the
Business area Drivelines & Components - Drivetech as at 31.12.2014

	Carraro Drive Tech Spa [1]					Carraro Argentina Sa				
	31.12.14	% of turn.	31.12.13	% of turn.	Diff.%	31.12.14	% of turn.	31.12.13	% of turn.	Diff.%
Turnover	236,442		288,723		-18.1	56,460		68,752		-17.9
Ebitda	7,488	3.2	15,108	5.2	-50.4	3,255	5.8	-850	-1.2	n.r.
Ebit	3,217	1.4	11,134	3.9	-71.1	2,643	4.7	-1,567	-2.3	n.r.
Net profit/(loss)	1,157	0.5	7,272	2.5	-84.1	-1,336	-2.4	-2,700	-3.9	-50.5
Amortisation, depreciation and impairment	4,271	1.8	3,974	1.4	7.5	612	1.1	717	1.0	-14.6
Investments	8,080		6,118			3,572		855		
Net financial position	-52,501		-117,023			-4,875		-4,863		
Shareholders' equity	72,934		36,958			9,092		11,996		

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

	Fon Sa					Carraro India Pvt. Ltd. [2]				
	31.12.14	% of turn.	31.12.13	% of turn.	Diff.%	31.12.14	% of turn.	31.12.13	% of turn.	Diff.%
Turnover	-		-		n.r.	136,146		125,499		8.5
Ebitda	-145		-34		n.r.	23,013	16.9	14,917	11.9	54.3
Ebit	-145		-34		n.r.	20,550	15.1	12,847	10.2	60.0
Net profit/(loss)	-143		-20		n.r.	13,655	10.0	8,039	6.4	69.9
Amortisation, depreciation and impairment	-		-		n.r.	2,463	1.8	2,070	1.6	19.0
Investments	-		-			3,541		3,049		
Net financial position	126		169			-2,062		-4,884		
Shareholders' equity	43		92			33,563		18,686		

[2] Starting from 1 October 2014 Turbo Gears India Pvt Ltd was merged with Carraro India Pvt Ltd; The figures as at 31 December 2014 include the effects of such operation.

	Carraro China Drives System Co. Ltd.					Carraro Technologies Ltd [3]				
	31.12.14	% of turn.	31.12.13	% of turn.	Diff.%	31.12.14	% of turn.	31.12.13	% of turn.	Diff.%
Turnover	80,439		76,559		5.1	1,450		1,669		-13.1
Ebitda	8,015	10.0	5,593	7.3	43.3	435	30.0	618	37.0	-29.6
Ebit	5,297	6.6	2,778	3.6	90.7	378	26.1	571	34.2	-33.8
Net profit/(loss)	3,334	4.1	1,146	1.5	n.r.	261	18.0	422	25.3	-38.2
Amortisation, depreciation and impairment	2,718	3.4	2,815	3.7	-3.4	57	3.9	47	2.8	21.3

Amounts in Euro/000

	Carraro China Drives System Co. Ltd.					Carraro Technologies Ltd [3]				
	31.12.14	% of turn.	31.12.13	% of turn.	Diff.%	31.12.14	% of turn.	31.12.13	% of turn.	Diff.%
Investments	2,063		2,485			193		79		
Net financial position	1,011		258			848		861		
Shareholders' equity	23,116		17,418			1,260		885		

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

	Carraro North America Inc. (Virginia Beach)					Carraro Drive Tech Do Brasil Inc.				
	31.12.14	% of turn.	31.12.13	% of turn.	Diff.%	31.12.14	% of turn.	31.12.13	% of turn.	Diff.%
Turnover	1,304		1,099		18.7	1,278		676		89.1
Ebitda	9	0.7	-62	-5.6	n.r.	-300	-23.5	-93	-13.8	n.r.
Ebit	-10	-0.8	-73	-6.6	-86.3	-336	-26.3	-103	-15.2	n.r.
Net Profit/(loss)	-15	-1.2	-77	-7.0	-80.5	-356	-27.9	-119	-17.6	n.r.
Amortisation, depreciation and impairment	19	1.5	11	1.0	72.7	36	2.8	10	1.5	n.r.
Investments	-		-			907		87		
Net financial position	63		35			22		58		
Shareholders' equity	-210		-170			1,233		172		

	O&K AntriebstechnikGmbH					Siap Spa				
	31.12.14	% of turn.	31.12.13	% of turn.	Diff.%	31.12.14	% of turn.	31.12.13	% of turn.	Diff.%
Turnover	35,855		56,690		-36.8	90,425		72,868		24.1
Ebitda	-3,120	-8.7	7,664	13.5	n.r.	6,100	6.7	6,614	9.1	-7.8
Ebit	-4,295	-12.0	6,438	11.4	n.r.	1,584	1.8	2,411	3.3	-34.3
Net Profit/(loss)	-3,556	-9.9	3,905	6.9	n.r.	879	1.0	1,111	1.5	-20.9
Amortisation, depreciation and impairment	1,175	3.3	1,226	2.2	-4.2	4,516	5.0	4,203	5.8	7.4
Investments	3,628		2,225			9,783		6,363		
Net financial position	4,689		6,980			6,832		2,182		
Shareholders' equity	18,369		22,750			33,771		33,147		

	Turbo Gears India Pvt. Ltd. [2]					Carraro Drivetech Poggiofiorito Spa [4]				
	31.12.14	% of turn.	31.12.13	% of turn.	Diff.%	31.12.14	% of turn.	31.12.13	% of turn.	Diff.%
Turnover	12,710		16,430		-22.6	33,047		66,648		-50.4
Ebitda	1,974	15.5	2,287	13.9	-13.7	1,566	4.7	7,476	11.2	-79.1
Ebit	930	7.3	909	5.5	2.3	-1,521	-4.6	1,470	2.2	n.r.
Net Profit/(loss)	180	1.4	-43	-0.3	n.r.	442	1.3	-786	-1.2	n.r.

	Turbo Gears India Pvt. Ltd. [2]					Carraro Drivetech Poggiofiorito Spa [4]				
	31.12.14	% of turn.	31.12.13	% of turn.	Diff.%	31.12.14	% of turn.	31.12.13	% of turn.	Diff.%
Amortisation, depreciation and impairment	1,044	8.2	1,378	8.4	-24.2	3,087	9.3	6,006	9.0	-48.6
Investments	1,469		2,469			2,167		5,940		
Net financial position	-		-7,541			-13,228		-33,477		
Shareholders' equity	-		6,756			4,646		4,031		

[2] Starting from 1 October 2014 Turbo Gears India Pvt Ltd was merged with Carraro India Pvt Ltd; The figures as at 31 December 2014 include the effects of such operation.
[4] On 30 April 2014 the Mini Gears business unit relating to the activities of the production plant in Padua and the equity investment in Mini Gears Suzhou Co. Ltd was sold. The economic and financial data reflect the effects of this operation. The 2013 figures of Carraro Drivetech Poggiofiorito SpA refer to Mini Gears SpA.

Amounts in Euro/000

	MiniGears Suzhou Co. Ltd. [4]				
	31.12.14	% of turn.	31.12.13	% of turn.	Diff.%
Turnover	6,977		22,633		-69.2
Ebitda	817	11.7	2,407	10.6	-66.1
Ebit	416	6.0	472	2.1	-11.9
Net Profit/(loss)	347	5.0	-191	-0.8	n.r.
Amortisation, depreciation and impairment	401	5.7	1,935	8.5	-79.3
Investments	114		705		
Net financial position	-		-564		
Shareholders' equity	-		8,243		

[4] On 30 April 2014 the Mini Gears business unit relating to the activities of the production plant in Padua and the equity investment in Mini Gears Suzhou Co. Ltd was sold. The economic and financial data reflect the effects of this operation. The 2013 figures of Carraro Drivetech Poggiofiorito SpA refer to Mini Gears SpA.

Business Area
Vehicles

AG
RITA
LIA

Income Statement as at 31.12.2014
Business Area Vehicles / Agritalia

Amounts in Euro/000

	31.12.14	%	31.12.13	%	Changes	
					31.12.14	31.12.13
Revenues from sales	**102,837**	**100.00%**	**102,987**	**100.00%**	**-150**	**-0.15%**
Purchases of goods and materials (net of changes in inventories)	-76,064	-73.97%	-75,518	-73.33%	-546	0.72%
Services and use of third-party goods and services	-9,625	-9.36%	-9,116	-8.85%	-509	5.58%
Personnel costs	-14,262	-13.87%	-12,539	-12.18%	-1,723	13.74%
Amortisation, depreciation and impairment of assets	-1,454	-1.41%	-1,264	-1.23%	190	15.03%
Provisions for risks	-2,188	-2.13%	-1,420	-1.38%	-768	54.08%
Other income and expenses	91	0.09%	-38	-0.04%	129	
Internal construction	293	0.28%	-	0.00%	293	
Operating costs	**-103,209**	**-100.36%**	**-99,895**	**-97.00%**	**-3,314**	**3.32%**
Operating profit/(loss) (Ebit)	**-372**	**-0.36%**	**3,092**	**3.00%**	**-3,464**	
Income from equity investments	–	0.00%	-	0.00%	-	
Other financial income	-	0.00%	-	0.00%	-	
Financial costs and expenses	-82	-0.08%	-101	-0.10%	19	-18.81%
Net gains/(losses) on foreign exchange	-16	-0.02%	-2	0.00%	-14	
Value adjustments of financial assets	-	0.00%	-	0.00%	-	
Gains/(losses) on financial assets	**-98**	**-0.10%**	**-103**	**-0.10%**	**5**	**-4.85%**
Profit/(loss) before taxes	**-470**	**-0.46%**	**2,989**	**2.90%**	**-3,459**	
Current and deferred income taxes	-235	-0.23%	-372	-0.36%	137	-36.83%
Business area consolidated result	**-705**	**-0.69%**	**2,617**	**2.54%**	**-3,322**	
Ebitda	**1,054**	**1.02%**	**4,340**	**4.21%**	**-3,286**	**-75.71%**

Statement of Financial Position as at 31.12.2014
Business Area Vehicles / Agritalia

Amounts in Euro/000

	31.12.14	31.12.13
Property, plant and equipment	11,881	11,548
Intangible fixed assets	2,208	246
Real estate investments	–	–
Holdings in subsidiaries and associates	–	–
Financial assets	–	–
Deferred tax assets	1,797	1,610
Trade receivables and other receivables	11	7
Non-current assets	**15,897**	**13,411**
Closing inventory	20,746	9,456
Trade receivables and other receivables	7,015	3,838
Financial assets	2	7
Cash and cash equivalents	24,049	16,871

	31.12.14	31.12.13
Current assets	**51,812**	**30,172**
Total assets	**67,709**	**43,583**
Share Capital	–	–
Reserves	11,943	9,442
Foreign currency translation reserve	–	–
Profit/loss for the year	-705	2,617
Minority interests	–	–
Shareholders' equity	**11,238**	**12,059**
Financial liabilities	–	–
Trade payables and other payables	–	–
Deferred tax liabilities	–	18
Provision for severance indemnity and retirement benefits	1,274	1,186
Provisions for risks and liabilities	406	615
Non-current liabilities	**1,680**	**1,819**
Financial liabilities	2	–
Trade payables and other payables	52,738	27,625
Current taxes payables	153	53
Provisions for risks and liabilities	1,898	2,027
Current liabilities	**54,791**	**29,705**
Total shareholders' equity and liabilities	**67,709**	**43,583**

Cash Flow as at 31.12.2014

Business Area Vehicles / Agritalia

Amounts in Euro/000

	31.12.14	31.12.13
Opening Net Financial Position	**16,878**	**13,001**
Group profit/(loss)	-705	2,617
Profit/(loss) pertaining to minorities	–	–
Amortisation, depreciation and impairment of fixed assets	1,426	1,248
Cash flow before Net Working Capital	721	3,865
Change in Net Working Capital	9,750	1,504
Investments in fixed assets	-3,733	-1,743
Disinvestments in fixed assets	12	27
Operating Free Cash Flow	**6,750**	**3,653**
Other operating flows	537	224
Other investing flows	–	–
Change in Share Capital	–	–
Dividends paid	–	–
Conversion differences and other movements	-116	-
Free Cash Flow	**7,171**	**3,877**
Closing Net Financial Position	**24,049**	**16,878**

Analysis of Net Working Capital as at 31.12.2014

Business Area Vehicles / Agritalia

	31.12.14	31.12.13
Trade Receivables	6,389	3,290
Inventory	20,746	9,456
Trade Payables	-49,642	-25,503
Net Working Capital (NWC)	**-22,507**	**-12,757**

Amounts in Euro/000

In 2014, Carraro Divisione Agritalia realised a total turnover of 102.837 million Euros, stable compared to 102.987 million Euros in 2013. The target market has remained stable and the number of tractors sold increased by 39 units, from 3,683 tractors in 2013 to 3,722 in 2014.

The first part of the year was characterised by operational difficulties arising from the introduction of new management system (ERP) and the production startup of new tractor ranges. This affected the profitability of the period and the return to normality starting from the third quarter did not allow complete recovery of the margins lost in the first months of the year.

Ebitda in 2014 was equal to 1.054 million Euros (1.0% of turnover), down 75.7% on the figure of 4.340 million Euros in 2013 (4.2% of turnover). Ebit as at 31 December 2014 was negative amounting to 372 thousand Euros (-0.4% of turnover) a worsening compared to the positive value of 3.092 million Euros (3% of turnover) in the previous year. Net of non-recurring costs, Ebitda would have been equal to 2.312 million Euros (2.2% of turnover) and Ebit would have been positive at 886 thousand Euros (0.9% of turnover).

The operating profit/loss was affected, in addition to the above mentioned inefficiencies, by an increase in R&D costs, related to the launch of new projects.

The net loss as at 31 December 2014 amounted to 705 thousand Euros (-0.7% of turnover), compared to a profit of 2.617 million Euros (2.5% of turnover) in 2013.

Thanks to a continued policy of careful management of working capital, Divisione Agritalia in 2014 generated a positive cash flow of 10.066 million Euros. The net financial position as at 31 December 2014 was positive amounting to 24.049 million Euros compared to 16.878 million Euros as at 31 December 2013.

Turnover

Turnover from the Vehicles Business Area as at 31 December 2014 amounted to 102.837 million Euros (equal to 3,722 tractors) compared to 102.987 million Euros (equal to 3,683 tractors) as at 31 December 2013. A breakdown of turnover between sales to third parties and intra-group is provided below:

	Sales			Sales to third parties			Intra-group sales		
	31.12.14	31.12.13	Diff %	31.12.14	31.12.13	Diff %	31.12.14	31.12.13	Diff %
Divisione Agritalia	102,837	102,987	-0.1	98,468	99,369	-0.9	4,369	3,618	20.8

Amounts in Euro/000

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

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

Amounts in Euro/000

Geographical Area	31.12.14	%	31.12.13	%	Diff. % '14-'13
Switzerland	43,217	43.9	38,176	38.4	13.2
France	20,424	20.7	29,811	30.0	-31.5
Spain	9,639	9.8	7,536	7.6	27.9
Germany	5,671	5.8	4,500	4.5	26.0
Turkey	2,288	2.3	4,907	4.9	-53.4
Poland	1,311	1.3	1,164	1.2	12.6
Australia	405	0.4	1,124	1.1	-64.0
Other	2,849	2.9	2,162	2.2	31.8
Total Abroad	**85,804**	**87.1**	**89,380**	**89.9**	**-4.0**
Italy	12,664	12.9	9,989	10.1	26.8
Total	**98,468**	**100.0**	**99,369**	**100.0**	**-0.9**

Ebitda and Ebit

Figures as at 31.12.2014

Amounts in Euro/000

	31.12.14	% of turn.	31.12.13	% of turn.	Diff. %
Ebitda [a]	1,054	1.0	4,340	4.2	-75.7
Non-recurrent costs	1,258		–		
Adjusted Ebitda	2,312	2.2	4,340	4.2	-46.7
Ebit [b]	-372	-0.4	3,092	3.0	n.r.
Non-recurrent costs	1,258		–		
Adjusted Ebit	886	0.9	3,092	3.0	-71.3

Ebitda was equal to 1.054 million Euros (1.0% of turnover) compared to 4.340 million Euros (4.2% of turnover) as at 31 December 2013. Net of non-recurring costs related to the reorganisation plan involving all the Group's Business Area, it would have amounted to 2.312 million Euros (2.2% of turnover)

Ebit was negative amounting to 372 thousand Euros (-0.4% of turnover), compared to 3.092 million Euros (+3.0% of turnover) in 2013. Net of non-recurring costs it would have been 886 thousand Euros (0.9% of turnover).

Financial expenses

Figures as at 31.12.2014

Amounts in Euro/000

	31.12.14	% of turn.	31.12.13	% of turn.	Diff. %
Financial expenses	-82	0.1	-101	0.1	-18.8

Despite a positive net financial position there are financial expenses amounting to 82 thousand Euros, in line with the 101 thousand Euros of 2013, referring to bank costs and charges.

Exchange differences

Figures as at 31.12.2014

	31.12.14	% of turn.	31.12.13	% of turn.	Diff. %
Exchange differences	-16	-0.0	-2	-0.0	n.r.

Amounts in Euro/000

Net profit/(loss)

Figures as at 31.12.2014

	31.12.14	% of turn.	31.12.13	% of turn.	Diff. %
Net profit/(loss)	-705	-0.7	2,617	2.5	n.r.
Non-recurrent costs net of the tax effect	912		–		
Adjusted net profit/(loss)	207	-0.2	2,617	2.5	-92.1

Amounts in Euro/000

2014 closed with a loss of 705 thousand Euros (-0.7% of turnover) compared to a profit of 2.617 million Euros (2.5% of turnover) in the previous year and due to the production inefficiencies described earlier.

Amortisation, depreciation and impairment of assets

Figures as at 31.12.2014

	31.12.14	% of turn.	31.12.13	% of turn.	Diff. %
Amortisation, depreciation and impairment	1,426	1.4	1,248	1.2	14.3

Amounts in Euro/000

Investments

Figures as at 31.12.2014

	31.12.14	31.12.13
Investments	3,733	1,743

Amounts in Euro/000

Research and innovation

In 2014 total research and innovation costs amounted to 2.495 million Euros compared to costs of 3.780 million Euros incurred in 2013.

Net financial position
Figures as at 31.12.2014

Amounts in Euro/000

	31.12.14	30.09.14	30.06.14	31.12.13
Net financial position*	24,049	5,003	9,047	16,878

* Understood as the sum of amounts payable to banks, short-, medium- and long-term bonds and loans, net of cash and cash equivalents, negotiable securities and financial receivables.

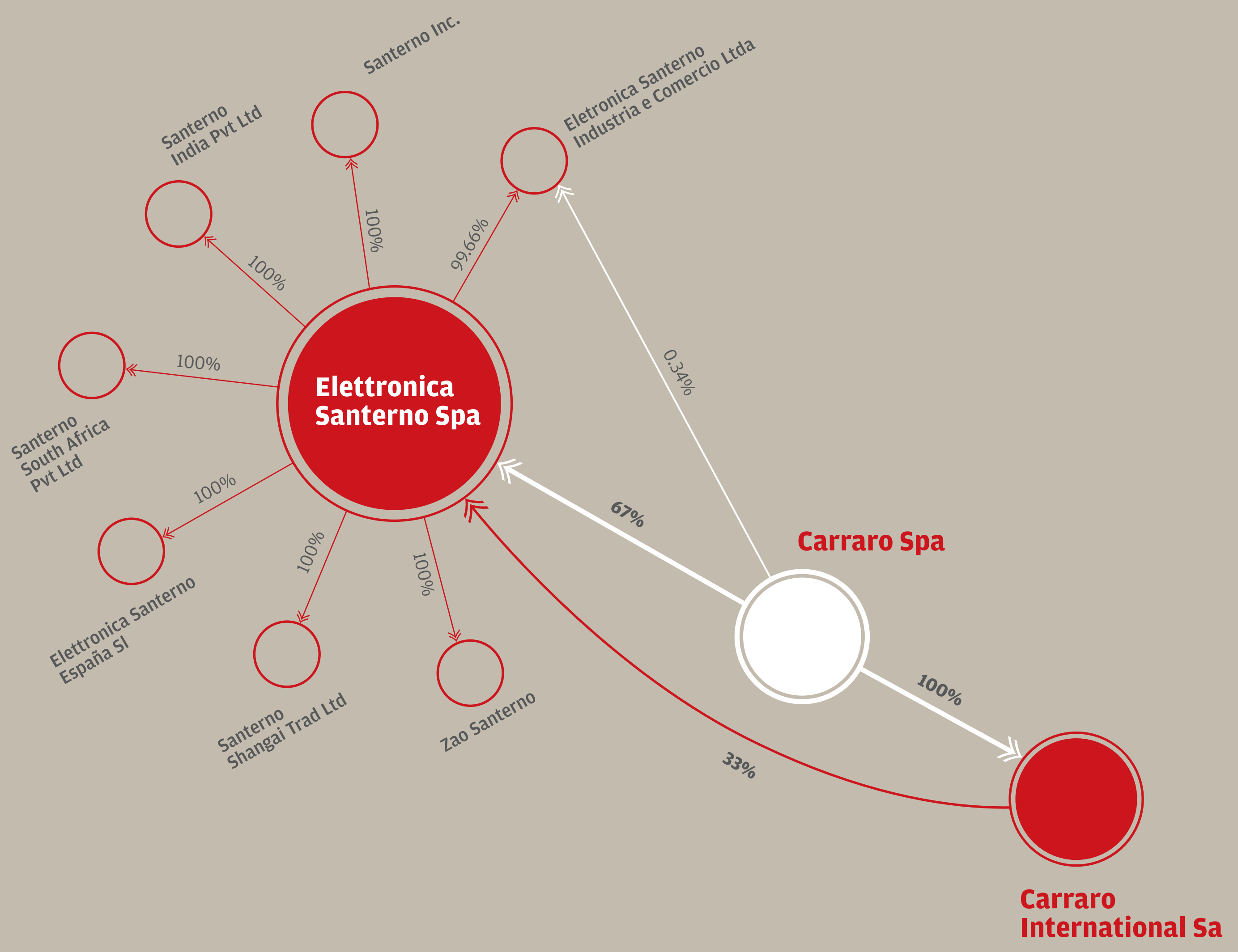
The net financial position as at 31 December 2014 registered a positive balance of 24.049 million Euros, improving on the figure of 16.878 million Euros as at 31 December 2013, thanks to the ongoing policy of careful management of net working capital.

Personnel

Workforce trend
Figures as at 31.12.2014

	31.12.14	31.12.13	31.12.12
Executives	5	4	3
Clerical staff	80	81	77
Factory workers	141	142	140
Temporary workers	49	28	20
Total	**275**	**255**	**240**

Business Area
Electronics



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Subconsolidated Income Statement as at 31.12.2014

Business Area Electronics / Elettronica Santerno

Amounts in Euro/000

	31.12.14	%	31.12.13	%	Variazione	
					31.12.13	31.12.14
Revenues from sales	**36,633**	**100.00%**	**74,424**	**100.00%**	**-37,791**	**-50.78%**
Purchases of goods and materials (net of changes in inventories)	-20,519	-56.01%	-40,928	-54.99%	20,409	-49.87%
Services and Use of third-party goods and services	-11,120	-30.36%	-21,284	-28.60%	10,164	-47.75%
Personnel costs	-11,858	-32.37%	-12,283	-16.50%	425	-3.46%
Amortisation, depreciation and impairment of assets	-3,181	-8.68%	-4,455	-5.99%	1,274	-28.60%
Provisions for risks	-1,076	-2.94%	-952	-1.28%	-124	13.03%
Other income and expenses	216	0.59%	1,383	1.86%	-1,167	-84.38%
Internal construction	1,008	2.75%	1,690	2.27%	-682	-40.36%
Operating costs	**-46,530**	**-127.02%**	**-76,829**	**-103.23%**	**30,299**	**-39.44%**
Operating profit/(loss) (Ebit)	**-9,897**	**-27.02%**	**-2,405**	**-3.23%**	**-7,492**	
Income from equity investments	-	0.00%	-	0.00%	-	
Other financial income	162	0.44%	187	0.25%	-25	-13.37%
Financial costs and expenses	-1,136	-3.10%	-1,186	-1.59%	50	-4.22%
Net gains/(losses) on foreign exchange	-364	-0.99%	121	0.16%	-485	
Value adjustments of financial assets	-	-0.00%	-	0.00%	-	
Gains/(losses) on financial assets	**-1,338**	**-3.65%**	**-878**	**-1.18%**	**-460**	**52.39%**
Profit/(loss) before taxes	**-11,235**	**-30.67%**	**-3,283**	**-4.41%**	**-7,952**	
Current and deferred income taxes	3,038	8.29%	-1,192	-1.60%	4,230	
Business area consolidated result	**-8,197**	**-22.38%**	**-4,475**	**-6.01%**	**-3,722**	**83.17%**
Ebitda	**-7,005**	**-19.12%**	**171**	**0.23%**	**-7,176**	

Subconsolidated Statement of Financial Position as at 31.12.2014

Business Area Electronics / Elettronica Santerno

Amounts in Euro/000

	31.12.14	31.12.13
Property, plant and equipment	5,270	5,907
Intangible fixed assets	27,937	28,931
Real estate investments	-	-
Holdings in subsidiaries and associates	-	-
Financial assets	-	-
Deferred tax assets	2,957	3,048
Trade receivables and other receivables	196	401
Non-current assets	**36,360**	**38,287**
Closing inventory	10,418	11,182
Trade receivables and other receivables	13,085	18,364
Financial assets	49	215

	31.12.14	31.12.13
Cash and cash equivalents	1,683	3,314
Current assets	**25,235**	**33,075**
Total assets	**61,595**	**71,362**
Share Capital	2,500	2,500
Reserves	29,068	33,615
Foreign currency translation reserve	-183	-122
Profit/loss for the year	-8,197	-4,475
Minority interests	-	-
Shareholders' equity	**23,188**	**31,518**
Financial liabilities	-	-
Trade payables and other payables	130	212
Deferred tax liabilities	2	4
Provision for severance indemnity and retirement benefits	537	609
Provisions for risks and liabilities	53	49
Non-current liabilities	**722**	**874**
Financial liabilities	16,604	8,462
Trade payables and other payables	20,005	28,796
Current taxes payables	-	-
Provisions for risks and liabilities	1,076	1,712
Current liabilities	**37,685**	**38,970**
Total shareholders' equity and liabilities	**61,595**	**71,362**

Cash Flow as at 31.12.2014

Business Area Electronics / Elettronica Santerno

Amounts in Euro/000

	31.12.14	31.12.13
Opening Net Financial Position	**-5,110**	**-6,444**
Group profit/(loss)	*-8,197*	*-4,475*
Profit/(loss) pertaining to minorities	-	-
Amortisation, depreciation and impairment of fixed assets	*2,892*	*2,576*
Cash flow before Net Working Capital	-5,305	-1,899
Change in Net Working Capital	1,846	3,416
Investments in fixed assets	-1,277	-2,580
Disinvestments in fixed assets	30	363
Operating Free Cash Flow	**-4,706**	**-700**
Other operating flows	-4,704	2,495
Other investing flows	-14	30
Change in Share Capital	-	-
Dividends paid	-	-
Other equity flows	-133	-491
Free Cash Flow	**-9,557**	**1,334**
Closing Net Financial Position	**-14,667**	**-5,110**

Analysis of Net Working Capital as at 31.12.2014

Business Area Electronics / Elettronica Santerno

Amounts in Euro/000

	31.12.14	31.12.13
Trade Receivables	7,831	15,567
Inventory	10,418	11,182
Trade Payables	-15,903	-22,557
Net Working Capital (NWC)	**2,346**	**4,192**

The Business Area reorganisation process, put in place in 2014, defined important organisational changes resulting in optimisation of the structure. The goal of this process was to bring Santerno to be competitive again and highly focused on the field of Industrial Automation, without, at the same time, losing the opportunity for the development and consolidation of the renewable energy business. In this sense, the product development and commercial structures are now mainly focussed on the growth of the Industrial Automation segment, with a series of projects and products able to support such a path in the near future, while, with regard to renewable energy (photovoltaic), the reorganisation process provided an optimisation of resources according to the changing market conditions.

Photovoltaics

For Santerno 2014 was a very difficult year: having completed two large projects that accounted for more than 50% of the turnover in 2013 (in the United States and in South Africa), the year based its assumptions on the participation of the Santerno in the start of the second phase of the project in South Africa and on the consolidation of its position in the American market. Unfortunately both the assumptions did not materialise, in particular in South Africa, the second development phase of the project, in which Santerno is present with two important contracts, was postponed to 2015.

These are the reasons for the sharp reduction in turnover, -67%, from more than 60 million Euros in 2013 to 19.7 million in 2014 in this segment.

Nonetheless, the undisputed leadership in photovoltaic inverters and the consolidation of commercial relations with a number of important investors in the sector allowed Santerno to achieve sales of more than 120 MW in Chile and a further 45 MW in Thailand, to mention only the most important ones.

During the last months of 2014, the commercial development efforts in foreign markets allowed it to acquire new contracts in South America and enter into negotiations for the implementation of new investments that the South African Government is currently planning for 2016-2017 in photovoltaics.

Industrial applications

Italy, always the first target market for Santerno in the field of Industrial Automation, recorded a slowdown due to difficulties of the general economic situation. Brazil grew by 18%, despite an unfavourable exchange rate effect. The Russian market decreased drastically due to the embargo and, in the latter part of the year, due to currency issues. The Chinese market stabilised in its decline while growth was positive in the Iranian market.

Turnover, amounting to 10.712 million Euros, was broadly in line with that achieved in 2013, 10.794 million Euros. The analysis of the sales trends in the second half of the year supports the hypothesis of growth in 2015.

Service

During the year the growth of service and after sales activities continued, both on photovoltaic systems implemented by Santerno, in total 3.8 GW installed worldwide, as well as on the systems of third-party suppliers no longer on the market as a result of the consolidation which has taken place and is partly still ongoing in the industry. Turnover reached 6.308 million Euros, an increase of 42% compared to the previous year in which it amounted to 4.416 million Euros. In 2015 it is expected that this trend will grow even further.

Elettronica Santerno closed the year with a total turnover of 36.633 million Euros, a decrease of approximately 37.8 million Euros (-50.8%) compared to the previous year which stood at 74.424 million Euros

Margins were significantly affected by the drastic decline in volumes and by the extraordinary charges related to the reorganisation process.

Ebitda as at 31 December 2014 was negative amounting to 7.005 million Euros (-19.1% of turnover) compared to the positive value of 171 thousand Euros (0.2% of turnover) as at 31 December 2013. Net of non-recurrent costs, Ebitda would have been equal to -4.630 million Euros (-12.6% of turnover). Ebit was still negative at -9.897 million Euros (-27.0% of turnover) a significant worsening compared to 2013 in which it stood at -2.405 million Euros (-3.2% of turnover). Net of non-recurrent costs, Ebit would have been equal to -7.522 million Euros.

2014 closed with a loss of 8.197 million Euros (-22.4% of turnover), following a of 4.475 million Euros (-6.0% of turnover) in 2013.

The net financial position as at 31 December 2014 was negative at 14.667 million Euros, with a worsening compared to the 5.110 million Euros of 31 December 2013, while as at 30 June 2014 it stood at figures 15.614 million Euros.

Turnover

Turnover as at 31 December 2014 amounted to 36.633 million Euros, down by approximately 37.8 million Euros (-50.8%) compared to the previous year, when it was equal to 74.424 million Euros.

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

	Sales			Sales to third parties			Intra-group sales		
	31.12.14	31.12.13	Diff %	31.12.14	31.12.13	Diff %	31.12.14	31.12.13	Diff %
Electronics	36,633	74,424	-50.8	36,542	74,341	-50.8	91	83	9.6

Amounts in Euro/000

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

Geographical Area	31.12.14	%	31.12.13	%	Diff. % '14-'13
South America	15,579	42.6	2,964	4.0	n.r.
North America	3,050	8.3	27,491	37.0	-88.9
Hong Kong	3,047	8.3	6,478	8.7	-53.0
Other	6,608	18.1	24,332	32.7	-72.8
Total Abroad	**28,284**	**77.4**	**61,265**	**82.4**	**-53.8**
Italy	8,258	22.6	13,076	17.6	-36.8
Total	**36,542**	**100.0**	**74,341**	**100.0**	**-50.8**

Amounts in Euro/000

The Italian market accounted for 22.6% of total turnover (in the previous three-year period it was 83.4% in 2011, 62.4% in 2012 and 17.6% in 2013). The trend, now stable, is confirmed which has led the domestic market to decrease its relative importance from an average of 70% to the current average of 20%. The most significant foreign markets in 2014 were South America (with a total of approximately 15.5 million Euros – of which 12.2 million in Chile and 3.0 million in Brazil) and the Asian market, which accounted for 12.5% of total sales. Globally, foreign markets account for 77.4% of total sales of the business area.

Ebitda e Ebit

Figures as at 31.12.2014

	31.12.14	% of turn.	31.12.13	% of turn.	Diff. %
Ebitda [a]	-7,005	-19.1	171	0.2	n.r.
Non-recurrent costs	2,375		-		
Adjusted Ebitda	-4,630	-12.6	171	0.2	n.r.
Ebit [b]	-9,897	-27.0	-2,405	-3.2	n.r.
Non-recurrent costs	2,375		-		
Adjusted Ebit	-7,522	-20.5	-2,405	-3.2	n.r.

[a] Understood as the sum of operating profit/(loss), amortisation, depreciation and impairment of fixed assets
[b] Understood as operating profit/(loss) in the income statement

Amounts in Euro/000

As previously highlighted, the marginality of the Electronics Business Area is penalised by a first half with revenues far below expectations, while the second half of the year, thanks to the reorganisation actions, showed a marked improvement with an Ebitda substantially in break even.

Financial expenses

Figures as at 31.12.2014

Amounts in Euro/000

	31.12.14	% of turn.	31.12.13	% of turn.	Diff. %
Financial expenses	-1,136	-3.1	-1,186	- 1.6	-4.2

Financial expenses amounted to 1.136 million Euros (3.1% of turnover) compared to 1.186 million Euros (1.6% of turnover) in the previous year.

Exchange differences

Figures as at 31.12.2014

Amounts in Euro/000

	31.12.14	% of turn.	31.12.13	% of turn.	Diff. %
Exchange differences	-364	-1.0	121	0.2	n.r.

Exchange differences as at 31 December 2014 were negative amounting to 364 thousand Euros; in the previous year, exchange differences were positive amounting to 121 thousand Euros. The deterioration is due to the devaluation effects of the Ruble and the Brazilian Real, limited to the conversion of balance sheet balances.

Net profit/(loss)

Figures as at 31.12.2014

Amounts in Euro/000

	31.12.14	% of turn.	31.12.13	% of turn.	Diff. %
Net profit/(loss)	-8,197	-22.4	-4,475	-6.0	83.2
Non-recurrent costs net of the tax effect	1,737		-		
Adjusted Net profit/(loss)	-6,460	-17.6	-4,475	-6.0	44.4

2014 closed with a loss of 8.197 million Euros (-22.4% of turnover) compared to a loss of 4.475 million Euros (-6.0% of turnover) in 2013. Net of non-recurring restructuring costs the loss would have been 6.460 million Euros (-17.6% of turnover).

Amortisation, depreciation and impairment of assets

Figures as at 31.12.2014

Amounts in Euro/000

	31.12.14	% of turn.	31.12.13	% of turn.	Diff. %
Amortisation, depreciation and impairment	2,892	7.9	2,576	3.5	12.3

Investments

Figures as at 31.12.2014

	31.12.14	31.12.13
Investments	1,277	2,580

Amounts in Euro/000

In 2014, investments for 1.277 million Euros (3.5% of turnover) were made, compared to 2.580 million Euros (3.5% of turnover) in testing systems and instruments to expand production capacity and basic software, patents and R&D projects for the development of new products.

Research and innovation

In 2014 total research and innovation costs amounted to 1.955 million Euros compared to costs of 2.312 million Euros incurred in 2013.

Posizione finanziaria netta

Dati al 31.12.2014

	31.12.14	30.09.14	30.06.14	31.12.13
Net financial position*	-14,667	-11,551	-15,614	-5,110

* Understood as the sum of amounts payable to banks, short-, medium- and long-term bonds and loans, net of cash and cash equivalents, negotiable securities and financial receivables.

Amounts in Euro/000

The net financial position as at 31 December 2014 was negative amounting to 14.667 million Euros, a worsening compared to the figure of 5.110 million Euros as at 31 December 2013, due to the loss recorded for the financial year.

Personnel

Workforce trend

Figures as at 31.12.2014

	31.12.14	31.12.13	31.12.12
Executives	4	9	10
Clerical staff	136	182	192
Factory workers	-	-	-
Temporary workers	-	1	-
Total	**140**	**192**	**202**

During 2014, temporary redundancies continued in Italy and in addition, as part of the reorganisation process, the voluntary redundancy procedure was opened and closed in September with the adhesion of 21 employees. In foreign subsidiaries, 16 employees resigned, of which 4 in Spain, 4 in Russia, 2 in India, 1 in the United States, 1 in China and 3 in Brazil. This process also involved 5 executives in Italy and abroad.

Summary data of the companies belonging to the
Business Area Electronics / Elettronica Santerno

Amounts in Euro/000

	Elettronica Santerno Spa[a]					Zao Santerno (Russia)				
	31.12.14	% of turn.	31.12.13	% of turn.	Diff.%	31.12.14	% of turn.	31.12.13	% of turn.	Diff.%
Turnover	34,120		69,650		-51.0	247		583		-57.6
Ebitda	-5,370	-15.7	851	1.2	n.r.	-265		-219	-37.6	21.0
Ebit	-8,206	-24.1	-1,654	-2.4	n.r.	-268		-224	-38.4	19.6
Net Profit/(loss)	-8,260	-24.2	-4,664	-6.7	77.1	-686		-336	-57.6	n.r.
Amortisation, depreciation and impairment	2,836	8.3	2,505	3.6	13.2	3	1.2	5	0.9	-40.0
Investments	1,240		2,536			-		-		
Net financial position	-12,824		-5,798			36		-565		
Shareholders' equity	5,019		13,350			-323		-387		

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

Amounts in Euro/000

	Eletronica Santerno Industria e Comercio Ltda (Brasile)					Elettronica Santerno Espana SL				
	31.12.14	% of turn.	31.12.13	% of turn.	Diff.%	31.12.14	% of turn.	31.12.13	% of turn.	Diff.%
Turnover	3,254		2,989		8.9	847		493		71.8
Ebitda	-105	-3.2	-519	-17.4	-79.8	-227	-26.8	-11	-2.2	n.r.
Ebit	-129	-4.0	-555	-18.6	-76.8	-229	-27.0	-16	-3.2	n.r.
Net Profit/(loss)	-209	-6.4	-1,030	-34.5	-79.7	-172	-20.3	-11	-2.2	n.r.
Amortisation, depreciation and impairment	24	0.7	36	1.2	-33.3	2	0.2	5	1.0	-60.0
Investments	36		1			-		2		
Net financial position	-322		342			97		113		
Shareholders' equity	254		452			950		1,122		

	Santerno Shanghai Trading Ltd					Santerno Inc				
	31.12.14	**% of turn.**	**31.12.13**	**% of turn.**	**Diff.%**	**31.12.14**	**% of turn.**	**31.12.13**	**% of turn.**	**Diff.%**
Turnover	-		396		n.r.	2,290		27,245		-91.6
Ebitda	-209		-423	n.r.	-50.6	-799	-34.9	484	1.8	n.r.
Ebit	-211		-425	n.r.	-50.4	-823	-35.9	462	1.7	n.r.
Net Profit/(loss)	-196		-456	n.r.	-57.0	-1,209	-52.8	243	0.9	n.r.
Amortisation, depreciation and impairment	2		2	0.5	-	24	1.0	22	0.1	9.1
Investments	-		4			-		35		
Net financial position	296		461			-2,025		335		
Shareholders' equity	-394		-163			-2,452		-994		

	Santerno India Pvt Ltd					Santerno Sudafrica Pvt Ltd				
	31.12.14	**% of turn.**	**31.12.13**	**% of turn.**	**Diff. %**	**31.12.14**	**% of turn.**	**31.12.13**	**% of turn.**	**Diff. %**
Turnover	-		-			73		-		
Ebitda	-		-			-46	-63.0	-		
Ebit	-		-			-46	-63.0	-		
Net Profit/(loss)	-		-			-46	-63.0	-		
Amortisation, depreciation and impairment	-		-			-	0.0	-		
Investments	-		-			-		-		
Net financial position	2		2			72		-		
Shareholders' equity	2		2			-46		-		

Key Risks and Uncertainties to which Carraro Spa and the Group are exposed

Risks associated with the general economic conditions

The Group's financial, capital and borrowing situation is influenced by various factors within the general macro-economic framework, such as changes to the gross national product, the state of the agricultural and construction industries, the cost of raw materials and the level of business confidence in the various countries in which the Group operates.

The dynamics of the global economy and international trade during 2014 were characterised by a high level of instability. In Italy the long recession, now present for several years, continued also in 2014 with a lower level of investments compared to 2013 and a slowdown in the latter part of the year in consumption and exports.

For 2015, however, a possible reversal of trend can be foreseen for Italy in terms of GDP and employment, supported by the collapse in oil prices, a fall in long-term interest rates and an acceleration of international trade. All these elements could help the entire Eurozone to reverse the trend of the last 7 years.

Internationally, economic activity has accelerated sharply in the United States, growing beyond expectations. Significant uncertainty however still remains for the continued slowdown in China and the sharp halt in Russia.

Risks for economic activities may result from the significant increase in tension on international financial markets, due to the worsening political situation in Greece and the crisis in Russia, as well as the weakening of the economies in emerging markets.

Risks having an effect on the Group's results

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

Risks associated with funding requirements

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

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

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

The Group envisages meeting the needs arising from all of the above with the flows deriving from operations, available liquidity, the disposal of assets no longer considered strategic and the availability of additional credit facilities.

In view of the trend in sales volumes and the continuation of activities aimed at the reduction of production inefficiencies, it is expected that the Group will be able to generate financial resources from operations such as to ensure adequate support for investment.

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.

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

Risks relating to fluctuating exchange and interest rates

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

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

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

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

The 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.

Credit risk

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

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

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

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

Country risk

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

Environmental risks

The Group operates across 11 manufacturing sites in 6 different nations.

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

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

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

In specific terms, activities continued to obtain Environmental Certification in accordance with the criteria of ISO 14001 in all of the Group's facilities.

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

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

Transactions with related parties

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

No transactions were carried out that were atypical or unusual with respect to normal business operations, with the exception of the conferment of the business arm of Agritalia Spa to Carraro Spa, and the interest rates and terms applied to and by the companies in their reciprocal financial relationships are in line with market terms.

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

Standards used in preparing the Consolidated Financial Statements

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

Other information

With reference to the provisions of Articles 36 and 39 of Consob Regulation 16191 of 29.10.2007 (the so-called "Market Regulations") and of Art. 2.6.2 paragraph 15 of the Stock Exchange Regulations we can confirm that the parent company Carraro Spa meets the conditions required by points a), b) and c) of paragraph 1 of the aforementioned Art. 36 on the subject of accounting situations, articles of association, corporate bodies and administrative and accounting control of its subsidiaries incorporated and regulated in countries that do not belong to the European Union.

The Group perimeter includes 23 companies of which 13 are established and regulated in non-European Union countries, specifically in Argentina, Brazil, China, India, Russia, South Africa and the United States; of these, 3, in Argentina, China and India, are significant under the terms of Title VI, Section II of the Issuer Regulations (Consob resolution 11971/1999).

For more complete disclosure on the system of corporate governance of Carraro Spa and its ownership structures, as required by Article 123-*bis* of Legislative Decree 58 of 24 February 1998, (Consolidated Finance Act – TUF), see the "Report on Corporate Governance", which can be consulted on the company's website www.carraro.com, under the *investor relations/corporate governance* section, prepared under the terms of Article 89-*bis* of the Consob Issuers' Regulations.

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

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

Amounts in Euro/000

Items	Net profit/ (loss) for the period	Shareholders' equity for the period	Net profit/ (loss) for the previous year	Shareholders' equity for the previous year
Net profit/(loss) and shareholders' equity of Carraro Spa	**-6,497**	**26,320**	**-3,214**	**67,722**
Net profit/(loss) and shareholders' equity of subsidiaries	4,636	251,769	11,850	225,079
Aggregate	**-1,861**	**278,089**	**8,636**	**292,801**
Elimination of carrying amount of subsidiaries	1,774	-292,226	1,573	-292,118
Consolidation adjustments	-7,754	55,344	-8,159	54,180
Profit and shareholders' equity	**-7,841**	**41,207**	**2,050**	**54,863**
Recognition of minority interests	-72	-2,848	-760	-6,103
Profit and shareholders' equity of the Group	**-7,913**	**38,359**	**1,290**	**48,760**

The information required by Article 79 of the Issuers' Regulations (information on the equity investments in the Parent Company Carraro Spa and its subsidiaries held by directors, statutory auditors and ...omitted...) is set forth in a specific statement annexed to the Explanatory Notes to the Financial Statements to which this Report refers.

Proposal to allocate the loss for financial year 2014

Dear Shareholders,
the Financial Statements of Carraro Spa as at 31 December 2014, which we invite you to approve as presented, closed with a loss of 6,497,472 Euros which we propose to entirely carry forward.

ENRICO CARRARO
Chairman

Consolidated Financial Statements
as at 31 December 2014

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Consolidated Income Statement

Amounts in Euro/000

	Note	31.12.2014	*of which non-recurring*	31.12.2013	*of which non-recurring*
A) REVENUES FROM SALES					
1) Products		708,482		852,121	
2) Services		11,986		11,290	
3) Other revenues		7,289		8,525	
Total revenues from sales	**1**	**727,757**		**871,936**	
B) OPERATING COSTS					
1) Purchases of goods and materials		441,597		522,684	
2) Services		113,604		139,067	
3) Use of third-party goods and services		5,135		6,981	
4) Personnel costs		133,181	*4,999*	145,828	
5) Amortisation, depreciation and impairment of assets		28,130		32,642	
5.a) depreciation of property, plant and equipment		*21,860*		*25,229*	
5.b) amortisation of intangible fixed assets		*4,699*		*4,347*	
5.c) impairment of fixed assets		*98*		*746*	
5.d) impairment of receivables		*1,473*		*2,320*	
6) Changes in inventories		–8,404		–6,998	
7) Provision for risks and other liabilities		11,128	*1,656*	11,003	
8) Other income and expenses		–4,161		–6,486	
9) Internal construction		–4,559		–4,007	
Total operating costs	**2**	**715,651**		**840,714**	
Operating profit/(loss)		**12,106**		**31,222**	
C) GAINS/(LOSSES) ON FINANCIAL ASSETS					
10) Income and expenses from equity investments		475		–	
11) Other financial income		3,906		2,649	
12) Financial costs and expenses		–18,552		–19,695	
13) Net gains/(losses) on foreign exchange		–2,905		–1,428	
14) Value adjustments of financial assets		–		–	
Net gains/(losses) on financial assets	**3**	**–17,076**		**–18,474**	
Profit/(loss) before taxes		**–4,970**		**12,748**	
15) Current and deferred income taxes	4	2,871	*–1,815*	10,698	
Net profit/(loss)		**–7,841**		**2,050**	
16) Minority interests		–72	*18*	–760	
Group consolidated profit/(loss)		**–7,913**	*–4,822*	**1,290**	
Earnings (losses) per share	**5**				
Basic, for the profit for the period attributable to ordinary shareholders of the parent company		*–€ 0.18*		*€ 0.03*	
Diluted, for the profit for the period attributable to ordinary shareholders of the parent company		*–€ 0.18*		*€ 0.03*	

Consolidated Comprehensive Income Statement

Amounts in Euro/000

		31.12.2014	31.12.2013
Net profit/(loss) for the period		**–7,841**	**2,050**
Other income components that could be recognised in the income statement in subsequent periods:			
Change in cash flow hedge reserve	**9**	1,327	361
Exchange differences from the translation of items from foreign operations	**15**	3,377	–10,291
Taxes on other comprehensive income components		–406	–95
Total other income components that could be recognised in the income statement in subsequent periods:		**4,298**	**–10,025**
Other income components that will not be recognised in the income statement in subsequent periods:			
Change in the provision for discounting employee benefits	**19**	–2,114	54
Taxes on other comprehensive income components		649	–15
Total other income components that will not be recognised in the income statement in subsequent periods:		**–1,465**	**39**
Other comprehensive income components, net of tax effects		**2,833**	**–9,986**
Total comprehensive income for the period		**–5,008**	**–7,936**
Total comprehensive income attributable to:			
Shareholders of the parent company		–5,056	–7,639
Profit/(loss) pertaining to minorities		48	–297
Total comprehensive income for the period		**–5,008**	**–7,936**

Consolidated Statement of Financial Position

Amounts in Euro/000

	Notes	31.12.2014	31.12.2013
A) NON-CURRENT ASSETS			
1) Property, plant and equipment	**6**	185,403	202,230
2) Intangible fixed assets	**7**	91,335	89,521
3) Real estate investments	**8**	708	709
4) Equity investments in associates	**9**	–	–
5) Financial assets	**10**	2,064	2,867
5.1) Loans and receivables		*1,821*	*2,317*
5.2) Other financial assets		243	550
6) Deferred tax assets	**11**	43,524	26,375
7) Trade receivables and other receivables	**12**	4,120	3,596
7.1) Trade receivables		–	*205*
7.2) Other receivables		*4,120*	*3,391*
Total non-current assets		**327,154**	**325,298**
B) CURRENT ASSETS			
1) Closing inventory	**13**	146,745	145,849
2) Trade receivables and other receivables	**12**	113,877	133,232
2.1) Trade receivables		*75,244*	*94,220*
2.2) Other receivables		*38,633*	*39,012*
3) Financial assets	**10**	5,040	3,799
3.1) Loans and receivables		*979*	*1,952*
3.2) Other financial assets		*4,061*	*1,847*
4) Cash and cash equivalents	**14**	62,822	72,712
4.1) Cash		*151*	*148*
4.2) Bank current accounts and deposits		*62,671*	*72,564*
4.3) Other cash and cash equivalents		–	–
Total current assets		**328,484**	**355,592**
Total assets		**655,638**	**680,890**

	Notes	31.12.2014	31.12.2013
A) SHAREHOLDERS' EQUITY	15		
1) Share Capital		23,915	23,915
2) Other Reserves		37,252	42,519
3) Profits/(Losses) brought forward		–	–
4) Other Ias/Ifrs reserves		624	–284
5) Provision for discounting employee benefits		–1,957	–500
6) Foreign currency translation reserve		–13,562	–18,180
7) Profit/loss for the year pertaining to the group		–7,913	1,290
Group Shareholders' Equity		38,359	48,760
8) Minority interests		2,848	6,103
Total Shareholders' Equity		**41,207**	**54,863**
B) NON-CURRENT LIABILITIES			
1) Financial liabilities	16	127,039	180,892
1.1) Bonds		–	–
1.2) Loans		*126,985*	*180,892*
1.3) Other financial liabilities		*54*	–
2) Trade payables and other payables	17	1,361	1,814
2.1) Trade payables		–	–
2.2) Other payables		1,361	*1,814*
3) Deferred tax liabilities	11	*5,353*	*2,297*
4) Provision for employee benefits/retirement	19	19,387	19,349
4.1) Provision for severance indemnity		*12,240*	*13,591*
4.2) Provision for retirement benefits		*7,147*	*5,758*
5) Provisions for risks and liabilities	20	3,869	5,077
5.1) Provision for warranties		*1,709*	*1,778*
5.2) Provision for legal claims		*151*	*322*
5.3) Provision for restructuring and reconversion		–	–
5.4) Other provisions		*2,009*	*2,977*
Total non-current liabilities		**157,009**	**209,429**
C) CURRENT LIABILITIES			
1) Financial liabilities	16	164,673	146,847
1.1) Bonds		–	–
1.2) Loans		*162,960*	*144,793*
1.3) Other financial liabilities		*1,713*	*2,054*
2) Trade payables and other payables	17	271,797	247,742
2.1) Trade payables		*232,786*	*212,297*
2.2) Other payables		*39,011*	*35,445*
3) Current taxes payables	18	5,178	5,977
4) Provisions for risks and liabilities	20	15,774	16,032
4.1) Provision for warranties		*11,145*	*8,930*
4.2) Provision for legal claims		*1,364*	*1,389*
4.3) Provision for restructuring and reconversion		*2,613*	*2,316*
4.4) Other provisions		*652*	*3,397*
Total current liabilities		**457,422**	**416,598**
Total liabilities		**614,431**	**626,027**
Total shareholders' equity and liabilities		**655,638**	**680,890**

Amounts in Euro/000

Statement of changes in Consolidated Shareholder's Equity

Amounts in Euro/000

	Share Capital	Capital reserves	Other reserves	Provision for discounting employee benefits	Treasury stock acquired	Reserve cash flow hedge	Foreign currency translation reserve	Profit/(Loss) for the period	Equity of Group	Minority interests	Total
Balance as at 1/1/2013	**23,915**	**27,130**	**34,030**	**–494**	**–6,435**	**–553**	**–8,988**	**–15,299**	**53,306**	**9,810**	**63,116**
Total profit/ loss for the year				**–6**		**269**	**–9,192**	**1,290**	**–7,639**	**–297**	**–7,936**
Transactions with shareholders:											
Allocation of 2012 results			–15,299					15,299	–		–
Own share purchase					–104				**–104**		**–104**
Change in consolidation scope			3,197	–					**3,197**	–3,410	**–213**
Other changes									–		–
Total transactions of the period	–	–	**–12,102**	–	**–104**	–	–	**15,299**	**3,093**	**–3,410**	**–317**
Balance as at 31.12.2013	**23,915**	**27,130**	**21,928**	**–500**	**–6,539**	**–284**	**–18,180**	**1,290**	**48,760**	**6,103**	**54,863**

	Share Capital	Capital reserves	Other reserves	Provision for discounting employee benefits	Treasury stock acquired	Reserve cash flow hedge	Foreign currency translation reserve	Profit/(Loss) for the period	Equity of Group	Minority interests	Total
Balance as at 1/1/2014	**23,915**	**27,130**	**21,928**	**–500**	**–6,539**	**–284**	**–18,180**	**1,290**	**48,760**	**6,103**	**54,863**
Total profit/ loss for the year				**–1,444**		**922**	**3,379**	**–7,913**	**–5,056**	**48**	**–5,008**
Transactions with shareholders:											
Allocation of 2013 results			1,290					–1,290	–		–
Own share purchase					–127				–127		–127
Change in consolidation scope			–6,430	–13	–	–14	1,239	–	**–5,218**	–3,303	**–8,521**
Total transactions of the period	–	–	**–5,140**	**–13**	**–127**	**– 14**	**1,239**	**–1,290**	**–5,345**	**–3,303**	**–8,648**
Balance as at 31.12.2014	**23,915**	**27,130**	**16,788**	**–1,957**	**–6,666**	**624**	**–13,562**	**–7,913**	**38,359**	**2,848**	**41,207**

Consolidated Statement of Cash Flows

Amounts in Euro/000

	Notes	31.12.2014	31.12.2013
Profit/(loss) for the year pertaining to the Group	5	–7,913	1,290
Profit/(Loss) for the year pertaining to minority interests		72	760
Tax for the year	4	2,871	10,698
Profit/(loss) before taxes		***–4,970***	***12,748***
Depreciation of property, plant and equipment	2	21,860	25,229
Amortisation of intangible fixed assets	2	4,699	4,347
Impairment of intangible assets	2	98	746
Provisions for risks	2	11,128	11,003
of which non-recurring provisions	*20*	*1,656*	–
Provisions for employee benefits	2	9,237	5,355
Net gains/(losses) on foreign exchange	3	2,905	1,428
Income and expenses from equity investments	3	–475	–
		44,482	***60,856***
Changes in inventory		–8,404	–6,998
Changes in trade receivables and other receivables		8,722	–13,737
of which changes in trade receivables and other receivables from related parties		*4,354*	*596*
Changes in trade payables and other payables		35,498	–14,044
of which changes in trade payables and other payables from related parties		*5,194*	*–2,366*
Changes in receivables/payables for deferred taxation		–9,901	67
Use of funds for employee benefits		–8,627	–5,626
Use of risks funds		–11,973	–10,067
Change in other financial assets and liabilities		1,410	208
Tax consolidation expense and income		5,388	–
Tax payments		–13,735	–11,373
Cash flows from operating activities		**43,560**	***–714***
Investments in plant, property and equipment and real estate investments		–26,726	–29,411
Disinvestments and other movements in property, plant and equipment		4,611	2,168
Investments in intangible assets		–7,948	–8,134
Disinvestments and other movements in intangible assets		–8	307
Net cash flow gained from disinvestments in companies		25,043	–
Cash flows from Investing activities		***–5,028***	***–35,070***
Change in financial assets		–3,804	169
Change in financial liabilities		–37,491	3,826
Own share purchase		–127	–104
Other movements of shareholders' equity		–8,948	–413
Cash flows from financing activities		***–50,370***	***3,995***
Total cash flows for the period		***–11,838***	***–32,306***
Opening cash and cash equivalents		**72,712**	**108,857**
Exchange changes in cash and cash equivalents		*1,948*	*–3,839*
Closing cash and cash equivalents		**62,822**	**72,712**

Explanatory an supplementary notes to the Consolidated accounts as at 31 december 2013

1. Introduction

Publication of the Consolidated Financial Statements of Carraro Spa and "Carraro Group" subsidiaries for the year ended 31 December 2014 was authorised by a resolution of the Board of Directors on 10 February 2015.

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

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

The controlling shareholder of Finaid Spa does not direct and coordinate Carraro's operations. More specifically:

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

These financial statements are presented in Euros, as this is the currency in which most of the group's operations are conducted. The foreign companies are included in the consolidated financial statements in accordance with the principles described in the notes that follow. Amounts in these financial statements are given in Euro thousands, while amounts in the notes are indicated in Euro millions (mln).

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

The Carraro Group is organised in the three Cgu (Cash Generating Units): Carraro Drive Tech, Santerno and Agritalia.

Reporting criteria and accounting principles

The 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 compared to those used for the Financial Statements as at 31 December 2013, with the exceptions described in the paragraph "Accounting standards, amendments and interpretations adopted since 1 January 2014".

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

2. Form and content of the financial statements

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

This press release contains a number of "alternative performance indicators" not envisaged by the Ifrs accounting standards: *Ebitda* (Earnings before Interest, Taxes, Depreciation and Amortisation); *Ebit* (Earnings before Interest and Taxes); *Net financial position* (the sum of bank borrowing, bonds and short-term and medium/long-term loans, net of cash and cash equivalents, marketable securities and financial receivables); *Gearing* (the ratio between net financial position and shareholders' equity).

2.1 Format of the consolidated financial statements

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

Income Statement

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

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

Statement of Comprehensive Income

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

Statement of Financial Position

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

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

Statement of Changes in Shareholders' Equity

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

Statement of Cash Flows

The consolidated statement of cash flows illustrates the changes in cash and cash equivalents (as presented in the statement of financial position) divided by cash generating area, indicating financial flows in accordance with the "indirect method", as permitted by Ias7.

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

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

2.2 Content of the Consolidated Financial Statements

Consolidation scope

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

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

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

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

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

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

Amounts in Euro/000

Name	Based in	Currency	Nominal value Share capital	Group stake
Parent company:				
Carraro Spa	Campodarsego (Pd)	Eur	23,914,696	
Italian subsidiaries:				
Carraro Drive Tech Spa	Campodarsego (Pd)	Eur	30,102,365	100.00%
Elettronica Santerno Spa	Campodarsego (Pd)	Eur	2,500,000	100.00%
Siap Spa	Maniago (Pn)	Eur	35,582,616	91.57%
Carraro Drive Tech Poggiofiorito Spa	Padua (Pd)	Eur	5,256,951	100.00%
Foreign subsidiaries:				
Carraro International Sa	Luxembourg	Eur	39,318,000	100.00%
Carraro Deutschland Gmbh	Hattingen (Germany)	Eur	10,507,048	100.00%
Carraro Technologies India Pvt. Ltd.	Pune (India)	Inr	18,000,000	100.00%
O&K Antriebstechnik Gmbh	Hattingen (Germany)	Eur	4,000,000	100.00%
Carraro Argentina Sa	Haedo (Argentina)	Ars	105,096,503	99.95%
Carraro China Drive System	Qingdao (China)	Cny	168,103,219	100.00%
Carraro India Ltd.	Pune (India)	Inr	586,492,900	100.00%
Carraro North America Inc.	Norfolk (Usa)	Usd	1,000	100.00%
Fon Sa	Radomsko (Poland)	Pln	–	98.64%
Carraro Drive Tech Do Brasil	Santo Andrè (State of Sao Paulo)	Brl	5,701,929	100.00%
Eletronica Santerno Industria e Comercio Ltda	Minas Gerais (Brazil)	Brl	8,265,367	100.00%
Elettronica Santerno Espana S.L.	Valencia (Spain)	Eur	1,003,006	100.00%
Santerno Inc.	San Francisco (Usa)	Usd	1,000	100.00%
Zao Santerno	Mosca (Russia)	Rub	100,000	100.00%
Santerno Shangai Trading Co	Shangai (China)	Cny	5,553,010	100.00%
Santerno India Pvt Ltd.	Pune (India)	Inr	166,560	100.00%
Santerno South Africa Pty Ltd.	Cape Town (South Africa)	Zar	100	100.00%
Mini Gears Inc	Virginia Beach (Usa)	Usd	8,910,000	100.00%
Gear World North America Inc.	Virginia Beach (Usa)	Usd	20,000	100.00%
Mini Gears Property	Virginia Beach (Usa)	Usd	20,000	100.00%

Changes in the consolidation area and other operations of company reorganisation

Minority repurchase of Ge Capital

On 15 July 2014 Carraro Spa and Carraro International Sa purchased from GE Capital Interbanca Spa the participating interest held in Carraro Drive Tech Spa (5.47%).

As GE Capital Interbanca's role in the original investment project ended, the Group decided to re-purchase said participating interest also in order to continue in a more determined and rapid way with the process of simplification of the corporate structure with benefits expected in terms of potential development of new organisational structures and in terms of cost saving.

This operation led to a change in interests of minority shareholders.

Sale of the "light gears" business unit

On 30 April 2014, in keeping with the Group's focus on its off-highway and industrial core sectors, the *"light gears"* business unit and two plants of the subsidiary Minigears (at Padua and Suzhou - China), specialised in small-scale components and sintered gears, were sold to the German fund Finatem. The sale price was collected in full as at 31 December 2014.

Below is a summary of the main figures of the transfer of the business unit.

Amounts in Euro/000

1) Property, plant and equipment	–22,322
2) Intangible fixed assets	–1,309
5) Financial assets	–15
7) Trade receivables and other receivables	–4
Total non-current assets	**–23,650**
1) Closing inventory	–8,218
2) Trade receivables and other receivables	–12,447
3) Financial assets	–14
4) Cash and cash equivalents transferred	–1,157
Total current assets	**–21,836**
Total assets	**–45,486**
Total shareholders' equity	**–945**
1) Financial liabilities	–302
3) Differed liabilities	–1,142
4) Provision for severance indemnity and retirement benefits	–2,067
Total non-current liabilities	**–3,511**
1) Financial liabilities	–379
2) Trade payables and other payables	–15,926
3) Current taxes payables	148
4) Provision for risks and liabilities	–373
Total current liabilities	**–16,530**
Total shareholders' equity and liabilities	**–20,986**
Net assets sold:	**–24,500**
Sales price	*26,200*

Merger of Carraro India Ltd with Turbo Gears Pvt Ltd

On 1 October 2014, Turbo Gears India Ltd was merged in Carraro India Ltd, with accounting and tax effect from 1 April 2013.

"R&D" – Engineering Business Unit

The Board of Directors' meeting held on 03 December 2014 approved the sale of the R&D business unit from Carraro Drive Tech Spa to Carraro Spa, with the aim of centralising within Carraro SpA the R&D function previously separated into two legal entities, thereby promoting synergies between the innovation processes of the Drivelines and Vehicles engineering areas. The purchase and sale of the above assets were completed on 31 December 2014. For the accounting effects of this operation, see section 5 below.

3. Consolidation criteria and accounting standards

3.1 Consolidation criteria

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

Foreign companies are consolidated using financial statement formats in line with the layout adopted by the parent company and compiled in accordance with common accounting standards, as applied for Carraro Spa. Where necessary, to achieve alignment with the reporting dates of the foreign companies, infra-annual financial statements as at 31 December 2014 have been provided by the directors, with the same criteria as those for year-end statements.

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

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

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

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

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

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

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

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

Currency	Average exchange rate for 2014	Exchange rate as at 31.12.2014	Average exchange rate for 2013	Exchange rate as at 31.12.2013
Indian Rupee	80.995	76.719	77.930	85.366
Polish Zloty	4.184	4.273	4.197	4.154
US Dollar	1.328	1.214	1.328	1.379
Chinese Renminbi	8.185	7.536	8.165	8.349
Argentine Peso	10.785	10.276	7.277	8.989
Russian Ruble	51.012	72.337	42.337	45.325
South African Rand	13.895	14.035	*n/a*	*n/a*
Brazilian Real	3.120	3.221	2.869	3.258

3.2 Discretionary valuations and significant accounting estimates

Estimates and assumptions

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

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

Impairment loss on goodwill

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

Deferred tax assets

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

Pension funds and other post employment benefits

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

Development costs

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

Provisions for risks and liabilities

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

3.3 Accounting standards and measurement criteria

Accounting standards, amendments and interpretations adopted since 1 January 2014

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

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

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

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

- Ifrs 9 *«Financial Instruments»*, published by the Iasb on 12 November 2009 and subsequently amended (retroactive application as from 1 January 2018, early adoption is permitted).
- Amendments to Ias 19 *«Employee Benefits»* (retrospective application as from 1 July 2014, early adoption is permitted).

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

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

Business Combinations and Goodwill

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

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

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

› represents the lowest level, within the Group, at which the goodwill is monitored for internal management purposes; and

› is no larger than the business segments identified on the basis of the Group's primary or secondary schedule of presentation of the segment reporting, determined on the basis of the indications of Ifrs8 «*Operating Segments*».

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

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

Acquisitions of additional equity interests after achieving control

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

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

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

Property, plant and equipment

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

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

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

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.

Licences, trademarks and similar rights

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

Software

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

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

Impairment losses

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

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

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

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

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

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

Equity investments in associated companies

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

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

Equity investments in other companies and other securities

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

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

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

Financial assets

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

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

Financial assets at fair value through profit or loss

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

Investments held to maturity

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

Loans and receivables

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

Available-for-sale financial assets

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

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

Derecognition of financial assets and liabilities

Financial assets

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

› the right to receive the cash flows from the asset has expired;

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

› the Group has transferred the rights to receive cash flows from the asset and (a) has essentially transferred all the risks and benefits of the ownership of the financial asset or (b) has not transferred or essentially withheld all the risks and benefits of the asset, but has transferred control of the same.

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

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

Financial liabilities

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

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

Impairment losses on financial assets

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

Assets measured on the basis of amortised cost

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

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

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

Assets recognised at cost

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

Available-for-sale financial assets

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

Inventories

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

Works in progress to order

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

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

Trade receivables and other receivables

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

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

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

Cash and cash equivalents

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

Loans and bonds

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

Allowances and provisions

Provisions for risks and liabilities

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

Employee and similar benefits

According to Ias19, employee benefits to be paid out subsequent to the termination of the employment relationship and other long-term benefits (including the Provision for severance indemnity) are subjected to actuarial valuations which have to take into account a series of variables (such as mortality, the provisions of future salary changes, the anticipated rate of inflation, etc.).

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

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

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

Recognition of revenues and other positive income components

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

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

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

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

Public grants

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

Taxes

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

Current taxes

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

Deferred taxes

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

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

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

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

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

Value added tax

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

› the tax applied to the purchase of goods or services is non-deductible, in which case it is recognised as part of the purchase cost of the asset or part of the cost item recognised in the income statement;

› it refers to trade receivables and payables recorded including the value of the tax.

Earnings (losses) per share

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

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

Translation of foreign currency balances

Functional currency

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

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

Accounting transactions and entries

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

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

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

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

Derivative financial instruments and hedging transactions

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

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

The main objectives indicated by the policy are as follows:

Exchange-rate risks

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

Interest-rate risks

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

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

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

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

For hedge accounting purposes, hedges are classified as:

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

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

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

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

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

Fair value hedges

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

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

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

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

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

Cash flow hedges

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

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

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

Hedges of a net investment in a foreign operation

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

Credit risk

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

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

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

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

Liquidity risk

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

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

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

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

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

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

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

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

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

Exchange-rate risk and interest rate risk

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

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

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

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

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

Intra-group transactions

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

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

4. Reporting by business and geographic segment

Information on Operating Segments is given on the basis of internal reporting provided as at 31 December 2014 to the highest operating decision-making level.

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

Three operating segments were identified, corresponding to the following Business Areas:

- Carraro Drive Tech (*Transmission systems and components*): specialised in the design, manufacture and sale of transmission systems (axles, transmissions and planetary drives) mainly for agricultural and construction equipment, and also markets a wide range of components and gears for very diverse sectors, from the automotive industry to light power tools, material handling, agricultural applications and construction equipment;
- Carraro Divisione Agritalia (*Vehicles*): designs and manufactures special tractors (from 60 to 100 hp) for third-party brands;
- Elettronica Santerno (*Power electronics*) designs, develops, manufactures and markets inverters (electronic power converters) mainly for the photovoltaic industry and industrial automation (HVAC, water treatment, lifting systems and large-scale transport).

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

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

4.1 Business segments

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

A. Economic data

Amounts in Euro/000

2014	Drive Tech	Agritalia	Elettronica Santerno	Eliminations and items not allocated	Consolidated Total
Revenues from sales	**610,453**	**102,837**	**36,633**	**−22,166**	**727,757**
Sales to third parties	592,462	98,468	36,542	285	727,757
Sales between divisions	17,991	4,369	91	−22,451	–
Operating costs	**581,687**	**103,209**	**46,530**	**−15,775**	**715,651**
Purchases of goods and materials	356,646	87,353	19,705	−22,107	441,597
Services	95,972	9,620	10,599	−2,587	113,604
Use of third-party goods and services	6,569	5	521	−1,960	5,135
Personnel costs	99,188	14,262	11,858	7,873	133,181
Amortisation, depreciation and impairment of assets	21,442	1,454	3,181	2,053	28,130

2014	Drive Tech	Agritalia	Elettronica Santerno	Eliminations and items not allocated	Consolidated Total
Changes in inventories	1,700	–11,289	814	371	–8,404
Provisions for risks	7,648	2,188	1,076	216	11,128
Other income and expenses	–4,238	–91	–216	384	–4,161
Internal construction	–3,240	– 293	–1,008	–18	–4,559
Operating profit/(loss)	**28,766**	**–372**	**–9,897**	**–6,391**	**12,106**
Gains/(losses) on financial assets	–12,495	–98	–1,338	–3,145	–17,076
Current and deferred income taxes	9,600	235	–3,038	–3,926	2,871
Minorities	72	–	–	–	72
Net profit/(loss)	**6,599**	**–705**	**–8,197**	**–5,610**	**–7,913**

Amounts in Euro/000

2013	Drive Tech	Agritalia	Elettronica Santerno	Eliminations and items not allocated	Consolidated Total
Revenues from sales	**714,724**	**102,987**	**74,424**	**–20,199**	**871,936**
Sales to third parties	697,599	99,369	74,341	627	871,936
Sales between divisions	17,125	3,618	83	–20,826	–
Operating costs	**677,491**	**99,895**	**76,829**	**–13,501**	**840,714**
Purchases of goods and materials	433,205	71,770	37,648	–19,939	522,684
Services	110,140	9,108	20,499	–680	139,067
Use of third-party goods and services	8,383	8	785	–2,195	6,981
Personnel costs	113,060	12,539	12,283	7,946	145,828
Amortisation, depreciation and impairment of assets	24,907	1,264	4,455	2,016	32,642
Changes in inventories	–14,195	3,748	3,280	169	–6,998
Provisions for risks	8,410	1,420	952	221	11,003
Other income and expenses	–4,103	38	–1,383	–1,038	–6,486
Internal construction	–2,316	–	–1,690	–1	–4,007
Operating profit/(loss)	**37,233**	**3,092**	**–2,405**	**–6,698**	**31,222**
Gains/(losses) on financial assets	–15,123	–103	–878	–2,370	–18,474
Current and deferred income taxes	9,751	372	1,192	–617	10,698
Minorities	93	–	–	667	760
Net profit/(loss)	**12,266**	**2,617**	**–4,475**	**–9,118**	**1,290**

B. Balance sheet

Amounts in Euro/000

2014	Drive Tech	Agritalia	Elettronica Santerno	Eliminations and items not allocated	Consolidated Total
Non-current assets	215,534	15,897	36,360	59,363	327,154
Current assets	254,313	51,812	25,235	–2,876	328,484
Shareholders' equity	107,965	11,238	23,188	–101,184	41,207
Non-current liabilities	51,943	1,680	722	102,664	157,009
Current liabilities	309,939	54,791	37,685	55,007	457,422

2013	Drive Tech	Agritalia	Elettronica Santerno	Eliminations and items not allocated	Consolidated Total
Non-current assets	226,628	13,411	38,287	46,972	325,298
Current assets	289,462	30,172	33,075	2,883	355,592
Shareholders' equity	63,342	12,059	31,518	–52,056	54,863
Non-current liabilities	52,573	1,819	874	154,163	209,429
Current liabilities	400,175	29,705	38,970	–52,252	416,598

C. Other information

Amounts in Euro/000

2014	Drive Tech	Agritalia	Elettronica Santerno	Eliminations and items not allocated	Consolidated Total
Investments *(Euros/000)*	34,293	3,733	1,277	–4,629	34,674
Workforce as at 31.12	3,253	275	140	86	3,754

2013	Drive Tech	Agritalia	Elettronica Santerno	Eliminations and items not allocated	Consolidated Total
Investments *(Euros/000)*	29,227	1,744	2,580	3,988	37,539
Workforce as at 31.12	3,835	255	192	81	4,363

4.2 Geographic segments

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

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

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

A. Sales

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

Amounts in Euro/000

	31.12.2014	%	31.12.2013	%
South America	93,250	12.8%	106,920	12.3%
North America	84,387	11.6%	115,729	13.3%
Germany	83,024	11.4%	103,108	11.8%
United Kingdom	58,824	8.1%	55,183	6.3%
India	58,685	8.1%	49,607	5.7%
Turkey	50,960	7.0%	69,160	7.9%
Switzerland	49,308	6.8%	43,702	5.0%
France	43,479	6.0%	61,295	7.0%

	31.12.2014	%	31.12.2013	%
Other E.U. areas	43,118	5.9%	48,159	5.5%
China	29,816	4.1%	51,015	5.9%
Other non-E.U. areas	18,901	2.6%	33,456	3.8%
Poland	12,901	1.8%	19,001	2.2%
Belgium	11,516	1.6%	16,205	1.9%
Totale Estero	**638,169**	**87.7%**	**772,540**	**88.6%**
Italy	89,588	12.3%	99,396	11.4%
Total Abroad	**727,757**	**100.0%**	**871,936**	**100.0%**
of which:				
Total E.U. area	**342,450**	**47.1%**	**402,347**	**46.1%**
Total non-E.U. area	**385,307**	**52.9%**	**469,589**	**53.9%**

B. Carrying amount of assets by area

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

Amounts in Euro/000

	31.12.2014		31.12.2013	
	Current assets	Non-current assets	Current assets	Non-current assets
Italy	227,763	410,695	213,085	414,238
Other E.U. countries	180,254	86,635	212,648	78,241
North America	1,437	105	4,572	3,432
South America	37,378	12,839	43,618	8,569
Asia	101,613	66,533	113,696	62,194
Non-E.U. countries	282	–	571	73
Eliminations and items not allocated	–220,243	–249,653	–232,598	–241,449
Total	**328,484**	**327,154**	**355,592**	**325,298**

C. Investments by geographic segment

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

Amounts in Euro/000

	31.12.2014	31.12.2013
Italy	27,148	27,506
Other E.U. countries	3,639	2,279
North America	–	34
South America	4,518	945
Asia	7,380	8,791
Non-E.U. countries	–	–
Eliminations and items not allocated	–8,011	–2,016
Total	**34,674**	**37,539**

5. Non-recurring operations

Group restructuring

As at 31 December 2014, non-recurring transactions concerning the personnel restructuring programme were recognised, with the allocation of 6.655 million Euros.

Amounts in Euro/000

31.12.2014	Personnel costs	Provisions for risks and liabilities	Ebit	Taxes	Minorities	Net
Carraro Spa	1,058	400	1,458	–401	–	1,057
Carraro Drive Tech Spa	1,722	800	2,522	–694	–	1,828
Siap Spa	–	300	300	–82	–18	200
Elettronica Santerno Spa	2,051	150	2,201	–605	–	1,596
Zao Santerno	11	–	11	–	–	11
Santerno Shangai Trading Co	27	6	33	–	–	33
Elettronica Santerno Espana SL	130	–	130	–33	–	97
Total	**4,999**	**1,656**	**6,655**	**–1,815**	**–18**	**4,822**

"R&D" – Engineering Business Unit

As already stated in the section *Changes in the scope of consolidation and other company reorganisation operations on* 3 December 2014, the Board of Directors of Carraro Spa approved the sale of the R&D business unit from Carraro Drive Tech Spa to Carraro S.p.A., with the aim of centralising within Carraro Spa the R&D function previously separated into two legal entities, thereby promoting synergies between the innovation processes of the Drivelines and Vehicles engineering areas.

The consolidated accounting effects of this operation, which was completed on 31 December 2014, are reported below:

Amounts in Euro/000

	Consolidated effects of the "*R&D*" business unit
6) Deferred tax assets	9,426
Total non-current assets	**9,426**
Total assets	**9,426**
Total shareholders' equity	**267**
1) Financial liabilities	1,701
2) Trade payables and other payables	7,458
Total current liabilities	**9,159**
Total shareholders' equity and liabilities	**9,426**

6. Notes and comments

Revenues and costs

A. Revenues from sales (note 1)

Analysis by business and geographic segment

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

B. Operating costs (note 2)

Amounts in Euro/000

	31.12.2014	31.12.2013
Purchases of raw materials	426,641	508,836
Returns of raw materials	–1,828	–3,062
A) PURCHASES	424,813	505,774
Miscellaneous consumables	2,252	3,417
Consumable tools	6,544	7,694
Maintenance material	4,061	4,374
Mat. and serv. for resale	5,101	2,164
Rebates and discounts – suppliers	–1,174	–739
B) OTHER PRODUCTION COSTS	16,784	16,910
1) Purchases of goods and materials	**441,597**	**522,684**
A) EXTERNAL SERVICES FOR PRODUCTION	59,171	69,595
B) SUNDRY SUPPLIES	10,621	13,506
C) GENERAL OVERHEADS	28,045	34,093
D) COMMERCIAL COSTS	1,844	2,016
E) SALES EXPENSES	13,923	19,857
2) Services	**113,604**	**139,067**
3) Use of third-party goods and services	**5,135**	**6,981**
A) WAGES AND SALARIES	93,637	102,403
B) SOCIAL SECURITY CONTRIBUTIONS	24,974	32,717
D) EMPLOYEE SEVERANCE INDEMNITY AND PENSIONS	9,237	5,355
E) OTHER COSTS	5,333	5,353
4) Personnel costs	**133,181**	**145,828**
A) DEPREC. PROP., PLANT & EQUIPMENT	21,860	25,229
B) AMORT. INTANGIBLE ASSETS	4,699	4,347
C) IMPAIRMENT OF FIXED ASSETS	98	746
D) IMPAIRMENT OF RECEIVABLES	1,473	2,320
5) Amortisation, depreciation and impairment of assets	**28,130**	**32,642**
A) CHANGES IN INVENTORIES OF RAW AND ANCILLARY MATERIALS AND GOODS	–4,741	–3,630
B) CHANGES IN INVENTORIES OF WORK IN PROG. SEMI-FIN. & FIN. PRODS	–3,663	–3,368
6) Changes in inventories	**–8,404**	**–6,998**
A) WARRANTY	7,963	6,379

	31.12.2014	31.12.2013
b) costs of legal claims	317	318
c) renovation and conv.	1,656	507
d) other provisions	1,192	3,799
7) Provision for risks and other liabilities	**11,128**	**11,003**
a) sundry income	–8,714	–9,161
b) grants	–290	–39
c) other operating expenses	5,692	5,428
d) other non-ordinary operating income/expenses	–849	–2,714
8) Other Income and Expenses	**–4,161**	**–6,486**
9) Internal Construction	**–4,559**	**–4,007**

C. Net income from financial assets (note 3)

Amounts in Euro/000

	31.12.2014	31.12.2013
10) Income/expenses from equity investments	**475**	**–**
a) from financial assets	166	71
b) from bank current accounts and deposits	47	113
c) from other cash equivalents	242	217
d) income other than the above	3,450	2,249
e) from fair value changes, interest rate derivatives	1	–1
11) Other financial income	**3,906**	**2,649**
a) from financial liabilities	–12,860	–11,972
b) from bank current accounts and deposits	–4,206	–6,430
c) expenses other than the above	–1,415	–1,170
e) from fair value changes, interest rate derivatives	–71	–123
12) Financial costs and expenses	**–18,552**	**–19,695**
From derivative transactions on exchange rates	–9,326	–2,873
From changes in fair value of derivative transactions on exchange rates	–353	–372
Other	–12,760	–18,434
Negative exchange differences:	***–22,439***	***–21,679***
From derivative transactions on exchange rates	4,508	4,124
From changes in fair value of derivative transactions on exchange rates	1,682	295
Other	13,344	15,832
Positive exchange differences:	***19,534***	***20,251***
13) Net gains/(losses) on foreign exchange	**–2,905**	**–1,428**
Net gains/(losses) on financial assets	**–17,076**	**–18,474**

In 2014, financial expenses decreased compared to the previous year, mainly due to the effect of reclassifying exchange differences of the financial component of exchange hedging, as well as a general improvement in interest rates.

Exchange differences as at 31 December 2014 were negative amounting to 2.9 million Euros; (-0.4% of turnover) compared to a negative value of 1.4 million Euros as at 31 December 2013 (-0.16% of turnover). The value includes the economic effect of the change in the fair value of derivatives to hedge the exchange risk, equal to 1.3 million Euros as at 31 December 2014 (-0.08 million Euros in 2013).

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

Current and deferred income taxes (note 4)

Amounts in Euro/000

	31.12.2014	**31.12.2013**
Current taxes	13.001	10.242
Tax consolidation expense and income	–5.388	–
Taxes from previous years	–616	–591
Deferred taxes	–4.126	1.047
Provision for tax risks relative to direct taxes	–	–
15) Current and deferred income taxes	**2.871**	**10.698**

Current taxes

Tax on the income of Italian companies is calculated at 27.50%, for Ires (corporation tax), and at 3.90% for Irap (regional business tax) on the respective taxable income for the period. Taxes for the other foreign companies are calculated at the rates in force in the various countries.

Tax consolidation expense and income

The companies Carraro Spa, Carraro Drive Tech Spa, Siap Spa, Carraro Drive Tech Poggiofiorito Spa and Elettronica Santerno Spa adhere to the tax consolidation area of the parent company Finaid Spa. The charges/income deriving from the transfer of the Ires taxable base are booked under current taxes. According to the regulations of the Tax Consolidation Agreement, companies of the Carraro Group have the right to “relief” for use of the tax losses of companies controlled by Finaid, other than those belonging to the Carraro Group. This “relief” amounts to 3% of the tax losses of the other companies of the Finaid Consolidation area possibly offset with the taxable amounts of Carraro Group companies.

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

Deferred taxes

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

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

Amounts in Euro/000

	31.12.2014	%	31.12.2013	%
Earnings before tax	**–4,970**		**12,748**	
Theoretical tax rate	**–1,561**	**31.40%**	**4,003**	**31.40%**
Tax effects related to:				
Effect of non-deductible costs	2,351	–47.30%	2,674	20.98%
Untaxable income	–605	12.17%	–249	–1.96%
Unrecognised deferred taxes on tax losses	2,123	–42.71%	3,239	25.41%
Other unrecognised deferred tax assets	2,798	–56.30%	–	–
Change in deferred tax rate	–	–	350	2.75%
Adjustment of deferred taxes of previous year	–4,280	86.12%	420	3.29%
Use of previous tax losses	–2,128	42.82%	–	–
Foreign companies rate difference	239	–4.81%	853	6.69%
Provisions for tax risks	–	–	–	–
Withheld at source	4,550	–91.55%	–	–
Taxes from previous years	–616	12.39%	–592	–4.64%
Taxation at effective rate	**2,871**	**–57.77%**	**10,698**	**83.92%**

Taxes for the year were affected in particular by the recognition of deferred tax assets on previous tax losses for 4.1 million Euros and income from the tax consolidation area for 5.4 million Euros. In addition, deferred tax assets for 1.9 million Euros were also recognised, following the transaction as of section 5. Withholding taxes refer to the impairment, due to the uncertain recoverability, of receivables for withholding taxes on foreign income (3.5 million Euros) accrued in previous years and the taxation of dividends distributed by the Indian subsidiary (1 million Euros).

As well as taxes recognised in the income statement for the year, deferred tax liabilities of 0.2 million Euros were directly recognised in the statement of comprehensive income.

Earning (loss) per share (note 5)

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

Amounts in Euro/000

	31.12.2014	31.12.2013
Results		
Earnings (Losses) for the purposes of calculating basic earnings per share	–7,913	1,290
Diluting effect deriving from potential ordinary shares	–	–
Earnings (Losses) for the purposes of calculating diluted earnings per share	–7,913	1,290

	31.12.2014	31.12.2013
Number of shares		
Weighted average number of ordinary shares for calculating:		
basic earnings (losses) per share	43,246,626	43,295,198
diluted earnings (losses) per share	43,246,626	43,295,198
Basic earnings (losses) per share (Euros)	–0.18	0.03
Diluted earnings (losses) per share (Euros)	–0.18	0.03

Dividends

Carraro Spa did not pay dividends in 2014 and 2013.

Property, plant and equipment (note 6)

These items present a net balance of 185.40 million Euros compared with 202.23 million Euros in the previous period. The breakdown is as follows:

Amounts in Euro/000

Items	Land and buildings	Plant and machinery	Industrial equipment	Other assets	Investments in progress and deposits	Total
Historical cost	78,986	214,253	118,508	19,597	7,925	439,269
Provisions for amortisation and depreciations	–20,277	–111,884	–83,038	–14,414	–	–229,613
Net as at 31.12.2012	**58,709**	**102,369**	**35,470**	**5,183**	**7,925**	**209,656**
Movements in 2013:						
Increases	723	7,772	7,919	1,337	11,654	29,405
Decreases	–24	–1,260	–480	–105	–307	–2,176
Capitalisation	2,581	3,711	1,508	–	–7,800	–
Depreciation and amortisation	–1,906	–13,111	–8,830	–1,382	–	–25,229
Reclassification	–	1,347	95	–73	–1,369	–
Impairment	–	–708	–29	–9	–	–746
Foreign exch. translation diff.	–1,921	–5,684	–665	–105	–305	–8,680
Net as at 31.12.2013	**58,162**	**94,436**	**34,988**	**4,846**	**9,798**	**202,230**
Made up of:						
Historical cost	79,732	210,250	123,805	19,665	9,798	443,250
Provisions for amortisation and depreciations	–21,570	–115,814	–88,817	–14,819	–	–241,020

Amounts in Euro/000

Items	Land and buildings	Plant and machinery	Industrial equipment	Other assets	IInvestments in progress and deposits	Total
Historical cost	79.732	210.250	123.805	19.665	9.798	443.250
Provisions for amortisation and depreciations	–21.570	–115.814	–88.817	–14.819	–	–241.020
Net as at 31.12.2013	**58.162**	**94.436**	**34.988**	**4.846**	**9.798**	**202.230**
Movements in 2014:						
Increases	853	10.241	5.879	1.005	8.748	26.726
Decreases	–2.568	–1.131	–155	–132	–99	–4.085
Capitalisation	162	5.991	675	44	–6.870	2

Items	Land and buildings	Plant and machinery	Industrial equipment	Other assets	IInvestments in progress and deposits	Total
Change in consolidation scope	1	–15,212	–4,978	–453	–1,665	–22,307
Depreciation and amortisation	–1,958	–11,018	–7,734	–1,150	–	–21,860
Reclassification	–11	534	80	37	–795	– 155
Impairment	–	–98	–	–	–	–98
Foreign exch. translation diff.	1,189	2,320	696	91	654	4,950
Net as at 31.12.2014	**55,830**	**86,063**	**29,451**	**4,288**	**9,771**	**185,403**
Made up of:						
Historical cost	77,350	189,575	109,985	17,715	9,771	404,396
Provisions for amortisation and depreciations	–21,520	–103,512	–80,534	–13,427	–	–218,993

As at 31.12.2014, leased assets were registered under plant and machinery for 3.7 million Euros.

The increase in land and buildings refers in particular to Carraro Argentina Sa, Carraro Spa, Elettronica Santerno Spa, Carraro Drive Tech Poggiofiorito Spa and Siap Spa.

The main investments in plant and machinery were made by O&K Gmbh, Carraro Drive Tech Poggiofiorito Spa and Siap Spa.

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

The increases in other assets mainly refer to office machinery purchased by Carraro Spa, Carraro Argentina Sa, Carraro India Pvt Ltd., Siap Spa, Elettronica Santerno Spa and Carraro Technologies Ltd..

The increase in Work in progress and advances is mainly due to current investments at Carraro Argentina Sa, Carraro Drive Tech Spa, Carraro India Pvt Ltd. and Siap Spa.

The properties of Carraro Spa have mortgage loans secured against them for a total of 20 million Euros.

Decrease, reclassification and exchange difference values are highlighted by the net value of the historical cost and the accumulated amortisation.

Intangible assets *(note 7)*

These items present a net balance of 91.3 million Euros compared with 89.5 million Euros in the previous period. The breakdown is as follows:

Items	Goodwill	Development costs	Royalties and patents	Licences and Trademarks	Invest. in prog. and deposits	Other intangible assets	Total
Historical cost	63,171	15,774	1,536	24,530	9,886	878	115,775
Provisions for amortisation and depreciations	–	–10,283	–1,333	–17,259	–	–851	–29,726
Net as at 31.12.2012	**63,171**	**5,491**	**203**	**7,271**	**9,886**	**27**	**86,049**
Movements in 2013:							
Increases	–	–	44	1,290	6,800	–	8,134
Decreases	–	–	–4	–	–304	–	–308

Amounts in Euro/000

Items	Goodwill	Development costs	Royalties and patents	Licences and Trademarks	Invest. in prog. and deposits	Other intangible assets	Total
Capitalisation of internal costs	–	4,741	–	261	–5,002	–	–
Depreciation and amortisation	–	–1,706	–82	–2,540	–	–19	–4,347
Reclassification	–	–	–	5	–5	–	–
Foreign exch. translation diff.	–	–	6	–19	4	2	–7
Net as at 31.12.2013	**63,171**	**8,526**	**167**	**6,268**	**11,379**	**10**	**89,521**
Made up of:							
Historical cost	63,171	20,515	1,582	25,994	11,379	876	123,517
Provisions for amortisation and depreciations	–	–11,989	–1,415	–19,726	–	–866	–33,996

Amounts in Euro/000

Items	Goodwill	Development costs	Royalties and patents	Licences and Trademarks	Invest. in prog. and deposits	Other intangible assets	Total
Historical cost	63,171	20,515	1,582	25,994	11,379	876	123,517
Provisions for amortisation and depreciations	–	–11,989	–1,415	–19,726	–	–866	–33,996
Net as at 31.12.2013	**63,171**	**8,526**	**167**	**6,268**	**11,379**	**10**	**89,521**
Movements in 2014:							
Increases	–	–	32	859	7,057	–	7,948
Decreases	–	–	–7	– 1	–134	–	–142
Capitalisation of internal costs	–	305	–	9,001	–9,306	–	–
Change in consolidation scope	–	–	–	–1,295	–13	–1	–1,309
Depreciation and amortisation	–	–2,512	–66	–2,119	–	–2	–4,699
Reclassification	–	–	–	155	–	–	155
Foreign exch. translation diff.	–	1	–	6,217	–6,355	–2	–139
Net as at 31.12.2014	**63,171**	**6,320**	**126**	**19,085**	**2,628**	**5**	**91,335**
Made up of:							
Historical cost	63,171	14,112	1,101	33,184	2,628	9	114,204
Provisions for amortisation and depreciations	–	–7,792	–975	–14,099	–	–4	–22,869

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

Decrease, reclassification and exchange difference values are highlighted by the net value of the historical cost and the accumulated amortisation.

Goodwill and Impairment Tests

Goodwill

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

Business Area (Cgu)	**2013**	**Changes**	**2014**
Drivetech	41,294	–	41,294
Santerno	21,877	–	21,877
Total	**63,171**	–	**63,171**

Amounts in Euro/000

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

Impairment Tests

Impairment tests were carried out, applying the provisions of Ias 36, with the application criteria described below, also considering guidelines on methodologies issued by the Oiv (Italian Valuation Standard Setter):

› the recoverable value of the assets of the cash generating units (henceforth "CGUs") was ascertained by identifying their "value in use" obtained from the present value of the expected operating cash flows of these assets applying a rate expressing the risks of the single "CGUs" considered;

› for the purpose of impairment testing for the Consolidated Financial Statements as at 31 December 2014, and as for the previous year, the "CGUs" were identified as the three business areas: "Drivetech", "Santerno" and "Agritalia". As in previous years, testing was also carried out at a Group level overall, although impairment indicators were not identified and in particular, the average Stock Exchange capitalisation value was higher than the carrying amount of shareholders' equity;

› the reference time horizon for the estimate of future cash flows is a period of five years, subsequently using the perpetual return criterion;

› as no new Industrial Plan is available and as the previous plan is no longer consistent with the Group's current conditions, the economic/financial forecasts used were extrapolated starting from the 2015 Budget, which was approved by the Board of Directors on 10 February 2015, and on the basis of these data, three different scenarios - *"best case"*, *"base case"* and *"worst case"* were identified, which are explained below:
  – the *"base case"* version was processed assuming, in relation to the 2015 budget, an annual average increase in turnover of 2%, a constant incidence of variable costs and an annual increase in overheads of 1%;
  – the *"worst case"* version was processed assuming, in relation to the 2015 budget, an annual average decrease in turnover of 2%, a constant incidence of variable costs and an annual decrease in overheads of 1%;
  – the *"best case"* version includes, compared to the *"base case"* version, the outcomes of an extraordinary *asset disposal* transaction.

  This approach was used for the Drivelines and Vehicles CGUs, while for the Electronics CGU, financial operating flows were taken from the 2016-2018 Industrial Plan, approved by the Administrative Body on 1 August 2014, and from a projection for 2019;

the 2015 budget will be approved by the Board of Directors on 10 February 2015;

- the terminal value was estimated based on the values of the last year of analytical forecasting; a "standard" tax rate was applied, which, for conservative purposes, does not consider any tax recovery arising from the use of previous losses. The estimated, forward-looking growth rate(«g») is equal to zero. The figures of the projections are expressed in real terms;
- Wacc (weighted average cost of capital) rates were used to discount flows, calculated analysing comparable company data in relation to each Cgu (cash generating unit), so as to reflect the risk level of each segment of activity, as well as uncertainties related to the current economic context. The rates were determined net of the tax effect. The change in taxes from one year to another is affected, among others, by the change in the cost of money and update to the basket of comparable companies for each segment of activity.

	WACC Discount rate net of taxes
Carraro Group	7.02%
Drive Tech Cgu	7.13%
Santerno Cgu	6.45%
Agritalia Cgu	6.99%

- the sensitivity analysis was carried out:
  - assuming changes in the parameter of the discount rate, without introducing significant critical issues;
  - assuming changes in the parameter of the discount rate, without introducing significant critical issues;
  - identifying the change in Ebit which makes the recoverable value equal to the carrying amount (only in the case of Santerno, as a *"worst case"* simulation is already used for other CGUs).

Parameters used for sensitivity analysis are indicated below: in particular, the discount rate which makes recoverable values equal to the carrying amount in the two scenarios is indicated:

	Base case	**Worst case**
Carraro Group	10.08%	7.76%
Drive Tech Cgu	13.08%	11.13%
Santerno Cgu	7.77%	–
Agritalia Cgu	(°)	(°)

° In the case of the Agritalia CGU, the negative value of Net Invested Capital means that sensitivity analysis cannot be applied.

Impairment testing on the three CGUs, according to the criteria indicated above, produced positive results. Sensitivity analysis was not carried out for the Agritalia Cgu, as the carrying amount of net invested capital as 31 December 2014 was negative (-11.5 million Euros).

Sensitivity analysis of the change in Ebit for Santerno showed that the break even point between the recoverable value and carrying amount would reach an Ebit below 19.2% compared to the base value.

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

Investments in progress and deposits

The increase in work in progress refers to costs incurred by Carraro Spa for the investment in a new Erp management system, and in Carraro Drive Tech Spa and Elettronica Santerno Spa for the design of new product lines developed in relation to similar projects started by clients. Development costs generated internally are capitalised at cost.

Licences and Trademarks

During the period, development costs incurred for the new Erp management system, amounting to 8.8 million Euros, were capitalised.

Royalties and patents

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

Research and development costs (non-capitalisable)

During 2014 research and trials were carried out by some of the personnel employed in both development and production.

For these operations, the Group incurred total expenditure of 14.27 million Euros in 2014 (not capitalised owing to the lack of requirements envisaged by Ias 38). (18.67 million Euros in 2013).

Real estate investments (note 8)

These present a net balance of 0.7 million Euros. The breakdown is as follows:

Items	Buildings	Total
Balance as at 31.12.2013	**709**	**708**
Increases	–	–
Change in currency conversion	–1	–1
Balance as at 31.12.2014	**708**	**708**

Amounts in Euro/000

Real estate investments refer to non-industrial property owned by Carraro Spa, Siap Spa and Carraro Argentina Sa.

Equity investments (note 9)

Equity investments in associates

As at 31 December 2014 no equity investments were held in associates.

Financial assets (note 10)

Amounts in Euro/000

	31.12.2014	31.12.2013
Loans to third parties	1,821	2,317
Loans and receivables	**1,821**	**2,317**
Available for sale	96	111
Other financial assets	147	439
Other financial assets	**243**	**550**
Non-current financial assets	**2,064**	**2,867**
From third parties	979	1,952
Loans and receivables	**979**	**1,952**
Fair value of derivatives	3,147	627
Other financial assets	914	1,220
Other financial assets	**4,061**	**1,847**
Current financial assets	**5,040**	**3,799**

Non-current loans and receivables

This item refers to the medium-/long-term portion (1.82 million Euros) of the receivable due from Fon Skb sp. Zo.o. acquired by the subsidiary Fon relative to the sale of the activity during 2011.

Values of these receivables approximate their fair value.

Other non-current financial assets

They include commission paid by Carraro International amounting to 0.12 million Euros for the renegotiation of loans under the Framework Agreement with main lending banks, described in note 16, and 0.1 million Euros for minority interests and guarantee deposits.

Current loans and receivables

This item refers to 0.38 million Euros relative to the outstanding financial receivable due from the company Stm Srl. The short-term portion of the financial receivable due from the company Skb sp. Zo.o. equal to 0.56 million Euros and a financial receivable of Carraro Spa for 0.03 million Euros are also included.

Other current financial assets

This item includes *"cash flow hedge"* derivatives for 3.1 million Euros. The amount refers to the fair value calculated as at 31.12.2014 on current instruments on currencies. As described in detail in the section on derivative financial instruments (Paragraph 9), profits or losses deriving from hedging instruments are recognised in the statement of comprehensive income and accumulated in a specific shareholders' equity reserve for the efficient part, while the remaining (inefficient) portion is recognised in the income statement.

Deferred tax assets and liabilities (note 11)

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

Amounts in Euro/000

Description of differences	Opening 31.12.2013	Reclassif.	Change in consolid. scope	Effect		Diff. exch.	Closing 31.12.2014
				on income statement	on net equity		
Assets							
Depreciation and amortisation	3,270	2,049	–	1,863	13,836	–	21,018
Measurement of receivables	603	–		–127	–	–	476
Measurement of financial assets/liabilities	139	76	–	24	–191	–	48
Discounting of employee severance indemnity	–13	–20	–	–	304	–	271
Allocations to provisions	13,245	1,817	–	633	6	67	15,768
Tax losses	6,038	–	–	4,112	–6,417	5	3,738
Other	2,340	132	–	–340	56	–1	2,187
Personnel bonuses	753	–	–	–735	–	–	18
Total	**26,375**	**–4,054**	–	**5,430**	**7,594**	**72**	**43,524**
Liabilities							
Depreciation and amortisation	–4,677	–2,119	477	613	–	86	–5,620
Measurement of receivables	117	–	–	117	–	–	234
Measurement of financial assets/liabilities	207	–76	–	–	–218	–	– 87
Discounting of employee severance indemnity	–57	19	–	28	18	–	8
Allocations to provisions	1,083	306	–	–534	–	–	855
Other	7	–	–	–505	–	–245	–743
Tax losses	993	–	–	–993	–	–	–
Personnel bonuses	30	–	–	–30	–	–	–
Total	**–2,297**	**–1,870**	**477**	**–1,304**	**–200**	**–159**	**–5,353**
Balance	**24,078**	**2,184**	**477**	**4,126**	**7,394**	**–87**	**38,171**

The carrying amount of net deferred tax assets recognised as at 31 December 2014 was 38.2 million Euros (2013: 24.1 million Euros). Deferred tax assets include the potential benefits associated with retained tax losses, insofar as it is likely that there will be adequate future taxable profits against which these losses can be used in a reasonably short period.

As regards the operation as of section 5, deferred tax assets of 15.8 million Euros were recognised, following the recognition of the capital gain under shareholders' equity, in accordance with Opi 1. The corresponding tax, recognised under shareholders' equity, pursuant to Ias 12, led to the reversal of deferred tax assets for 6.4 million Euros and the recognition of payables from the tax consolidation area for 7.5 million Euros.

Tax losses for which it was decided not to recognise deferred tax assets as at 31 December 2014 amounted to 68.74 million Euros (2013: 97.3 million Euros) with a tax effect of 19.06 million Euros (2013: 26.8 million Euros).

It was also decided to not recognise deferred tax assets with reference to temporarily non-deductible financial expenses for a taxable income of 25.4 million Euros (2013: 11.8 million Euros), with a tax effect of 7.0 million Euros (2013: 3.2 million Euros).

Details are given below.

Tax losses to be carried forward on which no deferred tax assets are recognised

Amounts in Euro/000

Company	Taxable income	Tax effect	Expiry
Siap Spa	3	1	
Carraro Drive Tech Poggiofiorito Spa	7	2	
MiniGears VB	9	4	2022–2032
Carraro Drive Tech Spa	5	2	
Carraro Spa	16	5	
Carraro North America	1	–	2030
Fon	12	2	2015–2016
Carraro Drive Tech do Brasil	1	–	
Elettronica Santerno Spa	10	3	
Santerno Inc.	1	–	2030–2031
Santerno Brazil	1	–	2022–2023
Zao Santerno.	1	–	2017–2018
Santerno Shangai Trading Ltd	1	1	
Total	**68**	**20**	

Reportable interest payables on which no deferred tax assets are recognised

Amounts in Euro/000

Company	Taxable income	Tax effect
Carraro Drive Tech Spa	16	5
Carraro Spa	8	2
Carraro Drive Tech Poggiofiorito Spa	1	–
Total	**25**	**7**

Trade receivables and other receivables (note 12)

Amounts in Euro/000

	31.12.2014	31.12.2013
Non current trade receivables	–	**205**
From third parties	4,120	3,391
Other non-current receivables	**4,120**	**3,391**
Non-current trade receivables and other receivables	**4,120**	**3,596**

	31.12.2014	31.12.2013
From related parties	87	245
From third parties	75,157	93,975
Current trade receivables	**75,244**	**94,220**
From related parties	6,221	1,658
From third parties	32,412	37,354
Other current receivables	**38,633**	**39,012**
Current trade receivables and other receivables	**113,877**	**133,232**

Other non-current receivables (4.1 million Euros) consist mainly of guarantee deposits, portions of costs accruing in subsequent periods and advance payments and tax receivables of the subsidiary Carraro India Pvt Ltd..

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

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

Amounts in Euro/000

	31.12.2014	31.12.2013
VAT credits	9,282	7,233
VAT credits due for rebate	1,663	2,408
Other tax credits	7,807	12,390
Receivables for current taxes	7,667	8,826
Receivables from employees	878	847
Receivables from pensions agencies	495	248
Provisions for impairment of other receivables	–281	–334
Other receivables	4,901	5,736
Other current receivables from third parties	**32,412**	**37,354**

Other current receivables from third parties equal to 32 million Euros (37 million Euros in 2013) decreased, mainly due to the recovery of tax receivables.

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

Amounts in Euro/000

					31.12.2014
	Past due		**Not yet due**		
	Less than 1 year	**More than 1 year**	**Less than 1 year**	**More than 1 year**	**Total**
Trade receivables	12.706	3.398	63.796	–	**79.900**
Other receivables	10	–	38.904	4.120	**43.034**
Total	**12.716**	**3.398**	**102.700**	**4.120**	**122.934**

					31.12.2013
	Past due		**Not yet due**		
	Less than 1 year	**More than 1 year**	**Less than 1 year**	**More than 1 year**	**Total**
Trade receivables	25,981	4,829	67,607	205	**98,622**
Other receivables	116	–	39,230	3,391	**42,737**
Total	**26,097**	**4,829**	**106,837**	**3,596**	**141,359**

The balance of receivables is equal to 123 million Euros. (141 million Euros in 2013). As envisaged in Ifrs 7.37 bands of amounts past due were identified. In 2014, outstanding receivables amounted to 16.1 million Euros, of which 3.4 million Euros (2.8% of total receivables) were past due by more than one year. Similarly, in 2013, out of a total of 30.9 million Euros, 4.8 million Euros (3.4% of total receivables) were past due by more than one year. An analysis was carried out on specific impairment at the reporting date for past due positions, from which a total impairment loss of 4.9 million Euros was identified. (4.5 million Euros in 2013). The analysis was performed on the basis of the effective recoverability prospects of the positions analysed.

Provisions for Depreciations of Receivables

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

Amounts in Euro/000

	31.12.2014	31.12.2013
Trade receivables from related parties	87	245
Provisions for impairment	–	–
Net trade receivables from related parties	**87**	**245**
Current trade receivables from third parties	79,813	98,172
Provisions for impairment	−4,656	−4,197
Net current trade receivables from third parties	**75,157**	**93,975**
Other receivables from related parties	6,221	1,658
Provisions for bad debts of other receivables from subsidiaries	–	–
Net current other receivables from related parties	**6,221**	**1,658**
Other current receivables from third parties	32,693	37,688
Provisions for impairment of other receivablesi	−281	−334
Net current other receivables from third parties	**32,412**	**37,354**

Other receivables due from related parties mainly refer to the tax consolidation receivable due from the parent company Finaid Spa.

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

Amounts in Euro/000

	31.12.2013	Increases	Decreases	Change in consolidation scope	Exchange-rate adjustments	31.12.2014
Provisions for impairment of trade receivables	4,197	1,539	−1,005	−54	−21	4,656
Provisions for impairment of other receivables	334	96	−108	–	−41	281
Total	**4,531**	**1,635**	**−1,113**	**−54**	**−62**	**4,937**

Closing inventory (note 13)

Items	31.12.2014	31.12.2013
Raw materials	108,708	89,165
Work in progress and semi-finished products	30,448	25,076
Finished products	33,772	55,781
Goods in transit	295	445
Total inventories	**173,223**	**170,467**
Provisions for depreciation of inventories	–26,478	–24,618
Total inventories	**146,745**	**145,849**

Amounts in Euro/000

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

Balance as at 31 December 2013	**24,618**
Provisions set aside	5,584
Utilisation	–2,216
Changes in the scope of consolidation	–1,712
Translation differences	204
Balance as at 31 December 2014	**26,478**

Amounts in Euro/000

Changes in the scope of consolidation refer to the sale of the "*light gears*" business unit, to which reference is made in the section "*Changes in the scope of consolidation and other company reorganisation operations*".

Cash and cash equivalents (note 14)

	31.12.2014	31.12.2013
Cash	151	148
Bank current accounts and deposits	62,671	72,564
Other liquid funds or equivalent assets	–	–
Total	**62,822**	**72,712**

Amounts in Euro/000

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

Shareholders' equity (note 15)

	31.12.2014	31.12.2013
1) Share Capital	23,915	23,915
2) Other Reserves	37,252	42,519
3) Profits/(Losses) brought forward	–	–
4) Other Ias/Ifrs reserves	624	–284
5) Provision for discounting employee benefits	– 1,957	–500
6) Foreign currency translation reserve	–13,562	–18,180
7) Result for the period pertaining to the Group	–7,913	1,290
Group shareholders' equity	**38,359**	**48,760**
8) Minority interests	2,848	6,103

Amounts in Euro/000

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

The same Shareholders' Meeting voted to cover the 2013 loss, amounting to 3,213,657 Euros, using the extraordinary reserve.

With effect from 31 December 2009, the share capital of Carraro Spa 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 2014, 2,626,988 shares had been purchased for a total investment of 6.666 million Euros.

Other reserves

The item "Other reserves" of 37.252 million Euros, includes reserves of Carraro Spa relating to profits not distributed or carried forward and others as follows:

- 27.130 million Euros relating to the Carraro Spa share premium reserve;
- 4.761 million Euros relating to the Carraro Spa legal reserve;
- 1.887 million Euros relating to the extraordinary reserve and retained profits of Carraro Spa;
- 44.384 million Euros relating to the first adoption reserve of Ias/Ifrs;
- less 6.666 million Euros for deduction of the reserve corresponding to treasury share purchase;
- less 34,244 million arising from the reduction in the shareholders' equities of consolidated companies with respect to the corresponding carrying amounts of equity investments and consolidation adjustments.

Other Ias/Ifrs reserves

This includes the values arising from application of the criterion prescribed for cash flow hedging of 0.6 million Euros.

Provision for discounting employee benefits

This reserve, which is negative amounting to 1.96 million Euros, includes Employee benefit actuarial gains/losses, as provided for by Ias 19 Revised.

For further details, see section 3.3 «Accounting standards and measurement criteria».

Foreign currency translation reserve

This reserve, which is negative amounting to 13.56 million Euros, is used to record exchange differences arising from translation of the financial statements of foreign subsidiaries.

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

Amounts in Euro/000

	31.12.2013	Changes in the Statement of Comprehensive Income	Changes by area	31.12.2014
Exchange reserve of the parent company's shareholders	–18,180	3,379	1,239	–13,562
Exchange reserve of minority interests	–1,056		1,056	–
Effect of the translation reserve on the statement of comprehensive income	**–19,236**	**3,379**	**2,295**	**–13,562**

Minority interests

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

Financial liabilities *(note 16)*

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

In particular:

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

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

The classification of financial liabilities is shown below:

Amounts in Euro/000

	31.12.2014	31.12.2013
Medium/long-term loans	126,985	180,892
Other non-current financial liabilities	–	–
Non-current financial liabilities	**126,985**	**180,892**
Fair value of non-current interest rate derivatives	54	–
Other non-current financial liabilities	54	–
Non-current financial liabilities	**127,039**	**180,892**
Medium-/long-term loans – short-term portion	55,592	37,611
Loans to others	107,368	–
Short-term loans	–	107,182
Current financial liabilities	**162,960**	**144,793**

	31.12.2014	31.12.2013
Fair value of interest rate derivatives	13	66
Fair value of exchange rate derivatives	743	883
Other current financial liabilities	957	1,105
Other current financial liabilities	**1,713**	**2,054**
Current financial liabilities	**164,673**	**146,847**

Short-term loans include current accounts payable and loans taken out during 2014, with a short-term maturity.

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

Amounts in Euro/000

Company	**Up to one year**		**From 1 to 5 years**		**More than 5 years**		**Total 31.12.2014**
	nominal value	effect of amortised cost and exchange delta	nominal value	effect of amortised cost and exchange delta	nominal value	effect of amortised cost and exchange delta	
Carraro China Drive Systems Co Ltd	1,460	–	3,715	1	–	–	5,176
Carraro India Pvt Ltd	4,431	16	7,920	–14		–	12,353
Carraro Drive Tech do Brasil Inc	2	–1	–	–	–	–	1
Carraro Argentina Sa	18	2	40	–2	–	–	58
Carraro International Sa	39,998	–746	88,705	–1,020	–	–	126,937
Carraro Spa	4,486	– 173	15,112	–444	3,065	–32	22,014
O&K Antriebstechnik GmbH	180	–	381	–	–	–	561
Eletronica Santerno Industria e Comercio Ltda	30	–	–	–	–	–	30
Siap Spa	1,343	–	1,633	–	–	–	2,976
Carraro Drive Tech Poggiofiorito Spa	4,700	–154	8,028	–103	–	–	12,471
Totale	**56,648**	**–1,056**	**125,534**	**–1,582**	**3,065**	**–32**	**182,577**

Loans to others take into account the financial payable to GE Capital Spa equal to 1.5 million Euros, arising from the last payment tranche for the repurchase of the minority interest in Carraro Drive Tech Spa maturing in January 2015.

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

Amounts in Euro/000

Company	Lender	Short-term portion as at 31.12.14	Md/lg-term portion as at 31.12.14	Expiry	Rate	Rate type	Currency
Carraro China Drive System	Bank of Communications	929	2,123	Jul–17	6.77%	Variable	Cny
Carraro China Drive System	Agricultural Bank	531	1,592	Oct–17	6.60%	Variable	Cny
Carraro India	Exim	1,330	2,737	Jun–18	12.50%	Fixed	Inr
Carraro India	Idbi Bank	610	2,037	Jan–20	13.02%	Variable	Inr
Carraro India	Indusind	1,159	1,448	Mar–17	12.65%	Variable	Inr
Carraro India	Axis	391	489	Feb–17	12.67%	Variable	Inr
Carraro India	Mcc	736	736	Jun–16	1.66%	Variable	Euros
Carraro India	Siemes Financial	95	243	Nov–17	13.00%	Variable	Inr
Carraro India	Siemes Financial	65	187	Feb–18	12.97%	Variable	Inr
Carraro India	Siemes Financial	45	43	Oct–16	13.50%	Variable	Inr
Carraro Drivetech do Brasil	Bradesco Financ	2	–	Mar–15	23.71%	Variable	Brl
Carraro Argentina	HSBC	18	40	Oct–17	17.30%	Variable	Ars
Carraro International	BPV Finance	2,667	13,333	Jun–19	4.37%	Variable	Euros
Carraro International	Mps	1,365	4,094	Jun–17	3.81%	Variable	Euros
Carraro International	Mps	1,226	3,446	Mar–17	3.69%	Variable	Euros
Carraro International	Pool of banks	16,542	49,634	May–17	3.68%	Variable	Euros
Carraro International	Pool of banks (revolving)	18,198	18,198	May–16	3.80%	Variable	Euros
Carraro Spa	Mps	1,752	11,544	Dec–20	3.81%	Variable	Euros
Carraro Spa	Banca Popolare di Ravenna	1,699	2,668	Jun–17	3.69%	Variable	Euros
Carraro Spa	Cassa Risparmio di Bolzano	1,035	3,965	Jun–19	4.09%	Variable	Euros
O&K	Unicredit Leasing	98	203	Nov–17	3.72%	Variable	Euros
O&K	Unicredit Leasing	82	178	Dec–17	3.72%	Variable	Euros
Eletronica Santerno Industria e Comercio Ltda	Banca Santander	30	–	Jul–17	15.00%	Variable	Brl
Siap	Friulia	1,030	526	Jun–16	3.00%	Variable	Euros
Siap	Albaleasing	63	211	Jan–19	3.35%	Variable	Euros
Siap	Albaleasing	159	611	Jul–19	3.35%	Variable	Euros
Siap	Credit Agricole Leasing	30	85	Jul–18	3.83%	Variable	Euros
Siap	Credit Agricole Leasing	61	200	Jan–19	3.83%	Variable	Euros
Carraro Drive Tech Poggiofiorito Spa	Banca Pop. Verona	4,700	8,028	Mar–17	3.58%	Variable	Euros
Total		**56,648**	**128,599**				

The net financial position is broken down below.

Amounts in Euro/000

Net financial position	31.12.2014	31.12.2013
Non-current loans payable	126,985	180,892
Current loans payable	162,960	144,793
Other non-current financial liabilities	53	–
Other current financial liabilities	957	1,105
Financial liabilities:	**290,956**	**326,790**
Non-current loans and receivables	–1,821	–2,317
Current loans and receivables	–979	–1,952
Other non-current financial assets	–147	–439
Other current financial assets	–914	–1,220
Financial assets:	**–3,861**	**–5,928**
Cash	–151	–148
Bank current accounts and deposits and other cash and cash equivalents	–62,671	–72,564
Cash and cash equivalents	**–62,822**	**–72,712**
Net financial position	**224,273**	**248,150**
of which payables / (receivables)		
non-current	125,071	178,136
current	99,202	70,014

The Group has available short-term banking credit facilities for a total of 163 million Euros. These credit facilities are callable and may be used for various current-account purposes and short-term financing of a maximum term of 12 months, with the total balance equal to 105.9 million Euros.

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

› Europe: 3.7 %
› India: 13.2 %
› China: 7.2 %

The medium- and long-term banking credit facilities amounted to a total of 209.2 million Euros, against a utilisation of 184.1 million Euros.

Fair Value

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

Trade payables and other payables *(note 17)*

Amounts in Euro/000

	31.12.2014	31.12.2013
From third parties	1,361	1,814
Other non-current payables	**1,361**	**1,814**
Trade payables and other non-current payables	**1,361**	**1,814**
From related parties	3	2,297
From third parties	232,783	210,000
Current trade payables	**232,786**	**212,297**
From related parties	7,488	–
From third parties	31,523	35,445
Other current payables	**39,011**	**35,445**
Trade payables and other current payables	**271,797**	**247,742**

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

Amounts in Euro/000

	31.12.2014	31.12.2013
VAT payables	401	172
Other tax payables	57	30
Amounts due to pensions agencies	5,232	5,604
Amounts due to employees	15,964	15,407
Irpef (personal income tax) employees & professionals	4,620	4,112
Board of Directors	2,467	2,174
Other payables	2,782	4,293
Other current payables	**31,523**	**31,792**

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

Amounts in Euro/000

					31.12.2014
	Past due		Not yet due		
	Less than 1 year	More than 1 year	Less than 1 year	More than 1 year	Total
Trade payables	84,495	450	147,841	–	**232,786**
Other payables	–	–	39,011	1,361	**40,372**
Total	**84,495**	**450**	**186,852**	**1,361**	**273,158**

Amounts in Euro/000

					31.12.2013
	Past due		Not yet due		
	Less than 1 year	More than 1 year	Less than 1 year	More than 1 year	Total
Trade payables	44,474	769	167,054	–	**212,297**
Other payables	–	156	35,289	1,814	**37,259**
Total	**44,474**	**925**	**202,343**	**1,814**	**249,556**

Current taxes payables (note 18)

Amounts in Euro/000

	31.12.2014	31.12.2013
Current taxes payable	5,178	5,977
Current taxes payables	**5,178**	**5,977**

Employee severance indemnities and retirement benefits (note 19)

Provision for severance indemnity and retirement benefits

Amounts in Euro/000

	31.12.2014	31.12.2013
Opening severance indemnities in accordance with Ias 19	**13,591**	**13,966**
Utilisation of employee severance indemnities	– 783	– 763
Employee severance indemnities transferred to other companies	–238	–1,050
Employee severance indemnities transferred from other companies	238	1,051
Current Service Cost	–	–
Interest Cost	312	410
Actuarial Gains/Losses	1,187	–23
Change in consolidation scope	–2,066	–
Closing severance indemnities in accordance with Ias 19	**12,240**	**13,591**

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

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

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 31.12.2014 calculated in the case of changes in actuarial assumptions reasonably possible at that date with the following variables:

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

Amounts in Euro/000

		Turnover frequency		Inflation rate		Discount rate
	+1 %	–1 %	+0.25 %	–0.25 %	+0.25 %	–0.25 %
Provisions for employee benefits 31.12.2014	12,178	12,309	12,396	12,086	11,995	12,493

Pension/retirement funds

Pension funds and similar for 7.1 million Euros (5.76 million Euros as at 31.12.2013) mainly refer to liabilities recognised in the financial statements of the company O&K Antriebstechnik; the actuarial recalculation, except for the structural differences of the relevant plans, follows the same criterion described for the aforementioned Italian termination benefit provisions. The accounting treatment of employee benefits recorded in the financial statements complies with Ias 19 Revised for defined-benefit plans.

Amounts in Euro/000

	Opening 31.12.2013	Increases	Decreases	Change in currency	Other changes	Closing 31.12.2014
Fondi pensione e simili	**5,758**	1,748	–264	–29	109	**7,147**

Sensitivity analysis Ias 19 revised

The table below indicates the values of the O&K Pension Fund as at 31.12.2014 calculated based on changes in actuarial assumptions reasonably possible at that date:

Amounts in Euro/000

	Discount rate +0.4 %
Pension fund 31.12.2014	6,263

Number of employees

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

Employees	31.12.2013	Changes	31.12.2014
Executives	50	–7	43
Clerical staff	1,035	–106	929
Factory workers	2,964	–492	2,472
Temporary workers	314	–4	310
Total as at 31.12	**4,363**	**–609**	**3,754**

Provisions for risks and liabilities *(note 20)*

The item can be broken down as follows:

Amounts in Euro/000

	Opening situation	Increases	Decreases	Reclassif.	Change in the scope of consolidation	Exchange-rate adjustments	Closing situation
Non-current portion							
1) Warranty	1,778	–	–399	330		–	1,709
2) Costs of legal claims	322	43	– 214	–		–	151
3) Renovation and conv.	–	–	–	–		–	–
4) Other provisions	2,977	1,564	–2,659	491		–364	2,009
Total	**5,077**	**1,607**	**–3,272**	**821**		**–364**	**3,869**
Current portion							
1) Warranty	8,930	7,963	–5,197	–384	–331	163	11,145
2) Costs of legal claims	1,389	220	–192	–		–52	1,364
3) Renovation and conv.	2,316	1,656	–1,454	95		1	2,613
4) Other provisions	3,397	1,188	–3,855	–41	–42	4	652
Total	**16,032**	**11,027**	**–10,698**	**–330**	**–373**	**116**	**15,774**

For changes in the scope of consolidation, reference is made to section 2.2.

Warranty reserve

From the product warranty reserve, 5.6 million Euros was used for customer claims accepted and the reserve was increased by 8 million Euros on the basis of the expected warranty costs which will be incurred in relation to sales made.

Provision for costs of legal claims

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

Carraro Drive Tech Spa was subject to a tax audit, from 22 January 2014 onwards, by Customs and Excise Officers - Venice Tax Police Unit - for the 2012 tax year (closed) and 2013 tax year (up to the access data) concerning corporate income tax (Ires), regional production tax (Irap), Vat and other taxes. From the Formal Notice of Assessment (Pvc), signed on 24 June 2014, no significant liabilities were identified.

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

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

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

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

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

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

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

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

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

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

Provision for restructuring and reconversion

On 29 October, the Board of Directors approved a reorganisation process, proposed by management, aimed at reducing overheads by 15% and envisaging the exit from the Group of approximately 50 executives and office workers, and some 100 manual workers, mainly at foreign sites. These personnel changes were partly implemented in the last months of 2014.

The detailed movements of provisions for restructuring are shown below:

Amounts in Euro/000

	Provisions 31.12.13	Reclassif.	Increases 2014	Decreases 2014	Exchange-rate adjustments	Provisions 31.12.14
Carraro Spa	600	–	400	–54	–	946
Carraro Drive Tech	1,000	–	800	–1,000	–	800
Carraro Drive Tech Poggiofiorito Spa	250	–	–	–16	–	234
Siap Spa	251	–	300	–192	–	359
Elettronica Santerno Spa	91	–	150	–91	–	150
O&K Antriebstechnik GmbH	124	–	–	–7	–	117
Santerno Shangai Trading Co	–	–	6	–	1	7
Total	**2,316**	**94**	**1,656**	**–1,454**	**1**	**2,613**

Other provisions

The item “Other provisions” includes amounts recognised for individual companies for future expenses and liabilities. At the end of the year, the Mbo (Management By Objectives) provision had not been allocated, as decided by the Board of Directors on 29 October 2014.

7. Commitments and risks

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

8. Transactions with related parties (note 21)

The Carraro Group is controlled directly by Finaid Spa, which as at 31.12.2014 held 64.9736% of the shares outstanding.

Carraro Spa and all Italian subsidiaries are included in the tax consolidation area of the parent company Finaid Spa. The charges/income deriving from the transfer of the Ires taxable base are booked under current taxes. According to the regulations of the Tax Consolidation Agreement, companies of the Carraro Group have the right to “relief” for use of the tax losses of companies controlled by Finaid, other than those belonging to the Carraro Group. This “relief” amounts to 3% of the tax losses of the other companies of the Finaid Consolidation area possibly offset with the taxable amounts of Carraro Group companies.

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

The transactions between Carraro Spa and its subsidiaries which are affiliated entities of Carraro Spa, were eliminated in the consolidated financial statements and are not pointed out in these notes. Significant transactions include the purchase of the R&D business unit, to which reference is made in section 4.

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

Amounts in Euro/000

	Financial and equity transactions		Economic transactions						
	Trade receivables and other receivables	Trade payables and other payables	Sales of services	Other revenues	Purchases of goods and materials	Purchases of services	Use of third-party goods and services	Taxes from tax consolidation	Purchases of assets
Other related parties									
Finaid Spa	6,228	7,487	7	–	–	–	–	–2,884	–
Suam Spa	29	4	98		4	4	–	–	12
Total	**6,257**	**7,491**	**105**	–	**4**	**4**	–	**–2,884**	**12**

9. Financial instruments

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

Amounts in Euro/000

31.12.2014	Financ. income	Financ. expenses	Positive exchange diff.	Negative exchange diff.	Suspension costs revenues
A) FINANCIAL ASSETS					
A.1) Cash and cash equivalents:					
Bank accounts, positive balance	47	–	–	–	–
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	166	–	–	–	–
A.2.3.2) Other assets:					
Trade receivables	–	–	8,912	–3,776	–
Other financial assets	3,692	–	2,238	–	–
A.2.4) Financial instruments available for sale (Avs):					
A.3) Derivative Financial Instruments:					
A.3.1) Hedging derivatives:					
A.3.1.2) Cash Flow Hedging Derivatives on currencies:					
Fair value through profit or loss	–	–	1,682	–	–
Profit realised	–	–	4,508	–	–
A.3.1.2) Cash Flow Hedging Derivatives on interest rates:					
Fair value in shareholders' equity	–	–	–	–	934
Profit realised	–				
A.3.2) Speculative derivatives (Trading):	–	–	–	–	–
B) FINANCIAL LIABILITIES					
B.1) Non-derivative Financial Instruments:					
B.1.1) Financial Instruments at fair value:					
B.1.2) Other Financial Instruments:					
Bank accounts, negative balance	–	–4,206	–	–	–
Trade payables	–		2,193	–6,633	–
Loans payable	–	–12,860	–	–	–
Other financial liabilities	–	–1,415	–	–2,351	–
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	–	–	–	–353	–
Fair value in shareholders' equity	–	–	–	–	54
Loss realised	–	–	–	–9,326	–
B.2.1.2) Cash Flow Hedging Derivatives on interest rates:					
Loss realised	–	–71	–	–	–
B.2.2) Speculative derivatives (Trading):	–	–	–	–	–
Totale	**3,906**	**–18,552**	**19,533**	**–22,439**	**880**

31.12.2013	Financ. income	Financ. expenses	Positive exchange diff.	Negative exchange diff.	Suspension costs revenues
A) FINANCIAL ASSETS					
A.1) Cash and cash equivalents:					
Bank accounts, positive balance	113	–	–	–	–
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	71	–	–	–	–
A.2.3.2) Other assets:					
Trade receivables	–	–	7,987	–4,079	–
Other financial assets	2,466	–	5,979	–	–
A.2.4) Financial instruments available for sale (Avs):					
A.3) Derivative Financial Instruments:					
A.3.1) Hedging derivatives:					
A.3.1.2) Cash Flow Hedging Derivatives on currencies:					
Fair value through profit or loss	–	–	295	–	–
Profit realised	–	–	4,124	–	–
A.3.1.2) Cash Flow Hedging Derivatives on interest rates:					
Fair value in shareholders' equity	–	–	–	–	47
Profit realised	–1				
A.3.2) Speculative derivatives (Trading):	–	–	–	–	–
B) FINANCIAL LIABILITIES					
B.1) Non-derivative Financial Instruments:					
B.1.1) Financial Instruments at fair value:					
B.1.2) Other Financial Instruments:					
Bank accounts, negative balance	–	–6,430	–	–	–
Trade payables	–		1,866	–8,044	–
Loans payable	–	–11,972	–	–	–
Other financial liabilities	–	–1,170	–	–6,311	–
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	–	–	–	–372	–
Fair value in shareholders' equity	–	–	–	–	250
Loss realised	–	–	–	–2,873	–
B.2.1.2) Cash Flow Hedging Derivatives on interest rates:					
Loss realised	–	–123	–	–	–
B.2.2) Speculative derivatives (Trading):	–	–	–	–	–
Total	**2,649**	**–19,695**	**20,251**	**–21,679**	**297**

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

9.2 Derivative financial instruments on currencies

The following tables indicate all the key information relating to the portfolio of derivative financial instruments on currencies outstanding as at 31.12.2014. These are instruments designated to cover:

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

A. Notional values

Amounts in Euro/000

Contract	Swap (DCS) [1]	Swap (DCS) [2]	Total notional values
Carraro Spa	–	6,260	6,260
Carraro Drive Tech	–36,311	7,801	–28,510
Carraro Argentina	–	–2,389	–2,389
Carraro India	16,300	–1,293	15,007
Carraro International	–	315	315
Elettronica Santerno	2,781	980	3,761
Siap	–	2,355	2,355
Carraro China	5,012	–	5,012
Group total 31.12.2014	**–12,218**	**14,029**	**1,811**
Group total 31.12.2013	**69,603**	**12,549**	**82,152**

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

B. Reference currencies and expiry dates of contracts

Contract	Swap (DCS) [1]		Swap (DCS) [2]	
	Currencies	Expiry dates	Currencies	Expiry dates
Carraro Spa	–	–	Usd/Eur	Feb 15
Carraro Drive Tech	Usd/Eur Cny/Eur Inr/Eur	Mar 15 – Feb 16	Usd/Eur	Feb 15
Carraro Argentina	–	–	Ars/Usd	Feb 15
Carraro India	Inr/Eur	Jan – May 15	Inr/Eur	Mag 15
Carraro International	–	–	Usd/Eur	Gen 15
Elettronica Santerno	Zar/Eur	Feb – Dec 15	Usd/Eur	Gen 14 – Mar 15
Siap	–	–	Usd/Eur	Gen 15
Carraro China	Cny/Eur Cny/Usd	Jan – Jun 15 Jan – Jun 15	–	–

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

C. Fair value

Amounts in Euro/000

Contratto	Swap (DCS) [1]	Swap (DCS) [2]	Total
Carraro Spa	–	–167	–167
Carraro Drive Tech	404	–200	204
Carraro Argentina	–	–21	–21
Carraro India	2,410	–26	2,384
Carraro International	–	–7	–7
Elettronica Santerno	–56	–148	–204
Siap	–	–117	–117
Carraro China	332	–	332
Group total 31.12.2014	**3,090**	**–686**	**2,404**
Group total 31.12.2013	**–568**	**312**	**–255**

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

D. Details of *fair values*

Amounts in Euro/000

	31.12.2014		31.12.2013	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Cash Flow Hedge Exchange rate risk	3,147	–742	627	–883

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

Amounts in Euro/000

	FV recognised in the income statement	FV recognised in net equity	Total
Carraro Spa	–167	–	–167
Carraro Drive Tech	–200	404	204
Carraro Argentina	–21	–	–21
Carraro India	2,078	306	2,384
Carraro International	–7	–	–7
Elettronica Santerno	–163	–41	–204
Siap	–117	–	–117
Carraro China	108	224	332
Totale Gruppo 31.12.2014	**1,511**	**893**	**2,404**
Totale Gruppo 31.12.2013	**126**	**–381**	**–255**

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

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

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

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

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

9.3 Derivative financial instruments on interest rates

A. Notional values and *fair values*

The table shows the details of the notional and *fair values* and other information regarding the various types of derivative contracts on interest rates in existence as at 31.12.2014; on this date the ongoing contracts involved exclusively Carraro International Sa.

Amounts in Euro/000

Contract	Currency	Expiry	Notional 31.12.2014	Notional 31.12.2013	Fair Value 31.12.2014	Fair Value 31.12.2013
Interest Rate Swap	Eur	30.06.2015	3,000	7,500	–13	– 66
Total derivates from Cash Flow Hedge			**3,000**	**7,500**	**–13**	**–66**

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.

For determination of the fair value of Interest Rate Swaps the discounted cash flow method was applied.

Below is a summary table of the assets and liabilities measured at fair value as at 31 December 2014, as required by Ifrs 13, described in section 3.2:

Amounts in Euro/000

	Level 2 31.12.2014	Level 2 31.12.2013
Assets		
Foreign exchange derivative assets	3,147	627
Total assets	**3,147**	**627**
Liabilities		
Foreign exchange derivative liabilities	742	883
Interest rate derivative liabilities	13	66
Total liabilities	**755**	**949**

Sensitivity analysis

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

› main foreign currencies with respect to the Euros: +/- 10%
› interest rates: +100/–15 «basis points» (nel 2013 +100/–50 «basis points»)

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

The following methods were used:

› for Interest Rate Swaps the discounted cash flow method was applied;
› Domestic Currency Swap contracts were calculated using the forward exchange rate method;

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

Amounts in Euro/000

Balances as at 31.12.2014	Interest rate risk				Exchange rate risk			
	+1%		–0.15%		+10%		–10%	
	Financial effect	Effect on equity	Financial effect	Effect on equity	Financial effect	Effect on equity	Financial effect	Effect on equity
Assets								
Trade receivables					–381		879	
Other fin. ass. - derivatives on currencies					7,683	–10,370	–10,304	13,597
Other fin. ass. - derivatives on interest rates		–		–				
Loans					–		–	
Cash and cash equivalents					1,094		–1,057	
Total gross effect	–	–	–	–	**8,396**	**–10,370**	**–10,482**	**13,597**
Taxes (27.50%)	–	–	–	–	–2,309	2,852	2,883	–3,739
Total net effect	–	–	–	–	**6,087**	**–7,518**	**–7,599**	**9,858**
Liabilities								
Trade payables					1,558		–1,470	
Loans	2,163		–324		–1,365		1,344	
Total gross effect	**2,163**	–	**–324**	–	**193**	–	**–126**	–
Taxes (27.50%)	–595	–	89	–	–53	–	35	–
Total net effect	**1,568**	–	**–235**	–	**140**	–	**–91**	–
Total	**1,568**	–	**–235**	–	**6,227**	**–7,518**	**–7,690**	**9,858**

Balances as at 31.12.2013	Interest rate risk				Exchange rate risk			
		+1%		−0.5%		+10%		−10%
	Financial effect	Effect on equity	Financial effect	Effect on equity	Financial effect	Effect on equity	Financial effect	Effect on equity
Assets								
Trade receivables					1,183		−816	
Other fin. ass. - derivatives on currencies					594	−5,642	−78	5,642
Other fin. ass. - derivatives on interest rates		−19		11				
Loans					−303		371	
Cash and cash equivalents					1,156		−1,094	
Total gross effect	**–**	**−19**	**–**	**11**	**2,630**	**−5,642**	**−1,617**	**5,642**
Taxes (27.50%)	–	5	–	−3	−723	1,552	445	−1,552
Total net effect	**–**	**−14**	**–**	**8**	**1,907**	**−4,090**	**−1,172**	**4,090**
Liabilities								
Trade payables					2,213		−2,120	
Loans	2,256		−1,128		−4,500		4,455	
Total gross effect	**2,256**	**–**	**−1,128**	**–**	**−2,287**	**–**	**2,335**	**–**
Taxes (27.50%)	−620	–	310	–	629	–	−642	–
Total net effect	**1,636**	**–**	**−818**	**–**	**−1,658**	**–**	**1,693**	**–**
Total	**1,636**	**−14**	**−818**	**8**	**249**	**−4,090**	**521**	**4,090**

Amounts in Euro/000

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

10. Events subsequent to the reporting date

As part of the company streamlining process, on 15 January 2015, Carraro Drive Tech Poggiofiorito Spa was merged with Carraro Drive Tech Spa, with accounting and tax effects as from 1 January 2015.

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

The Carraro Group financial statements will be audited, up to the year ending 31 December 2015, by *PricewaterhouseCoopers Spa*. The fees accruing to the financial year, for auditing and other services, paid to *PricewaterhouseCoopers Spa* are summarised below.

Amounts in Euro/000

	2014	2013
Accounting audit		
Carraro Spa	294	252
Subsidiary companies	590	577
Total independent auditing services	**884**	**829**
Other services		
Carraro Spa	5	5
Subsidiary companies	276	163
Total other services	**281**	**168**
Total fees	**1,165**	**997**

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

Name and surname	Subsidiary company: Carraro Spa	No. of shares held as at 31/12/2013	Number of shares purchased	Number of shares sold	No. of shares held as at 31/12/2014
Carraro Mario	Directly held	1,903,250	–	–	1,903,250
	Through Finaid Spa	26,775,564	–	–	26,775,564
Carraro Francesco [1]	Directly held	1,000,000	–	–	1,000,000
Alessandri Chiara	Directly held	202,395	–	–	202,395
Bossard Alexander Josef	Directly held	10,000	–	–	10,000
Cortellazzo Antonio	Directly held	37,500	–	–	37,500

[1] Pending the succession of Francesco Carraro

ENRICO CARRARO
The Chairman

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

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

› the adequacy in relation to the characteristics of the enterprise;
› the effective application of the administrative and accounting procedures used to prepare the consolidated financial statements for 2014;

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

3. We can also certify that:

3.1 The consolidated financial statements:

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

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

Date: 10 February 2015

ALBERTO NEGRI
Chief Executive Officer

ENRICO GOMIERO
Financial Reporting Officer

Report of the Board of Statutory Auditors to the shareholders' meeting pursuant to art. 153 of legislative decree 58/98 and art. 2429, paragraph 3 of the italian civil code

Dear Shareholders,

During the fiscal year that closed on 31 December 2014, we carried out monitoring activities as required by law in accordance with the principles of conduct of the Board of Statutory Auditors recommended by the National Associations of Auditors and Accountants (Consigli Nazionali dei Dottori Commercialisti e degli Esperti Contabili).

In particular, also in accordance with instructions provided by Consob and in our capacity as the Internal Control and Auditing Committee pursuant to Article 19 of Legislative Decree 39/2010, we report as follows:

- we monitored compliance with law and the Articles of Association without needing to make any observations or findings;
- on at least a quarterly basis, we received information from the Directors about business conducted and about transactions having a significant effect on the Company's financial position and performance and on its subsidiaries. We can reasonably assure you that actions adopted and undertaken are in conformity with law and with the Articles of Association, were not manifestly imprudent, risky, or in conflict with resolutions adopted by the Meeting of the Shareholders, and did not compromise the integrity of the Company's assets. In particular, transactions having a significant effect on the Company's financial position and performance, also at a Group level, have been documented in detail by the Directors in their Report on Operations, to which we make reference;
- during 2014, the Company did not carry out any atypical or unusual transactions;
- in accordance with Articles 2391 and 2391 bis of the Italian Civil Code, the Company's transactions were undertaken pursuant to resolutions of the Board of Directors in compliance with laws in force, the Company's Code of Conduct for Listed Companies, and the internal procedures for evaluating and approving transactions with related parties, which the Company, in disclosure to the public, has declared it adopts;

- with regard to transactions entered into with Group companies or with related parties, we noted:
  - the existence of intra-Group transactions concerning ordinary financial relationships with subsidiaries and associated companies, with the parent company, and with other related parties. Such relationships have been described in detail in the attached notes to the Financial Statements and Consolidated Financial Statements. In particular, we point out:
    - that such transactions of an ordinary nature primarily concern transactions of a financial or commercial nature, the provision of services and advisory services;
    - that financial data of the parent company are primarily derived from the Company

being assessed on a consolidated basis for tax purposes through the parent company;

- ~ the existence of a non-recurring and significant intercompany transaction concerning which all the necessary information has been provided in the explanatory notes to the financial statements and consolidated financial statements. Such transactions with subsidiaries and associated companies, with the parent company, and with other related parties are considered as being made against suitable payments and conforming to the interests of the Company;
- ~ we did not note the existence of atypical and/or unusual transactions entered into with related parties and/or capable of having a significant impact on the Company's financial position and performance;
- ~ information provided by the Directors in Report on Operations and in the notes to the Financial Statements on intra-Group transactions and/or transactions with related parties and atypical or unusual transactions, is considered to be adequate.

› Reports on the Financial Statements and Consolidated Financial Statements issued by the independent auditors did not contain any findings or requests for further information. During 2014:

- ~ we held periodic meetings with the independent auditors, during which they presented their periodic reports on key issues arising in connection with their audit pursuant to Article 19 of Legislative Decree 39/2010. Such reports did not, however, reveal any pertinent data or information that would need to be highlighted in this report;
- ~ pursuant to Article 17 of Legislative Decree 39/2010, the independent auditors also confirmed their independence and that they had also been engaged within the Carraro Group to perform other non-audit services for a total fee of 281 thousand Euros, of which 5 thousand Euros for services to Carraro Spa. No other standing assignments were awarded to the independent auditors. In any event, for our part we constantly monitored the independence of the independent auditors without needing to make any findings.

› During the year, no complaints were received pursuant to Article 2408 of the Italian Civil Code, nor were any petitions received from shareholders and/or third parties.

› We have verified and ascertained that the Articles of Association conform to and are adequate for legal requirements.

› The Board of Statutory Auditors has not issued and formulated, in the course of 2014, opinions required by Law, while it has issued advisory opinions required by the Code of Conduct and by policies and procedures adopted by the Company.

› During the year, fifteen meetings of the Board of Statutory Auditors were held. The Board of Statutory Auditors also participated;

- its collegial composition, in eleven meetings of the Board of Directors pursuant to Article 149, paragraph 2 of Legislative Decree 58/98;

- in its collegial composition, in ten meetings of the Control and Risk Committee and the Board of Statutory Auditors;
- six meetings of the Appointments, Human Resources and Remuneration Committee, in general, with only the Chairman and/or a standing auditor attending.

› The Board, in its position as Internal Control and Auditing Committee pursuant to Legislative Decree 39/2010, in addition to sharing control objectives and procedures with the Independent Directors that comprise the Internal Control and Risk Committee, set up in accordance with the Code of Conduct, exercised specific oversight of internal audit procedures, verifications, financial disclosure and risk mapping. In particular, meetings were held with Company management to review methods for analysing and evaluating risks, principally of a financial nature, also in relation to the transition to a new computer management system, and measures put in place by management aimed at reducing both the likelihood of such risks occurring and their impact on Company operations.

› We became familiar with and monitored, within our area of responsibility, compliance with the principles of proper management, the adequacy of the Company's organisational structure, and of regulations issued by the Company for subsidiaries pursuant to Article 114, paragraph 2 of Legislative Decree 58/98, by collecting information from relative responsible parties and meeting with the independent auditors appointed to audit the accounts.

› We were in constant contact with the respective control bodies of subsidiaries established under Italian law, in part through one member of this Board being involved in the control bodies, and in part from information obtained from members of the Board of Statutory Auditors of these subsidiaries; the purpose of this was the reciprocal exchange of data and relevant information.

› We evaluated and monitored the sufficiency of the internal control and accounting systems, as well as the reliability of the accounting system for correctly presenting the actions of management, by obtaining information from responsible parties in the various departments, examining company documents, and analysing the results of work carried out by the independent auditors, with the objective of monitoring the work of those in charge of internal control. In particular:
- we monitored the constant updating and sufficiency of internal procedures concerning the main Company cycles, as well as the verification activities put in place by internal control;
- we monitored the adoption of administrative procedures designed to provide necessary information about operations and the financial position and performance of companies established and regulated by the laws of non-EU member states that have significant relevance, within the meaning of the combined provisions of Articles 36 and 39 of the so-called "Markets Regulations".

› The Board agrees with the contents of the Report on Corporate Governance attached to the Financial Statements, where an analytical description is given of the specific implementation of corporate governance rules required by the Code of Conduct, which the Company, in disclosure to the public, has declared it adopts.

As required by Article 149, paragraph one, letter c-bis, of Legislative Decree 58/98 and by Code of Conduct, we monitored:

- the methods of implementing the rules of corporate governance required by the aforementioned code without needing to make any qualifications;
- the correct application of the criteria and the verification procedures adopted by the Board of Directors to evaluate the independence of its members, as well as other public tender procedures.

Ai sensi e per gli effetti di quanto previsto al punto 8.C.1. del Codice di Autodisciplina, Pursuant to and in accordance with the requirements of Section 8 paragraph 1 of the Corporate Governance Code, we acknowledge that in verifying the existence of requisites for the independence of members of the Board of Statutory Auditors, the same criteria were adopted as required by the Code of Conduct for directors and that verification was carried out with reference to each member in accordance with procedures designed to ensure impartial and truthful evaluation.

With reference to point 3.C.1. letter e) of the Code of Conduct, it should be noted that in May 2014 the Chairman of the Board of Statutory Auditors reached his ninth year in office as statutory auditor of the company. The Board of Statutory Auditors evaluated this condition as not constituting an impediment to maintenance of the requisite of independence, given his professional characteristics that ensure autonomy of judgement, and in any case until completion of the current term of office.

As a result of such evaluation, the Board therefore certifies that each of its members possesses the aforementioned requisites of independence.

› In 2014, in conformity with the requirements of Legislative Decree 231/2001, as amended, as well as with its compliance programme and relative code of ethics, the Company continued to pursue activities intended to ensure the functioning of an effective system that is capable of preventing any liability concerning unlawful acts punishable under Legislative Decree 231/2001, as amended.

› During the year, we constantly carried out monitoring activities as required by Article 149 of Legislative Decree 58/98, and we can conclusively confirm that in carrying out our activities, we did not ascertain any irregularities, omissions, or punishable acts and therefore do not have any proposals to make to the Shareholders' Meeting pursuant to Article 153, paragraph 2 of Legislative Decree 58/98.

The Financial Statements as at 31 December 2014 of Carraro Spa and the Consolidated Financial Statements as at the same date, were prepared in accordance with the international accounting standards Ias/Ifrs issued by the International Accounting Standards Board (Iasb), in conformity with the provisions of Legislative Decree of 28 February 2005, no. 38, enacted pursuant to Regulation (Ec) No 1606/2002 of the European Parliament and of the Council of 19 July 2002.

The Board of Statutory Auditors has examined the criteria adopted in preparation of the above-mentioned Financial Statements, with particular reference to the content and structure, the basis of consolidation and uniformity of application of accounting standards, the existence of adequate disclosure on corporate performance and on evaluations carried out for impairment testing and on the business as a going concern.

Since analytical control of the content of the Financial Statements is not our responsibility, we have monitored the general structure of the Financial Statements and Consolidated Financial Statements, their compliance with the law with regard to their formation and structure and in this regard we have no particular observations to make.

To the best of our knowledge, the Directors, in preparing the Financial Statements, did not depart from the rules of law pursuant to Article 2423, paragraph four of the Italian Civil Code.

We have verified that the Financial Statements and the Directors' Report on Operations are consistent with the facts and information of which we are aware as a result of the execution of our duties and we have no observations in this regard.

The statutory Financial Statements and Consolidated Financial Statements of Carraro Spa are accompanied by the required report of the independent auditors, to which we refer.

In light of the foregoing, the Board gives its favourable opinion for approval of the Financial Statements for the fiscal year closed on 31 December 2014 as submitted by the Board of Directors, and is in agreement with the Board concerning the coverage of operating losses.

Campodarsego, 2 March 2015

THE BOARD OF STATUTORY AUDITORS

ROBERTO SACCOMANI

SAVERIO BOZZOLAN

MARINA MANNA

Auditors' Report in accordance with articles 14 and 16 of Legislative Decree no. 39 of 27 January 2010

pwc

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE N° 39 OF 27 JANUARY 2010

To the Shareholders of
Carraro SpA

1 We have audited the consolidated financial statements of Carraro SpA and its subsidiaries ("Carraro Group") as of 31 December 2014, which comprise the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows and the related explanatory and supplementary notes. The Directors of the Company are responsible for the preparation of these consolidated financial statements in compliance with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38/2005. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by Consob, the Italian Commission for listed Companies and the Stock Exchange. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes, reference is made to our report dated 27 March 2014.

3 In our opinion, the consolidated financial statements of the Carraro Group as of 31 December 2014 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38/2005; accordingly, they have been prepared clearly and give a true and fair view of the consolidated financial position, the consolidated result of operations and the consolidated cash flows of the Company for the year then ended.

4 The Directors of the Company are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure published in section "Investor Relations/Corporate Governance" of the website of Carraro SpA, in compliance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the information referred to in paragraph 1,

letters c), d), f), l), m), and paragraph 2, letter b), of article 123-bis of Legislative Decree n° 58/1998 presented in the report on corporate governance and ownership structure, with the consolidated financial statements, as required by law.
For this purpose, we have performed the procedures required under Italian Auditing Standard n° 001 issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili) and recommended by the Consob. In our opinion, the report on operations and the information referred to in paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), of article 123-bis of Legislative Decree n° 58/1998, presented in the report on corporate governance and ownership structure, are consistent with the consolidated financial statements of Carraro Group as of 31 December 2014.

Padua, 27 February 2015

PricewaterhouseCoopers SpA

Signed by

Massimo Dal Lago
(Partner)

This report has been translated into the English language from the original, which was issued in Italian, solely for the convenience of international readers.

Ordinary Shareholders’ Meeting of Carraro Spa of 23 Marzo 2015

Chairman: Enrico Carraro

Shareholders present: 3 shareholders in person or by proxy representing 62.409% of total share capital amounting to 45.989.800 ordinary shares with voting rights.

The Ordinary Shareholders’ Meeting:

› approved the Financial Statements at 31/12/2014 and the Report of the Board of Directors on the operations of 2014 and to carry forward the loss for the year of 6,479,472.27 Euros;

› approved the first section of the Report on the Remuneration of Directors and Key Managers;

› approved the appointment of the new Board of Directors in place of the outgoing board due to expiry of term of office:
- the Board of Directors will consist of 7 members and will remain in office for three years until approval of the Financial Statements for 2017.
- The following members of the Board of Directors were appointed
  Enrico Carraro, Chairman
  Tomaso Carraro
  Alberto Negri
  Fabio Buttignon
  Marina Manna
  Marina Pittini
  Alexander Josef Bossard

› confirmed annual fees for 2014, established as 50,000 Euros for each Director and determined a total annual amount of 2.150.000 Euros, in effect until the date of approval of the 2015 Financial Statements by the Shareholders’ Meeting, for fees to assign to members of the Board of Directors with particular positions, including the Chairman, Deputy Chairman, Chief Executive Officer and members of committees, giving the Board of Directors the power to distribute the amount among its members;

› approved the appointment of the new Board of Statutory Auditors in place of the outgoing board due to expiry of term of office.
  - The Board of Statutory Auditors will consist of three members plus two alternates and will remain in office for three years until approval of the Financial Statements for 2017.
  - The following were appointed members of the Board of Statutory Auditors
    Saverio Bozzolan, Standing Auditor, Chairman
    Stefania Centorbi, Standing Auditor,
    Andrea Cortellazzo, Standing Auditor,
    Barbara Cantoni, Alternate Auditor
    Gianmarco Milanato, Alternate Auditor
  - the Remuneration of Standing Auditors for 2015 establishing the same as Euro 55,000 for the Chairman and Euro 35,000 for the other Standing Auditors;

› approved a programme for the purchase and sale of treasury shares equal to no more than 10% the share capital, for a duration of 18 months, which provides for:
  - a purchase price for each ordinary share, not below a minimum of 30% and a maximum of 20% compared to the reference price of the share on the Stock Exchange the day prior to each individual transaction.
  - a price for the sale of each common share not less than, at the minimum, 20% below and, at the maximum, not more than 20% above the reference price of the share on the stock market on the day preceding each individual transaction.

DESIGN
Bunker
{bnkr.it}

TYPESET IN
Amplitude
{Schwartz, 2003}
Miller
{Carter, 2002}

carraro.com