

RE VIEW

Carraro Group
Annual Review 2013



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Letter from the Chairman



Dear Shareholders,

The positive message that closed our report on the financial statement last year is borne out today in the figures for 2013, and the return to a profit after the loss of over 15 million Euros, recorded in the previous financial year, marks a turning point for our Group. The important industrial strategies adopted with determination after the onset of the recession have produced the expected results and the profit for 2013 should be considered only a starting point for achieving increasingly important goals, which today are within our reach.

The direction indicated is therefore the right one and is confirmed by the solid relations which in this period have been further strengthened with our long-standing customers, with the addition of many new partners who have become our suppliers. This is why we are focusing on the products which have always ensured the success of our company and which enable us to look to the future with confidence and optimism. We are therefore concentrating on the core business. The agreement reached in March 2014 for the sale of some of the activities of the subsidiary miniGears forms part of this strategy.

Going back to the 2013 financial year, we are very satisfied with the steady and significant recovery of profitability in every sector. In particular, the most encouraging results come from the business areas connected with agriculture and earth movement machinery, which in 2009 were particularly hard hit by the recession and which today give us the greatest satisfaction once again, recording very significant profit margins in line with the best market performances. The Group's turnover is stable, 872 million Euros compared to 874 in 2012. What should be highlighted, however, is the important increase in profitability in all the business areas. The pre-tax result increases from a loss of 11.6 million Euros in 2012 to a profit of 12.8 million Euros in 2013, with the Group net profit dropping to 1.3 million only due to the effect of taxation.

All this is the consequence of our belief, over the years, in the need to maintain a strong presence in terms of products and processes. And this is why, vis-à-vis increasingly complex global competition, we have never stopped investing to broaden the range of solutions conceived *ad hoc* both for countries that are only just starting out along the path of mechanisation and for the most developed geographical areas which are focusing on high-end applications and require increasing efficiency and performance from their vehicles.

Each business area has interpreted the needs of its application markets innovatively, proposing highly advanced technological solutions.

Carraro Drive Tech has seen the start of production of the new T10 transmission, which significantly widens today's range of transmissions for the agricultural market. For the earth movement machines, it has also developed a new family of highly efficient transmissions, designed to ensure full compliance with the emission control laws that will come into force over the next few years. These projects will produce further positive effects on the turnover which will already be evident in 2014.

Carraro Agritalia has gone beyond its traditional range of specialist tractors for the main agriculture OEM and has significantly extended the engineering services offered in an interactive relationship with new partners.

Elettronica Santerno deserves particular mention. In 2012 it was a heavy burden on the Group's performance due to the strong fall-off in the domestic photovoltaic market. During 2013 Santerno rapidly adjusted its focus, obtaining important orders abroad, where renewable energy is a growing market today, and it also successfully continued along the path of repositioning in the sector of the industrial applications nearest the Group's business model. Already in this first year these initiatives have helped to substantially reduce the company's losses (from 11.5 to 4.5 million Euros).

These are all strategic developments fundamental for guaranteeing long-term relations with our main customers in the various sectors at world level. Over time the Group has become a good listener, interpreting the needs of its various respondents, integrating with their value chain and becoming a key technological partner. To do this, we have relied on our industrial competences, because to be able to design and produce new technological solutions and therefore achieve growth, it is fundamental – in addition to research and innovation – to maintain an in-depth knowledge of the production processes.

In line with this approach, in 2013 the important strategy of insourcing continued, bringing some important industrial processes back in-house, with evident improvements both on the profit margins and on the quality of our products. To support this new strategy, during the financial year we initiated a 150 million Euros investment programme to expand our plants in Italy and worldwide. In our country this has been made possible by the joint agreement signed with trade union representatives for continuous machining shifts in order to saturate the plants and therefore increase their competitive strength.

Optimisation of the industrial processes must also involve the Group's main suppliers who – via a selection process – have been further integrated in a medium-long term partnership aimed at providing appropriate support for the expected volumes with a high level of service and flexibility.

2013 has therefore been positive in many respects, and has been a year in which we have laid the basis for a solid sustainable growth, in the knowledge that the effects of all these important actions will be seen on the Group's trend as from 2014. We can't say we have arrived, but we can certainly say that the route is marked out and that our future will be determined by launching the new products – with increasing added value – which have good market prospects and on which we are already concentrating our energies.

In this I sense the strong commitment of the management and everyone working in our Group, at all latitudes.



ENRICO CARRARO

Chairman

Ownership Structure Carraro Spa

from 20 april 2013

Board of Directors

In office until approval of the 2014 financial statements (Appointments, Shareholders' Meeting of 20/04/2012)

Enrico Carraro²
Chairman

Tomaso Carraro
Deputy Chairman

Alexander Bossard
Chief Executive Officer

Arnaldo Camuffo^{1/2/3}
Director

Francesco Carraro
Director

Antonio Cortellazzo^{1/2/3}
Director

Gabriele del Torchio³
Director

Marina Pittini^{1/2/3}
Director

Marco Reboa^{1/3}
Director

¹ Members of the Auditing and Risk Committee

² Members of the Nominations, Human Resources and Remuneration Committee

³ Independent Directors

Board of Statutory Auditors

In office until approval of the 2014 financial statements (Appointments, Shareholders' Meeting of 20/04/2012)

Roberto Saccomani
Chairman

Saverio Bozzolan
Regular Auditor

Marina Manna
Regular Auditor

Barbara Cantoni
Alternate Auditor

Stefania Centorbi
Alternate Auditor

Independent Auditors

2007-2015

PricewaterhouseCoopers Spa

Parent Company

Finaid Spa

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.

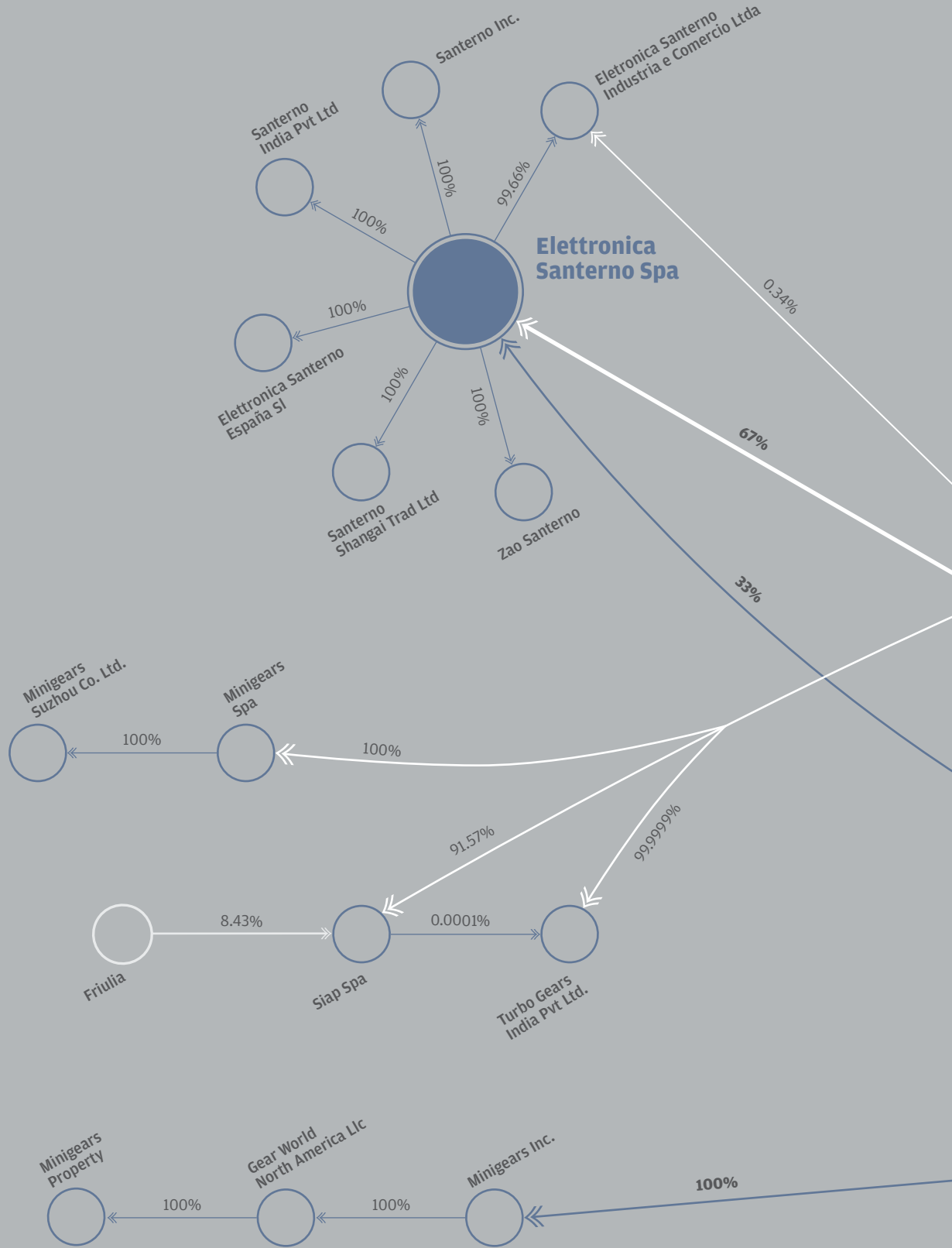
DISCLAIMER

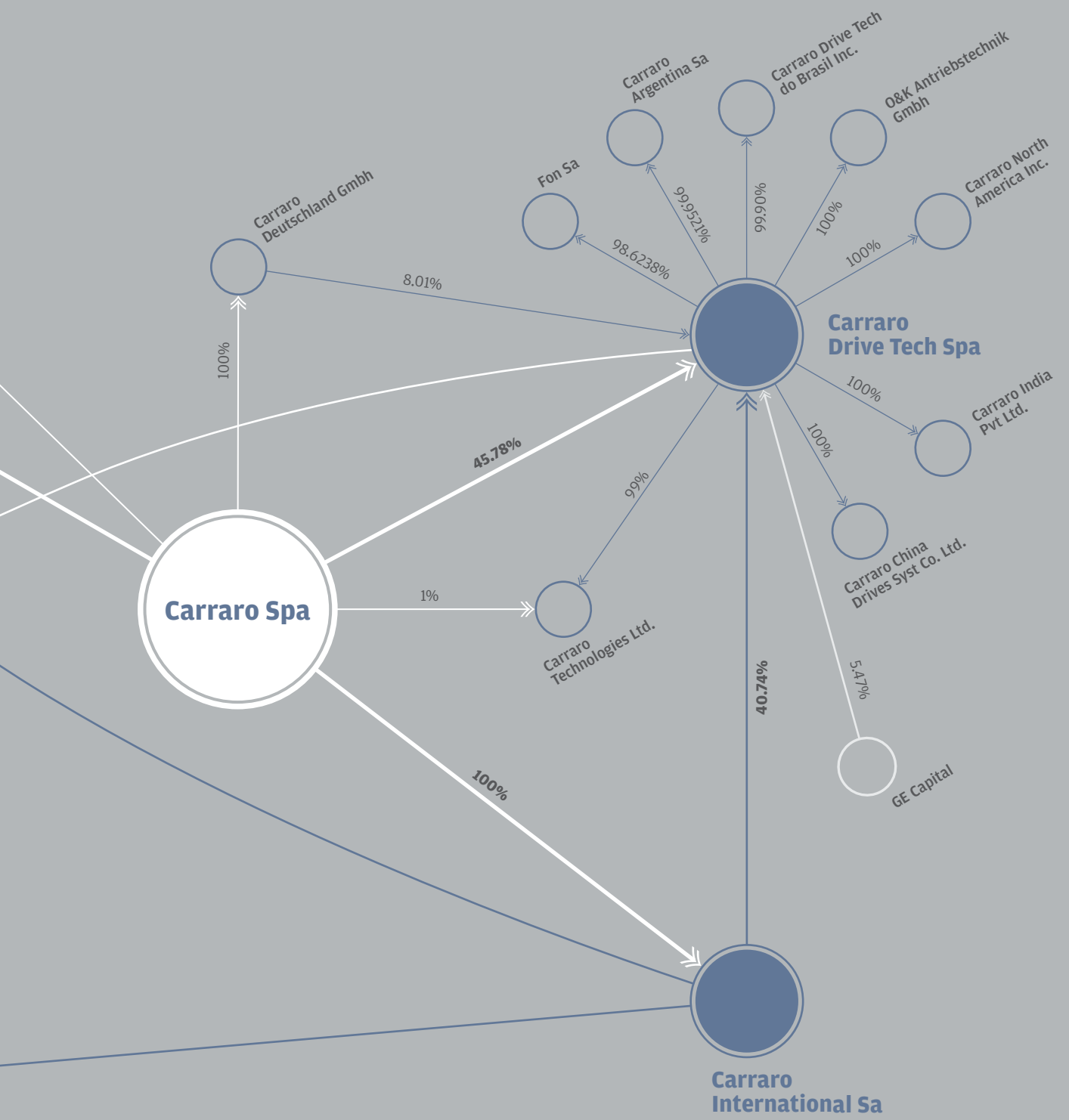
This document contains forward-looking statements, in particular in the section "Business outlook and projections for 2014", in relation to future events and the operating, economic and financial results of the Carraro Group. These forecasts have by

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.

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Share Capital
Euro 23,914,696
fully paid-up
Tax Code/VAT No.
and Padua Register
of Companies
No. 00202040283
Padua REA No. 84033





Consolidated Income Statement

as at 31/12/2013

	31.12.13		31.12.12		Changes	
		%		%	31,12,13	31.12.12
Revenues from sales	871,936	100.00%	874,356	100.00%	-2,420	-0.28%
Purchases of goods and materials (net of changes in inventories)	-515,686	-59.14%	-536,320	-61.34%	20,634	-3.85%
Services and Use of third-party goods and services	-146,048	-16.75%	-149,711	-17.12%	3,663	-2.45%
Personnel costs	-145,828	-16.72%	-140,313	-16.05%	-5,515	3.93%
Amortisation, depreciation and impairment of assets	-32,642	-3.74%	-37,022	-4.23%	4,380	-11.83%
Provisions for risks	-11,003	-1.26%	-13,928	-1.59%	2,925	-21.00%
Other income and expenses	6,486	0.74%	4,537	0.52%	1,949	42.96%
Internal construction	4,007	0.46%	4,656	0.53%	-649	-13.94%
Operating costs	-840,714	-96.42%	-868,101	-99.28%	27,387	-3.15%
Operating profit/(loss) (Ebit)	31,222	3.58%	6,255	0.72%	24,967	
Income from equity investments	-	0.00%	-151	-0.02%	151	
Other financial income	2,649	0.30%	2,745	0.31%	-96	-3.50%
Financial costs and expenses	-19,695	-2.26%	-19,727	-2.26%	32	-0.16%
Net gains/(losses) on foreign exchange	-1,428	-0.16%	-664	-0.08%	-764	
Value adjustments of financial assets	-	0.00%	-	0.00%	-	
Gains/(losses) on financial assets	-18,474	-2.12%	-17,797	-2.04%	-677	3.80%
Profit/(loss) before taxes	12,748	1.46%	-11,542	-1.32%	24,290	
Current and deferred income taxes	-10,698	-1.23%	-6,398	-0.73%	-4,300	67.21%
Net profit/(loss)	2,050	0.23%	-17,940	-2.05%	19,990	
Profit/(loss) pertaining to minorities	-760	-0.09%	2,641	0.30%	-3,401	
Group consolidated profit/(loss)	1,290	0.15%	-15,299	-1.75%	16,589	
Ebitda	61,544	7.06%	40,185	4.60%	21,359	53.15%

Amounts in Euro/000

Consolidated Statement of Financial Position

as at 31/12/2013

Amounts in Euro/000

	31.12.13	31.12.12
Property, plant and equipment	202,230	209,656
Intangible fixed assets	89,521	86,049
Real estate investments	709	708
Holdings in subsidiaries and associates	-	-
Financial assets	2,867	3,909
Deferred tax assets	26,375	29,428
Trade receivables and other receivables	3,596	1,624
Non-current assets	325,298	331,374
Closing inventory	145,849	146,754
Trade receivables and other receivables	133,232	134,261
Financial assets	3,799	4,397
Cash and cash equivalents	72,712	108,857
Current assets	355,592	394,269
Total assets	680,890	725,643
Share Capital	23,915	23,915
Reserves	41,735	53,678
Foreign currency translation reserve	-18,180	-8,988
Profit/loss for the year	1,290	-15,299
Minority interests	6,103	9,810
Shareholders' equity	54,863	63,116
Financial liabilities	180,892	177,821
Trade payables and other payables	1,814	313
Deferred tax liabilities	2,297	3,467
Provision for severance indemnity and retirement benefits	19,349	19,676
Provisions for risks and liabilities	5,077	2,403
Non-current liabilities	209,429	203,680
Financial liabilities	146,847	153,504
Trade payables and other payables	247,742	278,245
Current taxes payables	5,977	8,159
Provisions for risks and liabilities	16,032	18,939
Current liabilities	416,598	458,847
Total shareholders' equity and liabilities	680,890	725,643

Cash Flow

as at 31/12/2013

	31.12.13	31.12.12
Opening Net Financial Position	-213,703	-247,505
<i>Group profit/(loss)</i>	1,290	-15,299
<i>Profit/(loss) pertaining to minorities</i>	760	-2,641
<i>Amortisation, depreciation and impairment of fixed assets</i>	30,322	33,930
Cash flow before Net Working Capital	32,372	15,990
Change in Net Working Capital	-39,420	43,509
Investments in fixed assets	-37,539	-41,632
Disinvestments in fixed assets	2,483	2,279
Operating Free Cash Flow	-42,104	20,146
Other operating flows	9,273	18,524
Other investing flows	8,687	39
Change in Share Capital	-	-
Dividends paid	-	-
Other equity flows	-10,313	-4,907
Free Cash Flow	-34,447	33,802
Closing Net Financial Position	-248,150	-213,703

Amounts in Euro/000

Analysis of Net Working Capital

as at 31/12/2013

	31.12.13	31.12.12
Trade Receivables	94,220	88,051
Inventory	145,849	146,754
Trade Payables	-212,297	-246,453
Net Working Capital (NWC)	27,772	-11,648



The Carraro Group

Carraro is an international industrial Group which is world leader in high-efficiency and eco-compatible power transmission systems, with headquarters in Italy, in Campodarsego (Padua).

Continuing the strategy it started with the 2009 crisis, Carraro took another step forward in 2013 in the process to update its management model. The new set-up is a development of the Business Unit organization, which in recent years has enabled the Group to appropriately focus on specific markets and applications, with different risk profiles and targeted strategies.

The main feature of the reorganization was the merging of the two BUs – transmission systems and components – into a single unit. This was a fundamental step forward in achieving the most from the Group's core business, both in terms of synergies for developing new products and the integration of production processes. This broad-ranging structure also maintains a focus on main markets and different specific sectors.

The new Carraro Drive Tech Business Area, with its more dynamic configuration, can tackle its reference markets with a more flexible response and products that boast a greater added value.



In detail, the three Business Areas today are:

- › **Carraro Drive Tech** (*Transmission systems and components*)
Is specialised in the design, manufacture and sale of transmission systems (axles, transmissions and drives) mainly for agricultural and construction equipment, and also markets a wide range of components and gears (Siap and Minigears brands) for very diverse sectors, from the automotive industry to light power tools, material handling, agricultural applications and construction equipment.
- › **Carraro Divisione Agritalia** (*Tractors*)
Designs and manufactures special tractors (for vineyards and orchards from 60 to 100 hp) for third-party brands, and namely John Deere, Massey Ferguson and Claas; Agritalia also provides engineering services for the design of innovative tractor ranges.
- › **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).

An appetite for change has always been a strategic driver of the Group. During its history, Carraro has been able to adapt different organisational and strategic solutions to developments in its reference markets and in the geographic areas it operates in, as well as to the technological requirements of its partners. The Group still pursues this strategy today, focussing in particular on assets considered instrumental in achieving its objectives.

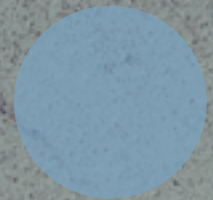
Highlights



HIGH LIG HTS



Breakdown by Sector of Application




Renewable
Energies
8.5%



Automotive
4.5%




Material
Handling
3.8%




Gardening
& Power Tools

3.4%



Industrial

0.4%



Other

2.9%



Construction
Equipment

37.5%



Reference Markets

Agriculture

In 2013, growth was positive, supported by agricultural commodity prices holding up.

Demand increased in Central and North Europe, with signs of a slowdown in the last few months of 2013, while it remained critical in countries in South Europe, with improvements expected only after the first half of 2014. For most of the year, Turkey benefited from the best growth trend, yet in the last few months, due to political and currency tensions, this scenario was affected by a considerable slowdown, making prospects for 2014 uncertain.

In the United States, sales of tractors were basically stable at good levels and trends are not expected to change until the second half of 2014.

In China, tractor sales increased, mainly as regards heavy duty models up to 100 hp, thanks to incentives and regulatory actions to increase the average size of farmland and the technological content of agricultural machines to maximise productivity.

In India, the leading market worldwide for the number of tractors sold, demand picked up after the decline in 2012, with forecasts, in the medium term, of current levels stabilising. This market, still heavily centred on two-wheel drive tractors, is expected to provide interesting opportunities from the new ranges being developed by local OEMs.

Brazil also reported a considerable demand for agricultural equipment and tractors, with a slowdown at the end of the year.

During 2013, Carraro Drivetech consolidated its plan to expand its products, for both high-end axles and new transmissions. In particular, orders for the new T10.0 range have increased for 2014, confirming the acclaim for this product from the most important OEMs.

For the Group, that works with leading manufacturers of machines such as Agco, Claas, Cnh, John Deere, Foton, Erkunt, Escorts, Same, Sanko and Tumosan, sales in the agricultural segment accounted for 39% of consolidated turnover in 2013, up 8.3% compared to the previous year (36%), becoming the leading reference market. In terms of market share, Carraro retained a good position in the sector of tractor and harvesting machine axles (25%), and above all in the sector of transmission systems for utility tractors up to 100 hp (30%).



Reference Markets

Construction and Mining Equipment

2013 closed with a further drop in the global volume of sales of construction and mining equipment; the mining sector registered a greater downturn, after years of steady and considerable growth. Sales of more compact equipment (backhoe loaders, telescopic trucks, loaders and compactor rollers) showed signs of recovery, particularly in the United States and South America.

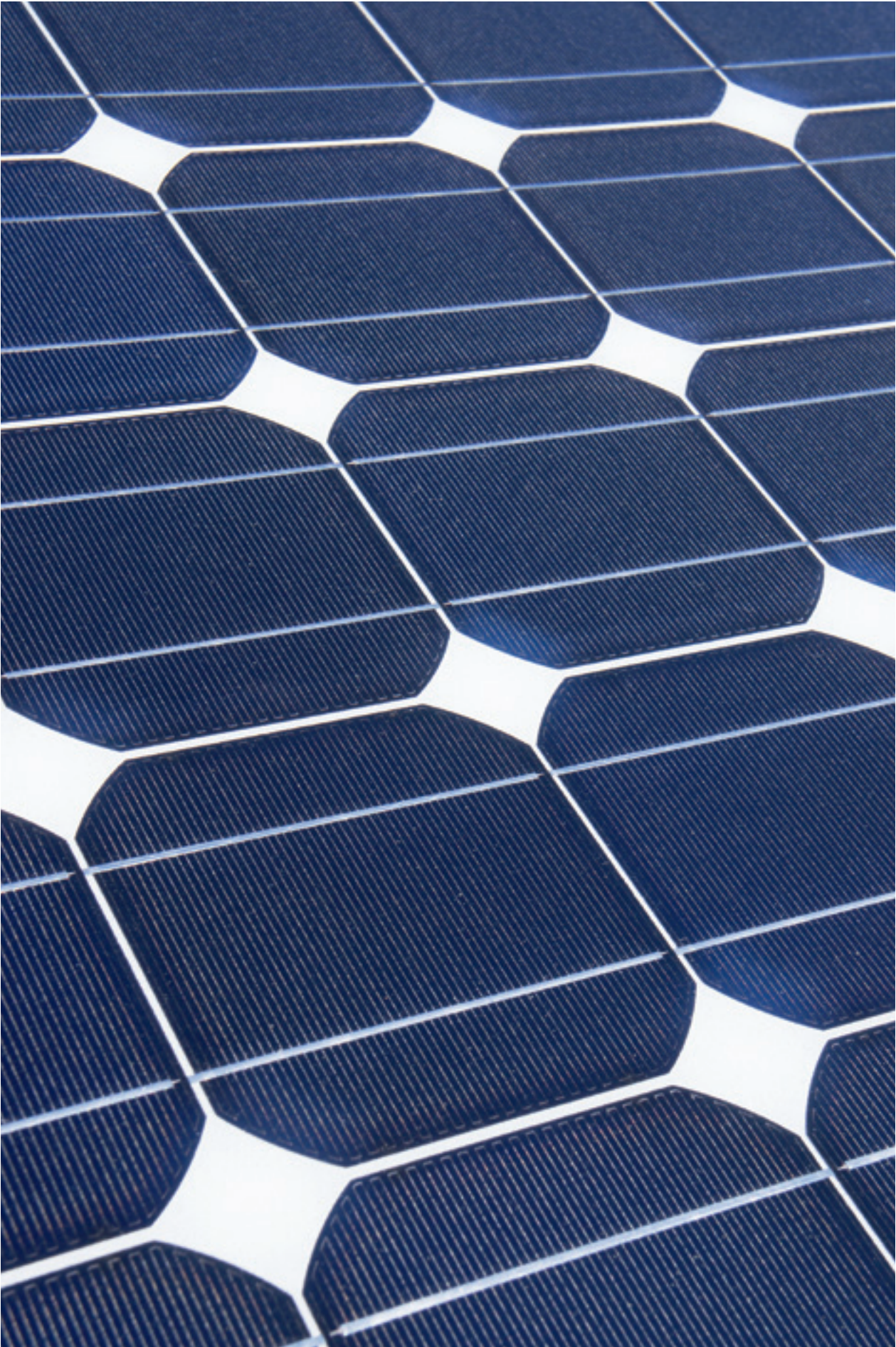
Trends in Europe maintained their distinct identity: in Central and Northern Europe, there were signs of a recovery with greater optimism over medium-term prospects, while in Southern Europe, considerably affected by events of the recession, the trend was not positive and doubts still remain as to prospects in the short and medium term. In Turkey, demand for construction equipment was buoyant for most of 2013. Political instability and the strong depreciation of the Turkish Lira at the end of the year fuelled uncertainties over prospects for 2014.

In North America, the recovery in the private and residential construction industry generated a greater demand for utility machines, such as backhoe loaders, in particular from large rental companies. In China, the decline of 2012 caused a slowdown, and the construction equipment sector reflected an economy with lower growth rates. In India, the slowdown due to economic uncertainty and negative trend of investments in infrastructures continued, both affected by the political situation, prior to elections being held.

Brazil's plan for investing in infrastructures continued to generate a strong demand for construction equipment. This positive trend is expected to continue in 2014, albeit at a slower pace than the previous year.

The mining sector and high power construction equipment sector, at a worldwide level, are still affected by a deep crisis. At present, there are no signs of a possible turnabout in the short term, while prospects for recovery in the medium term are positive. Demand from this segment is expected to be weak, at least for all of the first half of 2014.

In 2013, sales of construction and mining equipment accounted for 37.5% of consolidated turnover, down by 11.5% compared to the figure of 42.3% in 2012. In this sector, where Carraro has partnerships with leading global companies such as Caterpillar, Cnh, Komatsu, Liebherr, Sany, Terex, Volvo and Xcm, the Group is the only player able to provide transmission systems for both wheel and tracked vehicles, with a 25% market share for light utility vehicles and a 5% share for heavy duty vehicles.



Reference Markets

Renewable Energy

In 2013, the photovoltaic market declined considerably in Europe, and in particular in Germany where only 3.3 GW (GigaWatt) were installed compared to 7.6 GW in 2012, and in Italy with 1.3 GW installed nearly entirely in the residential and small-scale commercial sectors. As regards other geographic areas of interest, various utility-scale plants were developed in Romania, of which many were equipped with Santerno products.

At a global level, demand has shifted to the Far East and the Americas, South Africa and the Middle East have become emerging markets, with considerable growth in future years, and in general demand from various countries starting subsidised development programmes is becoming fragmented.

In such a complex macro-economic context, Santerno has been able to further develop its international outlook and foster important business relations, providing inverters and integrated solutions.

At the same time, demand for maintenance of large-scale plants has increased, a sector which Santerno has started to monitor and for which it is taking action to lever important opportunities for development.

Overall, renewable energies accounted for 7.2% of the Group's consolidated turnover in 2013 (up by 58.5% compared to 4.5% in the previous year).

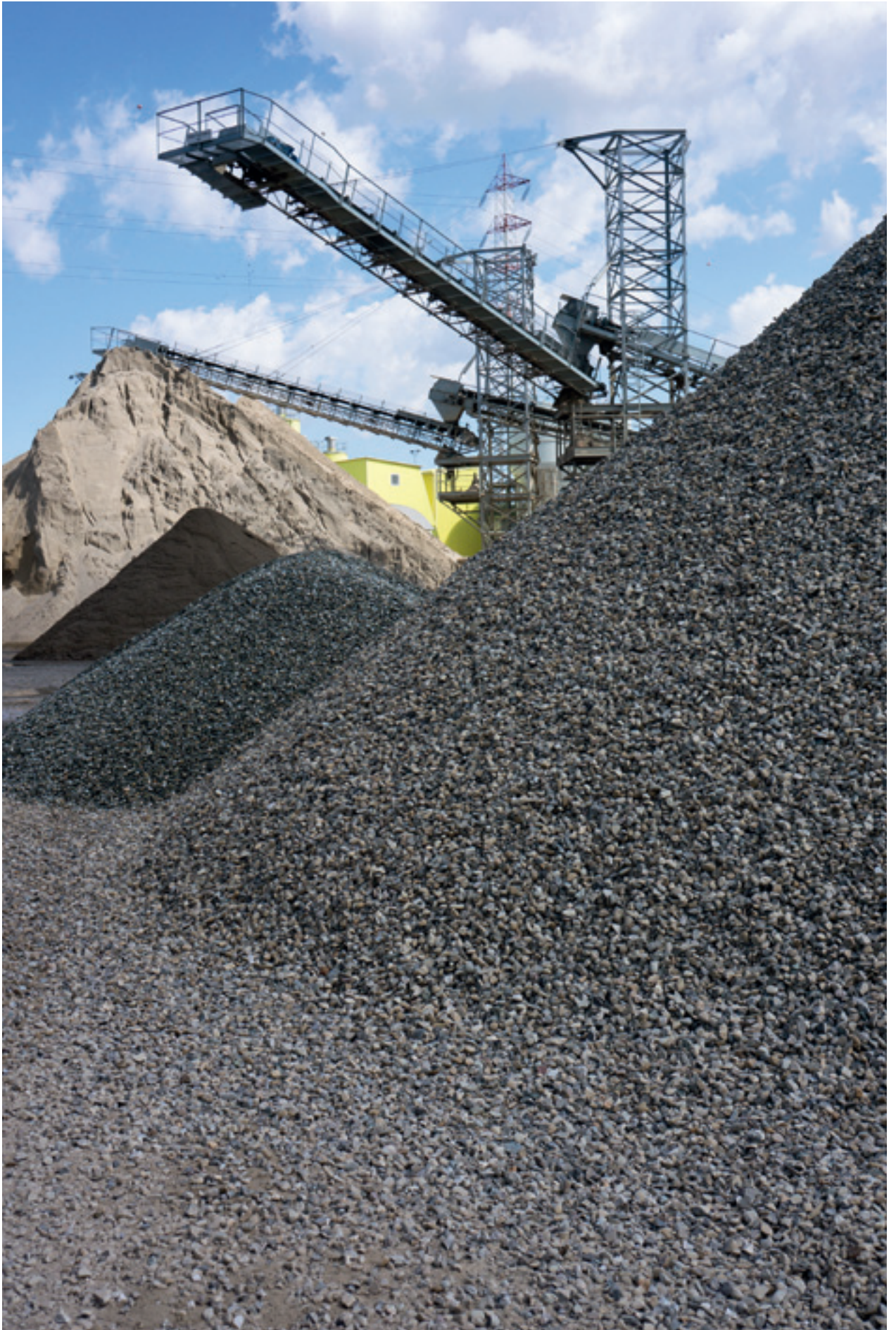
Reference Markets

Industrial Automation

The Italian drives market was affected by a marked drop in 2013, due above all to the economic crisis and its direct effects on manufacturing and on investments for new plants, while at a global level, the most significant growth was registered on markets in the Far East.

Following the reorganisation of the sales network, the first positive signs of a recovery in market shares in Russia could already be seen in the last quarter. In December, major business negotiations also got underway for the Northern American market.

In 2013, the Electronics Business Area laid the foundations for further important development in the industrial applications sector, from 2014 onwards. In particular, with the award of certification from Dnv (one of the most important certification bodies worldwide), the Business Area started operations in the marine sector - a market with considerable scope that offers great potential for using and development various applications of Santerno products.



Reference Markets

Automotive

PowerTools and Gardening

In the *Automotive* sector, difficulties in Europe (vehicle registrations falling by 1.8% in 2013 compared to the previous year), were offset by a recovery in the rest of the world, which was particularly significant in China. In this context, the top-end and luxury car segment, which accounts for nearly all automotive sales (Minigears) of the Group, maintained a steady growth trend for the entire year.

Group sales on this market accounted for 4.5% of consolidated turnover in 2013, and confirm a considerable growth rate in the medium term.

As regards the *PowerTools* market, demand was basically stable worldwide during the first nine months of 2013, falling off in the last quarter. Overall, this segment will still be robust in the medium term, with considerable prospects for development, particularly in China.

The *Gardening* sector is related instead to urbanisation trends, as regards the growing need for the management of urban park areas and private gardens. In 2013, the trend of this sector was in line with the previous year, with expectations positive for the next three-year period.

Overall, the PowerTools & Gardening segment accounted for 3.4% of the Group's consolidated turnover in 2013.



Summary of Financial Year 2013

As from 2013, the Group has analysed its performance on the basis of the new organizational structure, so in addition to showing economic and equity data by Business Area, it has been necessary to restate values as at 31 December 2012 for comparison purposes.

2013 closed with a consolidated turnover of 871.936 million Euros, in line with the figure for 2012, which was equal to 874.356 million Euros; net of the negative exchange effect, mainly concerning the last part of the year and the Argentinian Peso and Indian Rupee, growth, in terms of volumes, was equal to 2% compared to 2012.

Business areas operating in the mechanical engineering sector (Carraro Drivotech and Agritalia) realised an aggregate turnover of 817.711 million Euros down by 2.9% compared to 842.348 million Euros in 2012. This decline is due to the above-mentioned exchange effect, and to the drop in demand for construction equipment, with particular reference to mining equipment.

After a fall in turnover of more than 60% in 2012, Elettronica Santerno considerably increased its turnover in 2013 (+49.8%), from 49.683 million Euros to 74.424 million Euros thanks to important international contracts in the photovoltaic sector and the start of new projects for industrial applications.

The positive performance of Group margins continued in 2013, with further considerable growth compared to the previous year thanks to the positive effects of an improvement in industrial processes, the ongoing Partnership project with main suppliers and measures to keep overheads down. Ebitda as at 31 December 2013 was equal to 61.544 million Euros (7.1% of turnover) up 53.2% compared to 40.185 million Euros (4.6% of turnover) in 2012. 2013 Ebit was equal to 31.222 million Euros (3.6% of turnover) compared to 6.255 million Euros (0.7% of turnover) in 2012.

If compared with figures for the previous year, adjusted by costs for non-recurrent events, Ebitda and Ebit improved by 33.9% and 124.5% respectively.

Despite the fall in volumes, margins of business areas operating in the mechanical engineering sector were up compared to 2012. Ebitda as at 31 December 2013 was equal to 66.055 million Euros (8.1% of turnover) compared to 53.735 million Euros (6.4% of turnover) for the previous year. EBIT as at 31 December 2013 was equal to 40.325 million Euros (4.9% of turnover) compared to 24.577 million Euros (2.9% of turnover).

The Electronics Business Area (Elettronica Santerno) increased its margins compared to the previous year, even though it was partly affected by unforeseeable costs related to the development of major contracts in the photovoltaic sector. Ebitda as at 31 December 2013 was positive amounting to 171 thousand Euros (0.2% of turnover) compared to a negative value of 9.507 million Euros (-19.1% of turnover) as at 31 December 2012. Ebit was negative in 2013 amounting to 2.405 million Euros (-3.2% of turnover) compared to a negative value of 12.086 million Euros (-24.3% of turnover) in 2012.

As at 31 December 2013, the Group had realised a profit of 1.290 million Euros (0.2% of turnover) compared to the loss of 15.299 million Euros (-1.8% of turnover) in 2012. Net of non-recurrent events, 2012 would have posted a loss of 10.572 million Euros (-1.2% of turnover), exclusively attributable to the loss of the Electronics Business Area amounting to 11.524 million Euro.

Investments, equal to 37.539 million Euros in 2013, follow on from the sum of 41.632 million Euros for the previous year and confirm the Group's commitment to technological innovation targeting both products and production processes.

The consolidated net financial position as at 31 December 2013 was negative, amounting to 248.150 million Euros, improving compared to the figure of 258.190 million Euros as at 30 June 2013, but higher, as expected, than the figure of 213.703 million Euros as at 31 December 2012, due to the effects of activities carried out at the end of 2012 to normalise the trend of net working capital being reabsorbed.

As at 31 December 2013 financial parameters (covenants) contractually specified relative to this date, had been met.

Euro/000
2013

2012

Net Revenues
871,936

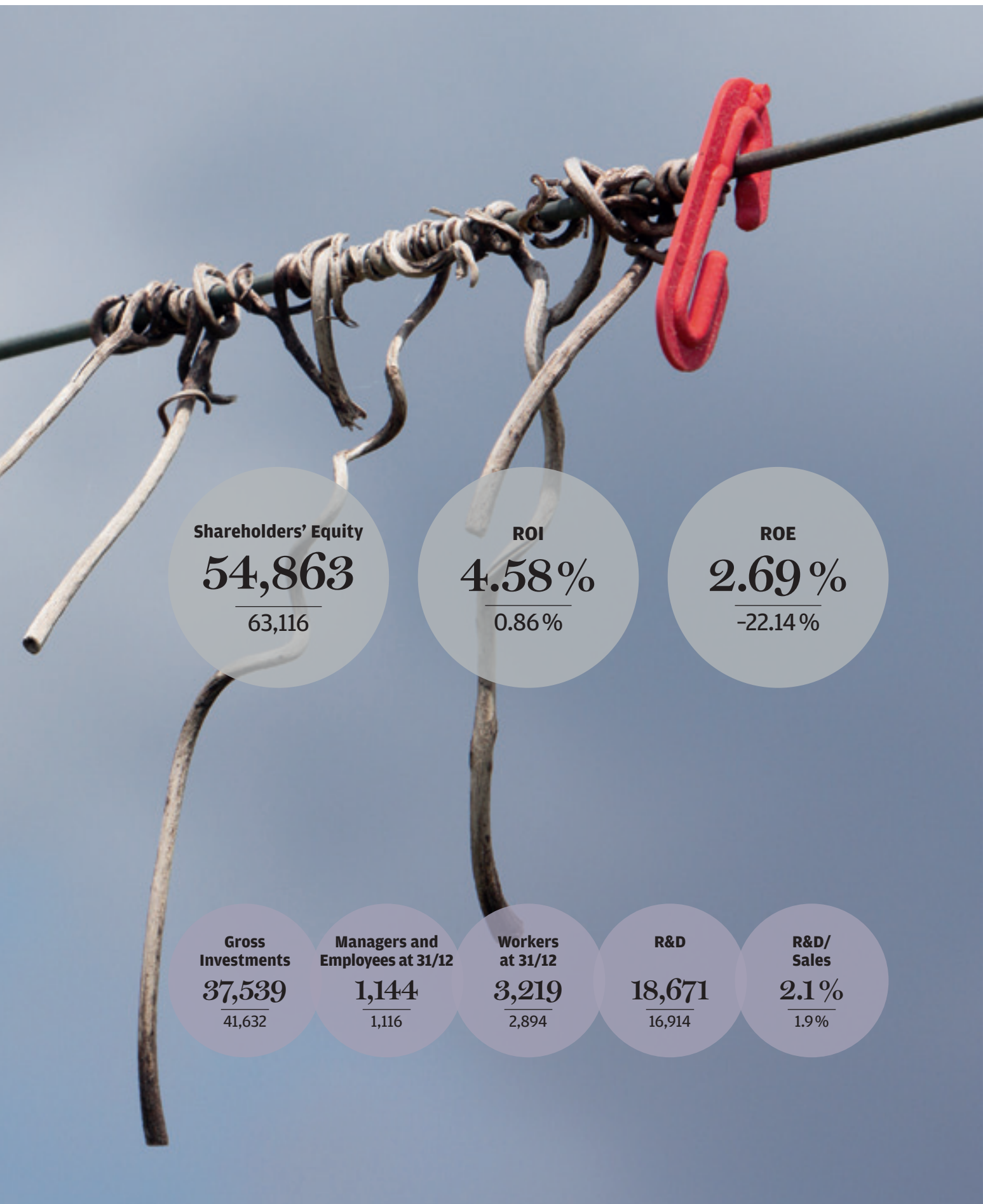
874,356

Operating Income
31,222

6,255

Net Income
1,290

-15,299



Shareholders' Equity

54,863

63,116

ROI

4.58%

0.86%

ROE

2.69%

-22.14%

Gross Investments

37,539

41,632

Managers and Employees at 31/12

1,144

1,116

Workers at 31/12

3,219

2,894

R&D

18,671

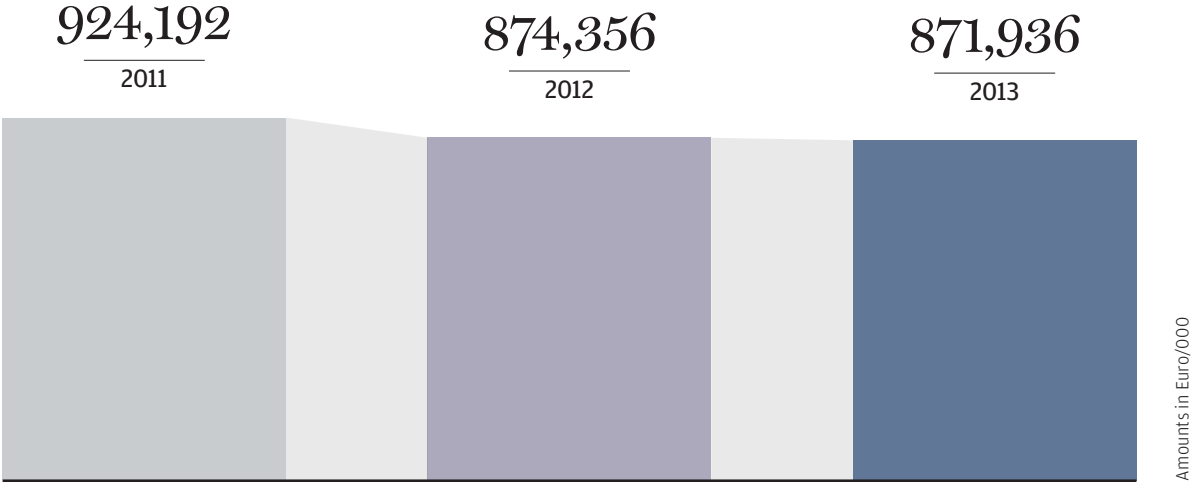
16,914

R&D/Sales

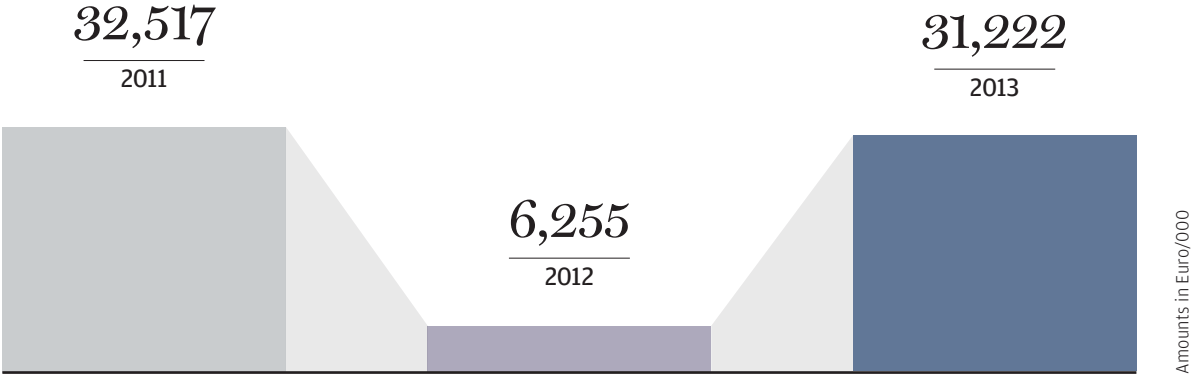
2.1%

1.9%

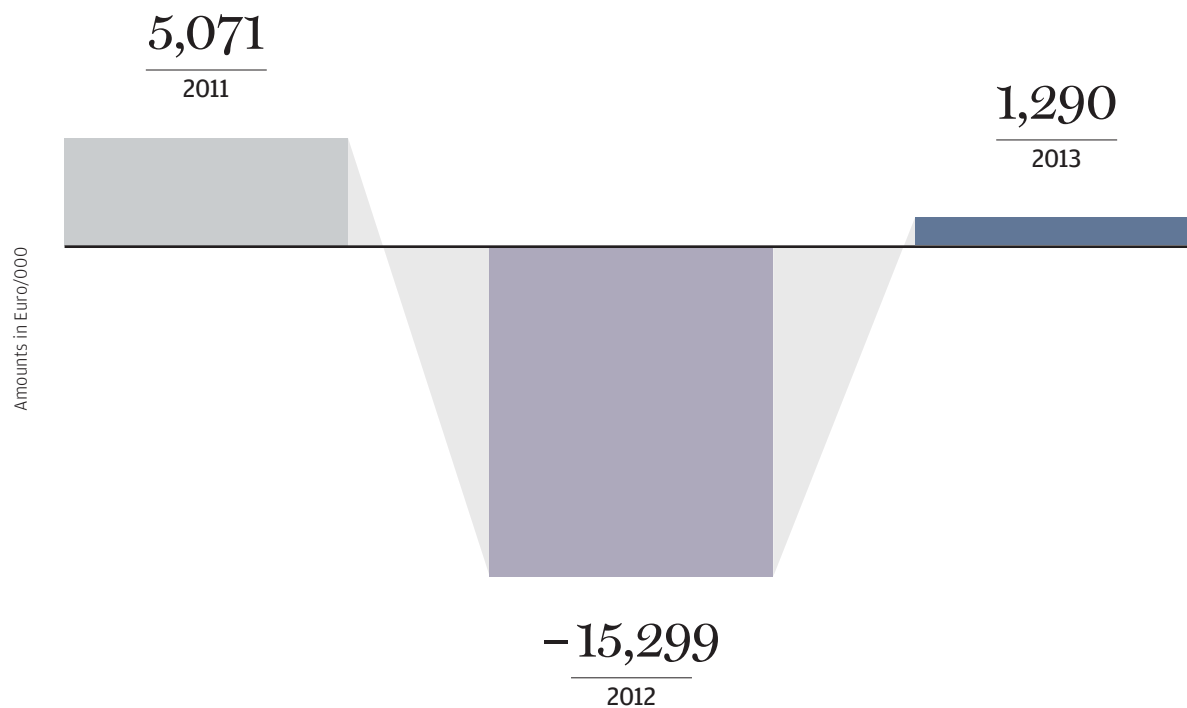
Consolidated Sales Revenues



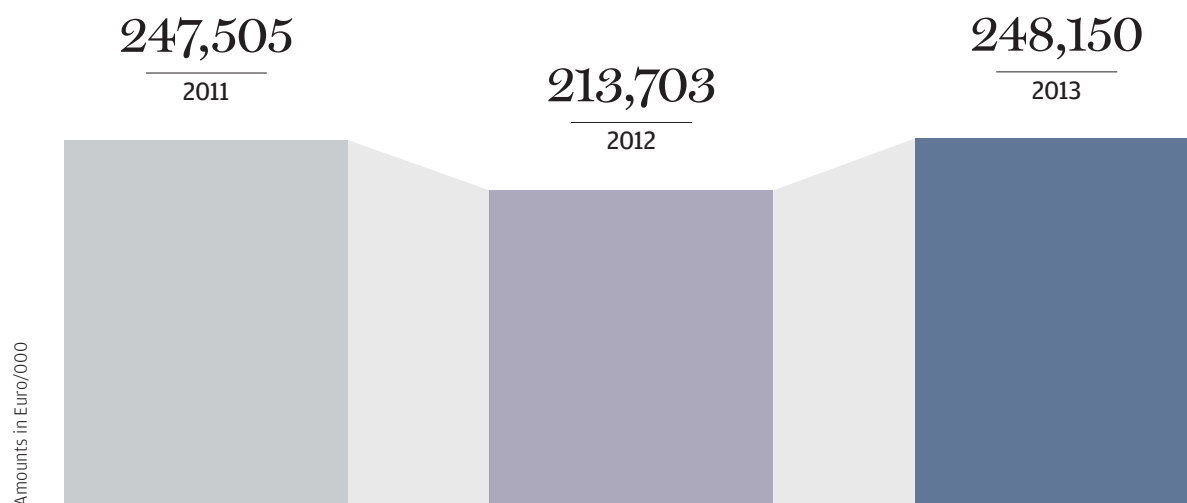
Consolidated Ebit



Consolidated Net Income

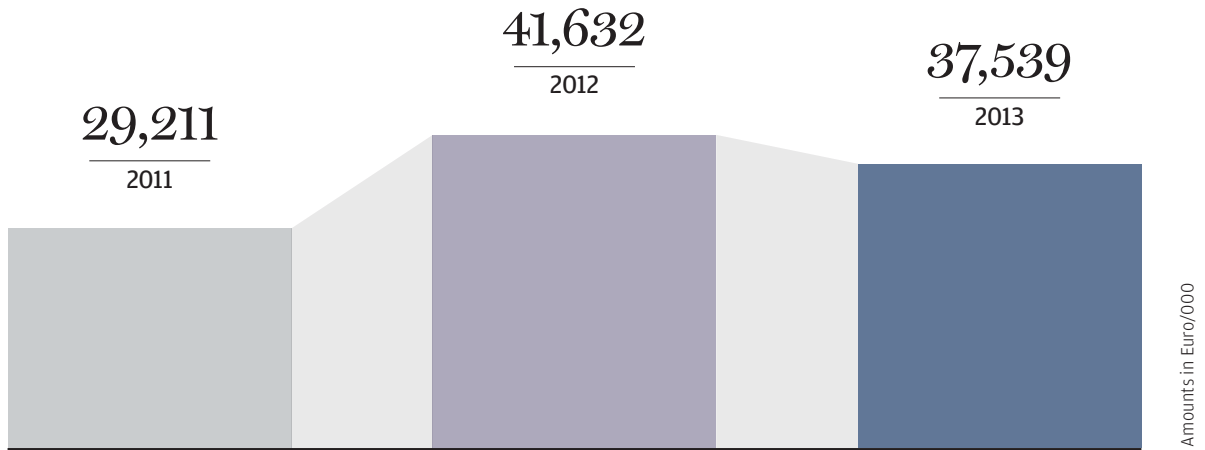


Consolidated Net Financial Position (debt balance)

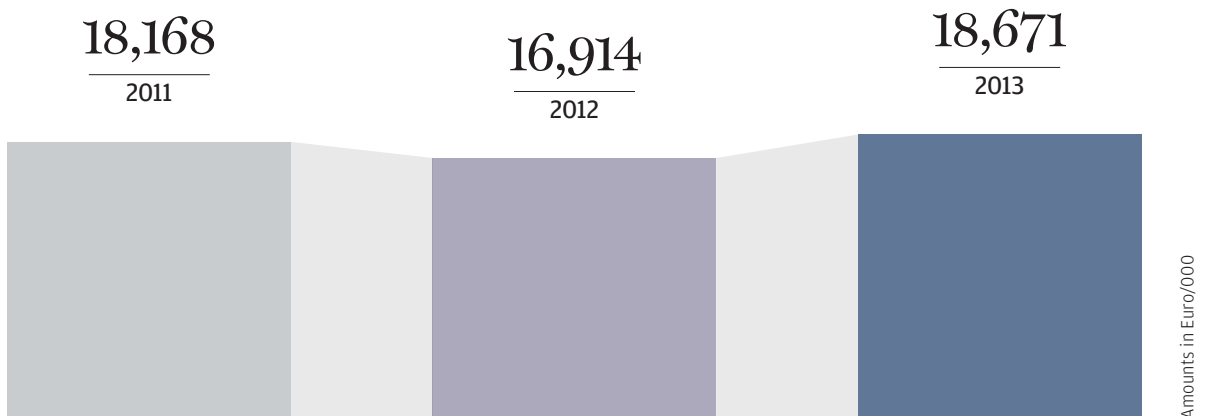


Carraro Group Investments

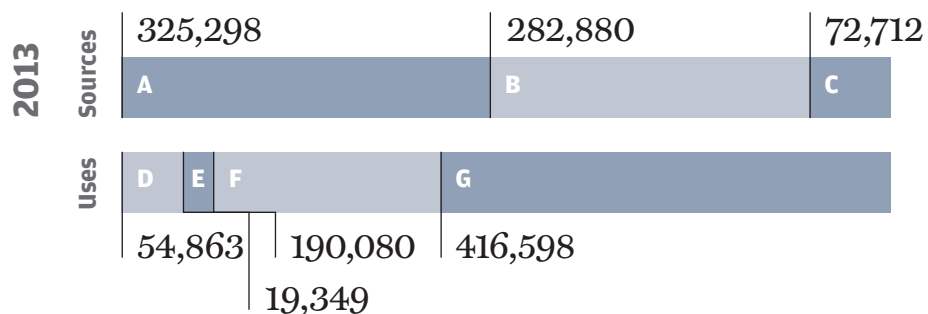
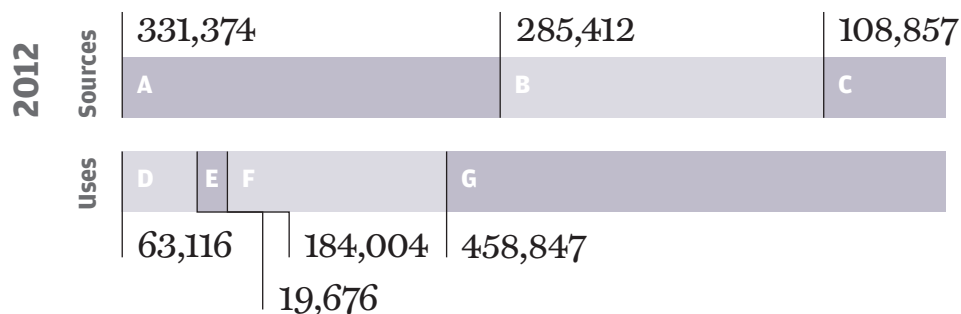
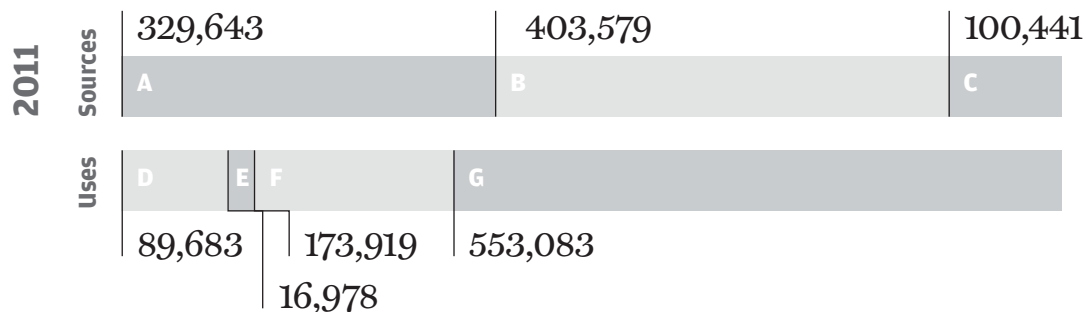
(gross of revenues from disposals)



Carraro Group Research and Innovation Expenditure



Consolidated Equity Structure



A – Fixed assets
B – Working capital
C – Liquidity

D – Shareholders' equity
E – Sever, Indem
F – M/L terms payables
G – Short-term payables

Main Markets

2013
2012

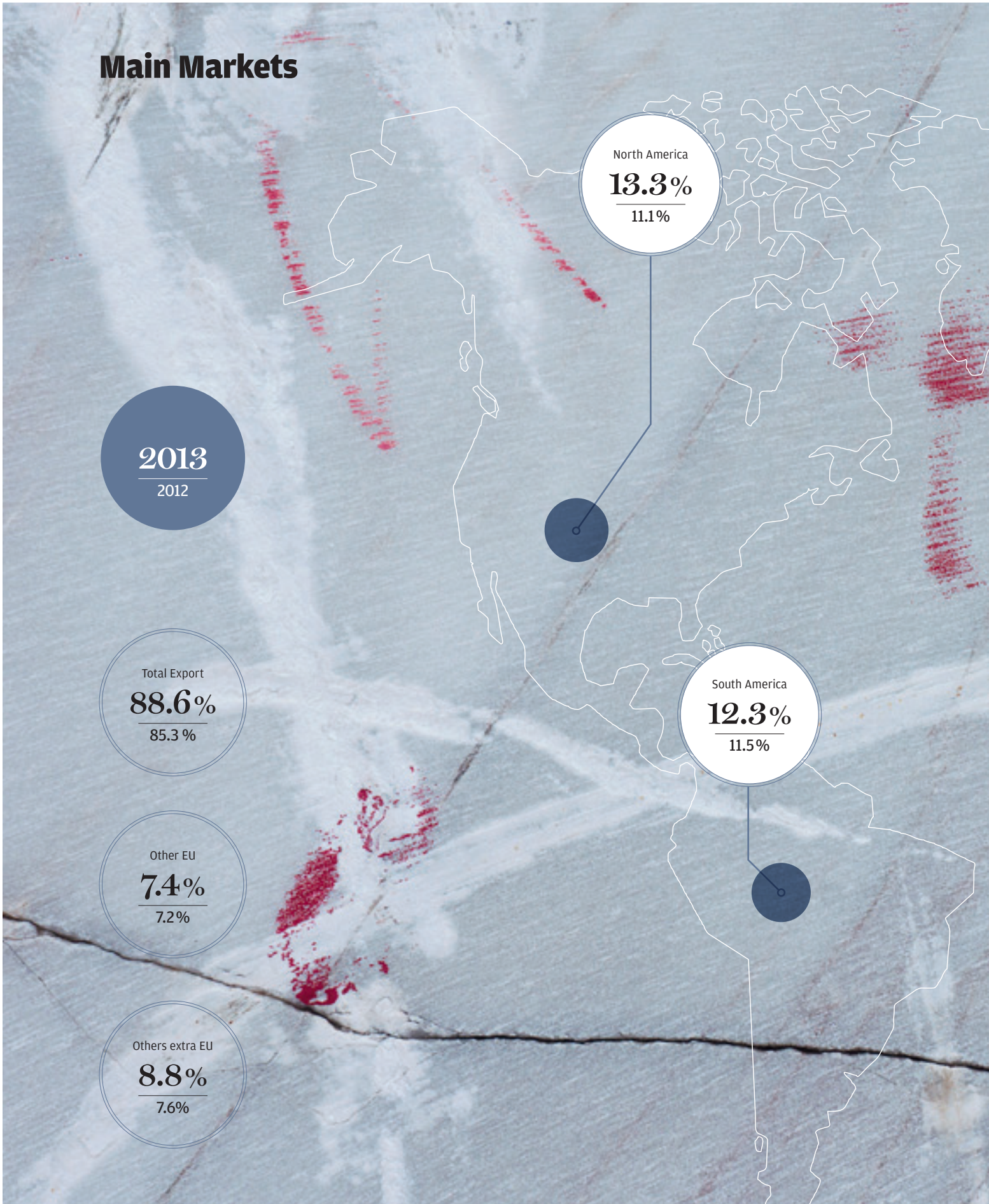
Total Export
88.6%
85.3%

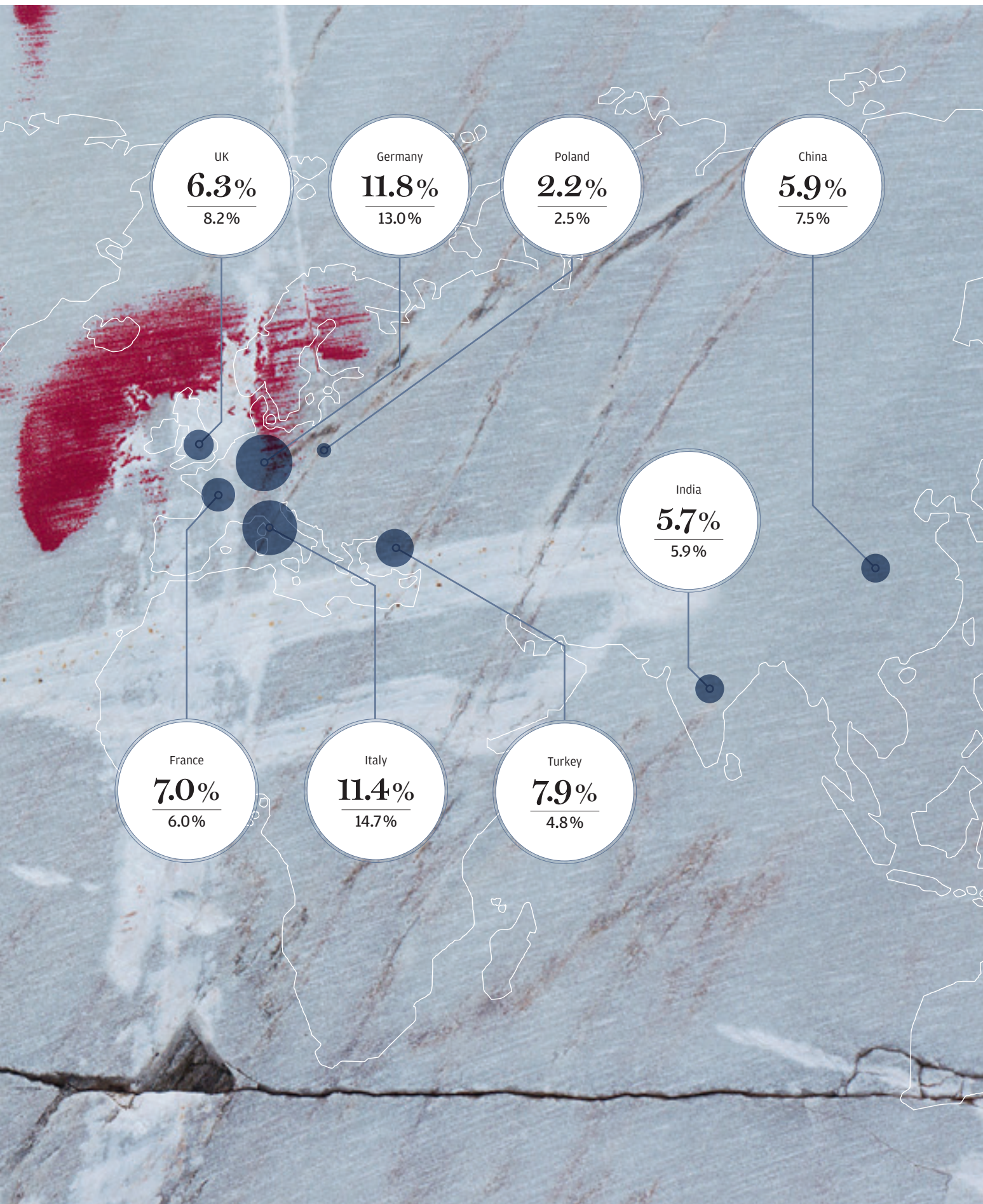
Other EU
7.4%
7.2%

Others extra EU
8.8%
7.6%

North America
13.3%
11.1%

South America
12.3%
11.5%

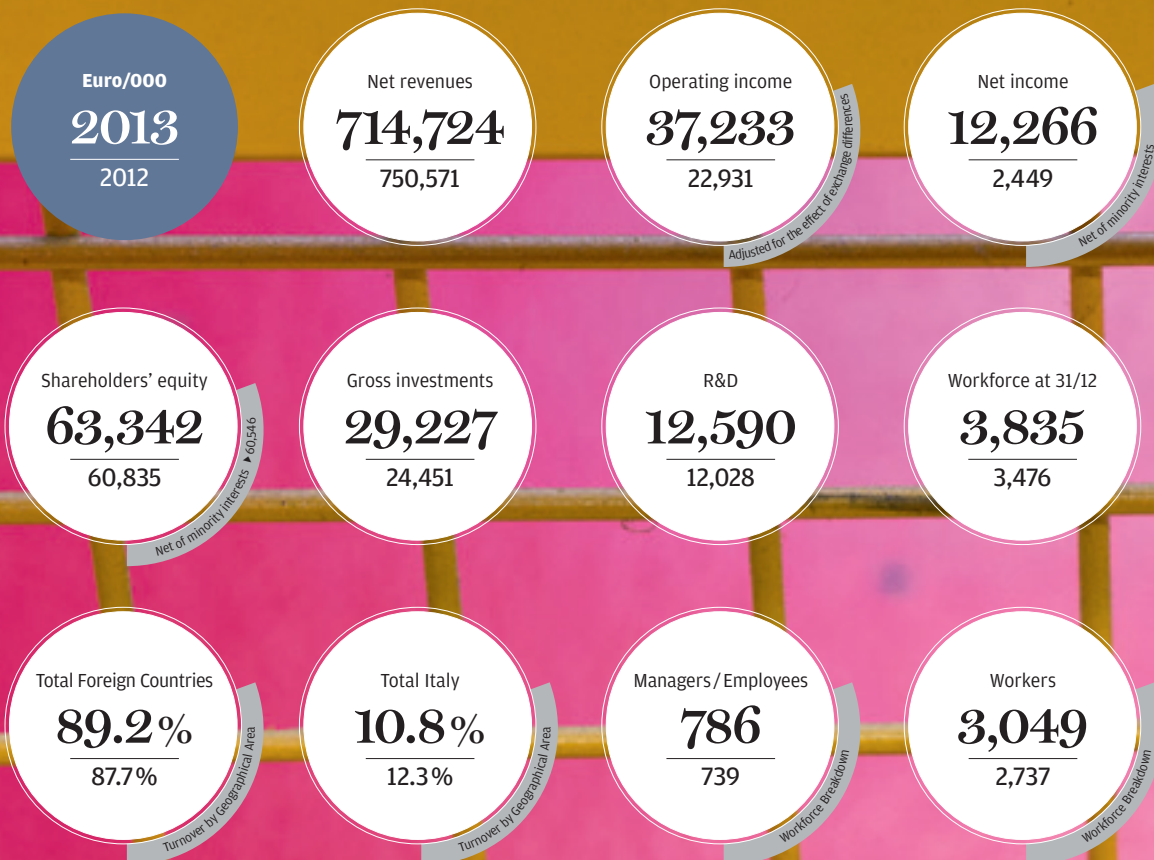






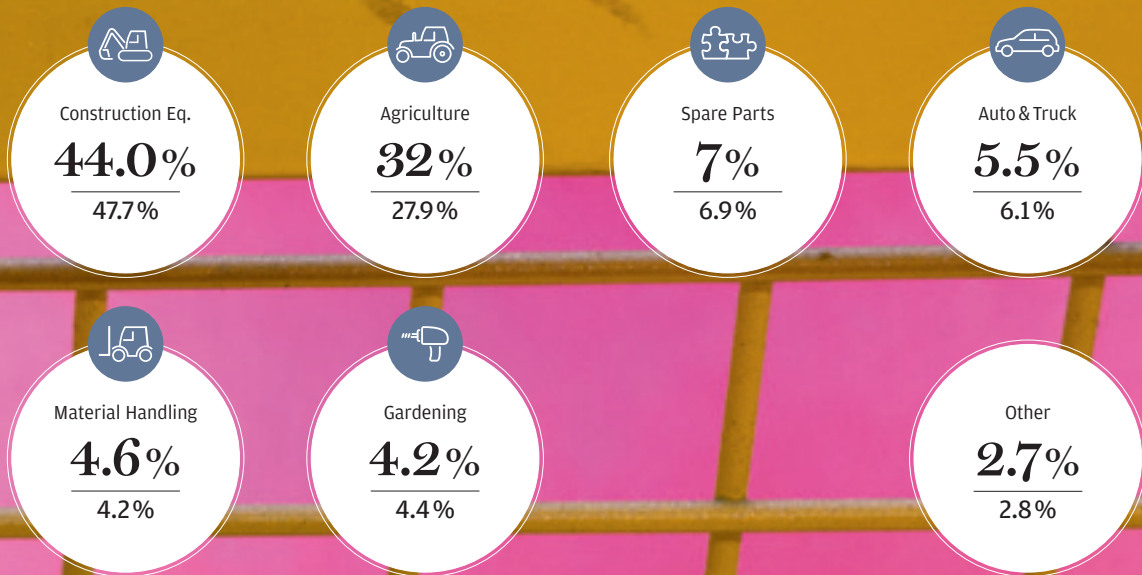
Drivotech

Summary Data and Graphs



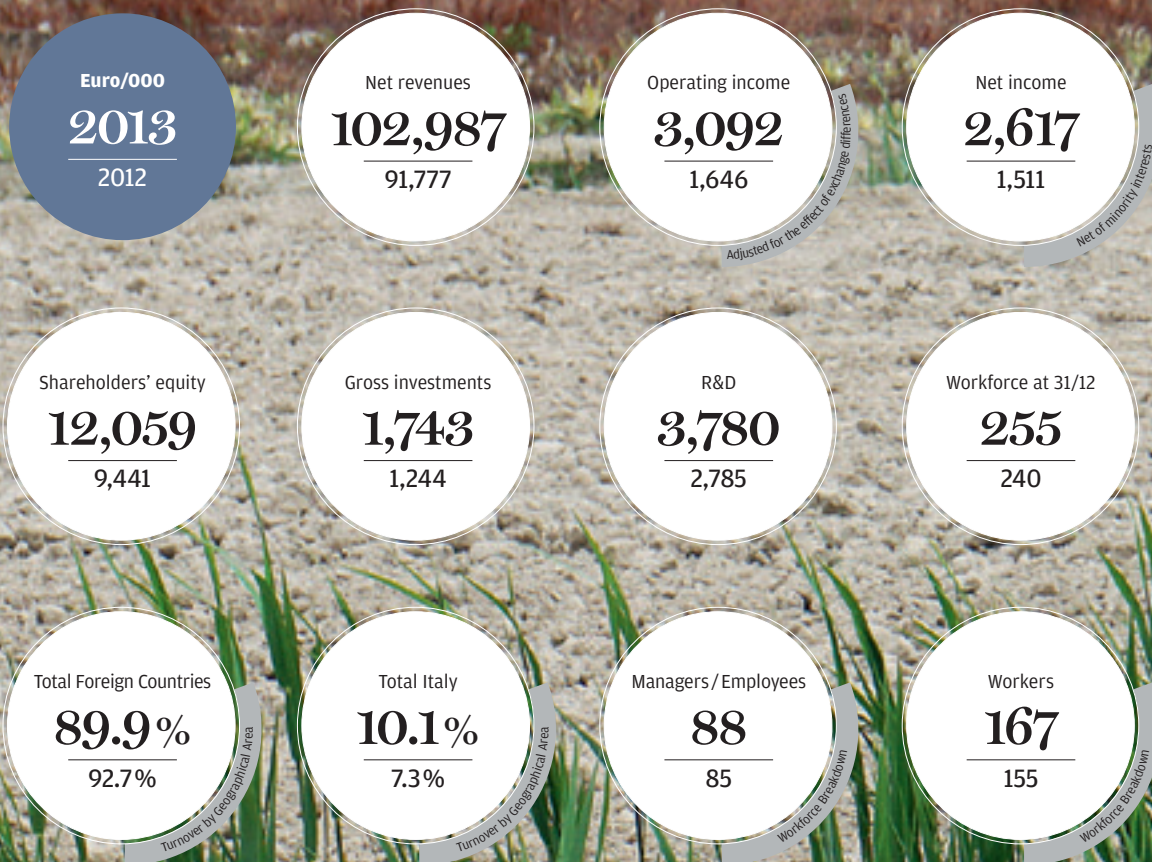
Following the merger of Carraro DriveTech with GearWorld, it was necessary to reconstruct the 2012 data to ensure the comparability of the results.

Breakdown by Sector of Application



Agritalia

Summary Data and Graphs



Breakdown by Sector of Application



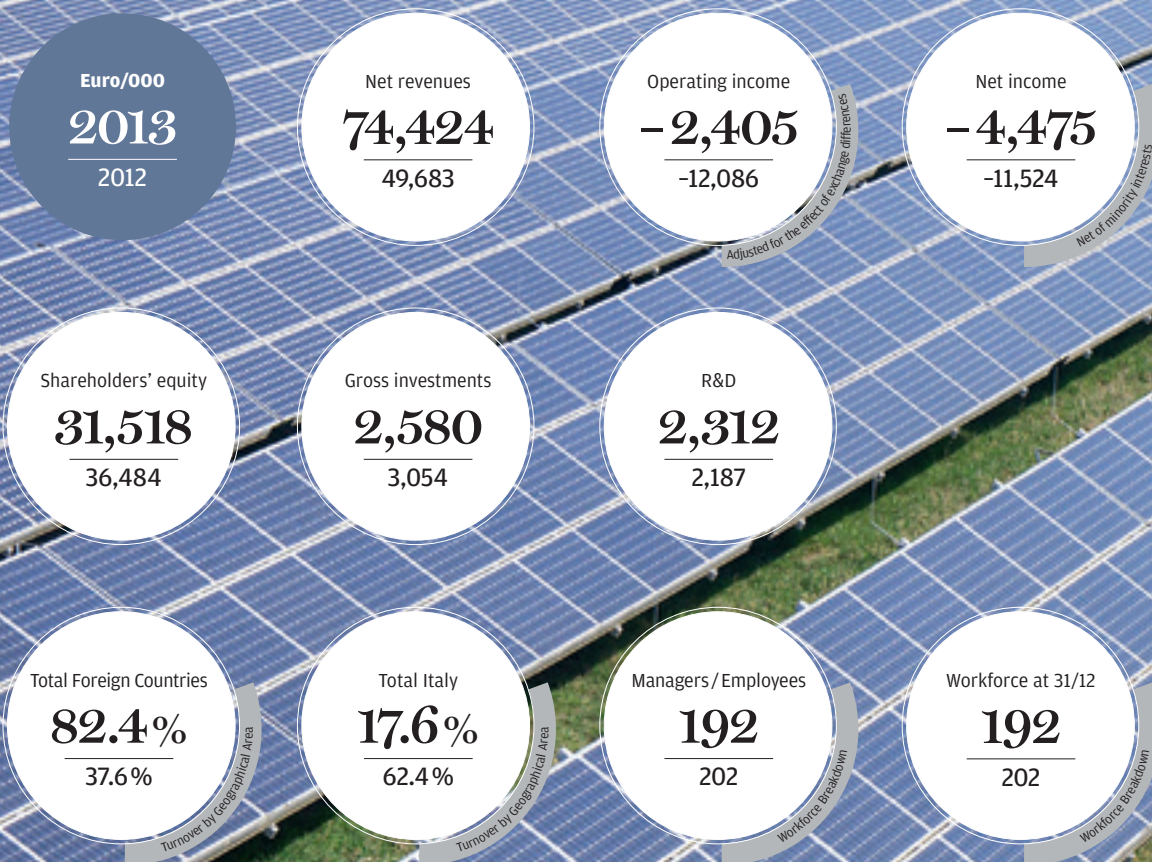
Agriculture

100%

100%

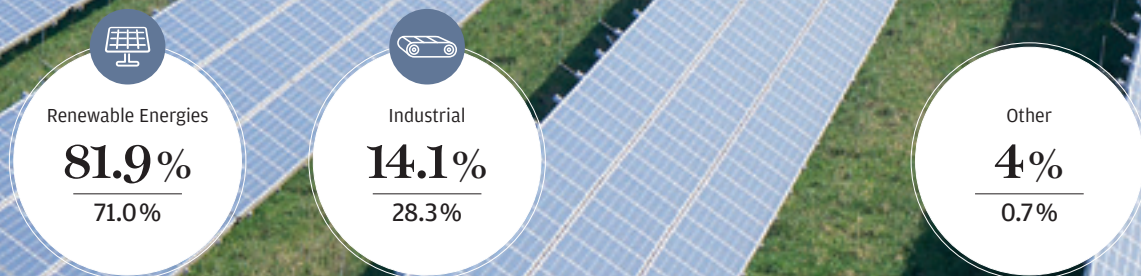
Electronica Santerno

Summary Data and Graphs



Amounts in Euro/000

Breakdown by Sector of Application

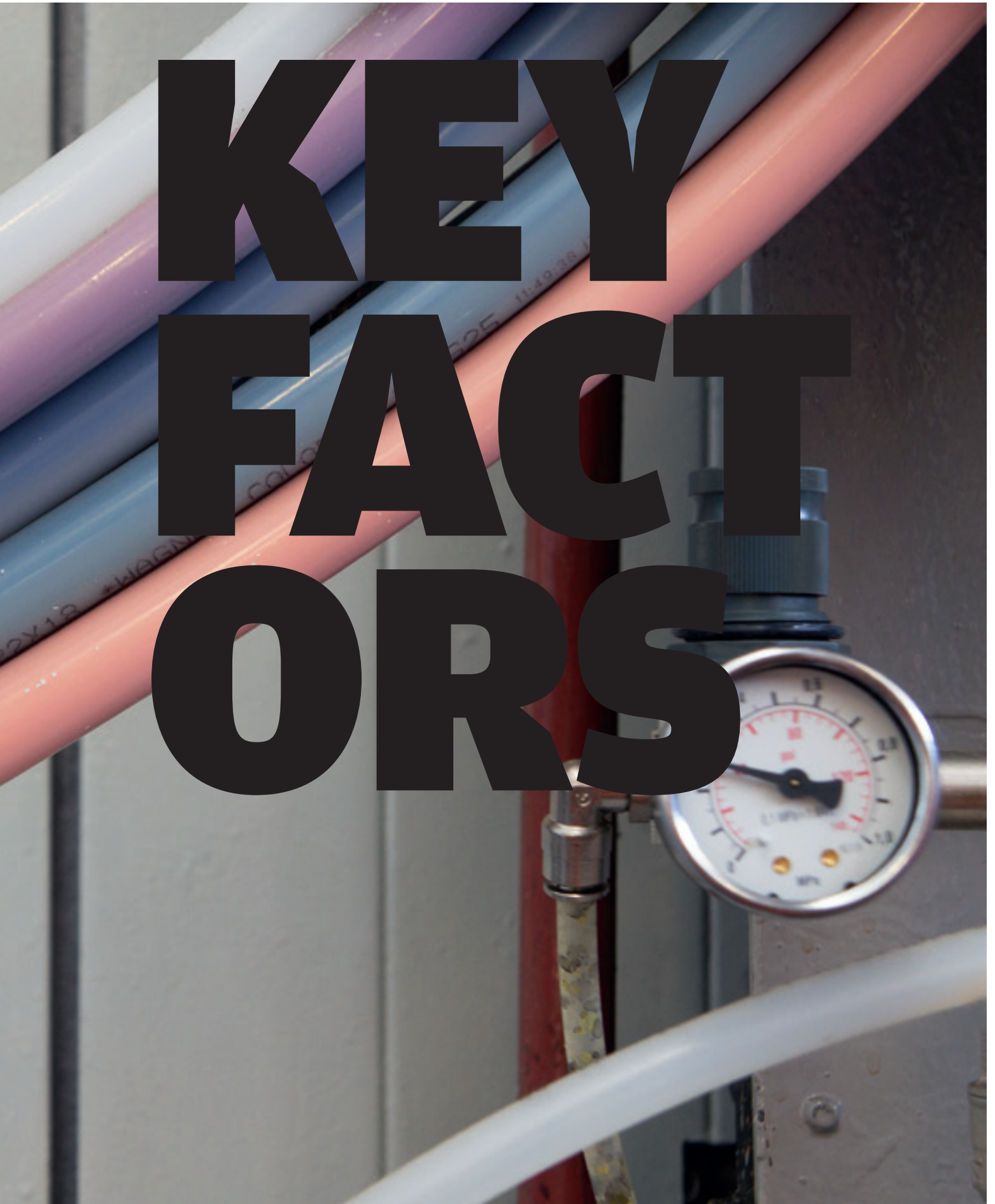




Key Factors of Success



KEY FACT ORS



Global Partnerships

Long-term relations with main international OEMs have always been key to Carraro's success and even more so today, in a complex competitive scenario which is continually changing.

The growth in the Group's turnover is also due to its capacity to maintain and develop highly integrated business relations over time. This means, on the one hand, being part of customers' value chains, as exclusive technological partners, and on the other hand, guaranteeing efficient operations in all areas of the world through an industrial platform and a broad-ranging R&D function that can operate effectively.

Local for Local and the “Progetto Italia”

Carraro Drive Tech’s industrial strategy and the Group’s core business have mainly focussed in the last few years on consolidating the global production platform, with the aim of capitalising investments and maximising capacities of production sites in Italy and abroad. During 2013, vertical production was a major focus, with some mechanical processing being insourced, in order to absorb structure costs and improve the service and working capital. This also made it possible to achieve a better monitoring of product and process quality, and at the same time improve margins.

To continue with this strategy, a 150 million Euro, 4-year investment plan was defined, aimed at providing adequate support for the growth expected on main markets and the launch of new products, with particular reference to actions to expand production capacity at Asian sites (China and India) and in Italy, in view of the major insourcing relative to strategic components, and to technological innovation.

To make Italian sites competitive, an agreement was signed with all trade union organisations to establish a “continual cycle” for mechanical processing, which can now be carried out 24 hours a day, 7 days a week. As concerns this agreement, the Group has confirmed it wants to invest more than 40 million Euros in Italy over the coming years, to purchase new machinery and develop its industrial activities.

As regards purchasing, activities focussed instead on reducing the number of suppliers, in order to establish a partnership policy that adequately supports the development of volumes, the service and flexibility, in addition to the possibility of co-designing to obtain more competitive prices based on the principle of the Total Cost of Ownership (materials, transport, duties, quality). This process – which began in 2013 – should halve the current number of 700 suppliers of direct materials, in a strategy that focuses on the continual improvement of punctual deliveries and reduction of rejects.



Capacity for Development

Transmission Systems for Agricultural Machinery

The Group has always been committed to developing power transmission systems with a focus on greater efficiency and ecological sustainability – requisites that are fundamental in today's world for tackling an increasingly competitive market.

In 2013, the new T10 transmission for tractors up to 115 hp went into production. This was a particularly important event for company strategy, which aims to increase its product range and expand its presence on reference markets, taking a proactive and innovative approach. Tens of thousands of hours of validation, including laboratory tests and field testing in the most challenging of geographic areas, are behind this new range of transmissions, which will feature Power Hi-Low versions in 2014, followed by the electronic control Power Reverser version.

The process to validate the new Ipm (Intelligent Power Management) control system, for a unique platform for vehicles manufactured by Agritalia, was completed in 2013. is yet another step forward in Carraro's road map targeting high levels of technology for all application ranges.

Engineering also played a fundamentally important role in all projects to complete and expand the range of agricultural axles, which must satisfy requirements of global players and also streamline and standardize the range, for leaner industrial and production processes.



Capacity for Development

Transmission Systems for Construction Equipment

At a design level, the new ranges of the Tlb now have more functions and technologically advanced features in order to better meet the requirements of continually evolving markets and regulations that will come into force over the next few years, particularly as regards the control of emissions. A concept (TLB56) was designed and developed, to demonstrate and confirm, from the test bench and on the vehicle, the validity of initial assumptions: new contents to improve performance without increasing costs.

Activities also continued in the Construction Equipment sector to expand the product range towards new applications such as telescopic trucks and compacter rollers. New products, ultra-quick times to market, quality requirements, availability and challenging customisations.

2013 capacity for development

The global presence of Drivetech Engineering & Innovation, that has 4 R&D centres located throughout the world, is a key strategy of the Group and appreciated by customers who know they can rely on adequate responses, quick reaction times and facilitated local contacts: the success of the project to develop a new Ashok Leyland - John Deere backhoe loader on the Indian market is an excellent example of this strategy.

Capacity for Development

Tractors

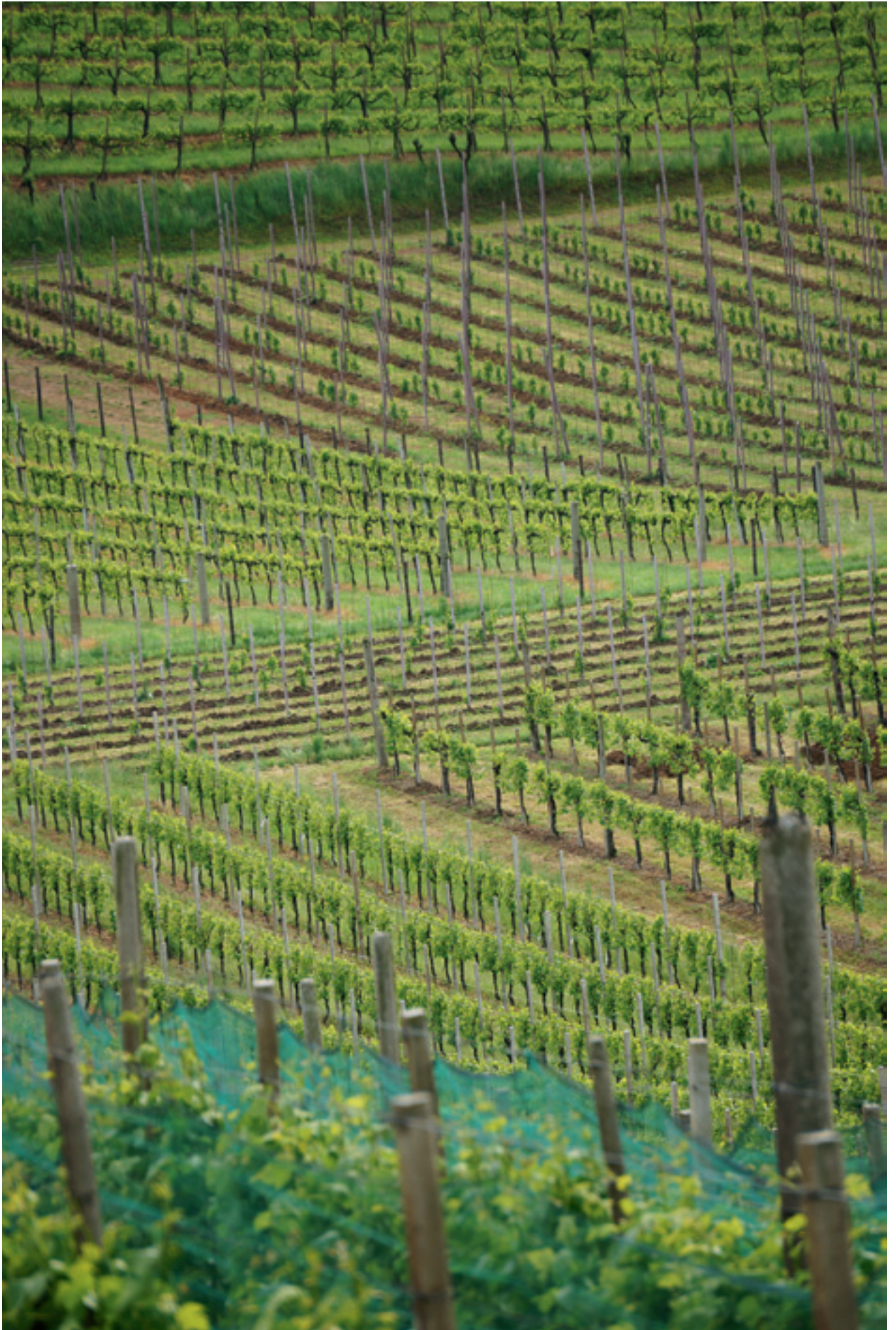
The final stage to implement the common rail engine on the Massey Ferguson Standard was completed during 2013, with production start-up.

At the start of the year, production of the new “lowered version” tractor for orchards, wholly designed by Carraro Agritalia’s R&D centre, got underway; the project was appreciated by main customers, who had requested adding this type of product to their ranges.

In the last part of the year, the “Next Generation” project was launched, introducing the engine that complies with “Stage 4 Final” emission requirements and uses the “adBlue” system (to reduce exhaust gases); the project will involve Divisione Agritalia’s Engineering Department up until the end of 2015.

Besides the design of complete tractors, Engineering Service activities successfully continued for the design of the new range of Escorts tractors for the Indian market, and the completion of the Basak project for the supply of the powertrain (transmission system integrated with the engine).

As regards methodologies, further progress was made in the product development process (Pdp), thanks to a partnership with Porsche Consulting and the introduction of a new approach to managing resources and generating offers for customers.





Capacity for Development

Power Electronics

For Elettronica Santerno, 2013 was first and foremost marked by the consolidation of the internationalisation process started in previous years. In fact the top end product has been successfully applied to some of the most important photovoltaic facilities worldwide, with relative certification to Northern American standards and with the design and subsequent installation of the new series of centralised plant controllers. The Business Area also invested in consolidating test structures at the internal laboratory, which is centre of excellence in the industry.

In a rapidly evolving regulatory context such as the regulation of international grid codes, software functions and functions for interfacing with the network of machines for energy conversion and industrial applications were updated, and mathematical modelling was developed, as required by operating authorities. With a view to monitoring technological positioning and the market, a new modular range of products for solar applications *Utility Scale* was developed, conforming to main technological trends of the industry.

With a particular focus on the emerging energy storage market, the new product range for Energy Storage systems was established, aligned with current requirements on construction redundancy, coordination with main electrochemical accumulation systems and active support for electrical transmission and distribution networks.

As regards drives for industrial automation, besides the expansion of the existing range for outdoor applications and unprotected environments, certification for on-&off-board marine applications was obtained, with the consequent start of operations on relative reference markets and signing of strategic partnerships with leading industry operators. Lastly, as regards technological monitoring of innovative controls for electrical drives, new algorithms were developed for innovative, high-efficiency electrical machines, anticipating current application trends.

Timeline

Carraro activities in the last year





**TI
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2013 Figures and Facts

01. **January**

In January, on the occasion of the Ag Connect Usa Exhibition, the most important event of its kind in North America dedicated to agricultural equipment, which took place in Kansas City, Missouri, Carraro Drive Tech launched the new T10 transmission for tractors up to 120 HP, which is proving very successful due to its high-performance technical configuration.

02. **February**

In February an important agreement was signed between Carraro Drive Tech and Agco, one of the world's leading three manufacturers of agricultural machinery. This agreement, for 5 years and with an overall value of 25 million Euros, is for the supply of transmission systems for a new range of tractors which will be manufactured in the Changzhou plant in China. On the basis of the agreement, Carraro Drive Tech will supply different types of integrated front axles with a drop box, for Massey Ferguson series BX200

tractors fitted with 80 - 120 HP engines; these tractors are designed both for the Chinese market and for export in the United States, the Far East and Africa.

03. **March**

Within the framework of the project called Agritalia Production System, for the first time, in the month of March, training was carried out for clients and suppliers of Agritalia, as well as for internal personnel, with the contribution of the Kaizen Institute. In addition to presenting the basic concept of change which characterises the new Agritalia production process, the training led to the creation of two improvement workshops for the production line. Various managers from leading companies cooperated with line operators to find improved or innovative solutions to organise material flow.

04. April

In April Carraro Drive Tech staged a number of events:

- › during the Bauma Exhibition in Munich, the world's leading construction equipment show, the most highly-developed products for construction equipment were unveiled, with particular attention dedicated to drives for tracked vehicles and winches.

Particular interest was shown in the new range of transmissions, partly due to the new technology dedicated to fuel saving and operational efficiency: ECOlogy Mode and Direct Drive. These two innovations with advanced technology for the improvement of the efficiency of transmissions is now available for all product classes: from the new Tc1.0 to the consolidated Tlb1 and Tlb2.

- › in addition, a commercial agreement was signed with Xcmg, one of the most important Chinese manufacturers of construction equipment, for the supply of a series of drives for the largest tracked crane in the world (model Xgc88000).

In detail, Carraro is present in the vehicle both with the reduction gears and the tracks (travel drives) as well as winch drives, with an overall value of about 2 million Euros per vehicle. These drives were designed and manufactured in the German plant of O&K Antriebstechnik, the Group company recognised at international level for its skills in products destined for high-range applications (heavy duty).

05. May

In May the following important events took place:

- › on the occasion of the Snec, an exhibition organised in Shanghai in China – the world's leading event in the photovoltaic sector in terms of the number of visitors – Santerno presented to the market the new Sunway TG Outdoor range, which attracted great interest from operators in the sector from all over China and South East Asia.
- › in the same period Agritalia began supplying its new Powertrain line to its Turkish client Basak. Basak is a brand of the Sanko Group, a long-standing client of Carraro Drive Tech and in fact the cooperation between Agritalia and Drive Tech created this opportunity. Agritalia will supply the entire powertrain (integrated transmission systems complete with engines) to this new client, expected to be about 40 tractors per month with prospects for further growth.

06. June

In June Carraro After Sales & Spare Parts took an important step forward: one year on after signing a partnership with Ceva Logistics, for the operational management of the spare parts platform in Italy, it signed an important agreement with ToolsGroup, a multinational specialising in the development of systems and solutions for the provision of services to clients with the reduction of logistics costs, in order to fully develop its own supply chain with a view to integration.

In the same month, Santerno signed an important agreement with Energy Absolute, a Thai company active in the cogeneration and biodiesel sector, which with this project enters into the renewable energy sector, for the supply of an integrated system of inverters destined for the largest photovoltaic plant in South-East Asia, to be built in Thailand, in Nakorn Sawan province. Through this agreement, Santerno will supply a series of 3-phase inverters in outdoor cabinet format, particularly suitable for tough climatic conditions. The same kind of product that was used in the photovoltaic park under construction in Calexico, in the southern California desert will now be fitted to platforms in the rain forest.

At the end of June, preliminary activities were completed for the start-up of the new Sap system (T4T project) for the two Siap plants in Maniago and Gorizia (over 300 people involved). Following the migration of the data base and completion of start-up tests, the two plants in Friuli will be the first to activate the new Erp, which will then be gradually extended to the entire Group, with improvements expected in terms of operational efficiency. The Go-Live on 1 July 2013 was successful.

07. July

In July Santerno completed the installation of its inverters in the first stage of the project for the solar power station at Mildura, in Australia. The plant, situated in the State of Victoria, will become one of the biggest solar power stations in Australia and is an important development in the concept

of “concentrated” installations. The Mildura station has a unique design that concentrates solar energy using a parabolic mirror that converts solar energy into one focal point, in which a small concentration of high-efficiency photovoltaic cells transforms the sun’s rays into electrical energy. These curved reflecting mirrors are assembled on direction systems that follow the sun to supply concentrated photovoltaic energy throughout the day. The first part of the Mildura station project is a 1.5 MW demonstration solar panel; providing clean energy sufficient to provide electricity to 500 households.

09. September

In September, Cnh, one of the Group’s main customers, formalised the start of the “remanufacturing” programme for the range of axles supplied by Carraro for New Holland and Case construction equipment applications. The Reman/Rework project, which began in 2012 as a proposal on the independent After Market channel, has been positively received by OEMs, focussed on opportunities to “regenerate” the Group’s products already on the market, opening up further scenarios to develop repair and maintenance solutions that considerably cut machine downtimes and costs.

10. October

In October, 15 years on from the start of its first activities in India, the Carraro Group further consolidated its presence in the country. With Carraro management, as

well as the Italian ambassador for India, Daniele Mancini, attending, the new site of Carraro Technologies India Research & Development Centre was inaugurated, as well as a new Carraro India production line.

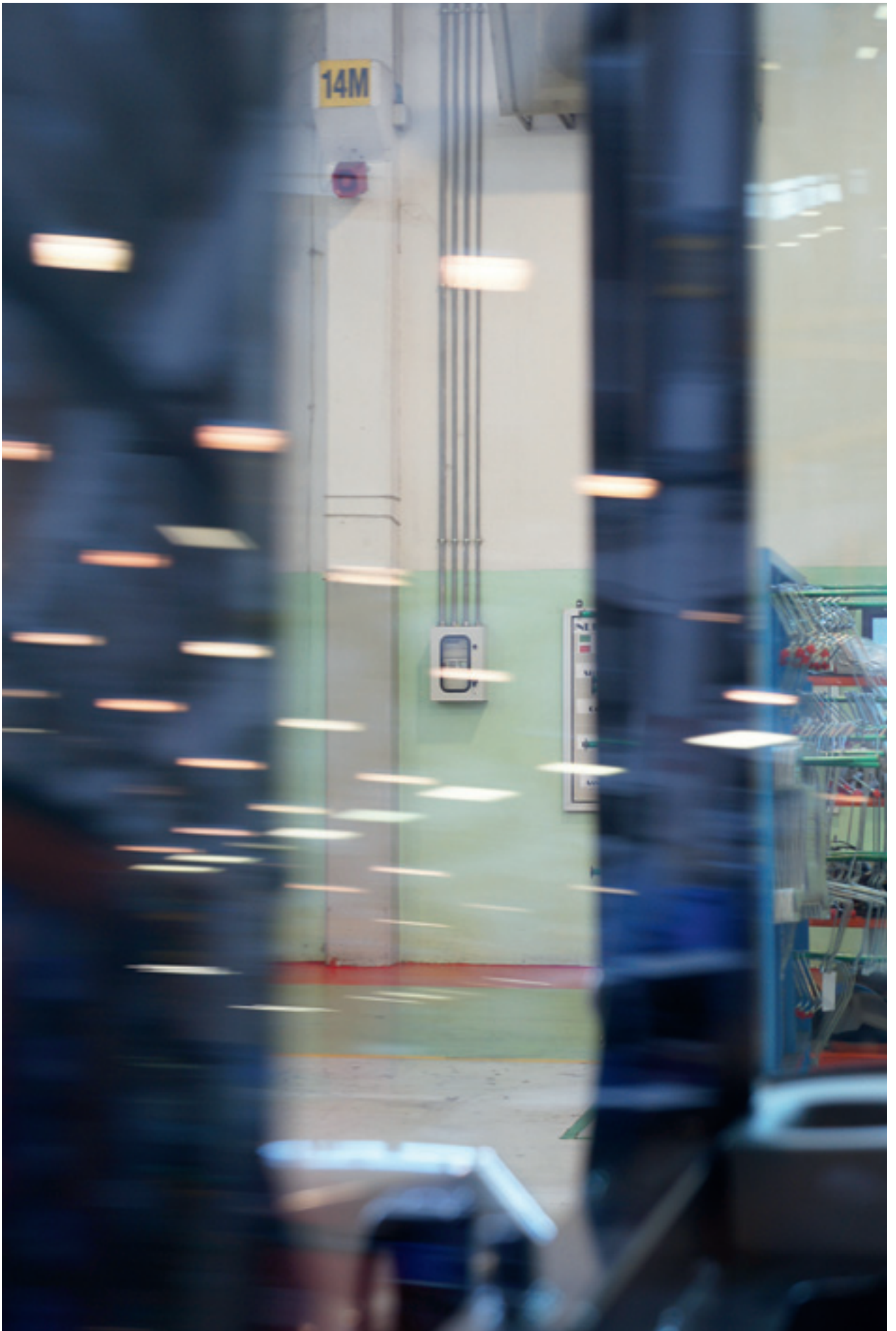
Compared to the first Carraro Technologies India centre opened in Pune in 2006 in order to localise a part of the Group's engineering network, the new R&D centre is a considerable step forward and will lay the foundations for further developments. With an area of more than 1,200 square metres, which is more than twofold the surface area of the first site, the new Cti has been structured to accommodate double the current number of employees (50).

At the same time as the opening of the new Carraro Technologies site, a new production line was set up at Carraro India, for the production of the most innovative range of Carraro transmissions for tractors.

The start up of this new line has enabled Carraro India to locally produce the entire range of a new generation of technologically advanced agricultural transmissions (T10), designed for a logic of greater efficiency and technological sustainability. The T10 is a 120 hp transmission available in numerous versions, each configured for electronic control. With its compact design, the T10 can also combine special applications (utilities) with the most challenging open field applications.

11. November

As usual, in November Carraro Drive Tech attended Agritechnica, the most important international agricultural equipment trade show held every two years in Hanover. The German-based show was a chance to present the new extended range of tractor transmissions, from the T5.5 electronic control Power Reverse to the most sophisticated T10.0, in the "mechanical" version and Power Reverse and Power Hi-Lo versions. In addition, the configuration of the axle with 20.49S suspensions was presented as part of the most recent range of axles. This version can be fitted with disc brakes and a centralised tyre inflation system.









Significant Events in Financial Year 2013

On 13 February 2013, the shareholders' meetings of Carraro Drive Tech Spa and Gear World Spa passed resolutions by majority vote, to merge Gear World Spa into Carraro Drive Tech Spa. The merger was completed with registration of the deed on 29 April 2013.

On 14 May 2013, the Carraro Group signed a Debt Restructuring Agreement with leading banks; the previous Framework Agreement expired on 31 December 2012. The new Agreement is for the restructuring of medium-/long-term debt and renews the credit lines for short-term debt for 24 months, with the redefinition of covenants.

On 28 June 2013, taking effect on 1 July 2013, the Shareholders' Meeting of Siap Spa passed a resolution to increase its share capital by conferral by the shareholder Carraro Drive Tech Spa of the going concern comprising the Gorizia plant. This operation, which includes a subsequent increase in capital of 3 million Euros, reserved to the shareholder Friulia Spa, will lead to the creation of an integrated production zone in Friuli and will benefit from the ongoing alliance between the Carraro Group and Friulia.

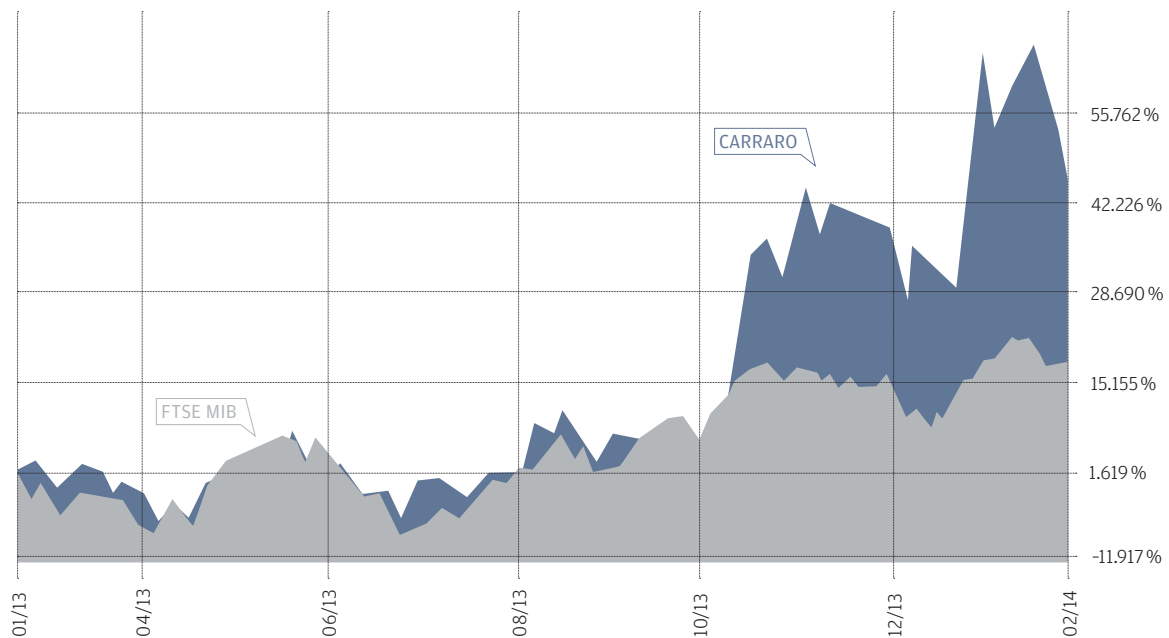
Subsequent Events

Nothing to report.

Share Performance

In the first half of 2013, the share price of Carraro fluctuated, in line with the main parameters of the Stock Exchange (Ftse Mib). In the last few months of the year, the share consistently performed better than benchmark indexes, also into the first few months of 2014.

The official average price of 2013 was 2.2 Euros, with a maximum listing at 3.03 Euros as at 31 December and a minimum listing at 1.89 Euros on 5 April.





Business Outlook and Projections for 2014

With reference markets that are basically stable, and some uncertainties in the short term, the Carraro Group expects volumes in 2014 to be in line with the previous year and a further increase in profitability, as a result of investments made during the 2013-2014 period, and of ongoing projects to improve production processes, with a moderate increase in overheads to support product and market development activities.

During 2014, the phase in of new contracts is expected to produce positive economic effects from the following year onwards.







The color of things

A grey floor stained with red, a yellow chain, two lines – one orange and one light blue – running along a wheel, an old red biscuit tin forgotten on a cabinet. Details, photographed in Carraro Group plants, that for the occasion became the location for the photos by the German artist Jessica Backhaus. Or again, open fields in Col d’Orcia, the vineyards in Valdobbiadene, the solar panels in Ravenna – all application markets of the group – to end in great style with the quarry of Henraux in Carrara, precisely the place where Michelangelo and Henry Moore chose the marble blocks to use for their artworks. For this project, an important group has chosen an artist in whom it recognizes some of his own qualities and has given her total freedom. An important challenge.

Jessica Backhaus is used to take on challenges. Even better, constant challenge is for her the only possible way. She was only 16 when she left Germany and decided to move to Paris to study. Here, she met Gisèle Freund, a legendary photographer, who played a major role in the cultural scene from the ‘30s onwards. Jessica and Gisèle were bound by a deep friendship, but after a few years Backhaus left Paris and moved to New York, without ever having shown her work to her mentor. The time for this had still to come, she was not ready yet. In the United States, she learnt all the secrets of the technical side of photography, working as an assistant for famous photographers such as David LaChapelle, mastering light and sets. These were hard and important years. Through the experience gained during in these years, Jessica learnt to master the light – which, in the future, for her, would always be only natural light. She was now ready to forget the technical aspects and photograph with her heart, as Gisèle Freund had always taught her.

A dancer in the world

Whether in a construction site, a quarry or in any place, Jessica moves harmoniously. Her eyes search for composition, capture the light and give us colors that exist but that we are not able to see without her eyes. She moves as if she were dancing with the time that passes, and taking photographs is for her a gesture full of love, beauty and melancholy. She creates her own world in every place. She doesn’t follow a rule or a particular style, but an inner necessity. As Rainer Maria Rilke wrote: “A work of art is good if it has arisen out of

necessity. It is its origins that judge it... because the creator must be a world in himself...” (from *Letters to a Young Poet*). This is what makes Jessica Backhaus’ photographs so special. It is her necessity to express herself through images, which is perceived as authentic in the heart of those who look at them.

An adventurer

She goes through life guided by a spirit of adventure, continuously exploring unknown territories. She is deeply influenced by the writings of the Canadian painter Agnès Martin, and frequently carries in her pocket a book by her in which is written: “Life is an adventure and adventures are difficult. They are hard work and one does not know how they will proceed or how they will end. Nevertheless, we have a tremendous appetite for the adventure of life” (from *What We Do Not See If We Do Not See*).

Success came with photographs taken in a Polish village, where her family owns a house. *Jesus and the Cherries* is the title of her first book and marked the beginning. It is the only work in which we find portraits, which she has also done for the Carraro group in the work published here. Other monographs followed, and among them the fundamental *One Day in November*, which she dedicated to Gisèle Freund for the 100th anniversary of her birth. It is an extraordinarily intense work, through which the artist reveals her images to her mentor and friend.

She has become one of the most important figures in contemporary photography. Color is her distinguishing feature. Galleries, collections, museums and teaching activities followed. In 2013 she had her first solo exhibition in a Museum (at the Kunshalle in Erfurt, in a double solo exhibition, together with Gisèle Freund). A few weeks ago, the book *Women photographers* by Boris Friedewald was published; it lists the 55 most important female artists in the history of photography, and Jessica Backhaus is one of them.

After all the color, in her most recent work we sometimes find a black and white image. It is not by coincidence that we also find such images in these photographs. Perhaps it is the beginning of a new adventure. There is an image I like very much, you can see a sheet of paper on a table and it’s called *Like the wind*, but I always make a mistake and call it *Love Letter*. I like it because it is very simple but I get lost in it. For example, if you look carefully, the line of the table is not perfectly straight, as happens when you work with a handheld camera; it is imperfect, just as life is. There are some marks on the wall and signs of glasses on the table. The image is grey. I wonder what is written in that letter. To me, it is the beginning of a new adventure.

GIULIA ZORZI

Gallerist, Micamera





















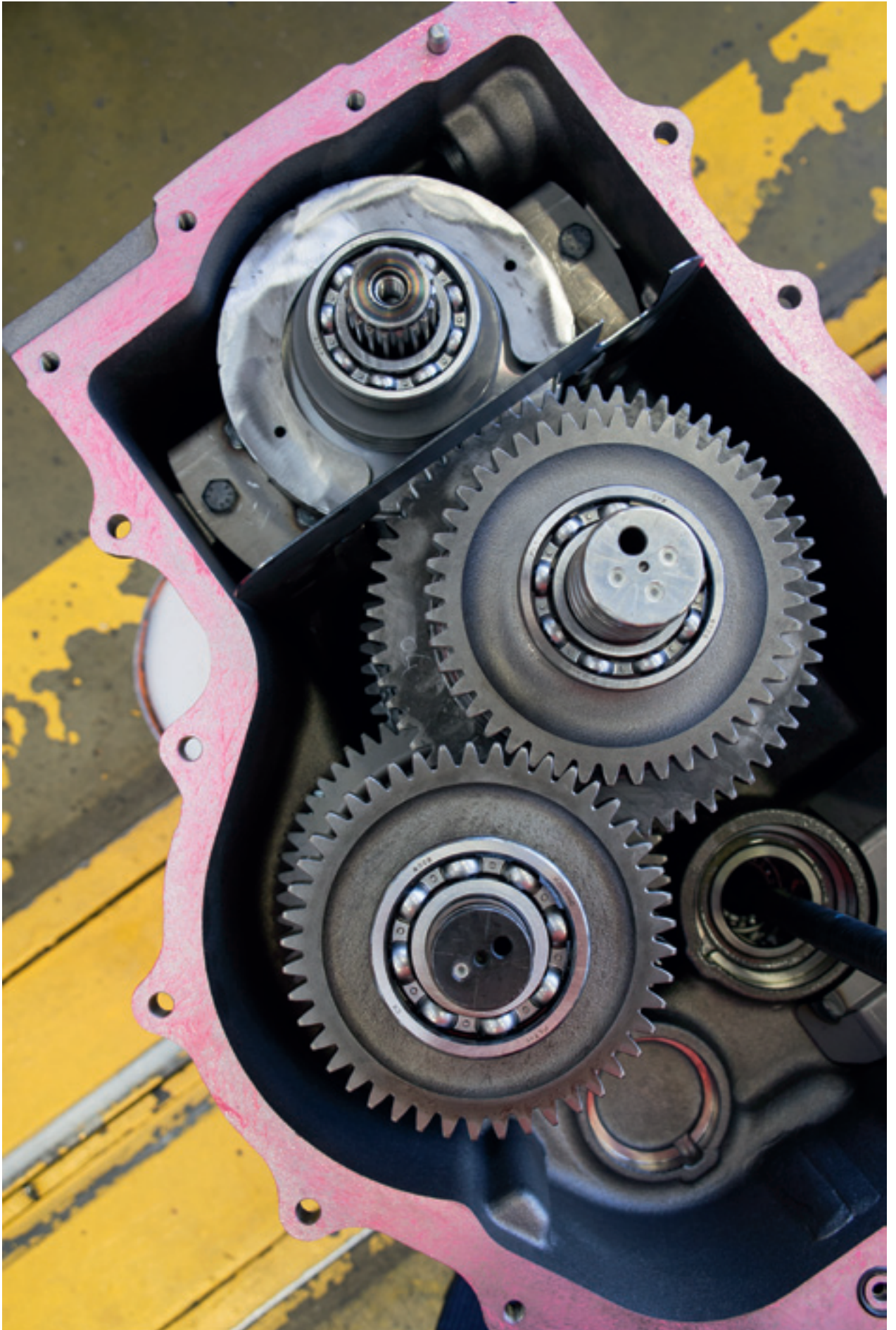




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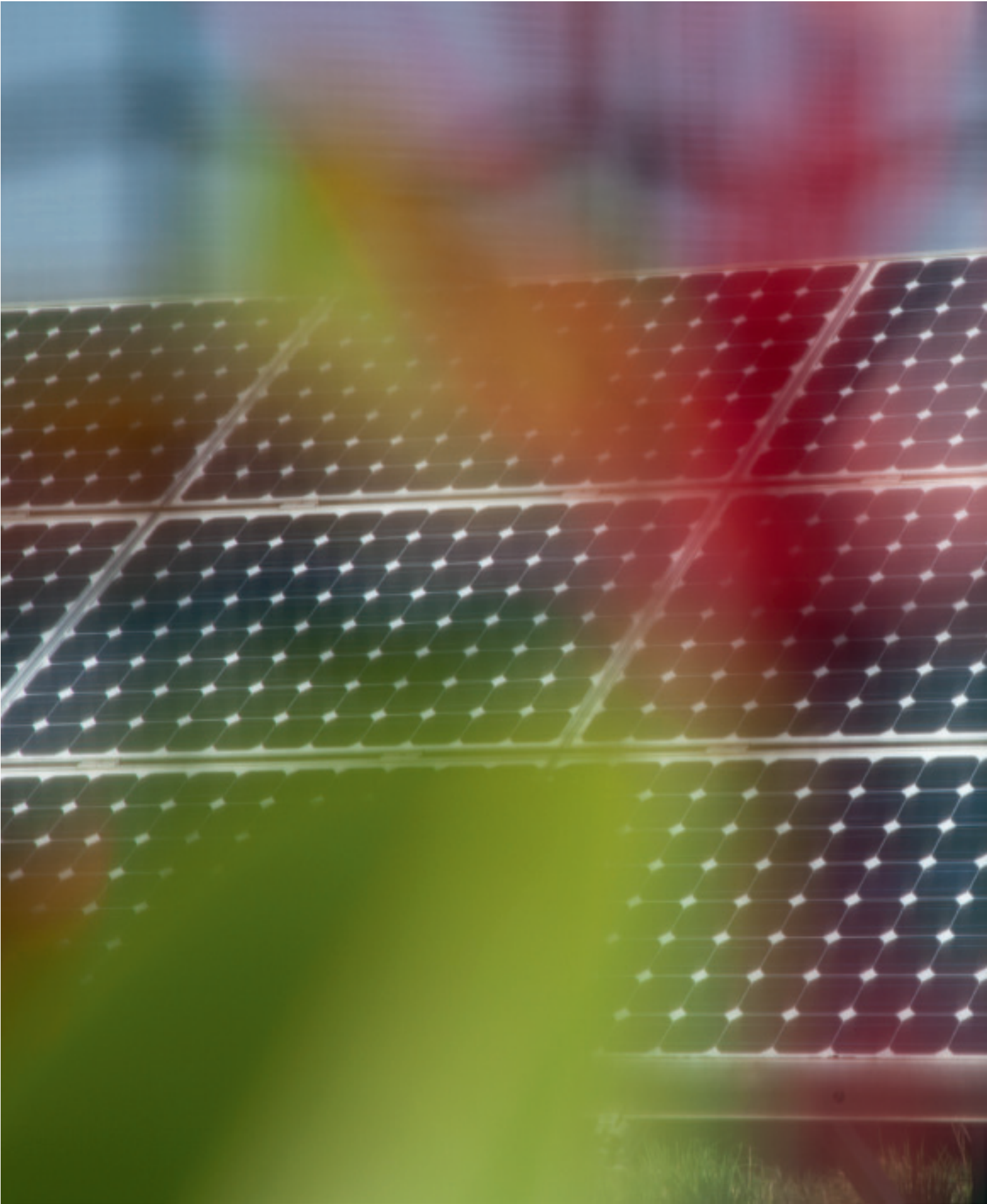




















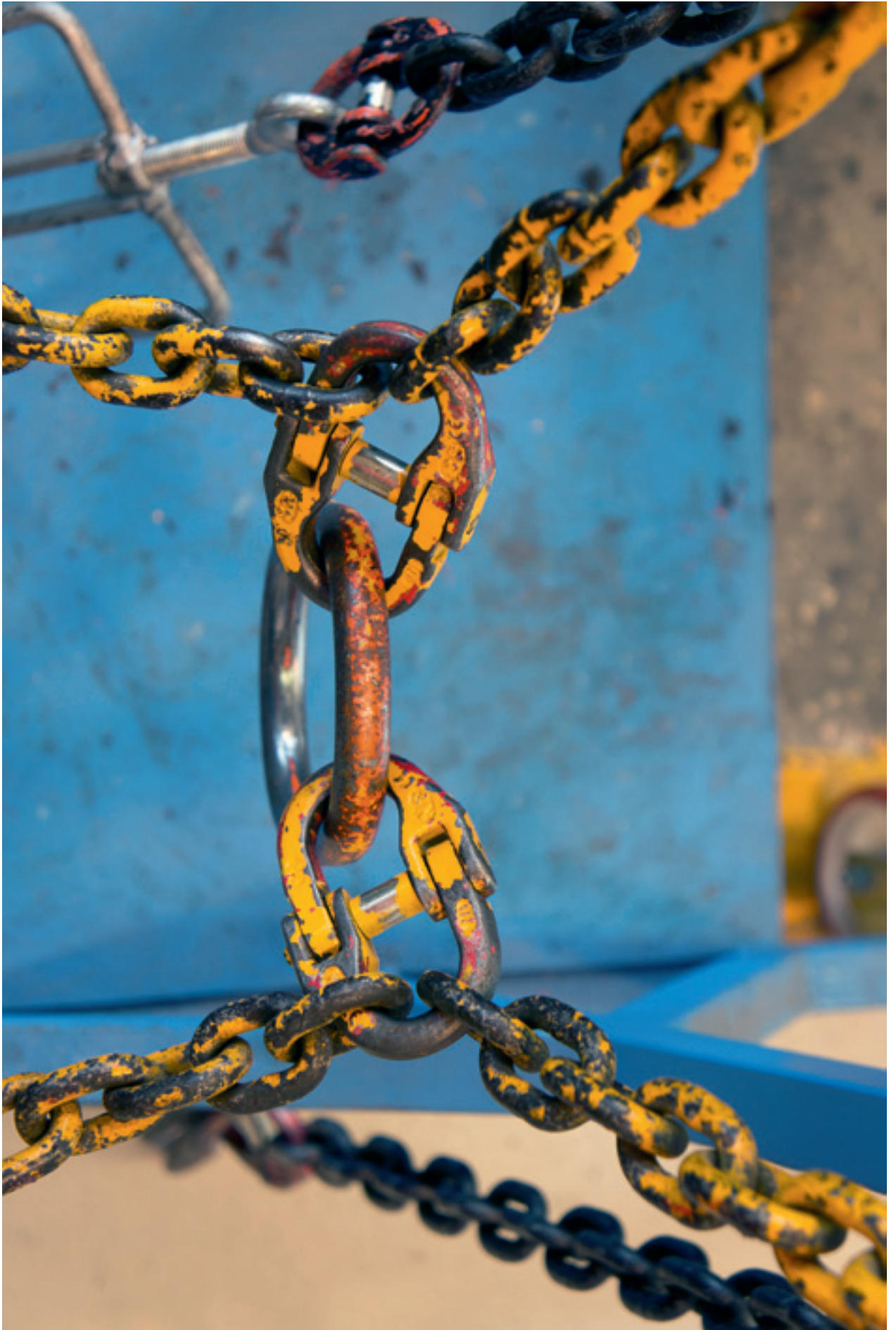










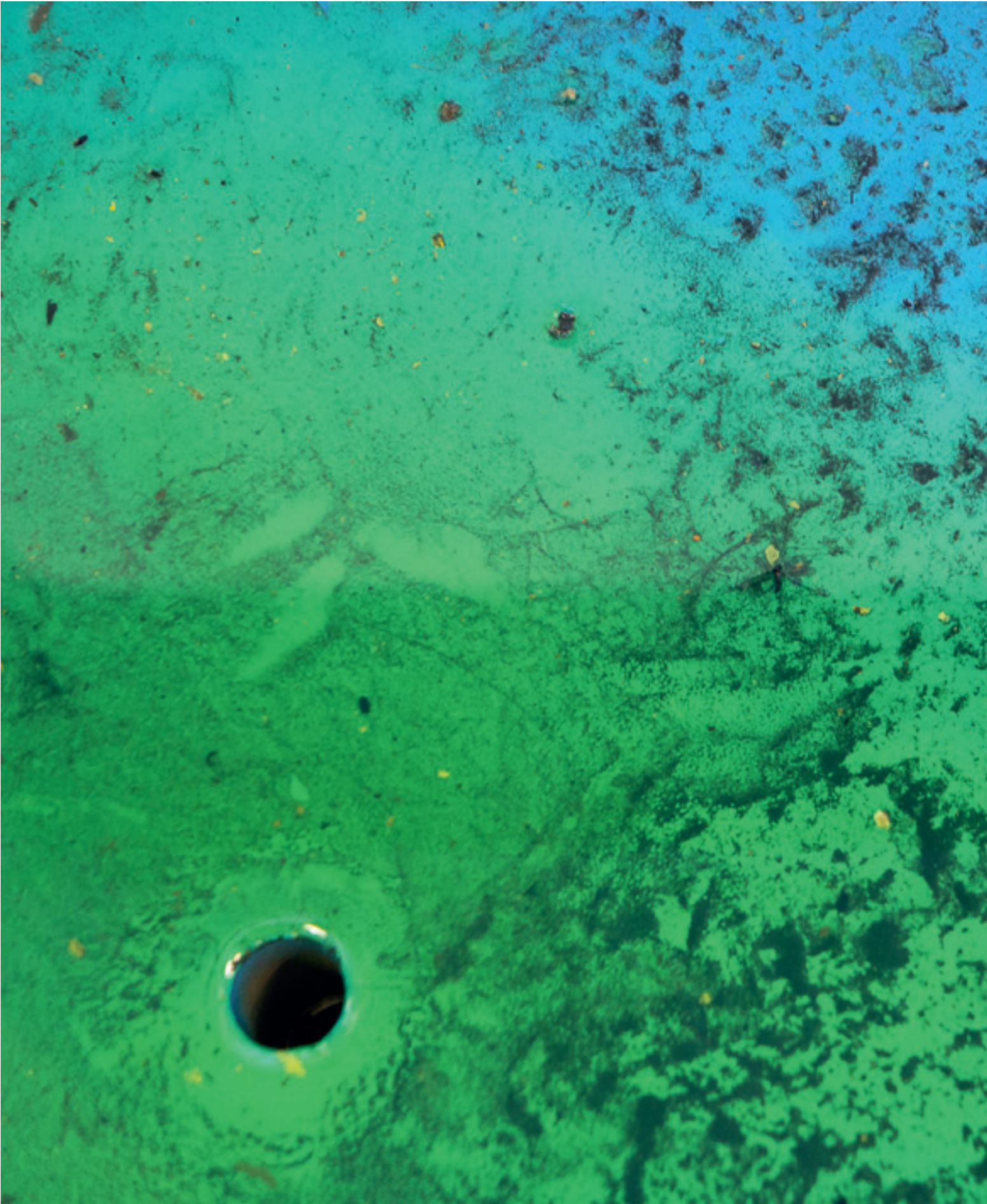




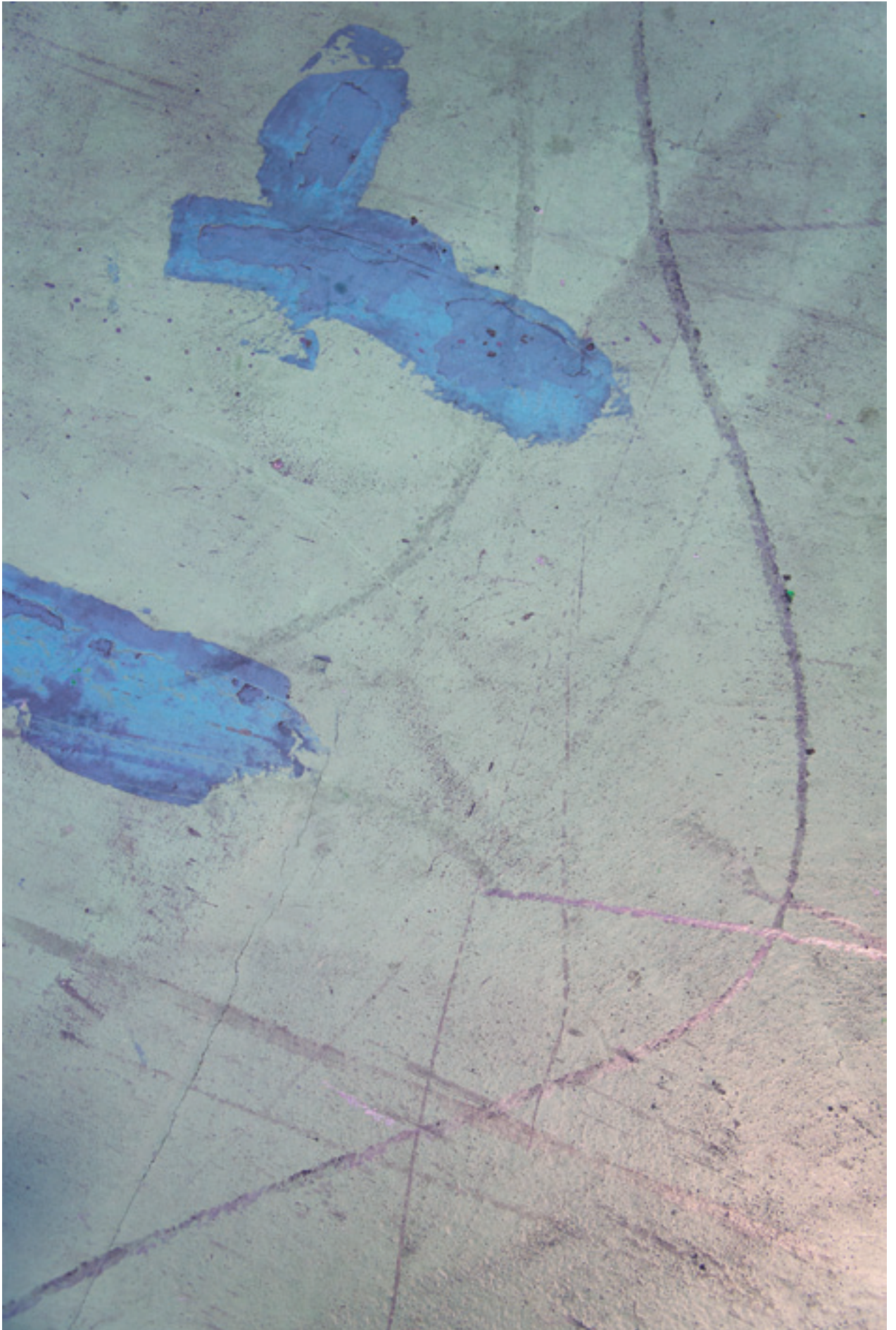












THANKS TO

Col d'Orcia Srl
{Montalcino, Siena}

Henraux Spa
{Querceta, Lucca}

Tenuta Maschio
{Aquileia, Udine}

Agriturismo Riva de Milan
{Valdobbiadene, Treviso}

Tre Spa
Tozzi Renewable Energy
Gruppo Tozzi
{Mezzano, Ravenna}

Azienda Pilota
e Dimostrativa
Vallevecchia
{Caorle, Venezia}

Corte Vignazze
di Luigi Giuliani
{Palù, Verona}

Gruppo Vitali Spa
{Milano}

DESIGN

Bunker
{bnkr.it}

PHOTOGRAPHY

Jessica Backhaus
{jessicabackhaus.net}

GALLERIST

Giulia Zorzi
{micamera.it}

TYPESET IN

Amplitude
{Schwartz, 2003}

Miller
{Carter, 2002}

PRINT

Grafiche Rebecchi
Ceccarelli
{Modena}

Jessica Backhaus was born in Cuxhaven, Germany in 1970 and grew up in an artistic family. At the age of sixteen, she moved to Paris, where she later studied photography and visual communications. Here she met Gisèle Freund in 1992, who became her mentor. In 1995 her passion for photography drew her to New York, where she assisted photographers, pursued her own projects and lived until 2009.

She is regarded as one of the most distinguished voices in contemporary photography today. Her work has been shown in numerous solo and group exhibitions, including the National Portrait Gallery, London, the Martin-Gropius-Bau, Berlin and the Kunsthalle Erfurt. To date, she has six publications to her name; *Jesus and the Cherries*, 2005; *What Still Remains*, 2008; *One Day in November*; 2008; *I Wanted to See the World*, 2010; *One Day. 10 Photographers*, 2010 and *Once, Still and Forever*, 2012 all published by Kehrer Verlag, Heidelberg, Berlin. Boris Friedewald quoted her among the 55 most important photographers in the history of photography (*Women Photographers*, Prestel 2014).

Her photographs are in many prominent art collections including Art Collection Deutsche Börse (Germany), Ing Art Collection (Belgium) Collection of the Museum of Fine Arts in Houston (Usa) and the Margulies Collection in Miami (Usa). She is represented by Robert Morat Galerie in Hamburg and Berlin, Robert Klein Gallery in Boston, Projektraum Knut Osper in Cologne, Stieglitz 19 Gallery in Belgium, Wouter van Leeuwen Gallery in Amsterdam and Micamera in Milan.

