

**CARRARO GROUP: Draft Financial Statements for 2018 Approved by the Board of Directors.**

**Turnover reached 624 million Euros, up 3% compared to the previous year.**

**Growth in key markets. Excellent performance by India, which exceeded 100 million Euros in turnover.**

**Slight decrease in EBITDA, but net of non-recurring components, it remained stable compared to last year (54 million Euros).**

**Net profit of 12.2 million Euros.**

**The Board of Directors will propose to the General Members' Meeting of 11 April next to approve the distribution of a dividend of 0.13 Euros per share.**

**Tomaso Carraro, Vice Chairman of the Group, was appointed Chief Corporate Social Responsibility (CSR) Officer**

- **2018 consolidated turnover at 624 million Euros, a 3% increase compared to 606 million Euros as at 31.12.2017**
- **Consolidated EBITDA equal to 51.9 million Euros (8.3% of turnover) compared to 55 million Euros (9.1% of turnover) as at 31.12.2017**
- **Consolidated EBIT equal to 31.3 million Euros (5% of turnover) compared to 33.7 million Euros (5.6% of turnover) as at 31.12.2017**
- **Consolidated net profit equal to 12.2 million Euros (1.9% of turnover) compared to 13.7 million Euros (2.3% of turnover) as at 31.12.2017**
- **Consolidated operating Net Financial Position as at 31.12.2018 negative at 156.6 million Euros, in line with the 156 million Euros recorded as at 30.06.2018 and slightly worse than the 145.9 million Euros as at 31.12.2017, due to the growth in working capital following the increase in volumes, but already normalizing during the early months of 2019.**

**Campodarsego (Padua), 6 March 2019** – The Board of Directors of Carraro SpA, **world leader in transmission systems for off-highway vehicles and specialised tractors**, met today under the chairmanship of Enrico Carraro to examine the draft Financial Statements for 2018, which will be submitted to the Shareholders' Meeting convened for 11 April next.

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*"Once again 2018 closes beyond the forecasts of the Strategic Plan presented in September 2017. We have therefore decided to accelerate our investments in Research and Innovation, targeting new technologies, and particularly projects focused on reducing consumption and emissions", says Enrico Carraro, Chairman of the Group.*

*"The profitability of the financial year that just closed suffered from adverse economic effects such as the increase in the cost of raw materials and the difficulties of supply in some areas of the world. These impacts have already been completely reabsorbed in the last quarter of the year and we can expect better profitability for 2019," continues Enrico Carraro.*

*"We therefore close 2018 with the pride of a Group that has found a stable financial and asset balance while establishing itself solidly within its key markets, aware of its unique product offerings that represent the most advanced technologies."*

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Over the course of today's Board of Directors Meeting **Tomaso Carraro, already Vice Chairman of the Group, was appointed Chief Corporate Social Responsibility Officer, becoming the point of reference for issues related to corporate social responsibility.** These issues are increasingly related to the sustainable development of the Group at the global level.

#### **Analysis of consolidated economic and financial data of 2018**

2018 closed with excellent results and once again confirmed the Group's ability to respond concretely and promptly to market pressures. This success was possible thanks to meticulous attention to the manufacturing process and the strenuous ability to monitor fixed costs.

In particular, as regards turnover, the year closed with increasing volumes compared to the previous year. The target markets confirmed the growth trend, especially with regard to Construction Equipment and the Asian area.

For the first time, India surpassed the United States as a target market, with an even more significant result considering that this is turnover addressed to the local market, confirming the Group's local for local strategic choice.

The margins of the first part of the year suffered due to the increase in raw materials and delays in the supply chain due to the scarcity of materials. In the second half of the year, results improved thanks to the implementation of recovery actions launched both on the cost as well as on the price front.

To guarantee greater efficiency and better service to customers, it was decided to insource management of the spare parts warehouse inside the Group. This occurred with the establishment of a new company, Driveservice Srl based in Poggiofiorito, which was guaranteed innovative equipment and software. The transfer to the new hub, which took place in August, generated some delays in invoicing, negatively impacting margins. These inefficiencies were partly reabsorbed in the last few months of 2018 and will be fully recovered by the first half of 2019.

## **Markets**

### **Agricultural sector**

In 2018, the demand for tractors and agricultural machinery increased compared to the previous year, but with significant differences in the various areas of the world.

Europe saw a decline in volumes, particularly evident in the second half of the year, also including the decrease in sales of specialist tractors in France and Germany. This was influenced by the introduction of increasingly stringent EU regulations, which involve standards requiring costly changes, with significant investments in Research and Development. In Turkey, as already mentioned in the half-year report, the collapse of demand due to climatic reasons, to the devaluation of the Turkish Lira and to the elimination of subsidies to the industry was confirmed.

In North America, the expansion phase that took place in 2017 was consolidated and the year ended with increasing sales volumes of agricultural machinery for all tractor sizes, as well as for harvesting machines.

During 2018, China suffered a further decline in sales, mainly due to the gradual reduction of state subsidies combined with the increase in the cost of new tractors caused by higher technological performance linked to lower emissions.

India closed 2018 with record sales volumes, both for domestic demand and for export, confirming itself as the world's leading market in terms of number of vehicles sold and a true locomotive of global growth.

In 2018, Brazil recorded a sharp increase in sales volumes (50 thousand tractors in 2018, an increase of 15% compared to 2017, 42 thousand tractors) despite a fluctuating trend, achieved thanks to the acceleration of the last quarter, essentially due to the advanced purchase of machines to avoid the price increase expected due to the introduction of new engines in 2019.

### **Construction equipment**

Also in 2018, as in the previous year, the phase of expansion of the construction equipment sector continued.

In Europe, progressive growth was recorded for all vehicle categories and in particular the solid demand for compact specialised machines (loaders and excavators) was confirmed. Turkey was an exception also in this sector, where the decrease in the demand for construction machinery worsened further, due to the significant devaluation of the local currency and the substantial isolation in which the country's economy has progressively fallen.

2018 in North America was characterised by strong growth in demand for both Utility as well as Heavy Construction machines.

In China, the year was characterised by the good progression of sales volumes of construction machines. The positive trend is expected to maintain its effects in the medium term, thanks to the "One Belt, One Road" long-term infrastructure investment plan.

In India, the now double-digit market growth is destined to continue and accelerate over time, thanks to planned government infrastructure investments.

With regard to Brazil, domestic and international investments remained very limited, with a consequent stagnation of activities in the construction sector and reduction to a minimum of the demand for new machinery.

## Revenues

**2018 closed with a turnover of 624 million Euros, up 3%** compared to 606 million Euros in 2017.

**In terms of geographical areas, for the first time India became the leading target market** (17.61% of turnover, + 42.4% compared to 2017), **exceeding 100 million Euros in turnover**, thanks in particular to sales to the local market. **North America was in second place** (15.5% of turnover) while **Turkey fell to tenth place**, due to the dramatic decline in demand mainly due to a significant recession and a substantial isolation of the country's economy.

## EBITDA and EBIT

Consolidated margins (EBITDA and EBIT) were slightly lower than the previous year; in addition to the increase in raw materials and certain supply chain inefficiencies, these were affected by a number of non-recurring operating items, such as those relating to restructuring costs for the upgrade of the production capacity of the Argentine subsidiary, amounting to 2.2 million Euros.

**EBITDA as at 31 December 2018 came to 51.9 million Euros (8.3% of turnover)**, down 5.8% compared to 55 million Euros (9.1% of turnover) in 2017. **2018 EBIT amounted to 31.3 million Euros (5% of turnover)**, down 7.2% compared to 33.7 million Euros (5.6% of turnover) in 2017.

**Net of the non-recurring operating items, EBITDA and EBIT were essentially in line with the previous financial year**, both in absolute terms and as a percentage of turnover.

In addition, it is worth noting that **margins for the year were also influenced by the decision to accelerate R&D costs compared to the plan for the amount of 2.6 million Euros**.

<i>GROUP (Values in Euro thousands)</i>	<b>31.12.2018</b>	<b>% of turnover</b>	<b>31.12.2017</b>	<b>% of turnover</b>
EBITDA	51,858	8.3%	55,035	9.1%
ADJUSTED EBITDA	54,045	8.7%	54,809	9.0%
EBIT	31,284	5.0%	33,708	5.6%
ADJUSTED EBIT	33,471	5.4%	33,482	5.5%

## Net profit/(loss)

**Consolidated net profit amounted to 12.2 million Euros (1.9% of turnover)**, slightly down compared to the 2017 profit, which amounted to 13.7 million Euros (2.3% of turnover).

**Net of the effects of non-recurring operations and after the related tax effect** (-765 thousand Euros in 2018 and 215 thousand Euros in 2017), **adjusted net profit increased compared to the previous year, reaching 13.6 million Euros** (compared to 13.7 million Euros in 2017).

Taxes as at 31 December 2018 amounted to a total of 5.4 million Euros (0.9% of turnover) compared to 7.6 million Euros (1.2% of turnover) in the previous year.

### Investments

**Investments of 27.8 million Euros were made in 2018, up by 80%** compared to 15.6 million Euros in 2017, for the purchase of machinery for mechanical processing, plant modernisation, R&D development, with the doubling of the testing areas, and for the construction of the new semi-automated warehouse in Campodarsego.

### Research and innovation

**Research and innovation expenses in 2018 amounted to 22.4 million Euros, 3.6% of turnover** (compared to 21.9 million Euros in 2017, 3.6 % of turnover).

### Net financial position

**The consolidated net financial position as at 31 December 2018 was negative by 156.581 million Euros**, worse than as at 31 December 2017 (-145.9 million Euros), in line with the figure as at 30 June 2018 (-156 million Euros).

The worsening compared to the previous year was due to the change in working capital following the increase in volumes. This change was largely absorbed in the second half of the year, thanks to the planned improvement activities, and also mitigated by the collection of the residual share of the investment in O&KA GmbH of 17 million Euros.

As at 31 December 2018, all the financial parameters envisaged by the banking contracts and by the bond issue regulations were complied with. Please note that the parameters of the bond issue are of the Incurrence Covenants type.

### Performance by Business Area

- In 2018, **Carraro Drive Tech** (transmission systems and components) recorded a **total turnover of 518.4 million Euros**, an increase of 5.2% compared to the 492.8 million Euros of 2017.

**Since the first few months of 2018, the target markets of this Business Area generated a good trend in orders;** only in the latter part of the year did greater caution characterise the market, the effect of the de-stocking initiatives implemented by the main customers, as well as a slowdown generated by the uncertainties caused by the US-Chinese tariff war.

Margins were affected by significant turbulence on the raw materials market during the whole of 2018; the growing demand led to difficulties in procuring materials causing, in addition to increasing purchase prices, also production inefficiencies. The erosion of margins caused by the increase in materials and the recourse to increased outsourcing to nevertheless guarantee the required production output, was recovered by other actions aimed at containing fixed costs and overheads and partly by adjusting sales prices.

**EBITDA amounted to 49.9 million Euros (9.6% of turnover)** which, while increasing in absolute terms, was slightly down in percentage terms compared to the 49.6 million Euros (10.1% of turnover) in 2017. Excluding non-recurring operating items, adjusted EBITDA amounted to 52.2 million Euros (10.1% of turnover) compared to 47.4 million Euros (9.6% of turnover) in 2017.

- In line with the forecasts, **Agritalia (tractors) closed 2018 with a turnover of 132.9 million Euros (3,985 tractors)** decreasing compared to the record of 141.3 million Euros reached in 2017 (4,682 tractors). Please note that 2017 recorded the highest historical value ever achieved mainly due to one-off effects such as the end-of-series peak of the range of Stage IIIA specialized tractors and the launch of exports on the North American market of the new range for the John Deere customer.

**Revenues for development projects in 2018 amounted to 3.6 million Euros** down compared to 6.2 in 2017 which included the launch of an important number of new models.

**2018 EBITDA amounted to 2.9 million Euros (2.2% of turnover)**, significantly down compared to the 9.7 million Euros (6.9% of turnover) in 2017. The strong contraction in margins, both in absolute as well as in percentage terms, was due to the decrease in volumes, to the inefficiencies related to the start of production of new ranges and to the problem of recovering the increase in the price of raw materials.

Specific improvement actions are already underway to recover margins during 2019.

### **Business outlook**

For the first quarter of 2019, volumes are expected to decrease slightly compared to the previous year, even if for the full year turnover is expected to improve. Also with regard to margins, an improvement is expected, more visible starting from the second half, thanks to the end of the inefficiencies that characterised the results of a part of 2018.

### **Documentation**

By 21 March 2019, the Annual Report, the Report of the Board of Statutory Auditors and the Report of the Independent Auditors and attached documents, as well as the Annual Report on Corporate Governance and Ownership Structures and the Consolidated Non-Financial Statement pursuant to Legislative Decree 254/2016 as at 31.12.2018 (so-called Sustainability Report) will be made available to the public at the registered office of the Company and at Borsa Italiana SpA, as well as on the Company's website [www.carraro.com](http://www.carraro.com), in the Corporate Governance section.

### **General Members' Meeting**

The Financial Statements will be approved by the General Members' Meeting to be held on 11 April 2019.

The Board of Directors will propose to the General Members' Meeting to approve the distribution of a dividend of 0.13 euros per share, with an ex-date of 15 April 2019 and a payment date of 17 April 2019. In this case, those shareholders of Carraro SpA current at the end of the accounting day of 16 April 2019 (record date) will be entitled to the dividend.

The undersigned Enrico Gomiero, the Financial Reporting Officer, declares, pursuant to Paragraph 2 of Article 154 bis of the Consolidated Finance Act, that the accounting information contained in this document is consistent with the accounting records.

*For a correct comparison and better understanding of the actual results of the period, adjustments of actual data have been highlighted in this disclosure. In particular, the adjusted data take account of transactions not related to ordinary operations, such as restructuring activities, which mainly concerned Carraro Argentina, the impairment of certain intangible assets and other non-recurring income and expenses. The proforma figures take account of the effects of deconsolidation as a result of the transfer of 51% of the company Elettronica Santerno S.p.A. and its subsidiaries (on a like-for-like basis) that took place in November 2016. The following alternative performance indicators are also used: EBITDA: the sum of operating profit/(loss) of the income statement,*

*amortisation, depreciation and impairment of fixed assets EBIT: earnings before tax taxes and financial income and expenses, with no adjustments; Net Working Capital of operations: difference between Trade Receivables, Net Inventories and Trade Payables in the balance sheet; Net financial position of operations: ESMA Net Financial Debt determined in accordance with the provisions of paragraph 127 of the recommendations contained in the ESMA document no. 319 of 2013, implementing Regulation (EC) 809/2004, deducting, where applicable, non-current receivables and financial assets.*

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Carraro is an international group, leader in transmission systems for off-highway vehicles and specialised tractors, with consolidated turnover in 2018 of 624 million Euros.

The Group's activities are divided into two Business Areas:

– **Drive systems and components**

Through the subsidiaries Carraro Drive Tech and SIAP, the Group designs, manufactures and sells transmission systems (axles and transmissions) mainly for agricultural and construction equipment, and also markets a wide range of gears for very diverse sectors, from the automotive industry to material handling, agricultural applications and construction equipment.

– **Tractors**

Through Divisione Agritalia, the Group designs and manufactures specialised tractors (for vineyards and orchards from 60 to 100 hp) for third-party brands, namely John Deere, Massey Ferguson and Claas, as well as a specialised Carraro-brand range; Agritalia also provides engineering services for the design of innovative tractor ranges.

The Group's holding company, Carraro SpA, has been listed on the Italian Stock Exchange since 1995 (CARR.MI) and has its headquarters in Campodarsego (Padua). As at 31.12.2018, the Group had 3,266 employees – of which 1,436 based in Italy – and has manufacturing facilities in Italy (4), India, China, Argentina and Brazil. For additional information visit [carraro.com](http://carraro.com).

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**Attachments: extract of the Statement of Financial Position and Income Statement of the Statutory and Consolidated Financial Statements as at 31.12.2018**

## Carraro S.p.A. December, 31 2018

(Figures not audited by independent auditors)

### Balance Sheet (values in thousands Euro)

IAS/IFRS	Dec 31, 2018	Dec 31, 2017
<b>Fixed assets</b>	<b>181.896</b>	<b>185.842</b>
Tangible	44.625	40.540
Intangible	13.382	15.297
Capital assets	540	540
Investments	108.280	108.472
Financial assets	1.458	7.360
Deferred taxes assets	13.553	13.558
Trade and other current receivables	58	75
<b>Current assets</b>	<b>63.466</b>	<b>84.199</b>
Inventory	25.938	36.563
Trade and other current receivables	33.798	45.773
Financial assets	898	107
Liquid assets	2.832	1.756
<b>Total assets</b>	<b>245.362</b>	<b>270.041</b>
<b>Shareholders' equity</b>	<b>82.240</b>	<b>87.389</b>
<b>Non current liabilities</b>	<b>57.598</b>	<b>55.485</b>
Financial liabilities	54.047	51.792
Trade and other non current payables	1	- 2
Deferred taxes liabilities	-	-
Provision for indemnity, pension and similar	2.384	2.569
Provision for risks and contingencies	1.166	1.126
<b>Current liabilities</b>	<b>105.524</b>	<b>127.167</b>
Financial liabilities	29.481	30.196
Trade and other current payables	64.230	84.904
Current taxes	3.956	4.391
Provision for contingencies and obligations	7.857	7.676
<b>Total liabilities &amp; shareholders' equity</b>	<b>245.362</b>	<b>270.041</b>
<b>Management Net financial position</b>	<b>78.430</b>	<b>72.901</b>

### Income statement (values in thousands Euro)

	Dec 31, 2018	Dec 31, 2017
Revenues	159.853	166.939
Cost of material	- 92.931	- 130.688
Services	- 26.028	- 25.409
Leases	- 84	- 41
Cost of personnel	- 26.999	- 25.936
Depreciations and writedown of Assets	- 4.824	- 4.459
Writedown Of Receivables	-	- 305
Changes in inventories stock	- 10.624	25.840
Provision for risks and contingencies	- 2.032	- 3.517
Other incomes / expenses	1.540	805
<b>EBIT</b>	<b>- 2.129</b>	<b>3.229</b>
<b>EBITDA</b>	<b>2.694</b>	<b>7.688</b>
Incomes from investments	14.282	17.776
Financial incomes / expenses	- 6.297	- 5.362
Incomes / losses in exchange rates	- 81	- 181
Adjustments of the value of financial essets	- 713	-
<b>Net result before taxes</b>	<b>5.062</b>	<b>15.462</b>
Income and deferred taxes	2.960	274
Net result divestment of the activities	-	-
Minority interest	-	-
<b>Net Result</b>	<b>8.022</b>	<b>15.736</b>
	<b>5,0%</b>	<b>9,4%</b>

## Carraro Group December, 31 2018

(Figures not audited by independent auditors)

### Balance Sheet (Euro thousands)

IAS/IFRS	Dec 31, 2018	Dec 31, 2017
<b>Fixed assets</b>	<b>247.686</b>	<b>258.889</b>
Tangible	150.721	140.717
Intangible	54.701	57.603
Capital assets	695	695
Investments	7.248	24.252
Financial assets	8.656	8.849
Deferred taxes assets	20.714	21.135
Trade and other current receivables	4.951	5.638
<b>Current assets</b>	<b>274.161</b>	<b>284.685</b>
Inventory	118.409	122.892
Trade and other current receivables	116.816	107.909
Financial assets	3.319	5.016
Liquid assets	35.617	48.868
<i>Assets held for sale</i>	-	-
<b>Total assets</b>	<b>521.847</b>	<b>543.574</b>
<b>Total group shareholders' equity</b>	<b>77.074</b>	<b>82.059</b>
<b>Non current liabilities</b>	<b>202.919</b>	<b>153.499</b>
Financial liabilities	186.379	134.594
Trade and other non current payables	270	421
Deferred taxes liabilities	2.411	2.532
Provision for indemnity, pension and similar	9.656	10.229
Provision for risks and contingencies	4.203	5.723
<b>Current liabilities</b>	<b>241.854</b>	<b>308.016</b>
Financial liabilities	18.037	73.240
Trade and other current payables	198.230	210.860
Current taxes	7.864	7.193
Provision for contingencies and obligations	17.723	16.723
<i>Liabilities held for sale</i>	-	-
<b>Total liabilities &amp; shareholders' equity</b>	<b>521.847</b>	<b>543.574</b>
<b>Management Net financial position</b>	<b>156.581</b>	<b>145.896</b>

### Income Statement (Euro thousands)

	Dec 31, 2018		Dec 31, 2017	
Revenues	624.115		606.021	
Cost of material	- 381.727		- 397.147	
Services	- 96.419		- 92.654	
Leases	- 1.059		- 1.305	
Cost of personnel	- 92.895		- 94.432	
Depreciations and writedown of Assets	- 20.574		- 21.327	
Writedown Of Receivables	- 49		- 443	
Changes in inventories stock	- 489		36.877	
Provision for risks and contingencies	- 5.008		- 9.011	
Other incomes / expenses	5.389		7.129	
<b>EBIT</b>	<b>31.284</b>	<b>5,0%</b>	<b>33.708</b>	<b>5,6%</b>
<b>EBITDA</b>	<b>51.858</b>	<b>8,3%</b>	<b>55.035</b>	<b>9,1%</b>
Incomes from investments	1.517		- 326	
Financial incomes / expenses	- 11.673		- 8.647	
Incomes / losses in exchange rates	- 1.377		- 1.958	
Adjustments of the value of financial assets	- 1.205		- 1.504	
<b>Net result before taxes</b>	<b>18.546</b>		<b>21.273</b>	
Income and deferred taxes	- 5.374		- 7.602	
Minority interest	- 985		- 3	
<b>Net consolidated result</b>	<b>12.187</b>	<b>2,0%</b>	<b>13.668</b>	<b>2,3%</b>