



# Carraro Group

## Interim Financial Report as at 30 June 2012

**DISCLAIMER**

*This document contains forward-looking statements, in particular in the section “Business outlook for the current year”, in relation to future events and the operating, economic and financial results of the Carraro Group. These forecasts have by their very nature a component of risk and uncertainty, as they depend on the occurrence of future events and developments. The actual results may differ, even significantly, from those announced in relation to a multiplicity of factors.*

**CARRARO S.p.A.**

Head Office in 35011 Campodarsego (PD) at Via Olmo no. 37

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

Tax Code, VAT and Registration Number

In the Padua Companies Register 00202040283 – R.E.A. No. 84033

**GENERAL INFORMATION**

**BOARD OF DIRECTORS**

In office until approval of the 2014 Financial Statements (Appointed, General Meeting 20.04.2012)

**ENRICO CARRARO** (2)

Chairman

**TOMASO CARRARO**

Deputy Chairman

**ALEXANDER JOSEF BOSSARD**

Chief Executive Officer

**ARNALDO CAMUFFO** (1) (2)

Director \*

**FRANCESCO CARRARO**

Director

**ANTONIO CORTELLAZZO** (1) (2)

Director \*

**GABRIELE DEL TORCHIO**

Director \*

**MARINA PITTINI** (2) (1)

Director \*

**MARCO REBOA** (1)

Director \*

(1) Members of the Auditing and Risk Committee

(2) Members of the Nominations, Human Resources and Remuneration Committee

\* Independent directors

**BOARD OF STATUTORY AUDITORS**

In office until approval of the 2014 Financial Statements (Appointed, General Meeting 20.04.2012)

**ROBERTO SACCOMANI**

Chairman

**SAVERIO BOZZOLAN**

Regular Auditor

**MARINA MANNA**

Regular Auditor

**BARBARA CANTONI**

Alternate Auditor

**STEFANIA CENTORBI**

Alternate Auditor

**AUDITING COMPANY**

from 2007 to 2015

**PricewaterhouseCoopers S.p.A.**

**PARENT COMPANY**

**Finaid S.p.A.**

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

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

**CONSOLIDATED INCOME STATEMENT AS AT 30.06.12**

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>%</b>	<b>31.12.11</b>	<b>%</b>	<b>30.06.11</b>	<b>%</b>	<b>Changes</b>	
							30.06.12	30.06.11
<b>REVENUES FROM SALES</b>	<b>474,340</b>	<b>100.00%</b>	<b>924,192</b>	<b>100.00%</b>	<b>450,391</b>	<b>100.00%</b>	<b>23,949</b>	<b>5.32%</b>
Purchases of goods and materials (net of changes in inventories)	-290,863	-61.32%	-554,113	-59.96%	- 262,759	-58.34%	-28,104	10.70%
Services and Use of third-party goods and services	-84,214	-17.75%	-169,073	-18.29%	- 82,396	-18.29%	-1,818	2.21%
Personnel costs	-73,980	-15.60%	-136,281	-14.75%	- 69,337	-15.39%	-4,643	6.70%
Amortisation, depreciation and impairment of assets	-16,427	-3.46%	-33,651	-3.64%	- 16,640	-3.69%	213	-1.28%
Provisions for risks	-4,186	-0.88%	-7,566	-0.82%	- 4,681	-1.04%	495	-10.57%
Other income and expenses	1,443	0.30%	4,326	0.47%	1,077	0.24%	366	33.98%
Internal construction	2,094	0.44%	3,788	0.41%	795	0.18%	1,299	
<b>OPERATING COSTS</b>	<b>-466,133</b>	<b>-98.27%</b>	<b>-892,570</b>	<b>-96.58%</b>	<b>- 433,941</b>	<b>-96.35%</b>	<b>-32,192</b>	<b>7.42%</b>
<b>OPERATING PROFIT/(LOSS) (EBIT)</b>	<b>8,207</b>	<b>1.73%</b>	<b>31,622</b>	<b>3.42%</b>	<b>16,450</b>	<b>3.65%</b>	<b>-8,243</b>	<b>-50.11%</b>
Income from equity investments	-	0.00%	13	0.00%	-		-	
Other financial income	1,151	0.24%	2,501	0.27%	265	0.06%	886	
Financial costs and expenses	-9,953	-2.10%	-16,460	-1.78%	- 7,008	-1.56%	-2,945	42.02%
Net gains/(losses) on foreign exchange	150	0.03%	-2,961	-0.32%	- 685	-0.15%	835	
Value adjustments of financial assets	-	0.00%	-2	0.00%	-		-	
<b>GAINS/(LOSSES) ON FINANCIAL ASSETS</b>	<b>-8,652</b>	<b>-1.82%</b>	<b>-16,909</b>	<b>-1.83%</b>	<b>- 7,428</b>	<b>-1.65%</b>	<b>-1,224</b>	<b>16.48%</b>
<b>PROFIT/(LOSS) BEFORE TAXES</b>	<b>-445</b>	<b>-0.09%</b>	<b>14,713</b>	<b>1.59%</b>	<b>9,022</b>	<b>2.00%</b>	<b>-9,467</b>	
Current and deferred income taxes	-5,047	-1.06%	-9,471	-1.02%	- 4,419	-0.98%	-628	14.21%
<b>NET PROFIT/(LOSS)</b>	<b>-5,492</b>	<b>-1.16%</b>	<b>5,242</b>	<b>0.57%</b>	<b>4,603</b>	<b>1.02%</b>	<b>-10,095</b>	
Profit/(loss) pertaining to minorities	-91	-0.02%	-206	-0.02%	273	0.06%	-364	
<b>CONSOLIDATED RESULT OF THE GROUP</b>	<b>-5,583</b>	<b>-1.18%</b>	<b>5,036</b>	<b>0.54%</b>	<b>4,876</b>	<b>1.08%</b>	<b>-10,459</b>	
<b>EBITDA</b>	<b>23,993</b>	<b>5.06%</b>	<b>64,016</b>	<b>6.93%</b>	<b>32,578</b>	<b>7.23%</b>	<b>-8,585</b>	<b>-26.35%</b>

**CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 30.06.12**

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>31.12.11</b>	<b>30.06.11</b>
Property, plant and equipment	208,557	211,938	207,935
Intangible fixed assets	83,286	82,100	79,846
Real estate investments	710	711	706
Holdings in subsidiaries and associates	-	-	155
Financial assets	5,262	5,797	3,765
Deferred tax assets	28,768	27,515	28,456
Trade receivables and other receivables	4,379	1,582	1,434
<b>NON-CURRENT ASSETS</b>	<b>330,962</b>	<b>329,643</b>	<b>322,297</b>
Closing inventory	203,830	197,651	190,809
Trade receivables and other receivables	199,988	201,153	180,098
Financial assets	5,152	4,775	3,563
Cash and cash equivalents	39,653	100,441	51,848
<b>CURRENT ASSETS</b>	<b>448,623</b>	<b>504,020</b>	<b>426,318</b>
<i>Assets held for sale</i>	-	-	4,000
<b>TOTAL ASSETS</b>	<b>779,585</b>	<b>833,663</b>	<b>752,615</b>
Share Capital	23,915	23,915	23,915
Reserves	56,697	53,411	53,070
Foreign currency translation reserve	-4,828	-4,447	-7,325
Profit/(Loss) for the period	-5,583	5,036	4,876
Minority interests	11,831	11,768	11,294
<b>SHAREHOLDERS' EQUITY</b>	<b>82,032</b>	<b>89,683</b>	<b>85,830</b>
Financial liabilities	172,371	164,754	159,028
Trade payables and other payables	17	78	33
Deferred tax liabilities	6,458	5,387	7,500
Provision for severance indemnity and retirement benefits	16,997	16,978	17,354
Provisions for risks and liabilities	3,040	3,700	2,137
<b>NON-CURRENT LIABILITIES</b>	<b>198,883</b>	<b>190,897</b>	<b>186,052</b>
Financial liabilities	158,960	194,548	158,624
Trade payables and other payables	316,935	335,295	292,438
Current taxes payables	10,133	9,560	16,573
Provisions for risks and liabilities	12,642	13,680	13,098
<b>CURRENT LIABILITIES</b>	<b>498,670</b>	<b>553,083</b>	<b>480,733</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>779,585</b>	<b>833,663</b>	<b>752,615</b>

**CASH FLOW AS AT 30.06.12**

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>31.12.11</b>	<b>30.06.11</b>
<b>Opening Net Financial Position</b>	<b>-247,505</b>	<b>-271,535</b>	<b>- 271,535</b>
<i>Group profit/(loss)</i>	<i>-5,583</i>	<i>5,036</i>	<i>4,876</i>
<i>Profit/(loss) pertaining to minorities</i>	<i>91</i>	<i>206</i>	<i>- 273</i>
<i>Amortisation, depreciation and impairment of fixed assets</i>	<i>15,786</i>	<i>32,394</i>	<i>16,128</i>
Cash flow before Net Working Capital	10,294	37,636	20,731
Change in Net Working Capital	-38,188	32,298	- 4,070
Investments in fixed assets	-13,458	-29,211	- 10,311
Disinvestments in fixed assets	375	5,851	493
<b>Operating Free Cash Flow</b>	<b>-40,977</b>	<b>46,574</b>	<b>6,843</b>
Other operating flows	10,300	-19,806	9,261
Other investing flows	-504	2,262	5,927
Other equity flows	-2,160	-5,000	- 8,217
<b>Free Cash Flow</b>	<b>-33,341</b>	<b>24,030</b>	<b>13,814</b>
<b>Closing Net Financial Position</b>	<b>-280,846</b>	<b>-247,505</b>	<b>- 257,721</b>

**ANALYSIS OF NET WORKING CAPITAL AS AT 30.06.12**

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>31.12.11</b>	<b>30.06.11</b>
Trade Receivables	136,280	133,620	132,727
Inventory	203,830	197,651	190,809
Trade Payables	-270,061	-299,410	- 255,307
<b>Net Working Capital (NWC)</b>	<b>70,049</b>	<b>31,861</b>	<b>68,229</b>

## **General data and comments**

In the first half of the year 2012, the performance of the main reference markets of the Group remained positive within the *core* sectors in which the Drivelines, Components and Vehicles Business Units operate; more specifically, the increase in demand was maintained in geographical areas outside Europe, especially in India and China, but also United States, South America and Turkey.

The consolidation of the Group's international profile, the improved production efficiency, the streamlining of the product range and the acquisition of new market shares enabled the Drivelines, Components and Vehicles Business Units to achieve improved results when compared to the same period in the previous fiscal year both in terms of turnover and profitability.

The Electronics Business Unit (Elettronica Santerno), in the first half of 2012, finalised significant supply agreements with clients in geographical areas outside of Europe, for example, the United States and South Africa. The economic results of these agreements will be evident by 2013, however this will not enable, within the present fiscal year, to fully compensate the gap resulting from the drastic fall in demand within the Italian market subsequent to the modification of the standards governing the issue of contributions within the photovoltaic sector (traditionally a reference market for the BU). The reduction of the turnover has also influenced the profitability for the period under examination despite the cost containment activities carried out (further detailed below and the positive effects of which are already evident in the second quarter, particularly in the month of June, where it resulted in profit). These activities are designed to ensure suitability of the structure with the new demand dimensions without penalising R&D operations which are instrumental in the development of new products and in penetrating new market areas.

The above described is confirmed by analysing the figures: the consolidated turnover which grew by 5.3% increasing from 450.391 million Euros as at 30 June 2011 to 474.340 million Euros as at 30 June 2012; the Business Units operating in the mechanical sector witnessed an increase of 17.1% compared to the first half of 2011 whilst the turnover of the Electronics BU was down when compared to this same period last year, -60.1%, falling from 69.721 million Euros as at 30.06.11 to 27.791 as at 30.06.12.

Group consolidated EBITDA amounted to 23.993 million Euros (5.1% of turnover) compared to 32.578 million Euros (7.2% of turnover) in the same period of 2011. EBITDA of the mechanical Business Units as at 30 June 2012 amounted to 29.342 million Euros (6.1% of the turnover), up by 31.5% compared to 22.316 million Euros (5.3% of the turnover) for the first half of 2011 whilst the Electronics BU achieved a negative EBITDA, equal to 3.018 million Euros (-10.8% of the turnover) when compared to the positive value of 12.687 million Euros (17.8% of the turnover) as at 30 June 2011.

Consolidated EBIT as at 30 June 2012 amounts to 8.207 million Euros (1.7% of turnover) compared to 16.450 million Euros (3.7% of turnover) recorded as at 30 June 2011. EBIT of the core business was equal to 15.873 million Euros (3.3% of turnover) compared to 8.574 million Euros (2.0% of turnover) as at 30 June 2011. EBIT of the Electronics BU is negative at -4.229 million Euros (-15.1% of the turnover) whilst it was positive at 11.502 million Euros (16.1% of the turnover) in the first half of 2011.

A comparison of Electronics BU figures as at 30 June 2012 with the figures from the same period in the previous year results penalising owing to the fact that in the first half of 2011, figures were extremely positive resulting from the good performance of the Italian photovoltaic market.

The net profit/(loss) of the Group as at 30 June 2012 is negative at 5.583 million Euros (-1.2% of the turnover) compared to a profit of 4.876 million Euros (1.1% of the turnover), and is influenced by higher tax costs, as a result of lower allocation of deferred tax assets relating to tax losses to be carried forward and the incidence of not deductible charges for IRAP purposes, and the negative performance of the Electronics BU, which saw a loss equal to 4.958 million Euros compared to a profit of 7.469 million Euros in the first half of 2011.

The net financial position, which records a negative value of 280,846 million Euros as at 30 June 2012, remains in line with the first quarter of 2012 thanks to the working capital containment activities in light of a gradual increase of the turnover.

## **ECONOMIC AND EQUITY DATA**

### **Turnover**

The Group's consolidated turnover in the first half of 2012 amounted to 474.340 million Euros, up 5.3% on turnover for the first half of 2011 equaling 450.391 million Euros.

The following table breaks turnover down by market segment:

<i>(amounts in Euro thousands)</i>	SALES			SALES TO THIRD PARTIES			INTRA-GROUP SALES		
	30.06.12	30.06.11	Diff. %	30.06.12	30.06.11	Diff. %	30.06.12	30.06.11	Diff. %
DRIVELINES	336,485	279,881	20.2	328,867	272,136	20.9	7,618	7,745	-1.6
COMPONENTS	99,267	94,983	4.5	70,068	64,300	9.0	29,199	30,683	-4.8
VEHICLES	49,254	46,379	6.2	46,890	44,360	5.7	2,364	2,019	17.1
ELECTRONICS	28,078	71,485	-60.7	27,791	69,721	-60.1	287	1,764	-83.7
NON-ALLOCATED BUSINESS	20,604	14,054	46.6	724	-126	n.r.	19,880	14,180	40.2
<b>TOTAL SEGMENTS</b>	<b>533,688</b>	<b>506,782</b>	<b>5.3</b>	<b>474,340</b>	<b>450,391</b>	<b>5.3</b>	<b>59,348</b>	<b>56,391</b>	<b>5.2</b>
INTRA-GROUP ELIMINATIONS	-59,348	-56,391	5.2	-	-		-	-	
<b>TOTAL CONSOLIDATED</b>	<b>474,340</b>	<b>450,391</b>	<b>5.3</b>	<b>474,340</b>	<b>450,391</b>	<b>5.3</b>	<b>59,348</b>	<b>56,391</b>	<b>5.2</b>

The following table breaks down turnover by geographical area:

*(amounts in Euro thousands)*

<b>Geographical Area</b>	<b>30.06.12</b>	<b>%</b>	<b>30.06.11</b>	<b>%</b>	<b>difference % '12-'11</b>
Germany	62,963	13.3	60,652	13.5	3.8
North America	51,628	10.9	45,375	10.1	13.8
South America	48,831	10.3	33,933	7.5	43.9
United Kingdom	43,486	9.2	34,528	7.7	25.9
China	34,221	7.2	27,995	6.2	22.2
France	30,760	6.5	27,441	6.1	12.1
India	28,397	6.0	20,855	4.6	36.2
Switzerland	26,337	5.5	22,401	5.0	17.6
Turkey	20,629	4.3	17,374	3.9	18.7
Poland	12,396	2.6	7,340	1.6	68.9
Other non-E.U. areas.	8,323	1.7	5,906	1.3	40.9
Other E.U. areas.	29,854	6.3	25,988	5.8	14.9
<b>Total Abroad</b>	<b>397,825</b>	<b>83.9</b>	<b>329,788</b>	<b>73.2</b>	<b>20.6</b>
Italy	76,515	16.1	120,603	26.8	-36.6
<b>Total</b>	<b>474,340</b>	<b>100.0</b>	<b>450,391</b>	<b>100.0</b>	<b>5.3</b>
of which:					
<b>Total E.U. area.</b>	<b>255,974</b>	<b>54.0</b>	<b>276,552</b>	<b>61.4</b>	<b>-7.4</b>
<b>Total non-E.U. area.</b>	<b>218,366</b>	<b>46.0</b>	<b>173,839</b>	<b>38.6</b>	<b>25.6</b>

An analysis of turnover by geographical area shows that the Group is increasingly focusing on countries maintaining a good level of growth. The increase in turnover in foreign areas increased by 20.6% compared to the first half of 2011 due to the contribution of countries outside the EU (in particular South America: +43.9%, China: +22.2% , India: +36.2% and Turkey: +18.7%) and to the solid performance of important European markets such as Germany (+3.8%), Great Britain (+25.9%) and France (+12.1%). The Business Units in the mechanical sector in the first half of 2012 achieved 88.0% of turnover in foreign markets compared to an 85% share in the first half of 2011.

As at 30 June 2012, sales in the Italian market only constitute 16.1% of total turnover; the reduction in volumes in this area (-36.6%) is mainly due to declining demand in the Italian photovoltaic market. It is noted that in the instance of BUs operating in the mechanical sector, the majority of sales to Italian clients are subsequently reexported by the aforementioned to foreign markets.

### **EBITDA and EBIT**

Figures as at 30.06.12

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>% of turnover</b>	<b>30.06.11</b>	<b>% of turnover</b>	<b>Diff. %</b>
<b>EBITDA (1)</b>	23,993	5.1	32,578	7.2	-26.3
<b>EBIT (2)</b>	8,207	1.7	16,450	3.7	-50.1

(1) understood as the sum of operating profit/(loss), amortisation, depreciation and impairment of fixed assets

(2) understood as operating profit/(loss) in the income statement

EBITDA as at 30 June 2012 amounts to 23.993 million Euros (5.1% of turnover) compared to 32.578 million Euros (7.2% of turnover) in the same period of 2011.

EBIT is equal to 8.207 million Euros (1.7% of turnover) compared to 16.450 million Euros (3.7% of turnover) achieved as at 30 June 2011.

Margins for the first half of 2012 were down when compared to the same period of the previous year, exclusively due to the negative performance of the Electronics BU.

The Drivelines, Components and Vehicles Business Unit made significant improvements when compared to the first half of 2011 due to progress of procurement activities and optimisation of production processes in addition to the focus placed on the product range with greater added value.

Below is a detail of the two indices distinguishing the evolution of the core business (mechanical BUs) from the Electronics BU:

<b>EBITDA</b>	<b>30.06.12</b>	<b>% of turnover</b>	<b>30.06.11</b>	<b>% of turnover</b>	<b>Diff. %</b>
BU Drivelines, Components and Vehicles	29,342	6.1	22,316	5.3	+31.5
Electronics BU	-3,018	-10.8	12,687	17.8	n.r.

<b>EBIT</b>	<b>30.06.12</b>	<b>% of turnover</b>	<b>30.06.11</b>	<b>% of turnover</b>	<b>Diff. %</b>
BU Drivelines, Components and Vehicles	15,873	3.3	8,574	2.0	+85.1
Electronics BU	-4,229	-15.1	11,502	16.1	n.r.

### **Financial expenses**

Figures as at 30.06.12

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>% of turnover</b>	<b>30.06.11</b>	<b>% of turnover</b>	<b>Diff. %</b>
<b>Financial expenses</b>	8,802	1.9	6,743	1.5	30.5

Financial expenses amounted to 8.802 million Euros (1.9% of turnover) compared to 6.743 million Euros (1.5% of turnover) in the first half of 2011. The increase when compared to the same period in the previous year is owing to higher financial exposure and a higher cost of money resulting from the sign of new loans in countries, such as India and China, where the interest rates are higher.



**Exchange Differences**

Figures as at 30.06.12

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>% of turnover</b>	<b>30.06.11</b>	<b>% of turnover</b>	<b>Diff. %</b>
<b>Exchange differences</b>	150	0.0	-685	-0.2	n.r.

The exchange differences as at 30 June 2012 are positive at 150 thousand Euros (negative at 685 thousand Euros as at 30 June 2011).

**Net profit/(loss)**

Figures as at 30.06.12

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>% of turnover</b>	<b>30.06.11</b>	<b>% of turnover</b>	<b>Diff. %</b>
<b>Net profit/(loss)</b>	-5,583	-1.2	4,876	1.1	n.r.

The first half of 2012 closed with a net loss of 5,583 million Euros (1.2% of turnover) against the net profit of 4,876 million Euros (1.1% of turnover) for the first half of 2011. The negative performance of the Electronics Business Unit and the higher tax costs contributed to the deterioration of the net profit when compared to the same period in the previous year.

**Amortisation, depreciation and impairment of assets**

Figures as at 30.06.12

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>% of turnover</b>	<b>30.06.11</b>	<b>% of turnover</b>	<b>Diff. %</b>
<b>Amortisation, depreciation and impairment</b>	15,786	3.3	16,128	3.6	-2.1

**Investments**

Figures as at 30.06.12

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>30.06.11</b>
<b>Investments</b>	13,458	10,311

Investments as at 30 June 2012, equal to 13.458 million Euros when compared to 10.311 million Euros for the same period in the previous year. Within the Drivelines and Components Business Units investments were destined for the development of new projects to increase internal production capacity, focusing more on “make” logic, maintaining the effectiveness and updating the systems whilst, within Headquarters investments were destined for the purchase of licenses for the new ERP.

**Research and Development**

In 2012, the Group continued its strategy of investing in constant technological innovation. Research and Development expenses for the first half amounted to 9.481 million Euros (2.0% of turnover) compared with 8.993 million Euros as at 30 June 2011 (2.0% of turnover).

## **Net financial position**

Figures as at 30.06.12

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>31.12.11</b>	<b>30.06.11</b>
<b>Net financial position*</b>	280,846	247,505	257,721
<b>Gearing</b>	3.42	2.76	3.00

\* 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 which records a negative value of 280,846 million Euros as at 30 June 2012, remains in line with the first quarter thanks to the working capital containment activities in light of a gradual increase of the turnover.

Gearing (described as the ratio between net financial position and owners' equity) equals 3.42 as at 30 June 2012.

The Net Financial Position/EBITDA ratio, calculated using the budget data at the end of the fiscal year as value of EBITDA, is equal to 4.39 as at 30 June 2012.

Using the above indicators, as at 30 June 2012, the financial parameters (covenants) contractually specified relative to such data, were respected.

## **PERSONNEL**

### **Workforce trend**

Figures as at 30.06.12

	<b>30.06.12</b>	<b>31.12.11</b>	<b>30.06.11</b>
Executives	58	65	64
Clerical staff	1,062	1,065	1,028
Factory workers	3,005	2,914	2,828
Temporary workers	174	386	404
<b>Total</b>	<b>4,299</b>	<b>4,430</b>	<b>4,324</b>

Group personnel as at 30 June 2012 (including temporary workers, trainees and interim workers), amounted to 4,299 resources compared to 4,430 actually working as at 31 December 2011.

Following the activities undertaken during 2011 to tackle the increase in volumes, with consequential increase of the resources employed, particularly in Asia, for example, India and China as well as in Italy itself, beginning from the second quarter of 2012, a process overseeing readjustment of the structure was tackled, which continues into the second half year, with the aim of aligning production capacity and the flexibility as requested by the market.

This resulted in a reduction of staff of 131 persons when compared to 31 December 2011, 33 of which formed part of Elettronica Santerno. In the first half of 2012 the Electronics BU made recourse to the temporary lay-off of 19 full-time equivalents.

# Performance and results of the Carraro Group Business Units

## **Drivelines Business Unit**

### **Carraro Drive Tech**

In the first half of 2012 the Business Unit records a 20.2% increase of the turnover when compared to the same period in the previous year, maintaining the positive growth trend of sales from the second half year of 2011 thanks to the acquisition of new market shares and the streamlining of the product ranges in addition to the increase in demand.

This important result was achieved in the major target markets of the BU in Europe, especially England and Germany (for both growth is driven by Construction Equipment), and thanks to confirmation of markets such as Brazil (mainly agriculture), India (both agricultural and construction) and China (Construction Equipment). The turnover in England and Germany is focused on the local production sites of customers who in turn generate sales only partially in European markets. As at 30 June 2012, foreign turnover represents 90% of the total turnover achieved by the Business Unit, up by 27.7% compared to the first half of 2011.

#### Agricultural market:

Demand in the market for agricultural applications in the first half of 2012 is in line with the overall Business Unit turnover, up 21.4% compared to the same period of 2011, confirming the signs of recovery seen in the previous periods.

Driving the more favourable trend are both 4-wheel drive axles (+27.1% compared to 30 June 2011) and to a lesser degree, agricultural transmissions (+14.0% compared to 30 June 2011).

In terms of geographical area, the markets that have contributed most to the growth in sales volumes are South America, Turkey and India. Demand remains weak in Europe whilst demand is slightly up when compared to the previous year in North America.

#### Construction Equipment Market:

The increase in sales in the construction machinery market equalled 34.3%, in line with the growth trend recorded in the previous periods.

The axles contributed to this significant result (+25% compared to the first half of 2011) as did, in particular, applications for backhoe loaders in which Carraro Drivetech is a market leader and final drives for cranes and excavators.

As a result of this impulse of sales, the incidence of the Construction Equipment sector turnover within the Business Unit turnover exceeded 57.3%, up when compared to the first half of 2011 (where it was equal to 51.5%).

#### Mining Market:

In the mining machinery market, demand for drives remained strong.

Carraro Drive Tech maintains its position with the O&KA brand thanks to the significant expansion of the mining market, its strengthening as sole leader in some segments and the acquisition of significant market shares.

#### Spare parts:

Sales of spare parts is growing when compared to the first half of 2011 (+2.1%) thanks to the positive service level guaranteed to clients. With the aim of improving the above mentioned, Carraro Drive Tech, in April 2012, transferred the warehouse to a more suitable and modern location causing a slow-down in the normal operation of deliveries within the months of May and June; the backlog will be recovered by September 2012.

Business Unit profitability for the first half of 2012 has significantly improved when compared to the same period of the previous year thanks to activities focused on improving sourcing management and increasing internal production capacity. The greater sales volumes also allowed to reduce the incidence turnover of the general expenses.

EBITDA amounted to 17.845 million Euros as at 30 June 2012 (5.3% of turnover) up by 41.2% compared to the first half of 2011 where it equaled 12.640 million Euros (4.5% of turnover).

Interim Financial Report as at 30 June 2012

EBIT amounted to 11.966 million Euros as at 30 June 2012 (3.6% of turnover) up by 80.2% compared to the first half of 2011 where it equaled 6.641 million Euros (2.4% of turnover).

The net profit also benefits from the profitability improvement with an increase of profit from 788 thousand Euros (0.3% of turnover) as at 30 June 2011 to a profit of 3.903 million Euros (1.2% of turnover).

**SUBCONSOLIDATED INCOME STATEMENT AS AT 30.06.12**  
**DRIVELINES BU – DRIVE TECH**

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>%</b>	<b>31.12.11</b>	<b>%</b>	<b>30.06.11</b>	<b>%</b>	<b>Changes</b>	
							30.06.12	30.06.11
<b>REVENUES FROM SALES</b>	<b>336,485</b>	<b>100.00%</b>	<b>605,775</b>	<b>100.00%</b>	<b>279,881</b>	<b>100.00%</b>	<b>56,604</b>	<b>20.22%</b>
Purchases of goods and materials (net of changes in inventories)	-231,039	-68.66%	-414,385	-68.41%	-191,005	-68.25%	-40,034	20.96%
Services and Use of third-party goods and services	-50,232	-14.93%	-92,165	-15.21%	-42,403	-15.15%	-7,829	18.46%
Personnel costs	-37,036	-11.01%	-65,760	-10.86%	-32,281	-11.53%	-4,755	14.73%
Amortisation, depreciation and impairment of assets	-6,285	-1.87%	-12,250	-2.02%	-6,207	-2.22%	-78	1.26%
Provisions for risks	-2,469	-0.73%	-3,262	-0.54%	-2,541	-0.91%	72	-2.83%
Other income and expenses	1,962	0.58%	2,367	0.39%	803	0.29%	1,159	
Internal construction	580	0.17%	732	0.12%	394	0.14%	186	47.21%
<b>OPERATING COSTS</b>	<b>-324,519</b>	<b>-96.44%</b>	<b>-584,723</b>	<b>-96.52%</b>	<b>-273,240</b>	<b>-97.63%</b>	<b>-51,279</b>	<b>18.77%</b>
<b>OPERATING PROFIT/(LOSS) (EBIT)</b>	<b>11,966</b>	<b>3.56%</b>	<b>21,052</b>	<b>3.48%</b>	<b>6,641</b>	<b>2.37%</b>	<b>5,325</b>	<b>80.18%</b>
Income from equity investments	-	0.00%	13	0.00%	-		-	
Other financial income	611	0.18%	198	0.03%	44	0.02%	567	
Financial costs and expenses	-6,057	-1.80%	-10,200	-1.68%	-4,766	-1.70%	-1,291	27.09%
Net gains/(losses) on foreign exchange	687	0.20%	-1,304	-0.22%	-217	-0.08%	904	
<b>GAINS/(LOSSES) ON FINANCIAL ASSETS</b>	<b>-4,759</b>	<b>-1.41%</b>	<b>-11,293</b>	<b>-1.86%</b>	<b>-4,939</b>	<b>-1.76%</b>	<b>180</b>	<b>-3.64%</b>
<b>PROFIT/(LOSS) BEFORE TAXES</b>	<b>7,207</b>	<b>2.14%</b>	<b>9,759</b>	<b>1.61%</b>	<b>1,702</b>	<b>0.61%</b>	<b>5,505</b>	
Current and deferred income taxes	-3,306	-0.98%	-6,308	-1.04%	-933	-0.33%	-2,373	
<b>NET PROFIT/(LOSS)</b>	<b>3,901</b>	<b>1.16%</b>	<b>3,451</b>	<b>0.57%</b>	<b>769</b>	<b>0.27%</b>	<b>3,132</b>	
Profit/(loss) pertaining to minorities	2	0.00%	19	0.00%	19	0.01%	-17	-89.47%
<b>CONSOLIDATED RESULT OF THE BUSINESS UNIT</b>	<b>3,903</b>	<b>1.16%</b>	<b>3,470</b>	<b>0.57%</b>	<b>788</b>	<b>0.28%</b>	<b>3,115</b>	
<b>EBITDA</b>	<b>17,845</b>	<b>5.30%</b>	<b>32,996</b>	<b>5.45%</b>	<b>12,640</b>	<b>4.52%</b>	<b>5,205</b>	<b>41.18%</b>

**SUBCONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION  
AS AT 30.06.12 DRIVELINES BU - DRIVE TECH**

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>31.12.11</b>	<b>30.06.11</b>
Property, plant and equipment	76,554	77,564	74,019
Intangible fixed assets	25,687	24,951	24,439
Real estate investments	16	16	11
Holdings in subsidiaries and associates	-	-	155
Financial assets	3,677	4,261	27
Deferred tax assets	16,006	15,003	16,814
Trade receivables and other receivables	3,630	1,390	811
<b>NON-CURRENT ASSETS</b>	<b>125,570</b>	<b>123,185</b>	<b>116,276</b>
Closing inventory	134,596	132,744	115,526
Trade receivables and other receivables	140,821	129,309	109,684
Financial assets	3,103	2,151	1,001
Cash and cash equivalents	17,879	32,123	24,630
<b>CURRENT ASSETS</b>	<b>296,399</b>	<b>296,327</b>	<b>250,841</b>
Assets held for sale	-	-	4,000
<b>TOTAL ASSETS</b>	<b>421,969</b>	<b>419,512</b>	<b>371,117</b>
Share Capital	23,817	23,817	23,817
Reserves	15,248	12,560	11,892
Foreign currency translation reserve	-5,216	-4,843	- 7,234
Profit/(Loss) for the period	3,903	3,470	788
Minority interests	-1	1	- 27
<b>SHAREHOLDERS' EQUITY</b>	<b>37,751</b>	<b>35,005</b>	<b>29,236</b>
Financial liabilities	12,653	14,045	11,631
Trade payables and other payables	13	41	12
Deferred tax liabilities	2,926	2,081	2,383
Provision for severance indemnity and retirement benefits	9,806	9,615	9,723
Provisions for risks and liabilities	2,086	1,724	716
<b>NON-CURRENT LIABILITIES</b>	<b>27,484</b>	<b>27,506</b>	<b>24,465</b>
Financial liabilities	136,675	120,105	119,639
Trade payables and other payables	207,622	224,599	188,043
Current taxes payables	5,758	6,296	2,479
Provisions for risks and liabilities	6,679	6,001	7,255
<b>CURRENT LIABILITIES</b>	<b>356,734</b>	<b>357,001</b>	<b>317,416</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>421,969</b>	<b>419,512</b>	<b>371,117</b>

**CASH FLOW AS AT 30.06.12 DRIVELINES BU - DRIVE TECH**

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>31.12.11</b>	<b>30.06.11</b>
<b>Opening Net Financial Position</b>	<b>-95,869</b>	<b>-124,883</b>	<b>- 124,883</b>
<i>Group profit/(loss)</i>	<i>3,903</i>	<i>3,470</i>	<i>788</i>
<i>Profit/(loss) pertaining to minorities</i>	<i>-2</i>	<i>-19</i>	<i>- 19</i>
<i>Amortisation, depreciation and impairment of fixed assets</i>	<i>5,879</i>	<i>11,944</i>	<i>5,999</i>
Cash flow before Net Working Capital	9,780	15,395	6,768
Change in Net Working Capital	-38,984	27,586	14,260
Investments in fixed assets	-5,847	-12,335	- 4,862
Disinvestments in fixed assets	190	4,920	12
<b>Operating Free Cash Flow</b>	<b>-34,861</b>	<b>35,566</b>	<b>16,178</b>
Other operating flows	6,581	-6,096	4,595
Other investing flows	-52	1,322	3,445
Other equity flows	-1,155	-1,178	- 4,865
<b>Free Cash Flow</b>	<b>-29,383</b>	<b>29,014</b>	<b>19,353</b>
<b>Closing Net Financial Position</b>	<b>-125,252</b>	<b>-95,869</b>	<b>- 105,530</b>

**ANALYSIS OF NET WORKING CAPITAL AS AT 30.06.12  
DRIVELINES BU – DRIVE TECH**

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>31.12.11</b>	<b>30.06.11</b>
Trade Receivables	98,198	85,306	77,397
Inventory	134,596	132,744	115,526
Trade Payables	- 186,678	- 210,918	- 172,465
<b>Net Working Capital (NWC)</b>	<b>46,116</b>	<b>7,132</b>	<b>20,458</b>



## **Components Business Unit GearWorld**

In the first half of 2012 the Components Business Unit presents positive results with regards both the same period of the previous year and expectations. Thanks to the repositioning strategy relative to the range and the geographic area and the continual improvement of the product quality, the BU recorded a significant increase in quotations, confirming the appreciation of the clients, for the work carried out.

Total consolidated revenues amount to 99.267 million Euros, up 4.5% compared to the same period in the previous year (94.983 million Euros). The turnover increase of GearWorld can be explained by the increased demand by third party customers who represent 70.6% of the overall turnover - with sales reaching 70.068 million Euros when compared to 64.300 million Euros in the previous year with an increase of 9.0% whilst the sales of the Carraro Group - which represent 29.4% of the turnover - equaled 29.199 million Euros compared to 30.683 million Euros from the previous year.

The analysis of the turnover according to geographic area showed an extremely dynamic market demand particularly in the second quarter of 2012. The geographic areas displaying greater growth in terms of sales volumes are the European market and the North American market whilst the Asian market maintains a trend in line with that of the first half of 2011.

As at 30 June 2012, foreign turnover represents 75% of the total turnover achieved by the Business Units, up by 3.7% compared to 30 June 2011.

In terms of application sectors, the increase in demand was more evident in the Automotive, Material handling and Construction Equipment, markets whilst it was down in the Agricultural and Power Tool & Gardening markets. The Renewable Energy market (transmissions for the wind power sector), although up when compared to the 2011, falls short of its potential owing to issues with the granting of benefits for investments in the sector.

Additionally, in terms of margins, there is gradual improvement when compared to the first half of 2011, thanks to increased production effectiveness, resulting from specific projects, initiated during the previous year, which are beginning to present their first concrete results during this year.

Particular attention must be given to the "Partnership" project which sees that supplies are provided from a restricted number of select suppliers, reliable in terms of quality and which share the strategies of the BU. This project is starting to display encouraging results in terms of material cost containment and outsourcing.

EBITDA amounts to 10.389 million Euros (10.5% of turnover), compared to 8.256 million Euros (8.7% of turnover) for the first half of 2011. EBIT as at 30 June 2012 is positive amounting to 3.352 million Euros (3.4% of turnover) which is an improvement on the 1.106 million Euros (1.2% of turnover) recorded for the same period in 2011.

The net profit/(loss) as at 30 June 2012 has improved when compared to the first half of 2011 where losses have been reduced from 1.309 million Euros (equal to -1.4% of turnover) to 352 thousand Euros (-0.3% of turnover) thanks to operational margins which are continually growing and neutralised by increased effects of taxes and financial expenses; the latter as at 30 June 2012 amount to 2.387 million Euros (2.4% of turnover) compared to 1.970 million Euros (2.1% of turnover) recorded in the same period in 2011.

**SUBCONSOLIDATED INCOME STATEMENT AS AT 30.06.12**  
**COMPONENTS BU – GEAR WORLD**

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>%</b>	<b>31.12.11</b>	<b>%</b>	<b>30.06.11</b>	<b>%</b>	<b>Changes</b> 30.06.12 -30.06.11	
<b>REVENUES FROM SALES</b>	<b>99,267</b>	<b>100.00%</b>	<b>191,955</b>	<b>100.00%</b>	<b>94,983</b>	<b>100.00%</b>	<b>4,284</b>	<b>4.51%</b>
Purchases of goods and materials (net of changes in inventories)	-46,097	-46.44%	-91,209	-47.52%	-43,246	-45.53%	-2,851	6.59%
Services and Use of third-party goods and services	-22,583	-22.75%	-47,245	-24.61%	-24,160	-25.44%	1,577	-6.53%
Personnel costs	-20,181	-20.33%	-37,089	-19.32%	-19,437	-20.46%	-744	3.83%
Amortisation, depreciation and impairment of assets	-7,067	-7.12%	-14,490	-7.55%	-7,164	-7.54%	97	-1.35%
Provisions for risks	-220	-0.22%	-453	-0.24%	-203	-0.21%	-17	8.37%
Other income and expenses	16	0.01%	574	0.30%	142	0.15%	-126	-88.73%
Internal construction	217	0.22%	385	0.20%	191	0.20%	26	13.61%
<b>OPERATING COSTS</b>	<b>-95,915</b>	<b>-96.62%</b>	<b>-189,527</b>	<b>-98.74%</b>	<b>-93,877</b>	<b>-98.84%</b>	<b>-2,038</b>	<b>2.17%</b>
<b>OPERATING PROFIT/(LOSS) (EBIT)</b>	<b>3,352</b>	<b>3.38%</b>	<b>2,428</b>	<b>1.26%</b>	<b>1,106</b>	<b>1.16%</b>	<b>2,246</b>	
Income from equity investments	-	0.00%	-	0.00%	-	-	-	
Other financial income	108	0.11%	167	0.09%	54	0.06%	54	100.00%
Financial costs and expenses	-2,495	-2.51%	-4,463	-2.33%	-2,024	-2.13%	-471	23.27%
Net gains/(losses) on foreign exchange	-261	-0.26%	-892	-0.46%	-513	-0.54%	252	-49.12%
Value adjustments of financial assets	-	0.00%	-2	0.00%	-	0.00%	-	
<b>GAINS/(LOSSES) ON FINANCIAL ASSETS</b>	<b>-2,648</b>	<b>-2.67%</b>	<b>-5,190</b>	<b>-2.70%</b>	<b>-2,483</b>	<b>-2.61%</b>	<b>-165</b>	<b>6.65%</b>
<b>PROFIT/(LOSS) BEFORE TAXES</b>	<b>704</b>	<b>0.71%</b>	<b>-2,762</b>	<b>-1.44%</b>	<b>-1,377</b>	<b>-1.45%</b>	<b>2,081</b>	
Current and deferred income taxes	-870	-0.88%	2,432	1.27%	157	0.17%	-1,027	
<b>NET PROFIT/(LOSS)</b>	<b>-166</b>	<b>0.17%</b>	<b>-330</b>	<b>-0.17%</b>	<b>-1,220</b>	<b>-1.28%</b>	<b>1,054</b>	<b>-86.39%</b>
Profit/(loss) pertaining to minorities	-186	-0.19%	-443	-0.23%	-89	-0.09%	-97	
<b>CONSOLIDATED RESULT OF THE BUSINESS UNIT</b>	<b>-352</b>	<b>-0.35%</b>	<b>-773</b>	<b>-0.40%</b>	<b>-1,309</b>	<b>-1.38%</b>	<b>957</b>	<b>-73.11%</b>
<b>EBITDA</b>	<b>10,389</b>	<b>10.47%</b>	<b>16,859</b>	<b>8.78%</b>	<b>8,256</b>	<b>8.69%</b>	<b>2,133</b>	<b>25.84%</b>

**SUBCONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 30.06.12  
COMPONENTS BU – GEAR WORLD**

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>31.12.11</b>	<b>30.06.11</b>
Property, plant and equipment	92,706	95,679	95,342
Intangible fixed assets	23,299	23,722	24,184
Real estate investments	155	155	155
Holdings in subsidiaries and associates	-	-	-
Financial assets	2,068	2,068	3,151
Deferred tax assets	3,706	3,615	2,826
Trade receivables and other receivables	397	415	417
<b>NON-CURRENT ASSETS</b>	<b>122,331</b>	<b>125,654</b>	<b>126,075</b>
Closing inventory	33,484	34,280	35,715
Trade receivables and other receivables	33,693	40,621	48,633
Financial assets	1,906	1,849	1,920
Cash and cash equivalents	7,289	11,851	2,542
<b>CURRENT ASSETS</b>	<b>76,372</b>	<b>88,601</b>	<b>88,810</b>
<b>TOTAL ASSETS</b>	<b>198,703</b>	<b>214,255</b>	<b>214,885</b>
Share Capital	35,084	35,084	35,084
Reserves	-4,913	-4,011	-4,561
Foreign currency translation reserve	350	375	-391
Profit/(Loss) for the period	-352	-773	-1,309
Minority interests	3,934	3,737	3,778
<b>SHAREHOLDERS' EQUITY</b>	<b>34,103</b>	<b>34,412</b>	<b>32,601</b>
Financial liabilities	26,773	30,884	67,475
Trade payables and other payables	4	5	4
Deferred tax liabilities	3,516	3,237	4,971
Provision for severance indemnity and retirement benefits	4,831	4,894	5,073
Provisions for risks and liabilities	146	175	130
<b>NON-CURRENT LIABILITIES</b>	<b>35,270</b>	<b>39,195</b>	<b>77,653</b>
Financial liabilities	69,219	77,712	38,587
Trade payables and other payables	57,043	59,865	63,685
Current taxes payables	2,006	1,139	938
Provisions for risks and liabilities	1,062	1,932	1,421
<b>CURRENT LIABILITIES</b>	<b>129,330</b>	<b>140,648</b>	<b>104,631</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>198,703</b>	<b>214,255</b>	<b>214,885</b>

**CASH FLOW AS AT 30.06.12 COMPONENTS BU – GEAR WORLD**

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>31.12.11</b>	<b>30.06.11</b>
<b>Opening Net Financial Position</b>	<b>-92,692</b>	<b>-97,689</b>	<b>- 97,689</b>
<i>Group profit/(loss)</i>	<i>-352</i>	<i>-773</i>	<i>-1,309</i>
<i>Profit/(loss) pertaining to minorities</i>	<i>186</i>	<i>443</i>	<i>89</i>
<i>Amortisation, depreciation and impairment of fixed assets</i>	<i>7,037</i>	<i>14,431</i>	<i>7,150</i>
Cash flow before Net Working Capital	6,871	14,101	5,930
Change in Net Working Capital	202	2,189	- 6,339
Investments in fixed assets	-3,934	-9,835	- 3,510
Disinvestments in fixed assets	409	799	471
<b>Operating Free Cash Flow</b>	<b>3,548</b>	<b>7,252</b>	<b>- 3,448</b>
Other operating flows	4,967	-3,051	1,558
Other investing flows	-116	1,302	2,459
Other equity flows	-143	-508	- 1,429
<b>Free Cash Flow</b>	<b>8,256</b>	<b>4,997</b>	<b>- 860</b>
<b>Closing Net Financial Position</b>	<b>-84,436</b>	<b>-92,692</b>	<b>- 98,549</b>

**ANALYSIS OF NET WORKING CAPITAL AS AT 30.06.12  
COMPONENTS BU - GEAR WORLD**

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>31.12.11</b>	<b>30.06.11</b>
Trade Receivables	28,419	33,044	42,608
Inventory	33,484	34,280	35,715
Trade Payables	- 47,584	-52,802	- 55,273
<b>Net Working Capital (NWC)</b>	<b>14,319</b>	<b>14,522</b>	<b>23,050</b>

## **Vehicles Business Unit**

### **Carraro Divisione Agritalia**

Carraro Divisione Agritalia closed the first half of 2012 with a turnover equal to 49.254 million Euros, (1,915 tractors sold and income for engineering projects equalling 1.2 million Euros), recording an increase of 6.2% compared to the same period in the previous year where it equalled 46.379 million Euros (1,900 tractors sold and income for engineering projects equalling 0.2 million Euros). The half year turnover, up when compared to 30 June 2011 owing to heightened seasonal demand, was negatively influenced, in June 2012, by the effects of the earthquake which affected the north of Italy in May 2012. This event resulted in stoppage of activities within the affected areas and consequently a stoppage in supplies relative to some strategic suppliers for the BU. The missing supplies also affected profitability for the half year which resulted in non-completion of 132 tractors as at 30 June 2012, confined to the warehouse. The restart of supplies in July and August will enable the Business Unit to recover, almost fully, the turnover and the margins lost in June.

The analysis of the turnover according to geographic area showed an incidence of sales to foreign markets equal to 92.6% of the total Business Unit turnover, up by 7.7% compared to the first half of 2011.

Activities to improve internal organisation of *lean* production and greater effectiveness overseeing management of material purchases, thanks to the operations carried out in engineering areas and acquired in collaboration with the main suppliers, enabled the Business Unit to reduce the effects of variable costs on the turnover when compared to the same period in the previous year.

EBIT for the half year is positive at 555 thousand Euros (1.1% of turnover), down by 32.9% compared to the same period in the previous year where it equalled 827 thousand Euros (1.8% of turnover) owing to a fall in the turnover in June for the above described reasons. In line with the EBIT is EBITDA which equalled 1.108 million Euros (2.3% of turnover) compared to 1.420 million Euros (3.1% of turnover) as at 30 June 2011.

The net profit/(loss) as at 30 June 2012 is equal to 497 thousand Euros (1.0% of turnover) substantially in line with the first half of 2011, equal to 387 thousand Euros (0.8% of turnover).

The net working capital improves when compared to 31 December 2011, up 2.650 million Euros, primarily owing to a significant reduction of trade receivables.

**SUBCONSOLIDATED INCOME STATEMENT AS AT 30.06.12 VEHICLES BU – AGRITALIA**

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>%</b>	<b>31.12.11</b>	<b>%</b>	<b>30.06.11</b>	<b>%</b>	<b>Changes</b> 30.06.12 -30.06.11	
<b>REVENUES FROM SALES</b>	<b>49,254</b>	<b>100.00%</b>	<b>89,303</b>	<b>100.00%</b>	<b>46,379</b>	<b>100.00%</b>	<b>2,875</b>	<b>6.20%</b>
Purchases of goods and materials (net of changes in inventories)	-36,744	-74.60%	-67,217	-75.27%	-35,013	-75.49%	-1,731	4.94%
Services and Use of third-party goods and services	-4,790	-9.73%	-7,730	-8.66%	-3,862	-8.33%	-928	24.03%
Personnel costs	-5,953	-12.09%	-10,235	-11.46%	-5,485	-11.83%	-468	8.53%
Amortisation, depreciation and impairment of assets	-558	-1.13%	-1,216	-1.36%	-604	-1.30%	46	-7.62%
Provisions for risks	-766	-1.56%	-1,245	-1.39%	-603	-1.30%	-163	27.03%
Other income and expenses	112	0.23%	136	0.15%	28	0.06%	84	
Internal construction	-	0.00%	-13	-0.01%	-13	-0.03%	13	-100.00%
<b>OPERATING COSTS</b>	<b>-48,699</b>	<b>-98.87%</b>	<b>-87,520</b>	<b>-98.00%</b>	<b>-45,552</b>	<b>-98.22%</b>	<b>-3,147</b>	<b>6.91%</b>
<b>OPERATING PROFIT/(LOSS) (EBIT)</b>	<b>555</b>	<b>1.13%</b>	<b>1,783</b>	<b>2.00%</b>	<b>827</b>	<b>1.78%</b>	<b>-272</b>	<b>-32.89%</b>
Income from equity investments	-		-		-		-	
Other financial income	24	0.05%	191	0.21%	-	0.00%	24	
Financial costs and expenses	-2	0.00%	-20	-0.02%	-14	-0.03%	12	-85.71%
Net gains/(losses) on foreign exchange	-1	0.00%	1	0.00%	16	0.03%	-17	-
<b>GAINS/(LOSSES) ON FINANCIAL ASSETS</b>	<b>21</b>	<b>0.04%</b>	<b>172</b>	<b>0.19%</b>	<b>2</b>	<b>0.00%</b>	<b>19</b>	
<b>PROFIT/(LOSS) BEFORE TAXES</b>	<b>576</b>	<b>1.17%</b>	<b>1,955</b>	<b>2.19%</b>	<b>829</b>	<b>1.79%</b>	<b>-253</b>	<b>-30.52%</b>
Current and deferred income taxes	-79	-0.16%	-962	-1.08%	-442	-0.95%	363	82.13%
<b>CONSOLIDATED RESULT OF THE BUSINESS UNIT</b>	<b>497</b>	<b>1.01%</b>	<b>993</b>	<b>1.11%</b>	<b>387</b>	<b>0.83%</b>	<b>110</b>	<b>28.42%</b>
<b>EBITDA</b>	<b>1,108</b>	<b>2.25%</b>	<b>2,981</b>	<b>3.34%</b>	<b>1,420</b>	<b>3.06%</b>	<b>-312</b>	<b>-21.97%</b>

**SUBCONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 30.06.12  
VEHICLES BU - AGRITALIA**

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>31.12.11</b>	<b>30.06.11</b>
Property, plant and equipment	12,191	12,306	12,273
Intangible fixed assets	387	450	493
Real estate investments	-	-	-
Holdings in subsidiaries and associates	-	-	-
Financial assets	-	-	-
Deferred tax assets	2,729	2,619	2,676
Trade receivables and other receivables	5	8	6
<b>NON-CURRENT ASSETS</b>	<b>15,312</b>	<b>15,383</b>	<b>15,448</b>
Closing inventory	18,022	13,041	11,919
Trade receivables and other receivables	2,094	6,214	7,315
Financial assets	5	4	2
Cash and cash equivalents	14,803	11,131	5,838
<b>CURRENT ASSETS</b>	<b>34,924</b>	<b>30,390</b>	<b>25,074</b>
<b>TOTAL ASSETS</b>	<b>50,236</b>	<b>45,773</b>	<b>40,522</b>
Share Capital	-	-	-
Reserves	8,055	7,061	7,053
Foreign currency translation reserve	-	-	-
Profit/(Loss) for the period	497	993	387
<b>SHAREHOLDERS' EQUITY</b>	<b>8,552</b>	<b>8,054</b>	<b>7,440</b>
Financial liabilities	-	-	-
Trade payables and other payables	1	-	-
Deferred tax liabilities	69	69	69
Provision for severance indemnity and retirement benefits	1,131	1,103	1,114
Provisions for risks and liabilities	529	399	399
<b>NON-CURRENT LIABILITIES</b>	<b>1,730</b>	<b>1,571</b>	<b>1,582</b>
Financial liabilities	24	48	12
Trade payables and other payables	37,822	33,948	29,757
Current taxes payables	-8	-	-42
Provisions for risks and liabilities	2,116	2,152	1,773
<b>CURRENT LIABILITIES</b>	<b>39,954</b>	<b>36,148</b>	<b>31,500</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>50,236</b>	<b>45,773</b>	<b>40,522</b>

**CASH FLOW AS AT 30.06.12 VEHICLES BU – AGRITALIA**

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>31.12.11</b>	<b>30.06.11</b>
<b>Opening Net Financial Position</b>	<b>11,083</b>	<b>-3,615</b>	<b>- 3,615</b>
<i>Group profit/(loss)</i>	497	993	387
<i>Amortisation, depreciation and impairment of fixed assets</i>	553	1,198	593
Cash flow before Net Working Capital	1,050	2,191	980
Change in Net Working Capital	2,650	12,028	8,137
Investments in fixed assets	-379	-806	- 193
Disinvestments in fixed assets	5	38	4
<b>Operating Free Cash Flow</b>	<b>3,326</b>	<b>13,451</b>	<b>8,928</b>
Other operating flows	377	1,258	530
Other investing flows	-2	3	19
Other equity flows	-	-14	- 22
<b>Free Cash Flow</b>	<b>3,701</b>	<b>14,698</b>	<b>9,455</b>
<b>Closing Net Financial Position</b>	<b>14,784</b>	<b>11,083</b>	<b>5,840</b>

**ANALYSIS OF NET WORKING CAPITAL AS AT 30.06.12  
VEHICLES BU – AGRITALIA**

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>31.12.11</b>	<b>30.06.11</b>
Trade Receivables	2,908	6,892	7,548
Inventory	18,022	13,041	11,919
Trade Payables	- 35,913	- 32,266	- 27,909
<b>Net Working Capital (NWC)</b>	<b>- 14,983</b>	<b>-12,333</b>	<b>- 8,442</b>



## **Electronics Business Unit**

### **Elettronica Santerno**

The renewable energy sector is still heavily dependent on incentive policies adopted by individual countries. The Italian photovoltaic market in 2012 is strongly influenced by legislative and technical/regulatory factors, in particular:

- change in incentives from 1 January 2012;
- retroactive blockage of access to government incentives on ground installations on agricultural land as at 25 January, according to Article 65 of the liberalisation decree, subsequently corrected on 24 March;
- AEEG 84/12 resolution with prescriptive technical standards for inverters with effect from 1 April 2012;
- change to the legislative framework on incentives based on the “*Quinto Conto Energia*” issued at the beginning of July 2012;
- resolution of the Ministry of the Interior concerning fire prevention regulations in buildings.

In this context, the Business Unit, in line with its development plan, continued the expansion activity of its business network abroad, and it continued the expansion and consolidation of its products portfolio in order to extend its presence in international markets, mainly in the renewable energies sector and photovoltaic in particular. Improvements have also been made to new product development activities and procedures overseeing the achievement of certifications in foreign countries have been formulated with the aim of expanding the Business Unit product range.

### **Energy management**

#### Photovoltaics

Within a context that in 2011 saw Italy positioning itself as second world market after Germany, 2012 is experiencing a drastic contraction of the photovoltaic market, with consequent fall of sales volumes generally experienced by all operators within the sector, including Elettronica Santerno. The announcements made, from March onwards relative to the “*Quinto Conto Energia*” contributed in increasing the uncertainties of the sector within the Italian market, inducing a state of paralysis.

In such a context, the Business Unit propelled its development in foreign markets securing two significant orders, respectively in the United States (the biggest photovoltaic field in the world currently under construction, equal to 155 MWac) and in South Africa (where Santerno is involved in creating the first installation within the country, equal to 80 MWac). This marks great success for the Business Unit which confirms its determination to transfer its activities to those areas in the world in which the most important projects within the photovoltaic sector, are based.

#### Wind power

With regards projects within the micro and mini wind power sector, the European market has presented some opportunities, governed by specific, favourable yet temporary legal frameworks.

#### Traction

In the traction field, the first half of 2012 saw the Electronics BU continuing its work in developing a new hybrid platform for the use of hybrid and/or electric traction systems for urban buses, as part of a project financed by the “*Industria 2015*” grant.

### **Industrial applications**

The worldwide market of industrial drives continues to show signs of recovery, in line with the forecasts. Elettronica Santerno maintains its growth expectations in the Italian and foreign market. The first half of 2012 closes with a substantially improved turnover when compared to the same period in 2011.

Initial supplies within the oil sector in the North-American market (applications destined for Pump Jack for energy recovery in extraction systems) give rise to growth opportunities which are decidedly profitable in such a vast market.

Based on these remarks, the first half of 2012 closes with greatly contracted results when compared to the same period in 2011. Comparison of the figures from the two periods results penalising owing to the fact that in the first half of 2011, the Business Unit recorded extremely positive results owing to the good performance of the Italian photovoltaic market. Faced with this situation, Elettronica Santerno, at the beginning of the year, set up a cost reduction program and a structure review which would ensure suitability with the new demand aspects whilst observing research and development activities as instrumental in launching new products and entering new markets. The advantages of these actions are already noticeable in the second quarter of 2012 and particularly in June, the month in which the BU achieved a positive net profit.

Turnover in the half year amounted to 28.078 million Euros compared to 71.485 million Euros in the first half of 2011. EBITDA as at 30 June 2012 was negative amounting to 3.018 million Euros (-10.8% of turnover) compared to a positive value of 12.687 million Euros (17.7% of turnover) as at 30 June 2011.

The result is a net loss as at 30 June 2012 amounting to 4.952 million Euros (-17.6 % of turnover) compared to a profit of 7.469 million Euros (10.4% of turnover) for the first half of 2011.

**SUBCONSOLIDATED INCOME STATEMENT AS AT 30.06.12**  
**ELECTRONICS BU - ELETTRONICA SANTERNO**

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>%</b>	<b>31.12.11</b>	<b>%</b>	<b>30.06.11</b>	<b>%</b>	<b>Changes</b> 30.06.12-30.06.11	
<b>REVENUES FROM SALES</b>	<b>28,078</b>	<b>100.00%</b>	<b>124,981</b>	<b>100.00%</b>	<b>71,485</b>	<b>100.00%</b>	<b>-43,407</b>	<b>-60.72%</b>
Purchases of goods and materials (net of changes in inventories)	-16,362	-58.27%	-67,925	-54.35%	-35,894	-50.21%	19,532	-54.42%
Services and Use of third-party goods and services	-8,107	-28.87%	-26,444	-21.16%	-13,774	-19.27%	5,667	-41.14%
Personnel costs	-6,122	-21.80%	-15,364	-12.29%	-8,008	-11.20%	1,886	-23.55%
Amortisation, depreciation and impairment of assets	-1,411	-5.03%	-3,298	-2.64%	-1,464	-2.05%	53	-3.62%
Provisions for risks	-732	-2.61%	-2,607	-2.09%	-1,334	-1.87%	602	-45.13%
Other income and expenses	-296	-1.05%	1,475	1.18%	289	0.40%	-585	
Internal construction	723	2.57%	2,645	2.12%	202	0.28%	521	
<b>OPERATING COSTS</b>	<b>-32,307</b>	<b>-115.06%</b>	<b>-111,518</b>	<b>-89.23%</b>	<b>-59,983</b>	<b>-83.91%</b>	<b>27,676</b>	<b>-46.14%</b>
<b>OPERATING PROFIT/(LOSS) (EBIT)</b>	<b>-4,229</b>	<b>-15.06%</b>	<b>13,463</b>	<b>10.77%</b>	<b>11,502</b>	<b>16.09%</b>	<b>-15,731</b>	
Income from equity investments	-		-		-		-	
Other financial income	51	0.18%	221	0.18%	163	0.23%	-112	-68.71%
Financial costs and expenses	-363	-1.29%	-576	-0.46%	-190	-0.27%	-173	91.05%
Net gains/(losses) on foreign exchange	-198	-0.71%	-417	-0.33%	7	0.01%	-205	
<b>GAINS/(LOSSES) ON FINANCIAL ASSETS</b>	<b>-510</b>	<b>-1.82%</b>	<b>-772</b>	<b>-0.62%</b>	<b>-20</b>	<b>-0.03%</b>	<b>-490</b>	
<b>PROFIT/(LOSS) BEFORE TAXES</b>	<b>-4,739</b>	<b>-16.88%</b>	<b>12,691</b>	<b>10.15%</b>	<b>11,482</b>	<b>16.06%</b>	<b>-16,221</b>	
Current and deferred income taxes	-213	-0.76%	-5,130	-4.10%	-4,013	-5.61%	3,800	-94.69%
<b>CONSOLIDATED RESULT OF THE BUSINESS UNIT</b>	<b>-4,952</b>	<b>-17.64%</b>	<b>7,561</b>	<b>6.05%</b>	<b>7,469</b>	<b>10.45%</b>	<b>-12,421</b>	
<b>EBITDA</b>	<b>-3,018</b>	<b>-10.75%</b>	<b>15,888</b>	<b>12.71%</b>	<b>12,687</b>	<b>17.75%</b>	<b>-15,705</b>	

**SUBCONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 30.06.12  
ELECTRONICS BU - ELETTRONICA SANTERNO**

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>31.12.11</b>	<b>30.06.11</b>
Property, plant and equipment	5,758	5,622	5,298
Intangible fixed assets	29,082	29,181	9,852
Real estate investments	-	-	-
Holdings in subsidiaries and associates	-	-	-
Financial assets	-	-	-
Deferred tax assets	3,022	3,014	2,100
Trade receivables and other receivables	210	216	225
<b>NON-CURRENT ASSETS</b>	<b>38,072</b>	<b>38,033</b>	<b>17,475</b>
Closing inventory	23,288	21,563	30,861
Trade receivables and other receivables	31,734	37,010	32,610
Financial assets	144	158	196
Cash and cash equivalents	2,498	8,912	21,479
<b>CURRENT ASSETS</b>	<b>57,664</b>	<b>67,643</b>	<b>85,146</b>
<b>TOTAL ASSETS</b>	<b>95,736</b>	<b>105,676</b>	<b>102,621</b>
Share Capital	2,500	2,500	2,500
Reserves	45,271	37,720	19,943
Foreign currency translation reserve	90	87	104
Profit/(Loss) for the period	-4,952	7,561	7,469
<b>SHAREHOLDERS' EQUITY</b>	<b>42,909</b>	<b>47,868</b>	<b>30,016</b>
Financial liabilities	-	-	-
Trade payables and other payables	1	-	17
Deferred tax liabilities	-54	-	-5
Provision for severance indemnity and retirement benefits	529	594	660
Provisions for risks and liabilities	77	600	90
<b>NON-CURRENT LIABILITIES</b>	<b>553</b>	<b>1,194</b>	<b>762</b>
Financial liabilities	9,892	7,654	1,500
Trade payables and other payables	38,936	44,842	56,202
Current taxes payables	946	960	11,492
Provisions for risks and liabilities	2,500	3,158	2,649
<b>CURRENT LIABILITIES</b>	<b>52,274</b>	<b>56,614</b>	<b>71,843</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>95,736</b>	<b>105,676</b>	<b>102,621</b>

**CASH FLOW AS AT 30.06.12 ELECTRONICS BU – ELETTRONICA SANTERNO**

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>31.12.11</b>	<b>30.06.11</b>
<b>Opening Net Financial Position</b>	<b>1,583</b>	<b>26,680</b>	<b>26,680</b>
<i>Group profit/(loss)</i>	-4,952	7,561	7,469
<i>Amortisation, depreciation and impairment of fixed assets</i>	1,211	2,425	1,185
Cash flow before Net Working Capital	-3,741	9,986	8,654
Change in Net Working Capital	-3,212	-10,578	-17,344
Investments in fixed assets	-1,262	-4,210	-1,266
Disinvestments in fixed assets	-6	144	4
<b>Operating Free Cash Flow</b>	<b>-8,209</b>	<b>-4,658</b>	<b>-9,952</b>
Other operating flows	-427	-10,091	13,466
Other investing flows	12	-18,051	38
Declared dividends		-10,000	
Other equity flows	-7	17,703	-10,057
<b>Free Cash Flow</b>	<b>-8,631</b>	<b>-25,097</b>	<b>-6,505</b>
<b>Closing Net Financial Position</b>	<b>-7,048</b>	<b>1,583</b>	<b>20,175</b>

**ANALYSIS OF NET WORKING CAPITAL AS AT 30.06.12  
ELECTRONICS BU - ELETTRONICA SANTERNO**

<i>(amounts in Euro thousands)</i>	<b>30.06.12</b>	<b>31.12.11</b>	<b>30.06.11</b>
Trade Receivables	26,156	30,641	30,362
Inventory	23,288	21,563	30,861
Trade Payables	-28,271	-34,243	-36,496
<b>Net Working Capital (NWC)</b>	<b>21,173</b>	<b>17,961</b>	<b>24,727</b>

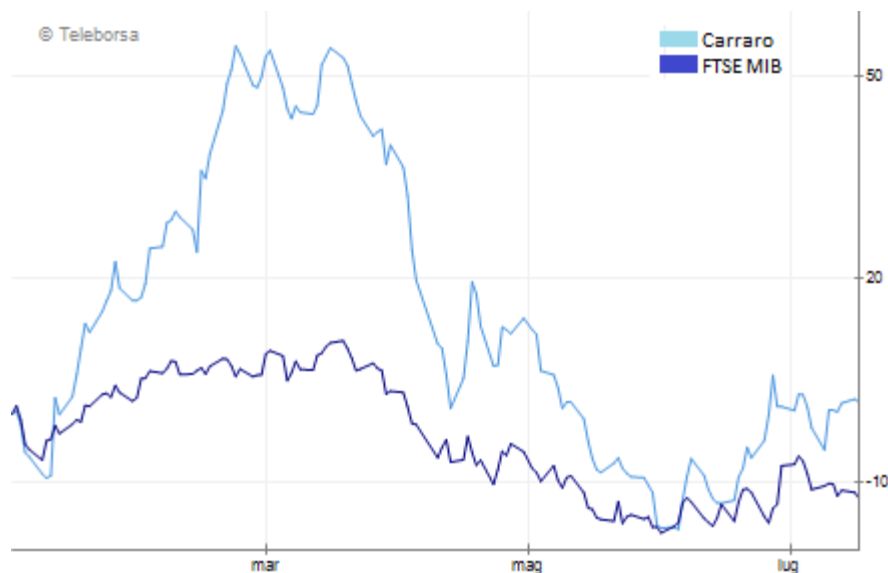
### **Significant events in the first half of 2012**

In view of the positive and significant changes of scenario and new prospects for Group growth, an update of three-year plan became necessary at the end of year 2012, with the need to review, expanding the same, the financial parameters subject of the Framework Agreement signed with major banks. On 19 April 2012, the amendment documents to said Agreement concerning expansion of the financial parameters were signed, rendering the same consistent with the Plan. Beginning in March 2012, in line with the provisions of the Framework Agreement, the Group resumed repayment of the principal amount of loans.

### **Share performance**

During the first six months of 2012, Carraro's stocks registered a fluctuating trend, in line with the dynamics of the main Stock Exchange indicators (FTSE MIB), and during some periods over-performed.

The official average price of the period was 1.77 Euros, with a minimum listing at 1.27 Euros on 5 June 2012, and a maximum listing at 2.36 Euros on 23 February 2012.



### **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 and the interest rates and terms applied to and by the companies in their reciprocal financial relationships are in line with market terms.

Detailed information on the transactions carried out with related parties are provided in the Explanatory Notes to the Condensed Consolidated Interim Financial Statements.

**STANDARDS USED IN PREPARING THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The consolidated annual financial statements are drawn up in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (“IASB”) and homologated 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. The present Condensed Consolidated Interim Financial Statements have been drawn up in abbreviated form in accordance with IAS 34 ‘Interim financial reporting’ and does not include the information required for the consolidated annual financial statements and must therefore be read together with the consolidated annual financial statements drawn up for the year ended on 31 December 2011; Furthermore, these financial statements are based on the assumption of the company as a going concern.

**Events subsequent to the balance sheet date**

Nothing significant to report.

**BUSINESS OUTLOOK FOR THE CURRENT YEAR**

Substantial continuity of demand within the reference markets of the Business Units operating in the mechanical sector is expected (Drivelines, Components and Vehicles) confirming turnover and profitability consistent with the first half of 2012.

In terms of the Electronics Business Unit, a significant turnover increase is not expected owing to the fast fluctuations of the demand even if, within the first half year 2012, it acquired significant orders within foreign markets, the advantages of which will be noticeable within the financial year 2013. Profitability will instead benefit from the actions taken in the first six months of the year which aimed to make the structure suited to smaller sales volumes.

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With reference to the provisions of Articles 36 and 39 of Consob Order 16191 of 29.10.2007 (the so-called “Market Regulations”) and of Art. 2.6.2 Section 15 of the Stock Exchange Regulations we can confirm that the parent company Carraro S.p.A. meets the conditions required by points a), b) and c) of Section 1 of the aforementioned Art. 36 on the subject of accounting situations, bylaws, 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 28 companies of which 15 are established and regulated in non-European Union countries, specifically in Argentina, Brazil, China, India, Russia and the United States; of these, five, in Argentina, China, India, and the United States, are significant under the terms of Title VI, Section II of the Issuer Regulations (Consob Order 11971/1999).