

CARRARO S.p.A.

Registered offices in Via Olmo 37, Campodarsego, Padua, Italy

Share capital Euro 21,840,000 fully paid in

Tax code, VAT No. and

enrolment in the Padua Companies' Register under No. 00202040283

Economic and Administrative Register No. 84.033

**QUARTERLY REPORT AS OF 31.03.06
(CONSOLIDATED ACCOUNTS)**

This report includes the administration report, accounting statements and related explanatory notes. It was prepared according to article 82 of the Regolamento Emittenti (CONSOB 11971/1999 and subsequent amendments) using the table in Enclosure 3D. The indicated data were determined in conformity with the IAS/IFRS international accounting principles.

DIRECTORS' REPORT

During the first quarter, the main reference markets were stable as in the previous half-year. Demand in the Construction Equipment sector was substantially stable in Europe and the United States, whereas demand in the agricultural sector remained good in the North American, Chinese and Indian market. However, it was still contracting in the European market, and, to a greater extent, in the South American market where there were signs of recovery in the last few weeks.

The group's turnover recorded a 7.4% increase, thanks to the contribution in sales by the Vehicles & Powertrains Business Unit, amounting to 18 million Euro, with the Unit consolidated as from April 2005.

As forecast, the economic results fell with respect to those of the same period in the previous year which, may we remind you, continued to benefit from the last stage of the exceptional growth during 2004. On the other hand, we must report the improvement compared with the last quarter of the last financial year, confirming activities aimed at containing costs and obtaining a better balanced supply chain.

The net financial position which showed a debit of 96 million Euro, in terms of expectations, increased compared with the figures at 31st December 2005 (73 million Euro), the result of momentary expansion of working capital. The gearing as at 31st March was 81.93%.

We underline the results of some companies in the Group, in particular, those of Fon Polonia, Carraro Argentina and O&KA, which at 31 March recorded a turnover growth of 88%, 11% and 16% respectively, compared with the same period in the previous year.

The start-up of the new product activities in China and India (Turbo Gears) continues. These companies generated revenues of 936 thousand Euro and 720 thousand Euro respectively. However their economic results were of course still negative due to the influence of start-up costs.

GENERAL INFORMATION

(VALUES IN €/000)

	IAS/IFRS				
	31.03.2006	% on turnover	31.03.2005	% on turnover	% diff.
Turnover	153.153		142.587		7,41
EBIT	5.343	3,48	7.657	5,37	-30,22
EBITDA	11.010	7,19	13.223	9,27	-16,74
Net result	1.762	1,15	3.752	2,63	-53,04
Amortisation/ Depreciation	5.667	3,70	5.566	3,90	1,81
Cash flow	7.429	4,85	9.318	6,53	-20,27
Capital expenditure	6.627		6.635		-0,12
Net financial pos.	-95.506		-85.305		
Net equity*	116.565		100.146		
Gearing	81,93%		85,18%		

*includes minorities

Turnover

Net consolidated turnover for the first quarter of 2006 amounted to Euro 153.153 million and recorded an increase of 7.4% when compared with the figure of the first quarter of the previous year, Euro 142,587 million.

The breakdown of turnover according to destination market, its percentage-based incidence and the change with respect to the 1st quarter of 2005, are summarised in the following table:

(VALUES IN €/000)

Destination market	31.03.2006	31.03.2005	Δ %
			31.03.'06 31.03.'05
Off-Highway:	123.251	113.305	+8,8
Agriculture sector	63.197	50.707	+24,6
including:			
- axles and transmissions	45.190	50.707	-10,9
- vehicles*	18.007	0	ns
Construction equipment sector	60.054	62.598	-4,1
On-Highway:	16.238	15.677	+3,6
Material handling	5.926	5.151	+15,0

Auto & truck	4.258	3.502	+21,6
Gears	6.054	7.024	-13,8
Escalator (moving stairs)	2.134	3.466	-38,4
Spare parts and others	11.530	10.139	+13,7
TOTAL	153.153	142.587	+7,4

* from April 2005

Percentage breakdown of turnover per destination Market

<i>Destination market</i>	<i>31.03.2006</i>	<i>31.03.2005</i>
Off-Highway:	80,5	79,5
Agriculture sector	41,3	35,6
including:		
- axles and transmissions	29,5	35,6
- vehicles*	11,8	0
Construction equipment sector	39,2	43,9
On-Highway:	10,6	11,0
Material handling	3,8	3,6
Auto & truck	2,8	2,5
Gears	4,0	4,9
Stationary (escalators)	1,4	2,4
Spare parts and others	7,5	7,1

Segment reporting:

The distribution of sales at 31.03.2006, and, for comparison, at 31.003.2005, per segment and geographic area, is shown in the following tables.

a) activity sector
(VALUES IN €/000)

31 March 2005	DRIVES & DRIVELINES	COMPONENTS	VEHICLES	ELIMINATIONS AND NON ALLOCATED ACTIVITIES	CONSOLIDATED TOTAL
SALES	143.871	22.271	18.987	<i>(31.976)</i>	153.153
SALES TO THIRD PARTIES	127.614	6.608	18.931	-	153.153
SALES WITHIN DIVISIONS	-	-	-	-	-
SALES BETWEEN DIVISIONS	16.257	15.663	56	<i>(31.976)</i>	-

31 March 2005	DRIVES & DRIVELINES	COMPONENTS	VEHICLES	ELIMINATIONS AND NON ALLOCATED ACTIVITIES	CONSOLIDATED TOTAL
SALES	145.338	21.368	-	<i>(24.119)</i>	142.587
SALES TO THIRD PARTIES	135.121	7.466	-	-	142.587
SALES WITHIN DIVISIONS	-	-	-	-	-
SALES BETWEEN DIVISIONS	10.217	13.902	-	<i>(24.119)</i>	-

b) geographic area

(VALUES IN €/000)

Destination of turnover per Geographic Area

Geographical area	31.03.2006	%	31.03.2005	%
North America	35.073	22,9	36.809	25,8
Germany	28.941	18,9	14.572	10,2
France	15.101	9,9	12.747	8,9
UK	13.580	8,9	18.053	12,7
South America	6.716	4,4	9.395	5,9
India	6.316	4,1	6.963	4,9
Poland	4.279	2,8	4.478	3,1
China	3.076	2,0	1.851	1,3
Other EU areas	9.141	6,0	10.480	7,4
Other countries outside EU	5.739	3,7	1.623	1,1
Total abroad	127.962	83,6	115.971	81,3
Italy	25.191	16,4	26.616	18,7
Total	153.153	100	142.587	100

EBIT/EBITDA

(VALUES IN €/000)

	IAS/IFRS				
	31.03.2006	% on turnover	31.03.2005	% on turnover	% diff.
EBIT	5.343	3,48	7.657	5,37	-30,22
EBITDA	11.010	7,19	13.223	9,27	-16,74
Amortisation/ Depreciation	5.667	3,70	5.566	3,90	1,81

Margins dropped compared with the first quarter of last year, which had continued to benefit from the greater volumes of 2004, and did not include the natural losses due to the start-up in China and of Turbo Gears in India (226 thousand Euro in the first quarter of 2006) and the greater research and development costs, which rose throughout the 2005 financial year.

(VALUES IN €/000)

	IAS/IFRS				
	31.03.2006	% on turnover	IV quarter 2005	% on turnover	% diff.
Turnover	153.153		153.071		0,05
EBIT	5.343	3,48	4.742	3,10	12,67
EBITDA	11.010	7,19	7.713	5,04	42,74

The comparison between the first quarter of 2006 and the last quarter of 2005 is more interesting. Here, turnover being equal, there was an improvement in EBIT and EBITDA, a concrete, positive signal that the decision to relocalise industrially and contain costs was right.

Net income

The income of the quarter amounts to 1,762 million Euro (1.2% on turnover) and, although it saw a fall - compared with the 3,752 million Euro (2.6% on turnover) of 31 March 2005 - partly due to increased tax costs of some companies in the Group - it is in line with expectations of a gradual recovery in the forthcoming quarters.

Amortisation and depreciation came to Euro 5.667 million as against Euro 5.566 million as of 31.03.2005, leading to a cash-flow of Euro 7.429 million (Euro 9.318 million as of 31.03.2005).

Investments

Investments in the quarter amount to 6,627 million Euro, virtually unchanged with respect to the 6,635 million Euro of the previous year and mainly allocated to the completion of the productive plants of subsidiary companies Turbo Gears Limited and Carraro Qingdao Drive systems.

Net financial position

The net financial position - showing a debit of 95,506 million Euro - recorded an increase compared with the figure recorded on 31 December, 72,819 million Euro, and the figure of 31 March 2005 amounting to 85,305 million Euro, due to a temporary increase in working capital. The gearing (the ratio of borrowed and shareholder's equity) as at March was 81.93%.

OUTLOOK FOR ACTIVITIES DURING THE CURRENT ACCOUNTING PERIOD

If we consider the signals from the main reference markets, the actions taken in terms of industrial profile and cost containment, we can confirm, for the entire year, a growth in turnover and a gradual recovery in profitability as shown in the results of the first quarter, and in line with the budget forecasts.

ACCOUNTING SCHEDULES
CONSOLIDATED ECONOMIC AND EQUITY DATA
(IAS/IFRS)

Consolidated Profit and Loss Account (Balances in thousands of Euro)				
	31.03.2006	%	31.03.2005	%
Revenues from sales	153.153	100,00	142.587	100,00
Purchases of goods and materials	104.855	68,46	98.713	69,23
Services	26.231	17,13	27.038	18,96
Use of third-party goods and services	1.019	0,67	410	0,29
Payroll and related costs:	21.386	13,96	18.359	12,88
Total amortisation, depreciation and write-downs of assets	5.691	3,72	5.566	3,90
Change in inventories	-11.803	-7,71	-14.932	-10,47
Provisions for risks	1.056	0,69	469	0,33
Other income and expense	-625	-0,41	-693	-0,49
EBIT	5.343	3,49	7.657	5,37
Income from equity investments	0	0,00	0	0,00
Net financial income/expense	-1.394	-0,91	-1.374	-0,96
Exchange gains and losses (net)	87	0,06	132	0,09
Value adjustments to financial assets	146	0,10	179	0,13
Pre-tax result	4.182	2,73	6.594	4,62
Current and deferred taxation:	2.380	1,55	2.562	1,80
Net result	1.802	1,18	4.032	2,83
Results pertaining to minority shareholders	40	0,03	280	0,20
Group consolidated result	1.762	1,15	3.752	2,63

Consolidated Profit and Loss Account (Balances in thousands of Euro)		
	31.03.2006	31.12.2005
Non-current assets	180.845	180.420
Tangible fixed assets	153.979	153.396
Intangible fixed assets	6.308	8.354
Real estate property investments	1.101	703
Equity investments:	3.496	3.353
Financial assets	1.820	475
Deferred tax assets	12.448	12.695
Trade and other receivables	1.693	1.444
Current assets	334.469	346.109
Final inventories	126.634	115.836
Trade and other receivables	170.664	168.700
Financial assets	6.197	5.819
Liquid funds	30.974	55.754
Total assets	515.314	526.529
Shareholders' equity	116.565	116.100
Non-current liabilities	39.535	40.912
Financial liabilities	10.555	12.022
Trade and other payables	315	-
Deferred tax liabilities	3.950	3.897
Severance Pay and Pension funds and similar	22.287	22.411
Provisions for risks and charges	2.428	2.582
Current liabilities	359.214	369.517
Financial liabilities	128.753	129.749
Trade and other payables	215.168	225.534
Amounts due for current taxes	9.712	9.134
Provisions for risks and charges (current portions)	5.581	5.100
Total liabilities and shareholders' equity	515.314	526.529

NET FINANCIAL POSITION

In thousands of Euro

Description	31.03.2006	31.12.2005	31.03.2005
Bonds:			
- not current	-	-	74.367
- current	74.576	74.367	-
Loans:			
- not current	10.555	11.277	6.862
- current	44.146	47.232	40.202
Financial accruals and deferrals	3.093	1.586	4.276
NET OF:			
Liquid funds	-30.974	-55.616	-38.825
Loans and receivables	-588	-471	-1.504
Securities	-73	-73	-73
Amounts due from factoring companies	-5.229	-5.483	-
Consolidated net financial position	95.506	72.819	85.305

ACCOUNTING PRINCIPLES

Basis of presentation

The accounting data in the report were prepared in conformity with the International Financial Reporting Standards (IFRS), on the basis of the historic cost principle, with the exception of derived financial instruments, which are booked at fair value.

The accounting principles adopted by the Group conform to the IAS/IFRS international principles, as assimilated by European Regulations 1725/2003, 2237/2004 and 2086/2004.

Consolidation principles

The consolidation criteria are those adhered to for the annual financial statements.

Scope of consolidation

The Group's consolidated data include those of Carraro S.p.A. and of those companies in which it holds, either directly or indirectly, a majority of voting rights at the annual general meeting of the shareholders.

A subsidiary company is an entity in which the Group holds, directly or indirectly via its subsidiary companies, more than half of the voting rights, unless, under exceptional circumstances, it can be clearly demonstrated that such a holding does not represent control over the entity. Control also exists when the Group Parent Company holds half, or a smaller portion, of the votes which can be exercised during general meetings if it has:

- (a) control over more than half of the voting rights by virtue of an agreement with other investors;
- (b) the power to determine the financial and operating policies of the entity by virtue of a clause in the Articles of Association or a contract;
- (c) the power to appoint or remove the majority of the members of the board of directors or the equivalent corporate management body, and the control over the entity is held by that board or body; or
- (d) the power to exercise the majority of the voting rights during board meetings or meetings of the equivalent corporate management body, and the control over the entity is held by that board or body.

The companies consolidated on a line-by-line basis are the following:

Name	Registered offices	Currency	Nominal value of share capital	Interest holding
SIAP S.p.A.	Maniago (PN)	Euro	10.122.616	100%
A.E. S.r.l.	Castello d'Argile (BO)	Euro	40.000	90%
Carraro Deutschland GmbH	Hattingen (Germany)	Euro	10.507.048	100%
Carraro Argentina S.A.	Haedo – Buenos Aires (Argentina)	Pesos	25.809.288	99,90%
Carraro India Ltd.	Rajangaon – Pune (India)	Rupie	400.000.000	51%
Turbo Gears India Ltd.	Rajangaon – Pune (India)	Rupie	370.000.000	90,20%
F.O.N. S.A.	Radomsko (Poland)	Zloty	7.058.220	90,667%
Carraro International S.A.	Luxembourg	Euro	9.850.000	99,99%
Carraro North America Inc.	Calhoun - Georgia (USA)	US\$	100	100%
O&K Antriebstechnik GmbH &Co. KG	Hattingen (Germany)	Euro	2.045.168	100%
Carraro Qingdao Drive Systems Co. Ltd.	Shandong (China)	Euro	490.000	100%
Carraro Qingdao Trading Co. Ltd	Shandong (China)	Euro	170.000	100%

Changes in the scope of consolidation:

Companies Turbo Gears India Ltd., Carraro Qingdao Drive Systems Co.Ltd., and Carraro Qingdao Trading Co.Ltd. were included in the scope of consolidation as from the current financial year.

The following equity investments have been excluded from the scope of consolidation:

Parent company	Name	Registered offices	Currency	Nominal value of share capital	Interest holding
Carraro India Ltd.	Carraro PNH Components India Ltd.	Bombay (India)	Rupie	10.000.200	99,998%
Carraro International S.A.	Carraro Korea Ltd.	Ulsan (Corea)	Kwon	3.000.000.000	100%

Carraro PNH Components India Ltd. is a dormant company, whose only balance sheet items comprise land for industrial use and its exclusion from the scope of consolidation was not considered to have any significance on the financial statements presentation.

Carraro Korea Ltd. was placed in liquidation during 2004 and is currently dormant. As from 31.12.2004, the relevant values were booked as disposable assets and liabilities.

The residual economic and equity values at 31 March 2006 are not significant.

Conversion of accounting data to foreign currency

The conversion into Euro of the accounting data expressed in foreign currency, is carried out by adopting the period-end exchange rate for assets and liabilities, historic exchange rates for the equity accounts and the average rates for the period for the income statement.

Any exchange differences originating from this method are stated in a specific equity item called "Reserve from conversion difference".

The exchange rates applied for the conversion of accounting data into foreign currency are as follows:

Company	Currency	Average rate 1/1-31/03/2006	Exchange rate as of 31.03.06
Carraro India Ltd.	Indian Rupee	54,010900	53,376586
Turbo Gears India Ltd.	Indian Rupee	54,010900	53,376586
F.O.N. S.A.	Polish Zloty	3,942500	3,835536
Carraro North America Inc.	US Dollar	1,210400	1,202409
Carraro Qingdao Drive Systems Co. Ltd.	Chinese Renminbi	9,703800	9,680373
Carraro Qingdao Trading Co. Ltd	Chinese Renminbi	9,703800	9,680373
Carraro Argentina S.A.	Argentine Peso	3,729550	3,683577

Accounting principles and evaluation criteria

The depreciation is calculated, on a straight-line basis, on the cost of the assets net of the related residual values, in relation to their estimated useful life applying the following rates to newly acquired assets:

	% rate for 2005	% rate for 2006
industrial land	-	-
industrial buildings	2 - 5	2 - 5
plant	4 - 5	4 - 5
machinery	5,56 - 6,67	5,56 - 6,67
equipment	6,67 - 25	6,67 - 25

dies and models	12,50	12,50
furniture and furnishings	6,67	6,67
office machines	12,50 - 20	12,50 - 20
vehicles	6,67 - 12,50	6,67 - 12,50

Land is not depreciated.

Assets held in relation to financial lease agreements are depreciated on the basis of their estimated useful life, on a consistent basis with owned assets.

Overall, the evaluation criteria and the accounting principles are those adopted for presenting the annual financial statements.

The Chairman

Mario Carraro