

CARRARO S.p.A.

Sede in Campodarsego (PD) – Via Olmo n. 37

Share capital Euro 21,840,000 fully paid-up

Padua Companies Register R.E.A. no. 84.033

Tax no. 00202040283

INTERIM FINANCIAL REPORT**FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2002
(CONSOLIDATED)****DIRECTORS' REPORT**

Performance in the third quarter of 2002, substantially in line with the forecast, has been characterised by a recovery in sales due to continuing demand in the agricultural segment. On the other hand, there have been no signs of improvement in the construction equipment segment, which has been in a recession for several months and where signs of a possible recovery in the short and medium term cannot yet be seen.

The increase in EBIT has consolidated, in particular at the Italian entities of the Group, and this was achieved through business volumes and the cost-cutting measures resulting from the often mentioned restructuring process started last year. As for the foreign entities, significant was the contribution of the Argentine subsidiary, whose EBIT continued to benefit, albeit to a lesser extent than in the first half of the year, from the effect of the devaluation of the Peso. Also at the Indian subsidiary profitability continued to increase thanks to larger business volumes, whereas subsidiaries in Germany, Poland and Korea continued implementing the restructuring plan and suffered from a fall of order volumes due to unfavourable conditions in the reference markets, with a continuing adverse impact on results. The net financial position remained stable, on the level of June 2002, thanks to the reduction of working capital and to the cash flow generated.

GENERAL INFORMATION

Net consolidated sales for the quarter 1 July 2002 – 30 September 2002 amounted to EUR 92.257 million, a 3.6% increase on the corresponding period a year earlier (EUR 89.033 million).

Sales for the nine months to 30 September 2002 amounted to EUR 284.664 million, a 2.5% decrease on the nine months to 30 September 2001 (EUR 291.856 million).

Developments in sales by segment are summarised as follows:

amounts in EUR/000

<i>Segment</i>	<i>9 months to 30 Sept. 2002</i>	<i>9 months to 30 Sept. 2001</i>	<i>% change 30 Sept. 2002 on 30 Sept. 2001</i>	<i>Q3 2002</i>	<i>Q3 2001</i>	<i>% change Q3 2002 on Q3 2001</i>
Off-Highway:	206,281	212,328	-2.85	67,874	62,617	+8.40
Agriculture segment	104,525	87,602	+19.32	33,424	27,067	+23.49

Construction equipment segment		101,756	124,726	-18.42		34,450	35,550	-3.09
On-Highway:		48,026	44,470	+8.00		15,561	13,963	+11.44
Material handling		19,209	19,060	+0.78		6,491	6,622	-1.98
Auto & truck		10,463	11,125	-5.95		3,358	3,539	-5.11
Gears		18,354	14,285	+28.48		5,712	3,802	+50.24
Stationary (escalators)		4,720	5,529	-14.63		1,649	1,950	-15.44
Spare parts		16,855	18,573	-9.25		4,915	7,394	-33.53
Other		8,782	10,956	-19.84		2,258	3,108	-27.35
TOTAL		284,664	291,856	-2.46		92,257	89,033	+3.62

A breakdown of sales by segment and by geographical area is provided below:

% breakdown of sales by segment

<i>Segment</i>		<i>9 months to 30 Sept.2002</i>	<i>9 months to 30 Sept.2001</i>		<i>Q3 2002</i>	<i>Q3 2001</i>
Off-Highway:		72.47	72.76		73.57	70.33
Agriculture segment		36.72	30.02		36.23	30.4
Construction equipment segment		35.75	42.74		37.34	39.93
On-Highway:		16.87	15.23		16.87	15.68
Material handling		6.75	6.53		7.04	7.44
Auto & truck		3.67	3.81		3.64	3.97
Gears		6.45	4.89		6.19	4.27
Stationary (escalators)		1.66	1.89		1.79	2.19
Spare parts		5.92	6.36		5.33	8.30
Other		3.08	3.76		2.44	3.50

Sales by geographical area

<i>Geographical area</i>	<i>9 months to 30 Sept. 2002</i>	<i>%</i>	<i>9 months to 30 Sept. 2001</i>	<i>%</i>	<i>Q3 2002</i>	<i>%</i>	<i>Q3 2001</i>	<i>%</i>
North America	60,991	21.43	71,706	24.57	18,947	20.54	21,447	24.09
Germany	39,943	14.03	48,434	16.60	13,852	15.01	15,217	17.09
UK	28,059	9.86	24,669	8.45	8,746	9.48	7,971	8.95
France	29,384	10.32	35,233	12.07	9,128	9.89	10,541	11.84
Korea	8,098	2.84	10,331	3.54	2,704	2.93	4,246	4.77
Poland	3,862	1.36	4,796	1.64	1,489	1.61	1,491	1.68
South America	17,735	6.23	18,928	6.49	5,857	6.35	7,240	8.13
Other non-EU	24,789	8.71	7,253	2.48	4,932	5.35	2,603	2.92
Other EU	14,535	5.10	19,119	6.55	8,262	8.96	5,755	6.47
Total abroad	227,396	79.88	240,469	82.39	73,917	80.12	76,511	85.94
Italy	57,268	20.12	51,387	17.61	18,340	19.88	12,521	14.06
TOTAL	284,664	100.00	291,856	100.00	92,257	100.00	89,032	100.00

EBIT for Q3 2002 was equal to EUR 4.516 million, equal to 4.90% of sales (EUR 2.176 million, or 2.44% of sales, in Q3 2001). For the nine months to 30 September 2002 EBIT was equal to EUR 14.426 million (5.07% of sales), higher than EUR 9.268 million (3.18% of sales) for the nine months to 30 September 2001.

Depreciation and amortisation for the nine months to 30 September 2002 amounted to EUR 18.704 million, down on the EUR 20.559 million for the nine months to 30 September 2001.

Capital expenditure in Q3 2002 was equal to EUR 3.581 million, a slight increase on EUR 3.298 million for Q3 2001, whereas during the nine-month period to 30 September 2002 expenditure was equal to EUR 11.775 million, down on the EUR 15.728 million for the nine months to 30 September 2001; it relates to the purchase of assets to improve manufacturing efficiency and to launch new products.

The net financial position, debt of EUR 120.116 million, remained stable and in line with 30 June 2002 (debt of EUR 121.133 million). Gearing, the debt to equity ratio, was equal to 207.34% versus 215.78% as at 30 June 2002.

FORESEEABLE DEVELOPMENT OF BUSINESS IN THE CURRENT YEAR

Based on the order backlog, sales are expected to increase further, reaching at the year end the same level as for 2001 and exceeding the original budget. Thanks to larger business volumes and continuing cost cutting, we believe that profitability will remain satisfactory, in line with the first nine months of the year.

We draw your attention to the fact that in Germany, negotiation led to an agreement with the trade unions that will result, in the context of the restructuring, in the contract termination of 89 employees by the end of 2003. As anticipated in our report on the interim financial report to 30 June 2002, the agreement brought additional costs of EUR 1.8 million for the subsidiary O&KA, entirely expensed in

the course of 2002, with the economic benefits deferred to subsequent years.

Also in the last quarter of the year restructuring operations will continue at the Polish subsidiary FON and, given the continuing loss of orders from the mining segment and Russia, the entity it not expected to be able to report a profit.

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FINANCIAL INFORMATION
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PROFIT AND LOSS ACCOUNT

amounts in EUR/000

Line item	9 months to 30 Sept. 2002	%	9 months to 30 Sept. 2001	%	Q3 2002	%	Q3 2001	%
Value of production	291,673		295,913		95,375		85.766	
Sales	284,664	100.00	291,856	100.00	92,257	100.00	89.033	100.00
Change in stocks of finished products	3,358	1.18	-109	-0.04	2,151	2.33	-4.539	-5.10
Other income	3,651	1.28	4,166	1.43	967	1.05	1.272	1.43
Cost of production	277,247	-97.39	286,645	-98.21	90,859	-98.48	83.590	-93.89
Raw materials and consumables	-159,157	-55.91	-152,701	-52.32	-53,326	-57.80	-41.405	-46.51
Services	-49,647	-17.44	-52,637	-18.04	-17,064	-18.50	-14.784	-16.61
Utilisation of third parties' assets	-1,063	-0.37	-1,089	-0.37	-353	-0.38	-391	-0.44
Personnel	-48,764	-17.13	-56,159	-19.24	-14,462	-15.68	-16.661	-18.71
Depreciation and amortisation	-18,704	-6.57	-20,559	-7.04	-5,636	-6.11	-5.495	-6.17
Write-downs	-1,041	-0.37	-378	-0.13	-180	-0.20	32	0.04
Change in stocks	3,249	1.14	-534	-0.18	443	0.48	-3.942	-4.43
Accruals	-910	0.32	-1,193	-0.41	165	0.18	-315	-0.35
Other operating charges	-1,210	-0.43	-1,395	-0.48	-446	-0.48	-629	-0.71
EBIT	14,426	5.07	9,268	3.18	4,516	4.90	2.176	2.44

NET FINANCIAL POSITION

amounts in EUR/000

<i>Description</i>	<i>Balance as at 30 Sept. 2002</i>	<i>Balance as at 30 June 2002</i>	<i>Balance as at 31 Dec. 2001</i>
Bank loans and overdrafts:			
- within 1 year	76,302	67,710	103,889
- after 1 year	15,064	16,118	19,193
Other financing payables:			
- within 1 year	196	196	234
- after 1 year	0	0	0
- leasing payments within 1 year	519	1,004	503
- leasing payments after 1 year	578	720	1,270
Bonds and debenture loans:			
- within 1 year	0	0	0
- after 1 year	100,000	100,000	100,000
Secured payables:			
- within 1 year	288	348	425
- after 1 year	100	100	100
Accrued interest expense / deferred interest income, net	3,238	1,851	3,281
LESS:			
Cash	-11,411	-20,600	-15,997
Securities	-58,767	-40,323	-68,423
Loans given	-5,991	-5,991	-6,291
Receivables from factors	0	0	-12,680
Consolidated net financial debt	120,116	121,133	125,504

COMMENTS TO THE FINANCIAL INFORMATION

Accounting policies

The accounting policies adopted for the quarterly interim financial report are the same as those adopted for the consolidated annual financial statements and for the six-month interim financial report: for a description please refer to the relevant notes. Financial statements expressed in foreign currencies are translated into Euro at period-end exchange rates in the case of assets and liabilities, at historical exchange rates for equity components and at the average exchange rate of the period for profit and loss amounts.

The financial schedules include the financial statements of Carraro S.p.A. and of those subsidiaries in which it holds, either directly or indirectly, a majority of voting rights exercisable at the ordinary general meetings.

The consolidation area includes, besides the holding company Carraro S.p.A., the following entities

Legal name	Registered office	Currency	Nominal value of share capital	% held
SIAP S.p.A.	Maniago (PN)	Euro	10,122,616	100%
Carraro Deutschland GmbH	Hattingen (Germany)	Euro	10,507,048	100%
Carraro Argentina S. A.	Haedo, Buenos Aires (Argentina)	Pesos	25,809,288	93.90%
Carraro India Ltd.	Rajangaon – Pune (India)	Rupee	400,000,000	36%
F.O.N. S.A.	Radomsko (Poland)	Zloty	7,058,220	84.788%
Carraro International S.A.	Luxembourg	Euro	9,850,000	99.99%
Carraro North America Inc.	Calhoun-Georgia (USA)	US\$	100	100%
Carraro Korea Co. Ltd	Ulsan (Korea)	Kor. Won	3,000,000,000	100%
O&K Antriebstechnik & Co.	Hattingen (Germany)	Euro	2,045,168	100%

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The Profit and loss account shows the amounts for the third quarter of 2002 and, for comparative purposes, the amounts for the third quarter of 2001. Comments are provided in the quarterly interim financial report.

The Chairman
Mario Carraro