Carraro Group

Annual Report 2004

Registered offices in Campodarsego (Padova) Via Olmo 37
Share Euro 21.840.000 i.v.

Board of Directors

(elected by the Shareholders' meeting held on 14.05.2003
and in office up until the approval of the Financial Statements as at 31.12.2005)

Mario Carraro Chairman
Gabriele Del Torchio Chief Executive Officer
Francesco Carraro Director
Enrico Carraro Director
Tomaso Carraro Director
Giorgio Brunetti Director
Sergio Erede Director
Onofrio Tonin Director

Board of Statutory Auditors

(elected by the Shareholders' meeting held on 14.05.2003,
in office up until the approval of the Financial Statements as at 31.12.2005)

Antonio Cortellazzo Chairman
Francesco Secchieri Statutory auditor
Renzo Lotto Statutory auditor
Fabrizio Pinato Alternate member
Giuseppe Attardo Parrinello Alternate member

Independent Auditors

(for the 2004-2005-2006 three-year-period)

Reconta Ernst & Young S.p.a.

The shareholder's meeting
held on 12.05.2005 elected

Antonio Cortellazzo Director
Roberto Saccomani Chairman of the Board of Statutory Auditors

We surpassed the goal of Euro 500 million in turnover revenues, exactly Euro 514 million, with net income of Euro 12.738 million, more than double the previous year. EBIT rose a further point and reached 5.8% of turnover. The financial position improved by nearly Euro 21 million, net debt dropping to Euro 76.476 million. We cannot fail to express our satisfaction at these results and look with optimism to the future which appears to be in a favourable stable cycle capable of guaranteeing steady growth within a further phase of expansion, as it is in the Group's plans. Buoyed up in this by the confirmation that all the Carraro production facilities spread throughout the world have entered a positive phase, therefore able to bear out a consolidation and an increase in the economic results which will join the anticipated growth. Moreover, it should be emphasised that consolidated sales in 2004 grew by 31.8 %, despite the anomalous logistics and transport costs incurred to respond to the explosive demand of the USA and Brazil. In an accounting period what is more, featuring extremely heavy pressure on raw materials costs. The net result was also negatively affected, as indicated in the general report accompanying the financial statements, by significant extraordinary items. Indeed still ample room for further improvements.

The market without doubt has helped, yet much of the merit goes to the real turnaround marked by industrial and operational measures implemented over the last few years. We must rejoice, but in no way loosen the innovative action carried out in the manufacturing processes, maintaining likewise firm both determination and tenacity, when continuing the internationalization programmes. Launched with farsightedness, but not without great sacrifices, over the previous decade, they must continue to be strengthened within the dimensions – to optimize the economic effect – and by means of new sites, in tune with our major customers' expansion strategies. This will have the effect of intensifying investments worldwide, focused at present particularly in Poland, on a vigorous programme of production increase, and on the creation in India of a new gear manufacturing plant supporting the significant growth plans under way. Then we report the recent arrival in China with the transfer of the pre-existing Korean manufacturing activities just as the start of much more substantial projects. Indeed an essential condition for maintaining and enhancing our leadership with sites which, taking for granted the predominant manufacturing interest, can help to seize intuitable procurement advantages, which are never enough in order to continue to strengthen our competitive might.

But if all this appears to be clearly crucial for reconciling competition wars and economic results, it is to research and the technological evolution of our products which we must entrust our leadership. Taking for granted the assumption of total quality, with increasingly greater force we must see ourselves committed, on the one part, to guaranteeing innovative technical levels to the classic products, but on the other introduce ourselves also into definitely new sectors, albeit in affinity with our extensive and acknowledged engineering expertise. To this aim goes the enhancement, into an advanced structure also in strategic terms, of the R&D Centre. It will also be among its tasks to foster the creation of engineering units at the various sites worldwide, particularly where opportunities of recruiting technical-scientific resources generated by local universities exist. This also in the framework of an international integration where everyone will be participant of our growth ambitious.

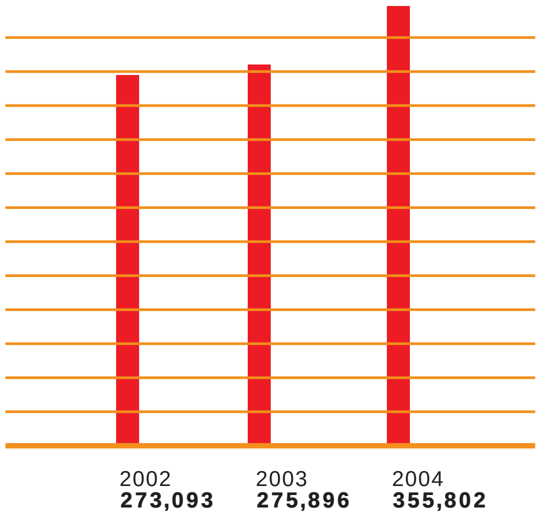
In a world nearly with no economic boundaries as it is our field of activities, these are essential choices, certainly not easy but surely, in every sense, enriching, which we are required to pursue. Within the Group there are without doubt expertise and culture, managerial and operational abilities in order to experience this new phase of our industry history in profitable and untraumatic terms.

Carraro SpA	2004	2003
Net sales	355,802	275,896
Operating profit (adjusted due to exchange rate differences)	16,761	13,959
Net profit	6,276	8,310
Shareholders' equity	53,032	51,376
Cash flow	16,197	18,946
Return on Equity	13.42%	19.30%
Return on Investments	5.99%	5.41%
Staff (year and date)	913	844
R&D expenses on sales	2.18%	2.33%
Gross investments	6,063	9,996

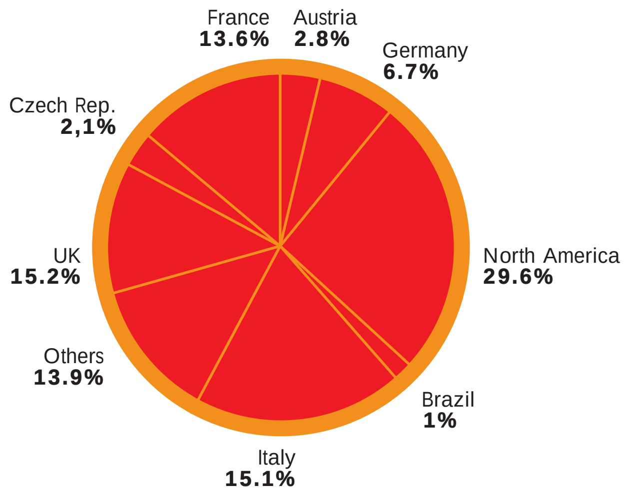
Consolidated	2004	2003
Net sales	513,668	389,874
Operating profit (adjusted due to exchange rate differences)	29,621	19,113
Net result (net of minorities)	12,738	5,560
Shareholders' equity (net of minorities)	59,813	53,409
Cash flow	34,555	27,837
Return on Equity	27.06%	11.62%
Return on Investments	7.41%	5.09%
Staff (year end date)	2,237	2,132
R&D expenses on sales	1.8%	2.10%
Gross investments	22,072	18,640

Amounts in thousand Euro

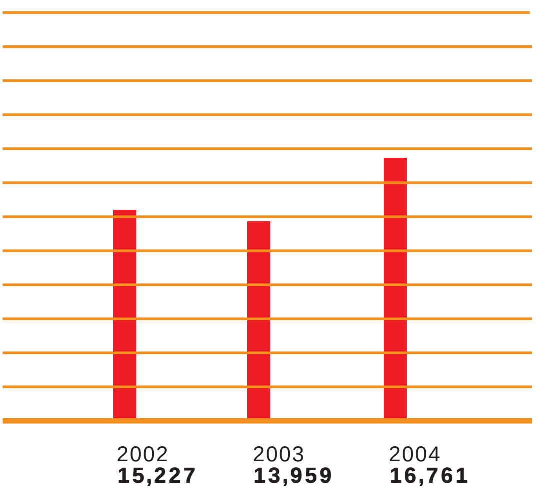
Carraro Spa net sales
in thousand Euro



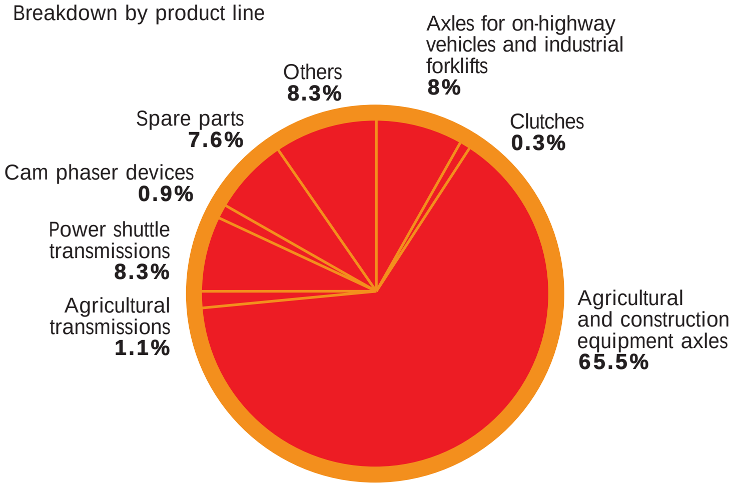
Carraro Spa net sales.
Breakdown by main destination markets
Totale Export 84.9%



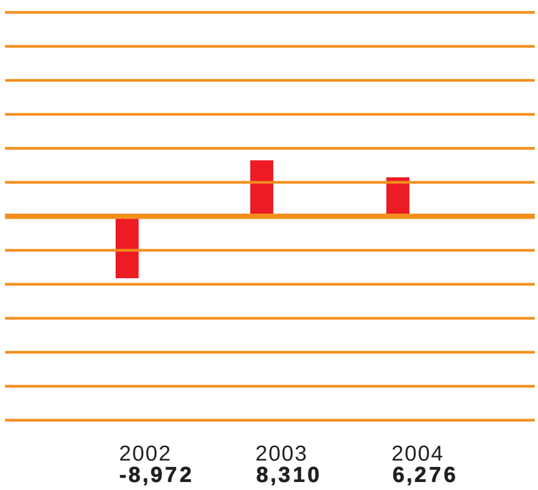
Carraro Spa operating profit
in thousand Euro



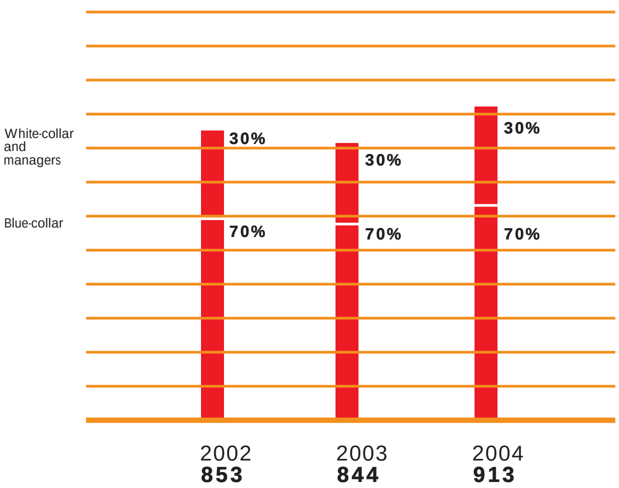
Carraro Spa net sales
Breakdown by product line



Carraro Spa net result
in thousand Euro



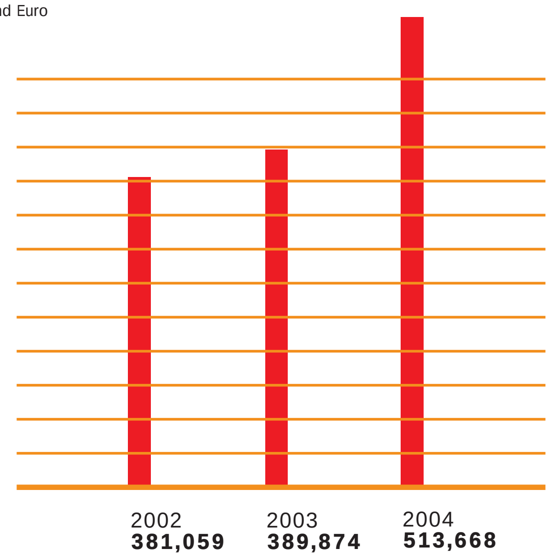
Carraro Spa staff trend and breakdown
as at year end date



Carraro plants in Italy

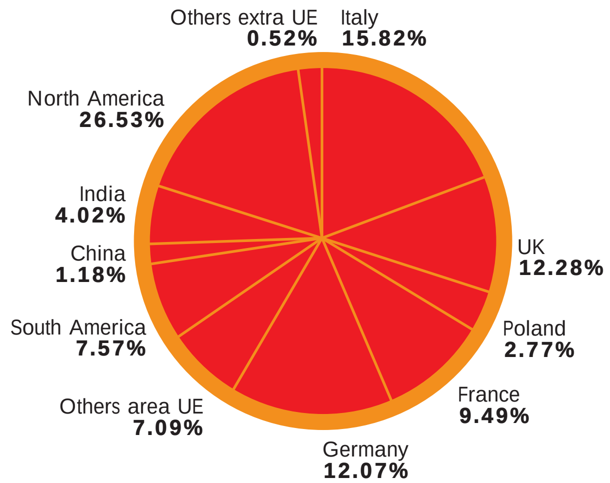
Carraro Spa	**1** Campodarsego
	2 Rovigo
	3 Gorizia
SIAP Spa	**4** Maniago
	5 Poggiofiorito
A.E. Srl	**6** Castello d’Argile

Consolidated net sales
in thousand Euro

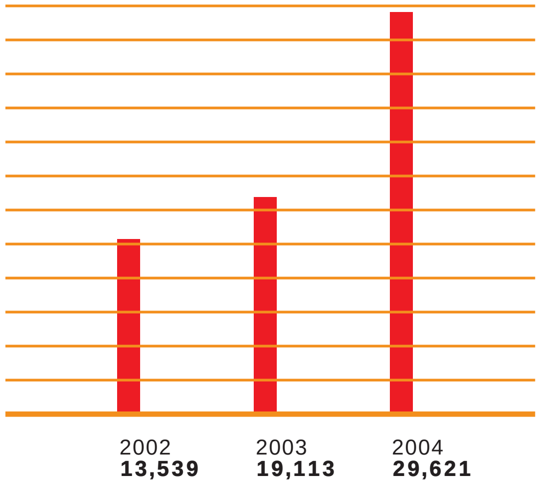


Consolidated net sales
Breakdown by main destination markets

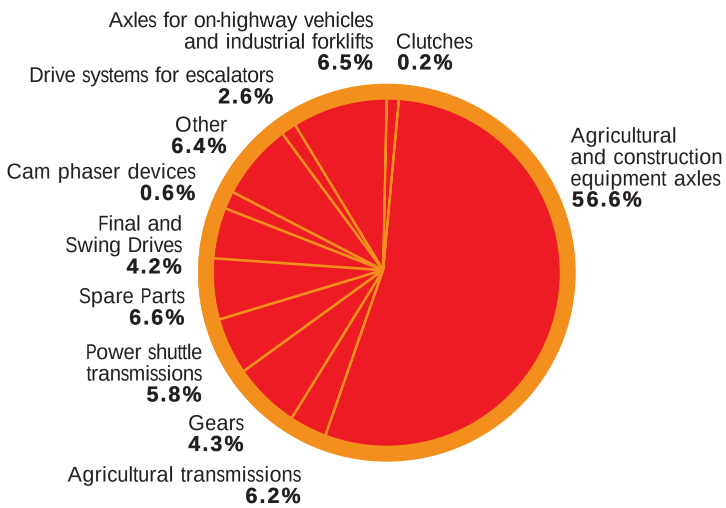
Total Exports 84.18%



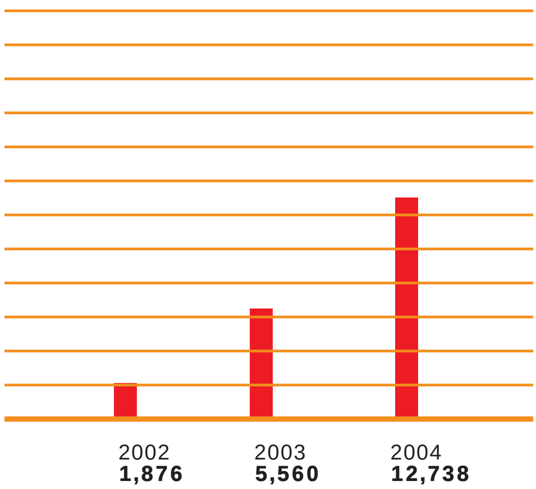
Consolidated operating profit
in thousand Euro



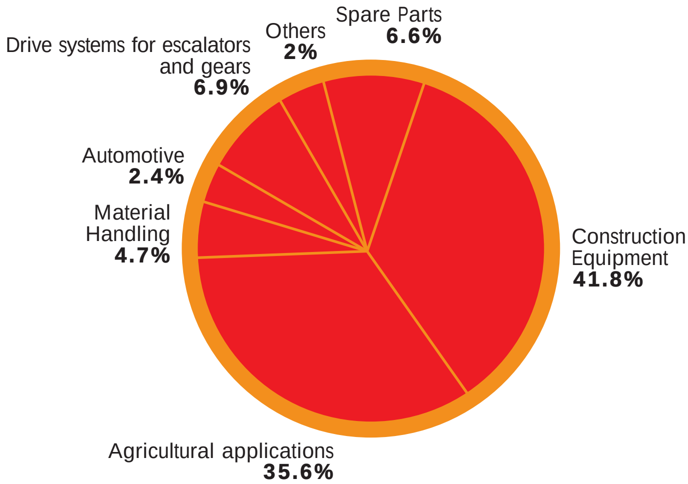
Consolidated net sales
Breakdown by product line



Consolidated net profit
(net of minorities)
in thousand Euro



Consolidated net sales
Breakdown by area of application

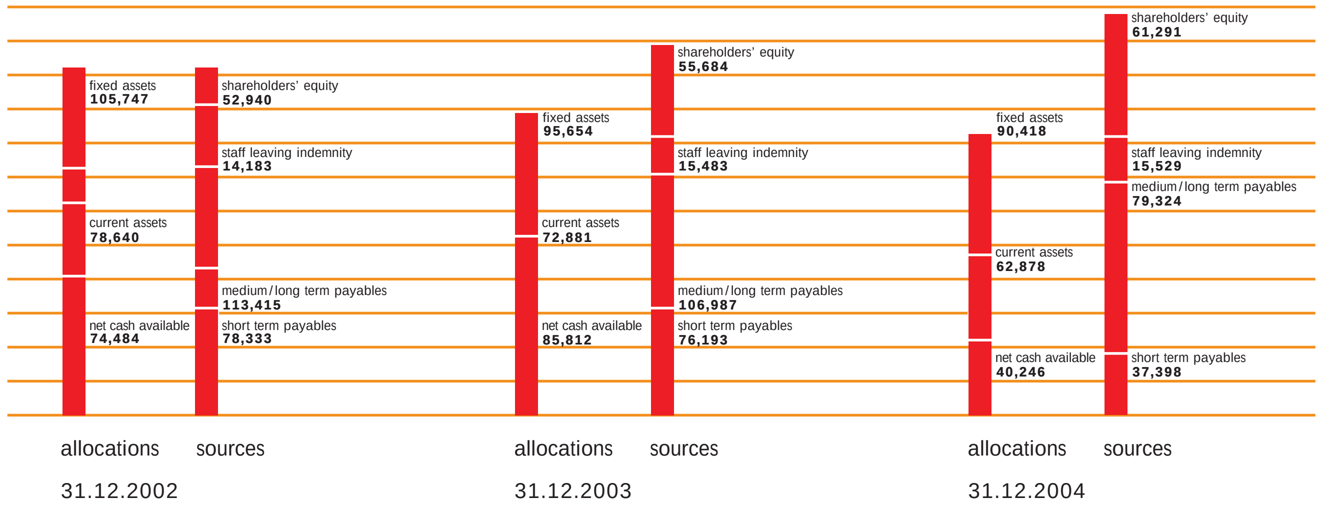



1
2

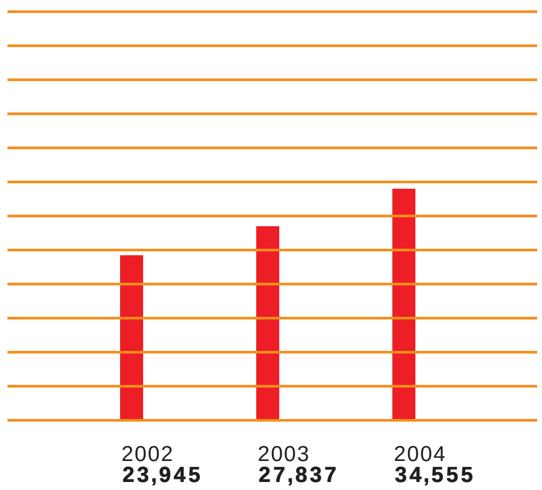
Carraro plants worldwide

Carraro North America Inc.	**1** U.S.A.
Carraro Argentina S.A.	**2** Argentina
O&K Antriebstechnik GmbH	**3** Germany
Fabryka Osi Napedowych S.A.	**4** Poland
Carraro Spa / SIAP Spa / A.E. Srl	**5** Italy
Carraro India Ltd. / Turbo Gears Ltd.	**6** India
Carraro Qingdao	**7** China

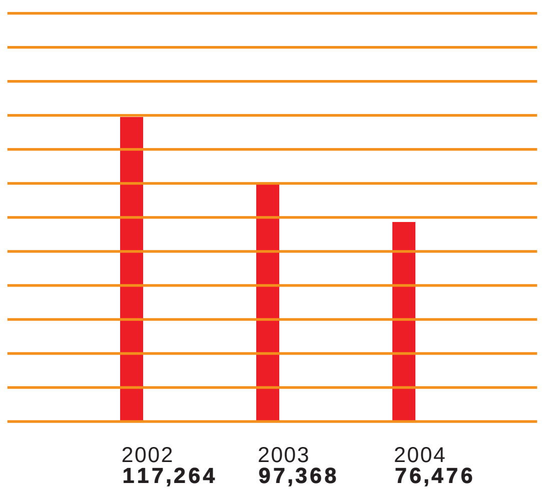
Consolidated balance sheet structure
in thousand Euro



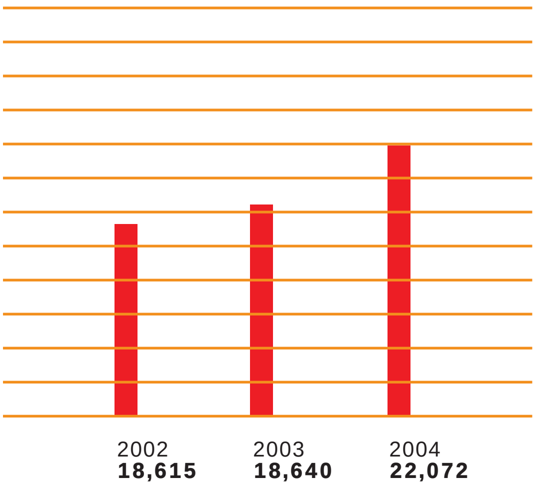
Consolidated cash flow
in thousand Euro



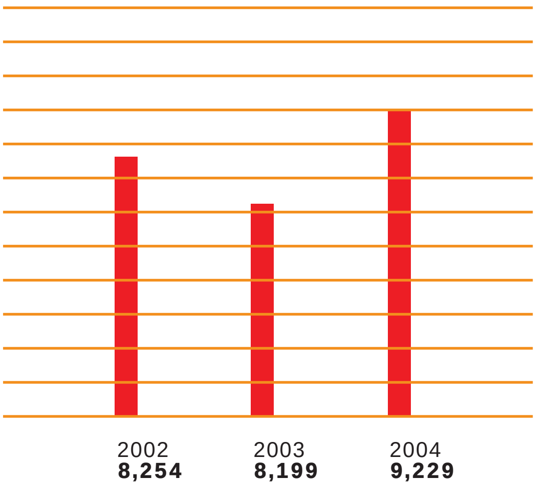
Consolidated net financial position (debit)
in thousand Euro



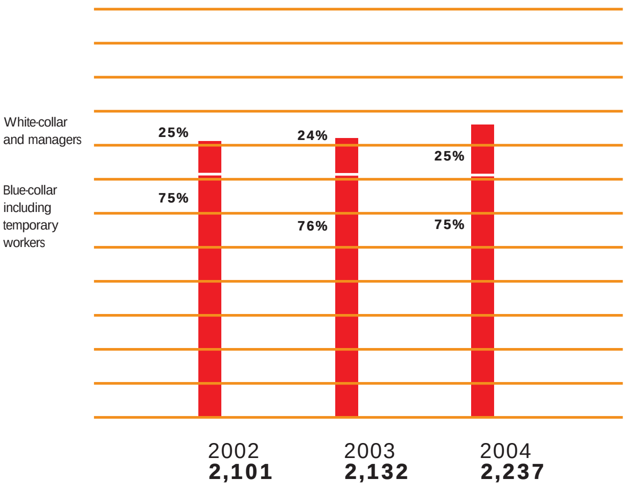
Gross investments
(including disposal-related revenues)
in thousand Euro



R&D expenses
in thousand Euro



Carraro Group staff trend and breakdown
as at year end date
(companies included in consolidation area)



Carraro SpA	2004	2003
Sales	355,802	275,896
Cost of sales	-314,981	-241,947
General, administrative, commercial and R&D costs	-24,060	-19,990
Operating profit	**16,761**	**13,959**
Incomes / (Write-downs) from equity investments	-1,142	5,178
Net financial (Expenses) / Incomes	-3,855	-5,175
Extraordinary (Expenses) / Incomes	-974	-123
Income before taxes	**10,790**	**13,839**
Income taxes	-4,514	-5,529
Net income for the year	**6,276**	**8,310**

Consolidated	2004	2003
Sales	513,668	389,874
Cost of sales	-473,475	-316,986
General, administrative, commercial and R&D costs	-10,572	-53,775
Operating profit	**29,621**	**19,113**
Incomes / (Write-downs) from equity investments	-1,292	-320
Net financial (Expenses) / Incomes	-5,604	-8,188
Extraordinary (Expenses) / Incomes	-2,702	-875
Income before taxes	**20,023**	**9,730**
Income taxes	-6,892	-4,100
Minority interests	-393	-70
Net income for the year	**12,738**	**5,560**

Amounts in thousand Euro

Carraro SpA	2004	2003
Intangible fixed assets	4,495	4,324
Tangible fixed assets	28,431	32,693
Financial fixed assets (shares)	48,572	52,685
Net fixed assets	**81,498**	**89,702**
Inventories	42,883	34,155
Short term assets	121,745	78,321
Medium/long term assets	72	185
Short term financial assets and cash	32,765	54,774
Medium/long term financial assets	1,033	1,038
Total assets	**279,996**	**258,175**
Net worth	53,032	51,376
Provision for contingencies and obligations	5,510	4,340
Staff leaving indemnity provision	10,844	11,059
Short term liabilities	133,694	76,540
Medium/long term liabilities		103
Short term financial liabilities	20,644	55,940
Medium/long term financial liabilities	56,272	58,817
Total liabilities and shareholders' equity	**279,996**	**258,175**

Consolidated	2004	2003
Intangible fixed assets	8,466	9,121
Tangible fixed assets	88,205	90,669
Financial fixed assets (shares)	5,225	9,627
Net fixed assets	**101,896**	**109,417**
Inventories	83,460	65,272
Short term assets	168,033	106,533
Medium/long term assets	2,342	2,195
Short term financial assets and cash	42,987	90,396
Medium/long term financial assets	1,034	1,448
Total assets	**399,752**	**375,261**
Total Group net worth	59,813	53,409
Minorities	1,478	2,275
Provision for contingencies and obligations	12,511	10,921
Staff leaving indemnity provision	15,529	15,483
Short term liabilities	189,924	99,677
Medium/long term liabilities		4,284
Short term financial liabilities	41,112	81,831
Short term financial liabilities for leasing	60	388
Medium/long term financial liabilities	79,325	106,933
Medium/long term financial liabilities for leasing		60
Total liabilities and shareholders' equity	**399,752**	**375,261**

Amounts in thousand Euro

2004 results confirm the soundness of the positive cycle which our Group has entered on after the difficult transit of the internationalization phase based on a courageous and far-sighted programme launched during the second half of the 1990s. It is also the acknowledgement of the excellence of the business plan announced in 2003 with the formation of the business units called to deal with more dynamic growth policies, founded on the skills emerging in the different sectors of activity and the simultaneous optimization of the enormous synergies crossing through them.

Consolidated turnover (exceeding the symbolic barrier of 500) totalled Euro 514 million (up 31.8% on the previous year), within a dimension which enhances the international profile with increased competitiveness, thereby supporting new growth opportunities. The net profit, which more than doubled, posted a record, jumping from Euro 5.560 million in 2003 to Euro 12.738 million in 2004. The operating profit (EBIT) increased from 4.9% to 5.8% of turnover, a quite important amount for the sectors in which we are currently active. It should also be considered that if the particularly satisfactory performance of the market in the United States and South America has fostered an important rise in sales, the economic result was affected by the extremely heavy pressure on raw materials costs and by the considerable logistics difficulties experienced in relation to an unanticipated rise in orders from the afore-mentioned areas. Thus consequently leading to entirely anomalous air transport costs, incurred in the indispensable commitment of satisfying the expectations of customers with whom a partnership relation exists. The net income also was partly influenced by negative extraordinary items including the pre-announced closure of the Korean activities, at present transferred to China in the province of Shandong, and the write-down of the equity interest in Agritalia S.p.A.

Reason for further satisfaction is to highlight that for the first time, all the Group's operating units, Carraro Argentina in particular, contributed towards the final results (which in light of the difficulties mentioned we dare define as brilliant). All of them, we confirm, with tangible positive signs which, despite the limits, in certain cases, of transitory conditions, let us look with certain confidence to the future plans for foreign activities, which without doubt will play a significant role in enhancing our competitiveness on global markets. In this direction in fact moves the intensification of the investments on foreign plants aimed at encouraging more substantial dimensions and more organic integration of the same within the Group, in structures capable of interacting in innovative industrialization processes. Where this will be expedient, I am thinking of India for example (but not only), the creation of engineering groups to support the R&D centre will have to be facilitated, today also with the aid of advanced communications technologies, thereby making it possible to collaborate simultaneously on complex research projects. Just as the creation will have to be facilitated of a network which operates closely supporting, all over the world, the Global Purchasing Team to identify supply sources capable of contributing to the cost optimization of our products. In short, an integrated internationalization system, not banal relocation. The creation underway of a new unit in India for the production of gears, has also this meaning as well as that of supporting the pre-existing activities. Like the transfer of the Korean business to China, if its first effect is the inclusion within a clearly more advantageous economic context, it is also the precursor of a more extensive project which we are currently studying – in tune with those of important customers – for sites of sure greater importance. In a word, international growth will represent the fundamental element of the strategy which will characterize the Group over the next few years.

At the same time, the commitment towards alliances supporting this strategy must be kept stronger. Ready, should the opportunity arise to acquisitions or participations to speed up our growth plans with a wider range of products thus consolidating Carraro leadership on global markets. With the contextual aim of guaranteeing the various business units, in relation to the strategic plan launched in 2003, a dimensional profile capable of exploiting their effective growth possibilities, like that achieved with regards to axles and transmissions. Real potential exists, to be pursued, of no less interest, for Drives or in the Components unit. And the new Vehicles & Powertrains business unit is open to important new collaboration agreements, currently under definition with some of the most important

tractor manufacturers in the world. All plans which together are made possible by the positive evolution of the Group's financial position bound, what is more, to strengthen our further growth forecasts. With net debt which already in the accounting period under review dropped from Euro 97.368 million to Euro 76.476 million. In fact, all the classic valuation indices improved despite occurring in a period which has seen us forced to make serious sacrifices for the completion of the industrial measures intended to once again provide new and strong dynamism to the various operations.
Despite an economic situation which still appears to be stagnant in Italy and not exactly brilliant for all the member states of the European Union, the fact of having operated internationally with intelligence and determination – in tune with the transformations our leading customers are experiencing – leads us to look to the future optimistically, with the will to continue to grow, which shareholders and management experiences as a necessary conditions for maintaining our leadership firm.

Turnover

Group turnover amounted to Euro 513.668 million compared with Euro 389.874 million in the previous year, growing by 31.8%. Net of the turnover generated by the company Assali Emiliani, included in the scope of consolidation as from 2004, the increase came to 28%. All the Group companies contributed towards this important result in particular Carraro Argentina with an increase of 44.9% and Carraro India and O&KA, both with increases of 29.8%.

Operating profit (EBIT)

The consolidated EBIT rose by 55% to Euro 29.621 million, representing 5.77% of turnover compared with Euro 19.113 million, 4.9% of turnover, as at 31 December 2003. The Group managed to deal with a year characterized by unusual rises in raw materials and logistic costs by an improved absorption of overheads, keeping these costs increase well under the turnover growth.

Financial expenses

Net financial expenses, excluding exchange differences, dropped to Euro 5.991 million, 1.17% of turnover, compared with Euro 7.764 million in 2003, 1.99% of turnover.
The interest cover, calculated on the total net financial expenses (inclusive of all the exchange differences) on the EBITDA came to 9.11 compared with 5.05 as at 31 December 2003.

Extraordinary items

Negative extraordinary items have been paid during the year for a total of Euro 2.702 million. The most significant ones concern the liquidation of Carraro Korea, for Euro 700 thousand, and the adjustment to current value of the building belonging to Carraro North America, for Euro 1 million.
The value of the equity interest in the associated company Agritalia S.p.A. was also written-down for Euro 1.548 million, following the losses reported by the same.

Net profit

The 2004 accounting period closed with net profit of Euro 12,738 million, up by 129.1% on 2003 which closed with net profit of Euro 5.560 million.

Amortization and depreciation

Amortization/depreciation of Euro 21.424 million was recorded, down compared to Euro 22.207 million in 2003.

Cash-flow

The cash-flow came to Euro 34.555 million, with an increase of Euro 27.837 million as at 31 December 2003.

Investments

Investments amounting to Euro 22.072 million, up with respect to the Euro 18.640 million reported last year, mainly concern the production capacity increase, in particular in the companies destined to more fully support the growth such as Fon Polonia, Carraro India and Carraro Argentina.

Research and Innovation

During 2004 Research and Innovation costs amounted to Euro 9.229 million, equal to 1.8% of turnover, up by 12.56% on Euro 8.199 million in 2003, 2.1% of turnover.

Net financial position

The satisfactory cash generation and the careful supervision of the working capital contributed towards an improvement in the net financial position which as at 31 December 2004 was debt of Euro 76.476 million (Euro 97.368 million as at 31 December 2003, Euro 76.555 million as at 30 June 2004).

During 2004, the Group took steps to partially repurchase the bond issued by Carraro International for a total of Euro 25.633 million, thereby reducing the value maturing in May 2006 to Euro 74.367 million.

The gearing came to 124.78% as at 31 December 2004 and continues to improve with respect to the 135.64% as at 30 June 2004 and 174.86% as at 31 December 2003.

Analysis by business areas
Sales

The breakdown of sales by area of application shows growth in both the Group's core sectors, greater in the Off-Highway division, thanks to the introduction of new and important projects and the positive market performance, lesser in the On-Highway area which was affected, in the Material Handling sector, by the closure of the Korean manufacturing unit.

Sales breakdown by area of application & product line are analyzed in detail in the following tables:

Sales breakdown by area of application

(in millions of Euro)

Division	31.12.2004	%	31.12.2003	%	difference %
Off-Highway:	397,792	77.4	288,982	74.1	+37.7
Agriculture	183,204	35.6	136,708	35.1	+34.0
Construction Equipment	214,588	41.8	152,274	39.0	+40.9
On-Highway:	71,723	14.0	67,811	17,4	+5.8
Material Handling	23,851	4.7	24,069	6.2	-0.9
Passenger Cars & Commercial Vehicles	12,214	2.4	11,720	3.0	+4.2
Gears	22,307	4.3	22,389	5.7	-0.4
Escalators	13,351	2.6	9,633	2.5	+38.6
Spare parts	33,482	6.6	25,779	6.6	+29.9
Other	10,671	2.0	7,302	1.9	+46.1
Total	**513,668**		**389,874**		**+31.8**

Sales breakdown by product line

In million of Euro

Product line	31.12.2004	%	31.12.2003	%	difference %
4WD axles	291,118	56.6	212,762	5.6	+36.8
Axles for light commercial vehicles and forklifts	33,393	6.5	31,732	8.1	+5.2
AG Transaxles	31,651	6.2	20,836	5.4	+51.9
Power Shuttle Transmissions	29,702	5.8	19,615	5.0	+51.4
Gears	22,307	4.3	22,389	5.7	-0.4
Cam Phaser Devices	3,228	0.6	4,690	1.2	-31.2
Clutches	0,796	0.2	1,232	0.3	-35.4
Spare parts	33,482	6.6	25,779	6.6	+29.9
Final & Swing Drives	21,586	4.2	17,201	4.4	+25.5
Drives systems for escalators	13,351	2.6	9,633	2.5	+38.6
Others	33,054	6.4	24,005	6.2	+37.7
Total	**513,668**		**389,874**		**+31.8**

Against the growth on the Construction Equipment market of 20% at global level, with peaks of 30% in North America, Group sales intended for this market showed a sharp jump of 40.9%, thanks to the production start-up of new projects for new and important customers.

The Agricultural market remained steady in Europe on 2003 levels, while it confirmed positive performance in North America, South America and India, showing growth of 25%. Consolidated sales for the agricultural sector reported an increase of 34%, thanks to market performance and the start-up of the supply contract, as anticipated in the strategic plan, with the Same-Deutz Fahr Group, world leader in the manufacture of agricultural tractors.

Agricultural tractors sales trend improved further in Brazil, thanks to renewed Government funds (Moderna Flota – Finame), reflecting positively on Carraro Argentina's sales.

In detail by product line, sales of 4WD axles (AG + CE) improved (+ 36.7%) boosted by the introduction of new products for important customers. Sales of agricultural transaxles reported a dramatic increase on the Brazilian and the Indian markets (+ 52%), where the positive trend registered last year continues.

Sales of final and swing drives, a product line subject to important reorganization and re-launch operations, in 2004 already disclosed growth of 25.5% thanks to the renewal of the distribution network and the acquisition of new customers.

In the On-Highway sectors, the Material Handling market grew globally by 15%, with

considerably elevated increases in Europe in the warehousing segment, while in North America and Asia in the counterbalanced segment. Sales addressing this market remained steady, despite the presence of increases for European and American OEMs, being affected by the closure of the manufacturing unit in Korea.
In the Passenger Cars & Commercial Vehicles segment, at the centre of an analysis targeted at the definition of the proper re-launch programmes, the negative effects of the reference market's performance weighed heavily. In particular, sales of cam phaser devices underwent a drop of 31%, as a consequence of the automobile industry crisis in Italy. Turnover deriving from the sales of gears intended for third parties remained steady during 2004, since demand within the Group was privileged, up sharply with respect to the previous year.
We should draw attention to the strong growth in escalator systems, + 38.6%, boosted by the introduction of new projects in China as well, from whence greater market penetration derives together with the multiplication of the supply destinations which, from a regional market, reached a global dimension in line with the strategic importance assigned to this sector undergoing heavy growth.
The rest came by various products which, including gearboxes, tie rods, joints and others with Euro 32.978 million, accounted for 6.4% of the total.
We should draw attention to the spare parts, which account for 6.6% of turnover, consistent with the growth strategy of this Business Unit.

Breakdown of sales by geographical area

% of turnover

Geographical area	31.12.2004	%	31.12.2003	%	difference %
North America	136,288	26.5	81,327	20.9	+67.4
Germany	61,990	12.1	56,178	14.4	+10.3
UK	63,094	12.3	39,445	10.1	+60.0
France	48,722	9.5	40,671	10.4	+19.8
South Korea	3,434	0.7	7,020	1.8	-51.1
Polonia	14,231	2.8	11,683	3.0	+21.8
South America	38,876	7.6	31,193	8.0	+24.6
India	20,661	4.0	16,569	4.2	+24.7
China	6,050	1.2	3,289	0.8	+83.9
Other outside E.U.	2,654	0.5	3,408	0.9	-22.1
Other inside E.U.	36,417	7.0	34,057	8.8	+6.9
Total Abroad	**432,417**	**84.2**	**324,840**	**83.3**	**+33.1**
Italy	81,251	15.8	65,034	16.7	+24.9
Total	**513,668**	**100.0**	**389,874**	**100.0**	**+31.8**

The breakdown of the turnover of the Carraro Group by area of destination reflects the increase on the North American market in all the reference sectors and the drop on the Korean market, following the closure of the local manufacturing unit.
Sales on the UK market showed an important increase, being the manufacturing location for customers involved in new projects.
We should draw attention to the considerable rise in the Indian market shares due to the increase of agricultural transaxles, and the South American share due to the heavy increase of axles and drivelines.
The sales growth in the Chinese market was considerable, nearly doubling compared to the previous year, demonstrating the particular attention focused on this market on which the Group is expanding its manufacturing presence.

Headcount

The Group's workforce (inclusive of short-term contracts, apprenticeships and temporary employment contracts), as at 31 December 2004 numbered 2,237 employees (including 1,724 blue-collar workers) compared with 2,132 employees in December 2003 (including 1,628 blue-collar workers).
The increase in the number of employees, aimed at supporting the greater demand, in particular concerned blue-collar workers and rose almost exclusively by means of recourse to temporary employment contracts and the adoption of formulas targeted at greater flexibility.
Furthermore, in order to ensure an efficient process for the management and development of the human resources, during 2004 extensive and far-reaching activities for the detection of the "job profiles" were carried out, involving 85 positions, mainly focused on Headquarters and Italian factories' activities.
During 2005, this analysis will be extended also to profiles operating at the foreign

factories, in addition to a comparison between the skills highlighted in the job descriptions and those effectively in existence within the organization.
All of this will permit a better handling of the human resources, more adequate to the current organizational set-up and to that anticipated in our strategic plan. In particular, the training needs will be more fully indicated and targeted incentive policies made possible.

Research and Innovation

The year 2004 marked the formation of the new “Group Engineering”division.
The strategic target is for the Carraro Group to be increasingly perceived as a partner capable of flanking the range of components with more advanced and functionally integrated sub-systems and systems, where mechanics, electronics and hydraulics, combined together, render the product highly technological, competitive and even more exclusive.
The decision derives from the need to manage and co-ordinate the entire product development activities, with the aim of greater integration between the different skills on the product lines (axles, drivelines, drives and vehicles). Within this context, the Group is currently making a significant effort in terms of investments for enhancing the engineering area. Within the “Group Engineering” division, a new department “Systems and new Technologies” will have the purpose of overseeing the most advanced technologies in the areas of automation, both in the electronics and hydraulics sector, and of furthering the adoption in-house of a systemic approach towards product development.
Within the complex process for reorganizing the engineering area, there are also another two important innovations to mention.
The first concerns “Program Management”, which is brought to Group level with the precise intention of furthering the adoption of product development methods and processes which are standard within all the companies, consistent with the general strategy and capable of raising the quality standards of the new products.
The second directly involves the Prototypes and Validation department, with the aim of permitting an increasingly far-reaching and tangible approach towards virtual prototyping and the ability to develop and test sub-systems and systems which are technologically varied.
All the product platforms (axles, drivelines, drives) will benefit from these developments starting from the consolidation of the axle sector (supersteering, integrated suspension systems, etc.) to that which is potentially extremely promising of automatic continuously variable transmissions, and the drive sector which is undergoing considerable growth.
This decisive boost to innovation will contribute towards strengthening the identity of the Carraro Group combining advanced industrial policies with a growth strategy directed at being positioned and perceived as a preferred partner for the definition of new solutions and as an industrial entity capable of exercising increasingly wider options within a macro-economic context where strategic flexibility is a fundamental value for the success over time of a business.

Significant events in 2004

2004 represents the first full application stage of the renewal action established with the strategic plan launched at the end of 2003 and the new records of the financial statement figures confirm the validity of the choices and the management lines adopted.

Priorities highlighted had been:
leadership position consolidation on traditional markets and growth in new geographic areas and in new segments:
- the manufacturing re-organization plan, involving the focusing of the plants, the exploitation of Argentina, India, Poland facilities, the outsourcing of the low added activities;
- the consequent improved absorption of the fixed industrial costs;
- the endeavour with regards to Sourcing activities on global markets;
- the efficiency and efficacy of the internal processes as a pre-requisite for an improved customer service and for the lowering of the overheads;
- the renewed emphasis on product innovation;

During the year, the effects of certain macroeconomic phenomena were registered, the timing and extent of which could not be predicted: the heavy growth in demand, especially in North America, the sharpening of the US dollar weakness and the tension with regards to raw material prices. Such phenomena required the Group additional efforts aimed on the one hand at promptly seizing the growth opportunities, and on the other at avoiding the risk of reducing profitability.
In both cases the existence of a long-term plan has permitted the Group to react,

accelerating in the direction already identified.

The increase in sales volumes was not expected and planned to such an extent, yet the performance of the factories was promptly adapted expanding the plants capacity with extraordinary actions and measures and accelerating the localization processes at the various sites worldwide as already anticipated with the strategic plan, with a view to an increasingly more tangible contribution towards the growth plan, rendering the competitive opportunities for which they have been created real.

The international macroeconomic scenario during 2004 saw a heavy inflation of raw materials prices, in particular cast iron and steel, reflected immediately in the purchasing costs of semi-finished products, and the persistence and the emphasis of the extreme weakness of the US dollar, which from January 2003 fell in value by 30%. Factors which have required the adoption of rapid action targeted at containing the negative effects on the Group's competitiveness and profitability.

The anomalous and unusual trend in the raw materials cost increase was stemmed by the constant search for global sourcing synergies.

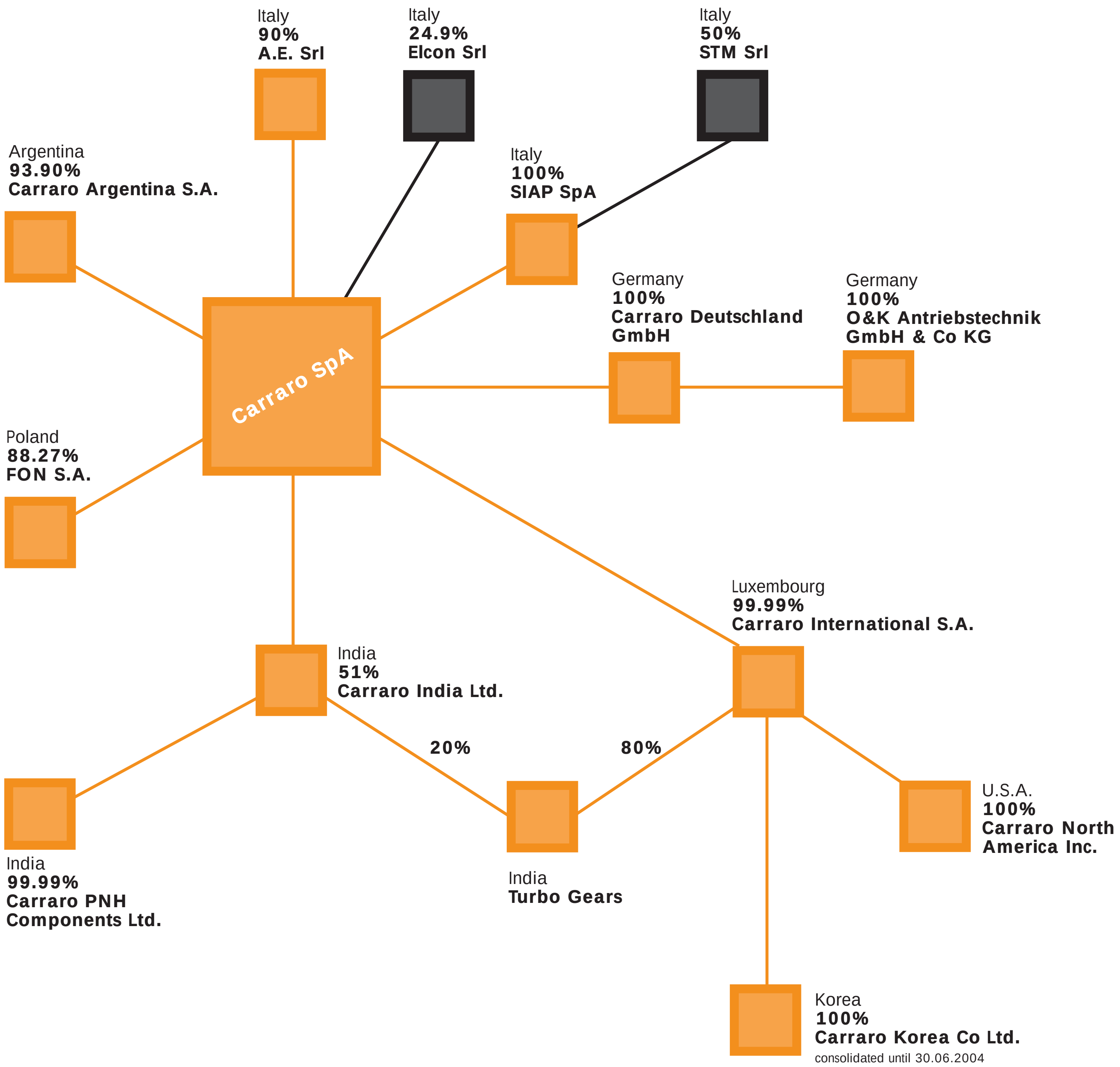
With regards to the US dollar, the efficient policy of "exchange risk hedging", the price negotiation according to contract with the North American customers and the manufacturing localization in Argentina of a significant percentage of the axles intended for the North and South American area (dollar zone) have made it possible to maintain profitability, whose recovery is however due mainly to a better fixed costs absorbtion whose increase was much less in proportion to the turnover increase. The global dimension of the Group's core markets, with OEMs present on a widespread basis throughout the world which require the local presence of their own strategic supply partners, places the accent on the Group's international presence. As already anticipated with the strategic plan – which is geared on the manufacturing structure optimization - 2004 saw the realization of significant action for the utilization of the Group's manufacturing network throughout the world, an indispensable condition for maintaining a position of leadership and of increasingly greater integration in the relations with the most important world customers.

The Group's industrial set-up at the end of 2004 shows:

- an optimum integration of AE S.r.l., which has contributed towards the strengthening of the pre-eminence position on the agricultural market;
- the initial phase of manufacturing localization involving the transfer to Poland of the production of axles intended for the European construction equipment market and to Argentina of axles intended for the North and South American market, therefore the dollar zone;
- the start of work in India for the Turbo Gears India Ltd, opportunely capitalized by a Rupees 80 million (Euro 1,365 million) share capital increase subscribed by Carraro International S.A. The new factory dedicated to gears production will permit an increase in the sales of the Components Business Unit and will support the growth of Carraro India as a centre of excellence for the agricultural drivelines production;
- the closure of Carraro Korea, whose growth prospects no longer justified its existence, especially within a context of re-definition of the overall strategy in the Asia Pacific Area;

the imminent launch of a manufacturing unit in China, intended to support ambitious growth objectives on the domestic market undergoing extremely considerable expansion. For this purpose, in December 2004 Carraro International S.A. formed a new company: Carraro Qingdao Drive Systems.

Structure of Carraro Consolidated Financial Statements as at 31.12.2004



Global integration method
Shareholders' equity method

Performance of the consolidated companies

The most significant information referring to the companies belonging to the Carraro Group is presented below.

Carraro S.p.A.

The Parent Company generated turnover of Euro 355.802 million, up by 29% on Euro 275.896 million as at 31 December 2003. This increase was mainly due to the greater volumes of traditional axles (+32.39%) and the additional volumes of transmissions (+ 51.21%), in both cases in the industrial segment.
Exports weighed for 84.9% compared with 81.1% as at 31 December 2003. Main export areas were the U.S.A. with 29.6% (24.2% as at 31 December 2003) and the European Union (Italy excluded) with 41.3% (41% as at 31 December 2003).
The operating margin (EBIT) in absolute value increased by 20.1%, Euro 16.761 million versus Euro 13.959 million in the previous year, whilst it fell in percentage terms on turnover to 4.71% compared with 5.06% last year.
The reasons behind this decrease lie on the one hand in the higher transport costs caused by the sudden increase in volumes which during the first part of the year caught several suppliers unawares and on the other hand in the noted and unusual raw material costs rise, phenomena only partly offset by means of the increase in sales prices, the recharging of the additional logistics costs to suppliers and with the containment of the general costs which dropped as a percentage on turnover from 9.7% last year to 8.9% as at 31 December 2004.
Financial expense net of exchange differences and hedging costs amounted to Euro 3.724 million (1.05% of turnover), down versus Euro 5.280 million (1.91% of turnover) in the previous year.
During 2004, the Parent Company collected amounts for dividends distributed by the subsidiary SIAP S.p.A. for Euro 4.000 million (Euro 7.631 million as at 31 December 2003).
Following the negative result of Carraro International, deriving from the losses carried forward by the subsidiaries Carraro North America and Carraro Korea, steps were taken to write down the book value of the Luxembourg company in which an investment is held by Euro 2.311 million, thereby aligning it to the equity value of the same. Furthermore, following the losses disclosed by the associated company Agritalia Spa, which reduced the shareholders' equity of the same to a negative value, steps were taken to write-off the equity investment for Euro 2.831 without providing further provisions in consideration of the waiver by Carraro S.p.A. of participating in the reinstatement of the share capital. As far as the plans anticipated for Agritalia S.p.A. to be realized during 2005 are concerned, reference should be made to the matters indicated in the section concerning events after year end.
Including the provisions of Euro 700 thousand for costs relating to the winding-up of the Korean company, total extraordinary expenses as at 31 December 2004 came to Euro 5.842 million (Euro 2.453 million as at 31 December 2003).
After the afore-mentioned items and current and deferred taxation for a total of Euro 4.514 million, the 2004 accounting period closed with net income of Euro 6.276 million, compared with income of Euro 8.310 million as at 31 December 2003.
Amortization and depreciation of Euro 9.921 million were down compared with Euro 10.636 million as at 31 December 2003.
This generated a cash-flow of Euro 16.197 as against Euro 18.946 million as at 31 December 2003.
Gross investments during 2004 amounted to Euro 6.063 million compared with Euro 9.996 million at the end of 2003, and mainly concerned the purchase of machinery for modernizing the production lines.
The satisfactory generation of cash subsequent to the drop in working capital and a limited level of investments improved the net financial position with net debt of Euro 43.118 million Vs. Euro 44.236 million as at 30 June 2004 (Euro 58,945 million as at 31 December 2003).
Staff on the payroll as at 31 December 2004, including temporary staff, came to 913 individuals, 910 as at 30 June 2004 (844 as at 31 December 2003).

Amount in thousand euro	Turnover 2004	Turnover 2003	Employees at 31.12.2004	Employees at 31.12.2003
Carraro	355,802	275,896	913	844
SIAP	69,044	53,866	384	363
A.E. S.r.l.	14,563	2,885	63	63
Carraro North America	51	1,155	1	3
Carraro Argentina	48,541	34,874	330	251
Carraro India	25,695	16,322	146	156
FON	11,955	8,440	200	214
O&K Antriebstechnik	59,849	46,375	200	207
Carraro Korea**	3,403	6,522	27	31
Total	**588,903***	**446,335***	**2,237**	**2,101**

*Aggregated Turnover
**Carraro Korea turnover/employess as at 30.06.2004

Siap S.p.A.

Mainly drawn along by the strong demand of the Group, turnover as at 31 December 2004 rose by 28.2% to Euro 69.044 million, compared with Euro 53.866 million as at 31 December 2003. Thanks to greater volumes and the consequent improved absorption of the manufacturing structure costs and the on-going policy of containing overheads, the operating margin jumped to Euro 5.984 million (8.67% of turnover), up on Euro 2.973 million (5.5%) as at 31 December 2003.

Net financial expense as at 31 December 2004 amounted to Euro 977 thousand (1.42% of turnover), up with respect to the previous year (Euro 0.861 million, 1.6%).

The net income for the year totalled Euro 2.568 million, up on Euro 834 thousand as at 31 December 2003.

Amortization and depreciation was charged for a total of Euro 5.324 million, compared with Euro 5.349 million in the previous year which, together with the result, generated a cash-flow of Euro 7.892 million (Euro 6.183 million as at 31 December 2003).

Investments totalling Euro 5.917 million (Euro 4.299 million as at 31 December 2003) were made in order to enhance the production capacity in consideration of the future growth programmes acquired during the second half of the year.

The net financial position was debt of Euro 16.962 million and deteriorated with respect to the balance as at 30 June 2004 of Euro 12.741 million (Euro 15.320 million at the end of 2003) due to the increase in working capital almost entirely reflecting amounts due from the tax authorities for VAT rebates, which increased in proportion to the important rise in activities and which are currently subject to significant reimbursement delays.

The workforce at the end of the accounting period numbered 384 units as against 429 as at 30 June 2004 (363 as at 31 December 2003).

A.E. S.r.l. (Assali Emiliani)

Since this is the first accounting period fully consolidated by Carraro, the comments on the income statement balances as at 31 December 2004 do not present a comparison with the previous year. When analyzing AE’s results, it should be remembered that 2004 represented a transition period characterized by important restructuring activities in particular relating to manufacturing. From as early as 2005, A.E. will cover 100% of the axle requirements of Same, Lamborghini and Hurlimann, support the volume growth expected with the production start-up of axles for the Deutz tractors range and extend the activities to the completion of the Indian agricultural transmissions intended for the European market.

Turnover during the period was generated in the first half of the year as simple work on account while, as from the first of July 2004, by full supply activities. The total figure amounts to Euro 14.563 million with a positive operating margin of Euro 63 thousand and a net loss of Euro 38 thousand. Investments were made for a total of Euro 705 thousand in order to adapt and enhance production plants. The net financial position disclosed net debt of Euro 2.043 million mainly as a result of the inventory purchase necessary for the afore-mentioned full supply activities.

With its operating loss, the company disclosed negative shareholders’ equity of Euro 28 thousand which makes both the balancing of the loss and the re-establishment of the share capital to the legal minimum in accordance with Article 2447 of the Italian Civil Code necessary.

Carraro India Ltd.

Turnover as at 31 December 2004 amounted to Euro 25.695 million, up by 57.4% on Euro 16.322 million as at 31 December 2003, thanks to the rise in the demand of the Indian customers and the recovery of important export flows towards the Group.

Among the Group companies, the Indian subsidiary is that which was affected the most by the increase in materials’ costs managing to transfer only a minimum part of the increases sustained to sales prices. For this reason and despite such an important turnover increase, the operating margin (despite an increased in absolute value versus the previous year from Euro 1.509 million to Euro 1.760 million), is down in terms of percentage on turnover, from 9.2% to 6.8% .

With net financial expenses of Euro 807 thousand, 3.14% of turnover (Euro 1.049 million, 6.43% as at 31 December 2003) and exchange gains of Euro 53 thousand, compared with losses of Euro 316 thousand at the end of 2003, the 2004 accounting period closed with net income of Euro 789 thousand, an improvement on the net income of Euro 141 thousand last year. Amortization and depreciation came to Euro 1.168 million as against Euro 1.457 million as at 31 December 2003, leading to a cash-flow of Euro 1.957 million (Euro 1.598 million as at 31 December 2003).

As a result of the enhancement of the production capacity to support additional volumes, investments were made for a total of Euro 673 thousand (Euro 371 thousand as at 31 December 2003)

The net financial position was debt of Euro 7.504 million, an improvement with respect to the balance as at 30 June 2004, when it amounted to Euro 8.869 million, and 31 December 2003, with a net debt of Euro 9.836 million.

Staff on the payroll as at 31 December 2004 came to 146 employees (141 as at 30 June 2004 and 156 at the end of December 2003).

Carraro Argentina S.A.

During 2004, the Argentine subsidiary confirmed the growth trend started in the second half of 2003 with extremely positive financial statements which, besides the effects of greater demand, benefited from the results of a corporate changeover process correctly identified and professionally carried out.

Turnover in 2004 amounted to Euro 48.541 million compared with Euro 34.874 million last year, with an increase of 39.2%.

The EBIT came to Euro 5.276 million, 10.87% of turnover, up by 116.5% on 2003 figure of Euro 2.437 million, 6.99% of turnover.

With financial expenses of Euro 38 thousand (Euro 41 thousand as at 31 December 2003) and with exchange gains of Euro 317 thousand (gains of Euro 16 thousand last year as well), the 2004 accounting period closed with net income of Euro 5.121 million (income of Euro 1.884 million as at 31 December 2003). Adding amortization and depreciation for Euro 1.405 million, up slightly with respect to the Euro 1.214 million reported as at 31 December 2003, the cash-flow amounted to Euro 6.526 million (Euro 3.098 million as at 31 December 2003).

In order to support the increased demand, investments were made for Euro 2.515 million (Euro 1.306 million as at 31 December 2003).

The net financial position as at 31 December 2004 disclosed a positive balance of Euro 4.432 million, an improvement with respect to 30 June 2004, when the positive balance was of Euro 2.244 million (positive balance of Euro 0.589 million as at 31 December 2003). The workforce as at 31 December 2004 numbered 330 units (265 as at 30 June 2004 and 251 as at 31 December 2003).

Fabryka Osi Napedowych S.A.

2004 was a year once again characterized by change and by the activities associated with the start-up of the new manufacturing set-up which influenced the first part of the year. For this reason, despite the important increase in volumes, the company failed to express profit margins in line with the Group average even if it showed great recovery in the second half of the year.

Turnover during 2004, amounting to Euro 11.955 million, were up by 41.7% on Euro 8.440 million as at the end of 2003, thanks to the increase in sales volumes towards the Group. As a result of the afore-mentioned difficulties, the operating margin fell to Euro 185 thousand, 1.55% of turnover, compared with Euro 371 thousand as at 31 December 2003, 4.40% of turnover. It is important to point out that during the second half of the year the margin came to 4.1% of turnover.

Financial expenses net of exchange differences amounted to Euro 191 thousand, 1.59% of turnover (expense of Euro 172 thousand, 2.03 % of turnover, in 2003).

The 2004 accounting period closed with net income of Euro 90 thousand (0.75% of turnover) compared with Euro 5 thousand (0.05% of turnover) as at 31 December 2003.

As a result of amortization and depreciation of Euro 671 thousand (Euro 409 thousand in 2003), the cash-flow amounted to Euro 761 thousand (Euro 414 thousand at the end of 2003). Investments were up considerably and as at 31 December 2004 amounted to Euro 5.140 million (Euro 2.075 million in the previous year), made in order to support the important enhancement of the manufacturing activities.

Consequently, the net financial position, disclosing net debt of Euro 6.510 million, was up versus Euro 5.019 million as at 30 June 2004 (Euro 3.974 million as at 31 December 2003). Staff on the payroll as at 31 December 2004 came to 200 units, down with respect to the number of 204 as at 30 June 2004 (214 units on the payroll as at 31 December 2003).

Carraro Deutschland GmbH

This company is a financial holding company and owns 100% of O&K Antriebstechnik GmbH. As at 31 December 2004, the income statement closed with a loss of Euro 16 thousand, compared with a loss of Euro 21 thousand as at 31 December 2003.

O&K Antriebstechnik GmbH

The German company confirmed the positive trend already highlighted during the first half of 2004, achieving turnover at year end of Euro 59.849 million, up 29.1% on Euro 46.375 million as at 31 December 2003. Thanks to the volume increase, the company obtained greater efficiency in overheads volumes, the latter having risen to a lesser extent, thereby generating EBIT as at 31 December 2004 of Euro 1.940 million, 3.24% of turnover, up by 101.7% on Euro 962.000, 2.07% of turnover as at 31 December 2003. Net financial expense as at 31 December 2004 amounted to Euro 380 thousand, 0.63% of turnover, compared with Euro 371 thousand, 0.80% of turnover, in 2003.

The 2004 accounting period closed with net income of Euro 1.596 million as against Euro 528 thousand in 2003. With amortization and depreciation totalling Euro 966 thousand (Euro 999 thousand in 2003), a cash-flow of Euro 2,562 million was generated (Euro 1.527 million in 2003).

Investments were incurred for a total of Euro 1.043 million (Euro 652 thousand in 2003). The net financial position as at 31 December 2004 disclosed net debt of Euro 2.987 million (Euro 3.173 million as at 30 June 2004 and Euro 3.577 million as at 31 December 2003). The company's workforce as at 31 December 2004 numbered 200 (216 as at 30 June 2004, 207 as at 31 December 2003).

Carraro International S.A.

The financial holding company closed the 2004 accounting period with a loss of Euro 2.295 million (loss of Euro 2.446 million as at 31 December 2003).

The result was affected in particular by the write-down of the equity interest in Carraro Korea, following the liquidation of the company, amounting to Euro 824 thousand (as at 31 December 2003 an initial write-down of Euro 1.238 million was made) and by the write-down, due to the operating loss, of the equity interest in Carraro North America totalling Euro 1.652 million (it had already been written down as at 31 December 2003 for a total of Euro 1.208 million). Net of these negative items, the result would have disclosed income of Euro 181,000.

With regards to the equity interests, it is important to mention the subscription of 80% (20% Carraro India) of the Indian company created for the production of gears, Turbo Gears Ltd., amounting to Rupees 80 million or Euro 1.365 million. The net financial position was debt of Euro 1.195 million (Euro 1.402 million as at 30 June 2004, Euro 1.532 million as at 31 December 2003).

Carraro North America Inc.

Re-directed as from the second half of 2003 to operate mostly as a trading company, Carraro North America posted turnover as at 31 December 2004 of Euro 51 thousand, down versus Euro 1.155 million as at 31 December 2003 and operating income of Euro 147 thousand (against a loss of Euro 871 thousand as at 31 December 2003).

After total provisions amounting to Euro 1.319 million, of which Euro 1.005 million relating to the adjustment of the value of the property to market values in consideration of the reduced activities of the company, and Euro 314 thousand relating to a provision for estimated taxes, the accounting period closed with a loss of Euro 1.201 million (as against a loss of Euro 1.085 million at the end of 2003). With amortization and depreciation of Euro 399 thousand (Euro 534 thousand as at 31 December 2003), the cash-flow was negative for Euro 802 thousand (negative for Euro 551 thousand as at 31 December 2003). As in 2003, no investments were made during 2004.

The net financial position was debt of Euro 468 thousand, down versus a net debt of Euro 1.440 million as at 30 June 2004 and a net debt of Euro 3.088 million as at 30 June 2003. Staff on the payroll at the end of 2004 came to 1 unit (1 in June 2004, 3 in December 2003).

Carraro Korea Co. Ltd.

Further to the liquidation procedures launched as from 1° July, the economic effects of the second half of the year have not been consolidated. The results indicated represent the operating performance up until 30 June 2004 compared on a consistent basis with the first half of 2003 and include, in light of the previous comments, the writing-down of the company's equity.

Turnover as at 30 June 2004 amounted to Euro 3.403 million, an improvement when compared with the balance of Euro 2.571 million which, if we would recall, was influenced by the crisis affecting the company's most important customer. The turnover rise, however, was not enough to guarantee profitability conditions for the company, the EBIT, in fact, remained at a loss of Euro 435 thousand (loss of Euro 643 thousand in June 2003).

The net result for the period disclosed a loss of Euro 638 thousand (as against a loss of

Euro 800 thousand as at 30 June 2003) and includes the writing-down of the equity for Euro 191 thousand. The only balance sheet figure to be highlighted as at 31 December 2004 concerns the net financial position which was positive for a total of Euro 204,026, an improvement with respect to the balance of net debt amounting to Euro 1.429 million as at 30 June 2004 thanks in part to the undertaking of the liabilities by the Parent Company.

Share performance

As from the start of the year, price of share in Carraro SpA rose by 47% closing as at 30 December with an official price of Euro 3.60, versus Euro 2.455 as at 2 January 2004. In the course of the year Carraro shares traded at an average official price of Euro 3.04. In the first few months of the year, the share price disclosed an upwards trend reporting an initial maximum of Euro 3.12 as at 28 June then reinforcing its growth, till the highest quotation of Euro 3.70 on 8 October. During the first quarter of 2005, the listed prices maintained an upwards performance, reaching a new high on 7 March 2005 of Euro 4.435.

Performance and forecast for 2005

While concluding the report for the 2004 accounting period, whose data are more fully analyzed in the explanatory notes, as usual we make a few considerations on the performance so far during 2005.
During the first few months of 2005, the Group core markets disclosed a positive trend, with volumes in line with 2004. In particular, the Construction equipment sector gave signs of growth in North America and of slight recovery in Europe, linked to the widespread expectation of an improvement in the macroeconomic scenario. In the Asia Pacific area, after the exponential growth in sales reported in 2004 especially in China, further growth is expected in 2005, albeit slight.
The agricultural market is expected to maintain the 2004 levels, essentially stable in Europe and India, with further recovery in North America and possible slowdowns in South America, where during the previous year a decisive increase in sales of agricultural tractors was seen. Within the sphere of these expectations, backed up by the full application of supply agreements in particular with Caterpillar and Same Deutz-Fahr, sales forecasts for the Group disclose a period of further growth.
The implementation of the action supporting the strategies set forth in the plan will continue during 2005, with particular attention focused on the integration of the fifth Business Unit “Vehicles & Powertrains” which will permit an extension of the corporate product portfolio including the range of complete powertrains and vehicles.

Significant events occuring after the end of of the financial year

On 24 March, the Board of Directors approved the industrial project for the undertaking of the development, assembly and distribution activities for the agricultural tractors of Agritalia. The formula chosen for the transaction is the rent of business concern; the salient features are as follows:
- The Business is inclusive of the tangible and intangible fixed assets and other assets, the amounts due to employees, the VAT plafond and the obligations and the contractual relationships and related rights pertaining to the activities for the development, assembly and distribution of agricultural tractors, as well as the distribution of commercial spare parts for said tractors;
- The rental will be effective as from 1 April 2005 and will have a duration of 3 years, which subsequently may be extended from year to year;
- By way of a fee for the rental of the business, Carraro will pay an annual charge taking into consideration the fact that Agritalia will continue to amortize/depreciate the assets making up the Business for the entire duration of the rental.
- Carraro will carry out the warranty service on the products which Agritalia has sold before the effective date of the rental, a service which will be invoiced by Carraro and reimbursed by Agritalia;
- Carraro will have the possibility to exercise the option for the purchase of the Business, inclusive or otherwise of the real estate property, at a pre-established price;
- The Inventory will be sold separately at current market values.

The rental fee and the eventual purchase price for the business formed the subject of a specific expert appraisal on the fairness of the transaction drawn up by Professor Marco Reboa.
The agreement with Agritalia will be an operation between related parties since the company is 100% owned by Finaid, the Carraro Group holding company. The disclosure document, drawn up in compliance with the provisions of Article 71 bis of the CONSOB

regulation, will be made available at the Company's registered offices and the stockmarket supervisory authority's headquarters.

The transaction has a highly strategic value, extremely precise objectives and a far-reaching plan of action.

The Group's strategic plan already anticipated a gradual extension of the supply scope supporting the objective of positioning as a leading supplier of the "powertrain" system.

This may take place as a result of the full and optimum exploitation of skills within Carraro (drivelines) and Agritalia (skills as vehicle manufacturer and in ancillary systems).

The former Agritalia business will be absorbed within the Group, in a new business unit, entitled "Vehicles & Powertrains", which will be placed directly under the CEO of the Carraro Group taking advantage of the contribution of the service structures and the Group competence centres.

More specifically, the mission of the new Business Unit "Vehicles & Powertrains"- a range of special vehicles, based on the Carraro driveline and conceived and realized under co-design activities or as "turnkey" projects – aims to consolidate a privileged relationship with the OEMs, operating on the agricultural market who are all mutual customers of Carraro and Agritalia.

Since the Group's performance is judged by the OEMs in its entirety, it is in the fundamental interests of Carraro S.p.A. to check the efficacy and the timescales of the product development activities, the competitiveness of the range and all the most significant performance drivers.

The Group expects a substantial improvement in the performance within this area of business from the direct intervention of the competence centres shared within the Group and from the consequent adoption of the best practices throughout the entire value chain, in particular in the areas of engineering, purchasing, manufacturing, quality and logistics; specifically this improvement concerns:

an increase in sales volume, as a function of the renewed credibility as global high added value supplier and thanks to the greater control and flexibility during the offer stage;

a reduction in product costs, thanks to the identification of optimum designs, the support of the central Global Sourcing team and the recovery of efficiency guaranteed by the transfer within Agritalia of methods and techniques satisfactorily consolidated within Carraro S.p.A., the sharing of the competence and service centres which will be necessary for a considerable reduction in general expenses and co-ordination and control costs.

Other information

The consolidated financial statements acknowledge the matters laid down by Italian Legislative Decree No. 6 dated 17 January 2003, concerning the reform of corporate law.

The contents of the balance sheet and income statement have been drawn up in compliance with Articles 2424 and 2425 of the Italian Civil Code, reclassifying the balances of the previous year's items, when necessary, in order to render them comparable with those of the accounting period under review.

With reference to the process of transition to the international accounting standards (IFRS), the company is currently starting up a project also availing itself of the support of specific consultants with the aim of drawing up the consolidated financial statements as from 2005. This project anticipates the analysis of significant economic and financial phenomenon, and the identification of the amendments to be made to the accounting procedures and to the processes for representing the financial information.

Campodarsego, March 24, 2005

	Financial transactions		Economic transactions										
	Financial receivables	Financial payables	Sales of components products and spare parts	Industrial services	Sales of other services and sungry charges	Commission and royalties receivable	Interest income	Purchases of plant, machinery and equipment	Purchases of components products and spare parts	Purchases of industrial services	Purchases of other services and sundry charges	Commission and royalties payable	Interest expense
Associated companies													
Agritalia S.p.A.			12,921	2	551				129	163	144		
Stm S.r.l.	387		2	853	92		17		6,167	7	4		
Elcon Elettronica S.r.l.	84		8				2		200				
Other related parties													
Fonderie del Montello S.p.A.	1,033				119		31	728	25,305	13			
Maus S.p.A.					49			285	55	13			
Meccanica del Piave S.p.A.			2,124	16	29			17	2,409	279	9		
European Power System S.r.l.										2			

In million Euro

Notes:

1. Financial transactions

Financial transactions refer to short and long-term loans.

2. Economic transactions

The most significant economic transactions represent trade transactions for the purchase and sale of raw materials, semi-finished products and componentry technology for the production of systems for auto-traction; the purchases of services refer mainly to services for industrial processing. Purchases from Maus S.p.A. relate to the supply of specific machine tools with the related spare parts and accessories.

The main sales of services comprise amounts charged for the utilization of central information systems and the organizational support provided by the Parent Company in the various operating areas. Commission and royalties refer to specific agreements concerning sales representation and the transfer of rights to use industrial "know-how".

Interest income is generated by outstanding loans.

Assets		December 31, 2004		December 31, 2003
A) Amounts due from shareholders				
B) Fixed assets				
I. Intangible fixed assets				
1) start-up and expansion costs	12,675		239,430	
2) research, development and advertising costs	1,627,618		367,925	
3) industrial patents and intellectual property rights	241,764		193,395	
4) concessions, licenses, trademarks and similar rights	882,935		867,934	
5) consolidation difference	3,000,000		4,000,000	
6) assets in process of formation and advances	1,704,476		1,833,042	
7) other intangible fixed assets	997,026		1,618,709	
Total intangible fixed assets		**8,466,494**		**9,120,435**
II. Tangible fixed assets				
1) land and buildings	30,220,895		31,137,001	
2) plant and machinery	40,464,564		42,660,475	
3) industrial and commercial equipment	12,657,019		11,899,150	
4) other tangible fixed assets	3,433,852		3,832,419	
5) construction in progress and advances	1,427,877		1,140,251	
Total tangible fixed assets		**88,204,207**		**90,669,296**
III. Financial fixed assets				
1) equity investments:				
a) in subsidiaries	1,867,374		520,996	
b) in associated companies	2,775,571		4,067,975	
c) in parent companies				
d) in other companies	141,407		141,509	
e) advances on equity investments				
2) long term receivables:				
a) from subsidiaries				
b) from associated companies				
- due within 12 months			408,785	
- due beyond 12 months				
c) from parent companies				
d) from other companies	1,474,099		5,929,246	
- due within 12 months	1,032,914		5,285,743	
- due beyond 12 months	441,185		643,503	
3) other securities			820	
4) own shares				
Total financial fixed assets		**6,258,451**		**11,069,331**
Total fixed assets (B)		**102,929,152**		**110,859,062**

C) Current assets

		December 31, 2004	December 31, 2003
I. Inventories			
1) Raw, ancillary and consumable materials	49,583,214		35,655,977
2) Work in progress and semi-finished products	21,971,218		19,618,839
3) Contract work in progress			
4) Finished products and goods for resale	11,376,723		9,121,330
5) Advances	528,717		875,792
Total inventories		**83,459,872**	**65,271,938**
II. Receivables:			
1) Trade accounts			
- due within 12 months	134,301,944		84,118,353
- due beyond 12 months			
2) Amounts due from subsidiaries			
- due within 12 months	2,384,227		
- due beyond 12 months			
3) Amounts due from associated companies			
- due within 12 months	4,279,265		2,164,160
- due beyond 12 months			
4) Amounts due from parent companies			
- due within 12 months			
- due beyond 12 months			
4 bis) Amounts due from tax authorities	20,739,424		12,918,738
- due within 12 months	20,356,930		12,739,455
- due beyond 12 months	382,494		179,283
4 ter) Taxes paid in advance	6,646,616		6,129,098
- due within 12 months	4,954,680		4,437,162
- due beyond 12 months	1,691,936		1,691,936
5) Amounts due from third parties	1,386,932		2,826,809
- due within 12 months	1,227,405		2,565,230
- due beyond 12 months	159,527		261,579
Total receivables		**169,738,408**	**108,157,158**
III. Short-term financial assets			
1) Investments in subsidiaries			
2) Investments in associated companies			
3) Investments in parent companies			
4) Other equity investments			
5) Own shares			
6) Other securities	73,000		71,962,134
Total short-term financial assets		**73,000**	**71,962,134**
IV. Liquid funds:			
1) Bank and post office deposits	38,621,451		10,989,745
2) Cheques	10,052		875,992
3) Cash and equivalents on hand	37,204		46,258
Total liquid funds		**38,668,707**	**11,911,995**
Totale current assets (C)		**291,939,987**	**257,303,225**

D) Accrued income and prepaid expenses

- Accrued income	3,618,968		6,024,680
- Prepaid expenses	1,264,144		
- due within 12 months	1,155,471		1,006,351
- due beyond 12 months	108,673		67,979
Total assets		**4,883,112**	**7,099,010**
Total activity		**399,752,251**	**375,261,297**

Liabilities	December 31, 2004		December 31, 2003
A) Shareholders' equity			
I Share capital	21,840,000		21,840,000
II. Share premium reserve	17,833,456		14,284,972
III. Revaluation reserve			
IV. Legal reserve	3,535,616		3,120,088
V. Statuory reserves			
VI. Reserve for own shares in porfolio			
VII. Other reserves	3,865,858		8,603,680
Extraordinary reserve	3,547,199		272,166
Reserve for accelerated depreciation			4,827,497
Reserve for out-of-period income as per art. 55			
Reserve from translation difference	-14,687,011		-13,365,300
Reserve from merger surplus			
Other reserves	15,005,670		16,869,317
VIII.Retained earnings (accumulated losses)			
IX. Consolidated net income/(loss) for the period	12,738,394		5,560,303
Total Group Shareholders' equity	59,813,324		53,409,043
Minority interests in capital and reserves	1,085,187		2,205,446
Results pertaining to minority shareholders	393,327		69,897
Total Shareholder's equity		**61,291,838**	**55,684,386**
B) Provision for risks and charges			
1) Pensions and similar commitments	3,824,445		3,441,796
2) Taxation, including deferred	894,760		262,253
3) Other provisions	7,791,786		7,216,942
Total provisions for risks and charges		**12,510,991**	**10,920,991**
C) Provision for employee leaving indemnities			
		15,528,612	**15,483,249**
D) Payables			
1) Bonds	74,367,000		100,000,000
2) Convertible bonds			
3) Amounts due to shareholders for loans			
4) Amounts due to banks	38,378,396		76,142,587
- due within 12 months	33,435,447		69,209,767
- due beyond 12 months	4,942,949		6,932,820
5) Amounts due to other providers of finance	471,689		448,123
- due within 12 months	471,689		388,484
- due beyond 12 months			59,639
6) Advances	81,687		347,890
- due within 12 months	81,687		347,890
7) Trade accounts	167,557,163		84,548,617
- due within 12 months	167,557,163		84,548,617
- due beyond 12 months			
8) Payables represented by credit instruments			
- due within 12 months			
- due beyond 12 months			
9) Amounts due to subsidiaries	7,788		
- due within 12 months	7,788		
10) Amounts due to associated companies	2,329,924		1,182,623
- due within 12 months	2,329,924		1,182,623
11) Amounts due to parent companies	8,003		16,247
- due within 12 months	8,003		16,247
12) Amounts due to the tax authorities	5,880,041		2,205,382
- due within 12 months	5,880,041		2,205,382
- due beyond 12 months			
13) Amounts due to social security and welfare institutions	3,141,938		3,110,165
- due within 12 months	3,141,938		3,110,165
14) Other payables	10,055,177		11,828,387
- due within 12 months	10,055,177		7,544,574
- due beyond 12 months			4,283,813
Total payables		**302,278,806**	**279,830,021**

E) Accrued expenses and deferred income

	December 31, 2004		December 31, 2003	
- Accrued expenses	7,577,469		12,816,042	
- Deferred income	564,535		526,608	
- due within 12 months	564,535		526,608	
- due beyond 12 months				
Total liabilities and shareholders' equity		**399,752,251**	**375,261,297**	

Memorandum accounts

Risks				
- Sureties given on behalf of third parties			13,245,228	
- Securities deposited in guarantee on behalf of third parties			92,962	
Total Risks				**13,338,190**

Commitments				
- Commitments to repurchase equity investments			1,112,345	
- Other commitments	103,291		103,291	
Total commitments		**103,291**		**1,215,636**
Total risks and commitments		**103,291**		**14,553,826**

Other memorandum accounts which do not reflect risks or commitents				
- Sureties received from third parties	1,032,914		1,898,922	
- Pledges on securities				
- Sureties given by third parties on behalf of Carraro S.p.A.	15,472,491		23,138,903	
- Swaps on accounts payable				
- Swaps on accounts receivable	18,523,384		12,755,344	
- Interest rate swaps	63,000,000		155,000,000	
- Forward rate agreements	165,000,000		245,000,000	
- Foreign currency options	116,889,857		106,627,368	

A) Value of production

		December 31, 2004	December 31, 2003
1) Revenue from sales and services	513,667,525		389,874,058
2) Changes in inventories of work in progress, semi-finished and finished products	5,469,804		-2,969,297
3) Changes in contract work in progress			
4) Increase in internally-constructed fixed assets	1,127,986		657,918
5) Other revenues and income	5,769,407		5,469,062
- operating grants	16,514		59,653
- other revenues and income	5,752,893		5,409,409
Total Value of production (A)		**526,034,722**	**393,031,741**

B) Production costs

6) Raw, ancillary and consumable materials and goods for resale	322,000,574		219,211,560
7) Services	92,480,724		66,137,341
8) Use of third party assets	1,788,562		1,323,881
9) Payroll and related costs:	68,340,691		62,262,779
a) Wages and salaries	48,016,586		44,079,132
b) Social security contributions	15,486,543		13,881,724
c) Employee leaving indemnities (T.F.R.)	2,786,626		2,612,396
d) Pensions and similar commitments	428,705		370,114
e) Other costs	1,622,231		1,319,413
10) Amortization, depreciation and writedowns:	21,552,615		22,328,540
a) Amortization of intangible assets	3,059,650		3,147,851
b) Depreciation of tangible assets	18,364,159		19,059,187
c) Other amounts written-off fixed assets	20,790		
d) Writedowns of current receivables and			
of liquid funds	108,016		121,502
11) Changes in inventories of raw, ancillary and consumable materials and goods for resale	-15,364,548		-2,325,599
12) Provisions for contingencies	250,517		17,770
13) Other provisions	3,912,208		3,671,399
14) Other operating expense	1,452,210		1,290,929
Total production costs (B)		**496,413,553**	**373,918,600**
Difference between value and cost of production (A - B)		**29,621,169**	**19,113,141**

C) Income and financial expenses

	December 31, 2004		December 31, 2003	
15) Income from equity investments				
16) Other financial income	8,520,122		11,662,474	
a) - from receivables recorded as fixed assets	12,756		21,198	
- from other companies				
b) from securities recorded as fixed assets				
c) from securities recorded as current assets	617,282		19,674	
d) income other than the above	7,890,084		11,621,602	
including:				
from subsidiaries				
from associated companies	19,508		137,254	
from parent companies				
other sundry income	7,870,576		11,484,348	
17) Interest and other financial expense	14,986,672		19,303,978	
including:				
from subsidiaries				
from associated companies			2,288	
from parent companies				
from other companies	14,986,672		19,301,689	
17 bis) exchange losses and gains	862,373		-546,804	
Total (15 + 16 – 17 + 17 bis)		**-5,604,177**		**-8,188,307**

D) Adjustements to the value of financial assets

18) Revaluations:	255,234			
a) of equity interests	255,234			
b) of financial fixed assets not representing equity investments				
c) of securities held as current assets				
19) Writedowns:				
a) of equity interests	1,547,638		320,341	
b) of financial fixed assets not representing equity investments	1,547,638		320,341	
c) of securities held as current assets				
Total Adjustments (18 – 19)		**-1,292,404**		**-320,341**

E) Extraordinary income and expense

20) Income	1,762,762		277,807	
- Gains on disposals	103,815		21,945	
- Taxation relating to previous years	1,211,231			
- Other extraordinary income	447,716		255,862	
21) Expense	4,463,353		1,152,019	
- Losses on disposals	956		952	
- Taxation relating to previous years	1,515,879		28,812	
- Other extraordinary expense	2,946,518		1,122,255	
Total extraordinary items (20 – 21)		**-2,700,591**		**-874,212**
Pre-tax result (A-B+/-C+/-D+/-E)		**20,023,997**		**9,730,281**
22) Income taxes for the year (current, deferred and paid in)	6,892,276		4,100,081	
23) Net income/(loss) for the period	13,131,721		5,630,200	
Net income /(loss) pertaining to minority shareholders	393,327		69,897	
26) Consolidated net income (loss) for the period		**12,738,394**		**5,560,303**

Net Financial Position

	December 31, 2004	December 31, 2003
Amounts due to banks:		
- due within 12 months	33,435	69,210
- due beyond 12 months	4,943	6,933
Amounts due to other providers of finance:		
- due within 12 months	412	
- due beyond 12 months		
- leases due within 12 months	60	388
- leases due beyond 12 months		60
Bonds:		
- due within 12 months		
- due beyond 12 months	74,367	100,000
Payables represented by credit instruments:		
- due within 12 months		
- due beyond 12 months		
Net financial accruals and deferrals	3,505	6,589
Less:		
Liquid funds	-38,669	-11,912
Securities	-73	-71,962
Loans receivable	-1,504	-1,913
Amounts due from factoring companies		-25
Consolidated net financial position	**76,476**	**97,368**

	December 31, 2004		December 31, 2003	
Net financial position at beginning of period		**-97,368**		**-117,264**
	Allocation	Sources	Allocation	Sources
Net income/(Loss) for the period		12,738		5,560
Income (loss) pertaining to minority shareholders		393		70
Depreciation of tangible fixed assets		18,364		19,059
Amortisation of intangible fixed assets		3,060		3,148
Writedowns of fixed assets		21		
Cash Flow		**34,576**		**27,837**
Current operating activities				
Provision to reserve for employee leaving indemnities (T.F.R.)		2,787		2,612
Utilization of provision for employee leaving indemnities (T.F.R.)	2,741		1,312	
Provision for pensions and similar commitments		429		370
Utilization of provision for pensions and similar commitments			206	
Provisions to risk reserves		4,163		3,689
Utilization of risk reserves	3,961		6,477	
Provision for deferred taxation				84
Utilisation of provision for deferred taxation			83	
Change in inventories	18,188			1,863
Change in trade receivables	50,184			3,873
Change in amounts due from subsidiary, associated companies, parent companies	4,499			976
Change in amounts due from third parties		1,385	62	
Change in amounts due from tax authorities	7,790			2,612
Change in prepaid taxes	518			1,671
Change in trade payables		83,008	2,151	
Change in amounts due to subsidiary, associated companies, parent companies		1,147	820	
Change in amounts due to third parties		1,668		484
Change in non-financial accruals and deferrals		99		48
Current operating activities		**6,805**		**7,171**
Total current activities		**41,381**		**35,008**
Non-current operating activities				
Provisions/Extraordinary expense		959		265
Investment activities:				
- Additions to tangible fixed assets	19,668		17,348	
- Investments in intangible assets	2,404		1,292	
- Net change from disposals and consolidation		3,746		4,748
Equity investments:				
- purchase of equity investments			28	76
- provision against exchange losses on devaluation of Peso				
- Net revaluation/writedown of investments carried at equity		1,293		320
- Commitments to purchase equity investments				
- Change in 'other equity investments'				
Personal income tax (IRPEF) advance on employee leaving indemnity (T.F.R.)		202		170
Change in long-term receivables		2,907		862
Non-current operating activities	**12,965**		**12,227**	
Equity operations				
Net change in scope of consolidation and minority interests	2,904		2,885	
Dividend payments	4,620			
Equity operations	**7,524**		**2,885**	
Net financial position at end of period		**-76,476**		**-97,368**

1. Activities of the Group companiess

The main corporate purpose of the Carraro Group companies is to manufacture and sell drive systems for self propelling vehicles such as agricultural tractors, earth-moving equipment, material handling equipment, light commercial vehicles and cars.

2. Form and content of the financial statements

These consolidated financial statements have been prepared in compliance with the layouts and accounting policies laid down in Italian Legislative Decree No. 127/91 and with the guidelines issued by the CONSOB, the Italian Stock Exchange Commission.

The consolidated financial statements as of 31 December 2004 have been drawn up on the basis of the financial statements prepared by the Directors of the Group companies, in accordance with the provisions of the Italian Civil Code, and comprise the balance sheet, income statement and these explanatory notes which for comparative purposes present the balances of the consolidated financial statements as of 31 December 2003.

These financial statements are drawn up in Euro. Euro amounts are shown without decimals, as allowed by Article 2423 of the Italian Civil Code as amended, effective as of 1 January 2002, by Article 16.8, letter a) of Italian Legislative Decree No. 213/98. The schedules accompanying these notes are expressed in thousands of Euro.

3. Scope of consolidation

The Group's consolidated financial statements comprise the financial statements 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.

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

Corporate name	Registered offices	Currency	Nominal value 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	10,000	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.	New Delhi (India)	Rupie	400,000,000	51%
F.O.N. S.A.	Radomsko (Poland)	Zloty	7,058,220	88.27%
Carraro International S.A.	Luxembourg	Euro	9,850,000	99.99%
Carraro North America Inc.	Calhoun - Georgia (USA)	US$	100	100%
Carraro Korea Ltd.	Ulsan (Republic of Korea)	Kwon	3,000,000,000	100%
O&K Antriebstechnik GmbH &Co. KG	Hattingen (Germany)	Euro	2,045,168	100%

The main changes in the scope of consolidation during the period were as follows:

- the company Carraro Korea Ltd., wholly-owned by Carraro International S.A. was placed in liquidation as from July 2004; consequently, the company was consolidated on a line-by-line basis in relation to just the income statement balances for the period 1 January 2004 – 30 June 2004, since the requisites concerning operations and consistency with respect to the rest of the Group no longer apply;
- as of 30 December 2004, the acquisition from Simest S.p.A. of the 6% interest in Carraro Argentina S.A.'s share capital was finalized for a total of Euro 1.149 million; as of 31 December 2004, Carraro S.p.A. holds 99.0% of the share capital;
- during 2004, Carraro S.p.A. acquired additional interests in the share capital of F.O.N. S.A. equating to 3.482% for an overall cost of Euro 0.057 million.

The following equity investments have been excluded from the scope of consolidation since they are not significant. They are dormant companies and their only significant assets concern industrial land.

Parent offices	Corporate name	Registered offices	Currency	Nominal value Share capital	Interest holding
Carraro India Ltd.	Carraro PNH Components India Ltd.	Bombay (India)	Rupie	10,000,200	99.998%
Carraro India Ltd.	Turbo Gears India Ltd.	Rajangaon - Pune (India)	Rupie	100,001,000	19.99%
Carraro International SA	Turbo Gears India Ltd.	Rajangaon - Pune (India)	Rupie	100,001,000	80.00%

The book value of these equity investments comes to Euro 0.167 million for Carraro PNH Components Ltd. and Euro 1.700 million for Turbo Gears India Ltd.; in the latter company, Carraro International S.A. subscribed a holding of 80% of the share capital for a value of Euro 1.365 million. This transaction gives substance to the plan for the creation of a new industrial site in the Pune area (India) for the future production of components for axles and drivelines.

It should also be noted, with reference to the shareholders' equity of the individual consolidated companies, that the following amounts are recorded by way of payments towards capital increases:

- US$ 7,000,000 for Carraro North America Inc.;
- Euro 10,532,613 for Carraro Deutschland GmbH;

4. Consolidation principles and accounting policies

4.1 Consolidation principles

The balances are consolidated on a line-by-line basis, in other words the entire amount of the assets, liabilities, costs and revenues of the individual companies are consolidated, regardless of the entity of the interests held.
For the purposes of consolidating the foreign subsidiaries, the balance sheet and income statement schedules specially prepared according to the layout of the schedules adopted by the parent company and compiled in accordance with accounting policies common with those applied by Carraro S.p.A., were used. Where necessary, in order to align the period end dates of the foreign companies, specific interim financial statements were drawn up by the directors using the same criteria adopted for the period end statements.
The book value of the consolidated equity investments, held by Carraro S.p.A. or by other companies subject to consolidation, has been eliminated against the related portion of shareholders' equity of the subsidiary companies.
The portions of shareholders' equity and net results pertaining to minority shareholders are illustrated respectively in the consolidated balance sheet and the consolidated income statement.
The differences between the purchase cost and the value of the corresponding portion of shareholders' equity of the investee companies as of the date on which the companies were consolidated for the first time, subject to allocation, where possible, to specific items within the assets, are stated in the asset item 'Consolidation difference', or directly charged to the consolidated shareholders' equity in the item 'Consolidation reserve'.
The differences deriving from the purchases of further shares / quotas, subsequent to the first year of consolidation, are recorded as matching entries in the "Consolidation reserve" or charged to the consolidated income statement.
Significant transactions between consolidated companies, and accordingly the related receivables, payables, costs and revenues, as well as unrealised gains from transactions between Group companies, have been eliminated.
The conversion into Euro of the financial statements 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 the foreign currency financial statements are the following:

Corporate name	Currency	Average exchange rate for 2004	Exchange rate as at 31.12.2004
Carraro India Ltd.	Indian Rupee	56.3310	59.7404
FON S,A.	Polish Zloty	4.5285	4.0845
Carraro North America Inc.	US Dollar	1.2435	1.3621
Carraro Korea Ltd.	South Korean Won	1.422.6336	1.410.0500
Carraro Argentina SA.	Argentine Peso	3.6578	4.0381

4.2 Accounting principles and policies

The same accounting policies and the same accounting principles adopted in the previous year have been maintained in the consolidated financial stateemnts, in order to safeguard the consistency of the information presented.
The accounting principles used are those applicable to going concerns, which the directors believe to be appropriate in light of the matters already illustrated in the report on operations.

The accounting policies and principles applied to the most significant financial statement items are illustrated below.

a) Intangible fixed assets

Intangible assets, if purchased from third parties, are stated at purchase cost inclusive of directly attributable accessory charges; if created internally, at the purchase cost of the assets or services used, besides direct and indirect labour and relevant accessory charges.
Amounts are shown net of amortization, calculated on a straight-line basis with reference to the estimated useful life of the assets

b) Tangible fixed assets

Tangible assets are stated at purchase, transfer or internal construction cost, as increased by monetary revaluations carried out in compliance with the provisions of the law. Cost includes any specific financial charges incurred up to the time the asset enters service.
The costs of improvements, revamping, transformations and extraordinary maintenance are capitalised as increases to the value of the relevant assets. Similar costs that represent ordinary maintenance are expensed as incurred. Fully depreciated assets remain on the balance sheet until scrapped or disposed of.
Depreciation is calculated by applying rates suitable for representing the actual depreciation of the assets, on the basis of their estimated economic-technical life. Assets under construction are not depreciated. If, irrespective of the accumulated depreciation, a permanent loss in value occurs, the fixed asset is written down accordingly; if, in subsequent periods, the reasons for the writedown no longer apply, the original value is reinstated.
Financial leases are stated by recording the current value of the lease instalments inclusive of the redemption quotas among tangible fixed assets. The principal portion of liabilities for lease instalments and the redemption amount are stated within liabilities under the item 'amounts due to other providers of finance" due within or beyond 12 months, depending on the term of the lease. In the income statement, they are stated by recording the portions calculated as if the asset was effectively purchased under depreciation and writing-off the principal portion of the lease instalments charged to the statutory financial statements of the consolidated companies.

c) Financial fixed assets

Non-controlling equity investments in which the Group holds an interest greater than or equal to 20% and controlling interests which may have been excluded from the scope of consolidation, are carried at equity. If they are not significant, they are stated at cost as adjusted in order to reflect permanent losses in value.
Long-term receivables are carried at estimated realisable value.

d) Inventories
Inventories are valued at the lower of average purchase or production cost for the year and market value. Production cost includes materials, labour, and direct and indirect manufacturing costs. Obsolete or slow-moving inventories are suitably written down.

e) Receivables and payables
Receivables are stated in the financial statements at estimated realizable value. This value reflects the nominal value adjusted by the allowance for doubtful accounts provided specifically, destined to cover both amounts that are already unrecoverable and those which have not yet emerged, but are forecast or latent, and which are inherent to receivable balances recorded in the financial statements.
Payables are stated at nominal value.

f) Foreign currency assets and liabilities
The foreign currency balances of each consolidated company, with the exception of the fixed assets, are adjusted to the official period end rate and the related gains and losses are charged to the income statement.

g) Short-term financial assets
Securities held for short-term investment purposes are stated at the lower of purchase cost including the premium and the period end market value. Other short-term investments are stated at the lower of purchase cost and market value.

h) Liquid funds
Liquid funds are stated at nominal value.

i) Prepayments, accruals and deferrals
These are recorded on an accruals basis in accordance with the principle of matching the related costs and revenues for the period.

j) Provisions for risks and charges
Provisions for risks and charges are made for the purpose of covering losses or liabilities of a determinate nature, which are certain or probable, the timing and extent of which cannot be determined at period end.
The reserve for taxation covers the liability for probable taxes, the timing and extent of which cannot be determined, such as liabilities for probable assessments or disputes under way, valued on the basis of the estimated outcome of the same.

l) Employee leaving indemnities
Provision is made in compliance with current legislation and labour contracts.

m) Derivate contracts
Forward foreign currency agreements are valued as follows:
if hedging accounts payable and receivable, on a consistent basis with the related assets and liabilities;
if hedging anticipated exports, any exchange differences realized during the period on these transactions adjust the revenues in that they are considered to be of a commercial nature; the accrued premium or discount matured on contracts still open at period end are charged to the income statement among the financial captions;
if entered into for trading purposes, on a consistent basis with the receivables and payables expressed in foreign currency.

Derivative contracts hedging interest rate risks are valued on a consistent basis with the liabilities hedged.

n) Costs and revenues
These are stated in the financial statements on a prudent and accruals basis, with indication of the related accruals and deferrals.
Revenues from the sale of products are recognized at the time ownership is transferred, which usually coincides with shipment. Revenues deriving from the provision of services are charged at the time the service is rendered.

o) Intercompany transactions
In accordance with the CONSOB Recommendations dated 20 February 1997 (DAC/97001574) and 27 February 1998 (DAC/98015375), shareholders are informed that:

- transactions with Group companies and related parties which have taken place during the period, have given rise to trade, financial or consultancy-related dealings and have been performed, on an arms'-length basis, in the economic interests of the individual companies involved in the transactions;
- no atypical or unusual transactions have been entered into with respect to normal business operations and the interest rates and conditions applied (lending and borrowing) to financial transactions between the various companies are in line with market conditions.

p) Income taxes for the period
Current income taxes have been provided for on the basis of an estimate of the taxable income for the consolidated companies, in accordance with current legislation taking into account any applicable exemptions.

q) Deferred taxes
The individual companies provide for deferred taxation calculated on timing differences between the statutory result and taxable income. The potential tax benefit associated with both the timing differences and any losses which may be carried forward is recorded when reasonable certainty exists that sufficient taxable income will be available in the future to allow their recovery. Additional deferred taxes (assets and/or liabilities) originate from the tax effect of consolidation adjustments, mainly due to the capitalisation of assets under lease, to intercompany stock and to the value adjustments on goodwill, taking into account local tax legislation. Deferred tax liabilities are provided for in a specific reserve under liability item B); deferred tax assets are recorded under the asset item C.II.4-*ter*.

5. Analysis of the items and changes when compared with previous periods' financial statements

Information in tabular form and comments on the changes and the balance sheet and income statement balances registered during the year are presented below. The balances indicated in the tables as 'changes in the scope of consolidation' refer to the afore-mentioned deconsolidation of the balance sheet balances of Carraro Korea Ltd..

Balance sheet - assets

B.I. Intangible fixed assets

Intangible fixed assets present a net balance of Euro 8.47 million, as against Euro 9.12 million in the previous year.
The balance is analysed as follows:

(in thousands of Euro)

Description	Start-up and expansion costs	Research and development costs	Industrial patents and intellectual property rights	Concessions licences, trademarks and similar rights	Consolidation difference	Assets in process of formation and advances	Other intangible fixed assets	Total
Historical cost	2,207	1,755	887	4,839	17,630	1,833	6,623	35,774
Accumulated amortization	-1,968	-1,387	-694	-3,971	-5,454		-5,004	-18,478
Write-downs					-8,176			-8,176
Net value as at 31.12.2003	239	368	193	868	4,000	1,833	1,619	9,120
Changes in 2004:								
Increases		301	165	490		1,326	137	2,419
Capitalization		1,455				-1,455		
Amortization	-232	-481	-116	-475	-1,000		-756	-3,060
Other changes		-23						-23
Change in scope of consolidation								
Exchange differences	5	8					-3	10
Net value as at 31.12.2004	12	1,628	242	883	3,000	1,704	997	8,466
Comprising:								
- historical cost	2,212	3,496	1,052	5,329	17,630	1,704	6,757	38,180
- accumulated amortization	-2,200	-1,868	-810	-4,446	-6,454		-5,760	-21,538
- write-downs					-8,176			-8.176

The item 'Start-up and expansion costs' is analysed as follows:

(in thousands of Euro)

Description	December 31, 2004	December 31, 2003
Costs for company formation and amendments to Articles of Association	7	24
Start-up cost of new manufacturing unit	6	215
Total	**13**	**239**

Costs for company formation and amendments to the Articles of Association mainly concern the costs incurred in 1999 by Carraro International S.A. and by Carraro India Ltd. and in 2003 by A.E. S.r.l..

"Start-up cost of new manufacturing units' relates essentially to the costs incurred to start up the manufacturing operations of Carraro India Ltd. and bring them to operate at capacity.

Research and development costs refer to the capitalisation of costs concerning the designing of new product lines developed in connection with similar projects started by customers. Other studies concerning products are still in the design stage and are recorded under assets in process of formation.

The item "Consolidation difference" comprises the value generated by the consolidation entries of the company O&K Antriebstechnik GmbH & Co. KG, reflecting the difference between the amount paid originally for the corporate assets acquired and the current values of the assets and liabilities of the investee company.
As of 31 December 2002, the net book value of this goodwill was recalculated as Euro 5.00 million, and at the same time it was considered expedient to re-define the residual useful life as 5 years. To-date, the validity of said choice has been confirmed. The net value as of 31 December 2004 amounted to Euro 3.00 million. The amortization charged to the income statement for the period came to Euro 1.00 million.

B.II. Tangible fixed assets

Tangible fixed assets present a net balance of Euro 88.20 million, as against Euro 90.67 million in the previous year.
The balance is analysed as follows:

(in thousands of Euro)

Description	Land and buildings	Plant and machinery	Industrial equipment	Other tangible fixed assets	Construction in progress and advances	Total
Historical cost	43,840	146,172	77,206	21,810	1,140	290,168
Accumulated depreciation	-12,703	-103,344	-64,903	-17,978		-198,928
Write-downs		-168	-404			-572
Net value as at 31.12.2003	31,137	42,660	11,899	3,832	1,140	90,669
Changes in 2004:						
Increases	1,919	8,973	5,924	1,190	1,364	19,370
Decreases	-2	-704	-14	-141	-1	-862
Capitalization	10	88	302		-400	
Change in scope of consolidation		-306	-121	-25		-452
Depreciation	-1,409	-9,393	-6,090	-1,472		-18,364
Change in advances					372	372
Reclassifications	1	-768	782	50	-1,197	-1,132
Writedowns	-918			2		-916
Exchange translation differences	-517	-85	-25	-2	150	-478
Net value as at 31.12.2004	30,221	40,465	12,657	3,434	1,428	88,204
Comprising:						
- historical cost	42,250	146,281	82,802	22,720	1,428	298,481
- accumulated depreciation	-14,111	-105,648	-69,741	-19,288		-208,788
- writedowns	-918	-168	-404	2		-1,488

Tangible fixed assets include assets acquired under leases for a value of Euro 12,36 million, already depreciated for Euro 11,18 million.

The increases for the year in the item “Plant and machinery” mainly refer to the purchase of automatic and general machinery by Siap S.p.A., FON S.A. and Carraro Argentina S.A.; as far as industrial equipment was concerned, the most significant additions relate to casting patterns and tools of Carraro S.p.A. and Siap S.p.A..

The item ‘Other tangible fixed assets’ is analysed as follows:

(in thousands of Euro)

Description	December 31, 2004	December 31, 2003
Furniture and fixtures	1,783	2,011
Office machines	1,144	1,394
Motor vehicles and internal means of transport	507	427
Total	**3,434**	**3,832**

Tangible fixed assets are encumbered by a mortgage of Euro 6,197 million on the property in Poggiofiorito (Chieti) in favour of Interbanca S.p.A. for a loan received.

B.III. – Financial fixed assets

B.III.1 Equity investments

Changes in equity investments during 2004:

(in thousands of Euro)

Description	Net Value as at 31.12.2003	Increase/ Acquisitions/ Share Capital payments	Decreases	Writedowns/ Revaluations	Exchange adjustment	Net Value as at 31.12.2004
Equity investments in subsidiaries:	521					1,867
Carraro PNH Components India Ltd.	174				-7	167
Turbo Gears India Ltd.	347	1,365			-12	1,700
Equity investments in associated companies:	4,068					2,775
STM S.r.l.	2,508			255		2,763
Agritalia S.p.A.	1,548			-1,548		
Elcon S.r.l.	12					12
Equity investments in other companies	142				-1	141
Total equity investments	**4,731**	**1,365**		**-1,293**	**-20**	**4,783**

The item ‘Revaluations/Writedowns’ includes the changes originating from the valuation using the equity method.

B.III.1.a. – Equity investments in subsidiaries

The balance of Euro 1.87 million is analyzed as follows:

(in thousands of Euro)

Parent company	Corporate name	Registered offices	Interest holding	Book value
Carraro India Ltd.	Carraro PNH Components India Ltd.	Bombay (India)	99.998%	167
Carraro India Ltd.	Turbo Gears India Ltd.	Rajangaon - Pune (India)	19.99%	335
Carraro International S.A.	Turbo Gears India Ltd.	Rajangaon - Pune (India)	80.00%	1,365

The balance of Euro 1,365 million relating to the company Turbo Gears India Ltd. reflects the portion of capital subscribed in 2004 by Carraro International.

B.III.1.b. – Equity investments in associated companies

- STM S.r.l. with registered offices in Maniago (Pordenone), 50% owned by SIAP S.p.A., has been valued at equity, which brings the value of the equity investment to Euro 2.76 million.
- The value of the company Agritalia S.p.A. with registered offices in Rovigo, in which an interest of 33.33% was originally held by Carraro S.p.A., was written off following the losses reported which reduced the equity of the company to a negative value; as of 31 December 2004 the company Agritalia S.p.A. was no longer included within the scope of consolidation in consideration of the waiver by Carraro S.p.A. of its right to participate in the reinstatement of the share capital.
- Carraro S.p.A. holds an interest of 24.9% in the company Elcon Elettronica S.r.l. with registered offices in Trieste. The value of the equity investment has not changed. The balance as of 31 December 2004 does not differ significantly from the value of the holding calculated using the equity method.

B.III.1.d. – Equity investments in other companies

The other investments comprise minority interests held by Carraro S.p.A. for Euro 0.08 million, SIAP S.p.A. for Euro 0.01 million and O&K Antriebstechnik GmbH & Co. KG for Euro 0.05 million.

B.III.2.b. – Amounts receivable from associated companies

(in thousands of Euro)

Description	Balance as at 31.12.20003	Increases	Revaluations	Reclass. long / short term	Repayments	Exchange rate adjustements	Balance as at 31.12.2004
STM S.r.l.							
- due within 12 months	409				-409		
- due beyond 12 months							
Total amounts receivable from associated companies	**409**				**-409**		

The value of amounts receivable from associated companies amounting initially to Euro 0.41 million has been fully repaid and referred to a loan, originally for Euro 4.00 million, being the residual balance granted by Siap S.p.A. to STM S.r.l..

B.III.2.d. – Amounts receivable from other companies

(in thousands of Euro)

Description	Balance as at 31.12.20003	Increases	Reclassifications	Change in scope of consolidation	Repayments	Exchange rate adjustements	Balance as at 31.12.2004
Fonderie del Montello loan:							
- due within 12 months	1,033						1,033
IRPEF on TFR	603	13			-215		401
Sundry receivables	4,293			-79	-4,181		40
Total amounts receivable from other companies	**5,929**	**13**		**-79**	**-4,396**		**1,474**

The residual balance as at 31 December 2004 of the loan originally amounting to Euro 3.62 million granted by Carraro S.p.A. to the former subsidiary Fonderie del Montello S.p.A. was Euro 1.03 million.

The personal income tax (IRPEF) advance on leaving indemnities (TFR) amounting to Euro 0.40 million was calculated and utilized in accordance with the law.

The original balance of Euro 4.29 million referring to Sundry receivables included Euro 4.18 million for the amount receivable recorded in the financial statements of the company Carraro North America Inc. generated by a sale and financial lease back transaction on property of the company; the amount was extinguished in 2004.

C.I. – Inventories

(in thousands of Euro)

Description	Inv. as at 31.12.2003	Change in scope cons. Inv. 2004	Inv. as at 31.12.2004	Writedown res. 31.12.2003	Change in scope cons. witedown rs.	Writedown reserve as at 31.12.2004	Net value as at 31.12.2003	Net value as at 31.12.2004
Raw materials	38,639	-1,158	53,975	-3,011	5	-4,392	35,656	49,583
Work in progress and semi-finished products	20,491	-267	22,412	-883		-441	19,619	21,971
Finished products	10,740	-352	13,774	-1,621		-2,397	9,121	11,377
Total	**31,231**	**-619**	**36,186**	**-2,504**		**-2,838**	**28,740**	**33,348**
Goods in transit	876		529				876	529
Total Inventories	**70,746**	**-1,777**	**90,690**	**-5,515**	**5**	**-7,230**	**65,272**	**83,460**

Inventories present a balance of Euro 83,46 million, compared with Euro 65,27 million as at 31 December 2003.

The writedown reserve amounting to Euro 7.23 million comprises: raw, ancillary and consumable materials for Euro 4.39 million, semi-finished products for Euro 0.44 million and finished products for Euro 2.40 million. The balances recorded in the financial statements do not differ appreciably from a valuation carried out at current costs at period end.

C.II. – Receivables

Changes in the account group are analysed as follows:

(in thousands of Euro)

Description	December 31, 2004	December 31, 2003
Trade accounts	134,302	84,118
Amounts due from subsidiary companies	2,384	
Amounts due from associated companies	4,279	2,164
Amounts due from the tax authorities	20,739	12,919
Taxes paid in advance	6,647	6,129
Amounts due from third parties	1,387	2,827
Total receivables	**169,738**	**108,157**

The change in the balance of trade accounts or amounts due from customers mainly concerns the significant rise in the volume of sales during the year (+ 31.8%).
Amounts due from subsidiary companies for a total of Euro 2.384 million refer to Carraro Korea Ltd.; Euro 2.099 million of this balance represents advances granted by Carraro S.p.A. in order to permit the start up and continuation of the liquidation proceedings. The recoverability of these receivables was taken into account when determining the provision to the reserve for liquidation costs recorded among the liabilities.
Amounts due from associated companies refer to the companies: Agritalia S.p.A. for Euro 3.43 million, STM S.r.l. for Euro 0.70 million (including Euro 0.39 million of a financial nature) and Elcon S.r.l. for Euro 0.14 million (including Euro 0.08 million of a financial nature).

Amounts due from the tax authorities comprise:

(in thousands of Euro)

Description	December 31, 2004	December 31, 2003
VAT rebates	18,312	9,236
IRES/IRPEG – IRAP (advances) credit	593	1,962
Withholdings	145	86
Export incentives	1480	1,249
Credits for tax paid abroad		85
Other amounts due from the tax authorities	209	301
Total amounts due from the tax authorities	**20,739**	**12,919**

Amounts due from the tax authorities comprise VAT already requested for rebate by the Italian companies for Euro 5,90 million and the VAT credit of the foreign companies for Euro 4,86 million; a further Euro 4,50 million of the residual balance has already been requested for rebate in 2005, Amounts due in relation to export premiums mainly refer to Carraro Argentina for Euro 0,81 million and Carraro S.p.A. for Euro 0,67 million.
Changes in the most significant balances are explained as follows:
- the VAT credits rose mainly in relation to the Italian companies as a result of the increase in volumes of purchases over the limits of the “ceiling” available for exemption purposes;
- the credits for Irpeg (corporate income tax), Ires (company earnings’ tax) and Irap (regional business tax) fell in the face of lower advances taxes paid in 2004 and as a result of their utilization against the liability for additional current taxation for the year.

Amounts receivable for deferred taxes amounting to Euro 6.65 million refer to the asset balances of Carraro S.p.A., Carraro Deutschland and O&K Antriebstechnik, for prepaid taxes. These receivables have been recorded on the assumption that they will be recovered by means of the attainment of sufficient future taxable income, which is considered probable on the basis of the present business plans.
Deferred tax assets increased mainly as a result of:

- a rise for Carraro S.p.A. (Euro 0.27 million), corresponding to the increase for the year (Euro 1.46 million) net of an adjustment due to accelerated depreciation deducted for the 2003 tax period which led to the recording of previous years' taxation for Euro 1.19 million.
- an increase generated by consolidation entries (Euro 0.25 million).

Amounts due from third parties include:

(in thousands of Euro)

Description	December 31, 2004	December 31, 2003
Due from social security institutions	237	230
Due from factoring companies		25
Guarantee deposits	167	119
Other receivables	983	2,453
Total amounts due from third parties	**1,387**	**2,827**

Amounts due from third parties disclosed a net decrease of Euro 1.44 million, partly due to the receipt by Carraro S.p.A. of the instalments (Euro 0.87 million) of the amount deriving from the sale of the former Trenton business segment which took place in 2002, in accordance with the repayment plan established and the receipt by Carraro S.p.A. of the amount for the transfer of the tax credit (Euro 0.59 million).

With regards to the geographic areas involved, receivables can be broken down as follows:

(in thousands of Euro)	Italy	U.E. countries	Asia	U.S.A.	Rest of the world	Allowance for doubtful receiv.	Total
Receivables:							
- trade accounts	37,449	47,704	9,764	28,918	13,190	-2,723	134,302
- due from subsidiary companies			2,384				2,384
- due from associated companies	4,279						4,279
- due from parent companies							
- due from third parties	18,869	2,565	1,299	61	6,196	-217	28,773
Total	**60,597**	**50,269**	**13,447**	**28,979**	**19,386**	**-2,940**	**169,738**

C.III. – Short-term financial assets

1) Investments in subsidiaries

Equity investments in subsidiary companies include Carraro Korea Ltd. which as at 31 December 2004 was excluded from the scope of consolidation (see the previous notes commenting on the scope of consolidation). Further to the losses carried forward and the effects of the liquidations, its value of year end came to zero.

6. Other securities

(in thousands of Euro)

Description	December 31, 2004	December 31, 2003
Commercial paper		36,795
Certificato di credito del tesoro (CCT)	73	73
Buoni del tesoro poliennali (BTP)		93
Altri		35,001
Totale	**73**	**71,962**

The balance referring to the short-term investment in commercial credit policies has been written-off due to the disposal of these securities by Carraro S.p.A..
Other short-term investments are stated at the lower of purchase cost and market value.

C.VI. – Liquid funds

(in thousands of Euro)

Description	December 31, 2004	December 31, 2003
Bank deposits	38,622	10,990
Cash and equivalents on hand	37	46
Cheques	10	876
Total	**38,669**	**11,912**

The change in the balance of liquid funds mainly reflects both the collection of liquidity generated by the disinvestment of financial assets classified under the previous item C.III.6), and the dynamics relating to the cash-flow and the management of financial borrowing (see additional comments made further on concerning amounts due to banks).

D – Accrued income and prepaid expenses

(in thousands of Euro)

Description	December 31, 2004	december 31, 2003
Short-term accrued financial income	3,618	6,005
Medium-/long-term accrued financial income		
Other accrued income	1	20
Total accrued income	**3,619**	**6,025**
Short-term prepaid financial expenses	156	21
Medium-/long-term interest prepaid financial expenses	1	6
Short-term insurance prepayments	233	296
Medium-/long-term insurance prepayments	4	8
Other short-term prepayments	766	689
Other medium-/long-term prepayments	104	54
Total Prepaid expenses	**1,264**	**1,074**
Total accrued income and prepaid expenses	**4,883**	**7,099**

Accrued financial income essentially concerns income accrued on financial investments made by Carraro International S.A. for a total of Euro 0,06 million, Siap S.p.A. for Euro 0,28 million, and Carraro S.p.A. for Euro 0.01 million, as well as the effect of the Interest Rate Swap contract stipulated to cover the flows of interest generated by the afore-mentioned Eurobond (Euro 3,15 million) between Carraro International S.A. and Mediobanca.
Other prepaid expenses relate mainly to technical service charges owed in respect of future periods and insurance premiums paid in advance.

Balance sheet - liabilities and shareholders' equity

A) Shareholders' equity

Changes in the equity accounts during 2004:

(in thousands of Euro)

Description	Balance as at 31.12.2003	2003 net income alloc. to reserves	2003 net income alloc. to dividends	Translation difference	Change in scope of consolidation	Other changes	Re-classifications	Net income 2004	Balance as at 31.12.2004
I Share capital	21,840								21,840
II Share premium reserve	14,285						3,548		17,833
III Revaluation reserve									
IV Legal reserve	3,120	415							3,535
V Reserve for shares held in portfolio									
VI Statutory reserves									
VII Other reserves	8,604	525		-1,322	1,157	-1,549	-3,548		3,867
VIII Retained earnings (accumulated losses)									
IX Consolidated net income / (loss)	5,560	-940	-4,620					12,738	12,738
Group shareholders' equity	**53,409**		**-4,620**	**-1,322**	**1,157**	**-1,549**		**12,738**	**59,813**
Minority interests in capital and reserves	2,205	70		-33	-1,157				1,085
Results pertaining to minority shareholders	70	-70						393	393
Total shareholders' equity	**55,684**		**-4,620**	**-1,355**		**-1,549**		**13,131**	**61.291**

Share capital
The share capital of Carraro S.p.A., fully subscribed and paid in, amounts to Euro 21,840,000 and is represented by 42,000,000 ordinary shares of Euro 0.52 each.

Share premium reserve
The initial amount of Euro 17.83 million was generated upon the flotation of Carraro S.p.A. on the Italian Stock Exchange. As per the minutes of the annual general meeting of Carraro S.p.A. held on 14 May 2003, the reserve was partly used (for an amount of Euro 5.51 million) to replenish the reserve for accelerated depreciation. During the 2004 accounting period, this latter reserve was reclassified as part of the share premium reserve for a total of Euro 2.00 million following statutory depreciation booked to the 2004 income statement which was in excess with respect to the portion deductible for tax purposes and further to the disposal of depreciable assets subject in the past to accelerated depreciation. In accordance with the new provisions for the "clean-up of the financial statements", the residual amount of the reserve for accelerated depreciation (Euro 4.75 million) was reclassified in the share premium reserve for a total of Euro 1.55 million (reinstating the same to the original value of Euro 17.83 million) and the extraordinary reserve for Euro 3.20 million.

Legal reserve
Carraro S.p.A.'s legal reserve changed during the first half of the year following the allocation of the 2003 net income, as per the resolutions of the general shareholders' meeting held on 14 May 2004.

Other reserves
With reference to Carraro S.p.A., item VII includes the extraordinary reserve totalling Euro 3.547 million.
It also includes the reserve for translation differences totalling Euro –14.69 million reflecting the effect of the translation into Euro of the financial statements of the foreign companies.
No taxes have been provided on the equity reserves not yet released, since, as their distribution is not anticipated, at present the conditions for providing for the related tax charge do not exist.

Minority interests in capital and reserves
The closing balance of Euro 1.478 million, inclusive of the receivable portion for the period amounting to Euro 0.393 million, represents the portion pertaining to third party shareholders of the companies Carraro India Ltd., F.O.N. S.A. and A.E. S.r.l..

B – Provisions for risks and charges

Provisions for risks and charges disclose the following changes which have taken place:

(in thousands of Euro)

Description	Balance as at 31.12.2003	Change in the scope of consol.	Exchange rate adjustements	Reclassifications	Increases	Decreases	Balance as at 31.12.2004
B1 – Pension funds	3,442		81		476	-175	3,824
B2 – Taxation:							
- for deferred taxes	262		-5		388		645
- for task risks					250		250
B3 – Other provisions:							
- Product warranty	5,287	-60	-6		3,797	-3,420	5,598
- Other	1,929	-199	-25		1,075	-586	2,194
Total	**10,920**	**-259**	**45**		**5,986**	**-4,181**	**12,511**

The pension fund of Euro 3,82 million refers to similar funds recorded in the financial statements of F.O.N. S.A. (Euro 0,64 million), O&K Antriebstechnik GmbH & Co. KG (Euro 3,14 million) and Siap S.p.A. (Euro 0,05 million).
The increase in the reserve refers to the provisions of F.O.N. S.A. (Euro 0,19 million), O&K Antriebstechnik GmbH & Co. KG (Euro 0,24 million) and Siap S.p.A. (Euro 0,05 million).
The decrease in the reserve refers to the utilizations made by F.O.N. S.A. (Euro 0,14 million) and O&K Antriebstechnik GmbH & Co. KG (Euro 0,03 million).

The balance of the reserve for deferred tax liabilities as of 31 December 2004 comprises the provisions made to the financial statements by the companies SIAP S.p.A. (Euro 0,57 million) and Carraro North America (Euro 0,07 million). The reserve increased during the period as a result of the provision made to the financial statements by Siap S.p.A. (Euro 0,39 million).

The provision for tax risks (Euro 0,25 million) was provided in relation to the current estimate of the liabilities to be incurred following the assessment carried out by the Regional Tax Office in relation to Carraro S.p.A., which was formalized by means of an official notification record.

As far as the other aspects are concerned regarding disputes, with reference to Carraro S.p.A., the following can be stated:
- the dispute with I.N.P.S., the social security institution, started during 1996 for the alleged omission to pay contributions, was closed on 5 October 1999 by the Padua lower court magistrate in favour of Carraro. INPS have appealed against this decision. As of 9 December 2004, the Supreme Court upheld the appeal presented by Carraro S.p.A. and referred the case before the Venice Court of Appeal. On the basis of the information currently available, the evaluations on the groundlessness of the request forwarded by the Social Security Body, have not changed and it is not believed, based on the opinion of our consultants, that the risk profile of the dispute in question had altered.

The product warranty reserve was partly utilized for Euro 3,42 million for measures carried out for customers and was increased by Euro 3.80 million in relation to the anticipated warranty costs to be incurred in relation to sales made.

The closing balance of 'Other provisions' includes the following:
- Euro 1.60 million against the estimate of future charges to be incurred in order to implement the production re-allocation and reorganization plans of Carraro S.p.A. (Euro 1.54 million) and those within SIAP S.p.A. (Euro 0.06 million).
- The remaining balance comprises provisions made by the individual companies against future charges and liabilities, including a provision for disputes with the personnel of Carraro Argentina S.A. (Euro 0.40 million) and other sundry liabilities accrued within Carraro Argentina S.A., F.O.N. S.A. and A.E: S.r.l..

Specifically, the provision recorded by Carraro S.p.A. (Euro 1.54 million), which increased during the period by Euro 0.7 million, is intended to absorb the charges deriving from the production re-allocation of the Korean factory which led to the placement in liquidation of Carraro Korea in July 2004.

The total utilizations amounting to Euro 0.59 million refer mainly to the implementation of the corporate reorganization plan within O&K Antriebstechnik GmbH & Co. KG (Euro 0.42 million) and within Carraro Argentina (Euro 0.17 million).

C – Provision for employee leaving indemnities (T.F.R.)

Changes in the employee leaving indemnity provision were as follows:

(in thousands of Euro)

Description	Balance as at 31.12.2003	Increases	Change in scope of consolid.	Exchange adjustement	Decreases	Transfers/ reclassifications	Balance as at 31.12.2004
Blue-collar workers	10,444	1,760	-8	1	-1,846	-24	10,327
Office workers and executives	5,039	1,027	-32	4	-860	24	5,202
Total	**15,483**	**2,787**	**-40**	**5**	**-2,706**		**15,529**

Changes in the reserve for employee leaving indemnities took place in accordance with the provisions of the law and said reserve covers the indemnities accrued as at 31 December 2004 by 1,642 blue-collar workers, 466 office workers and 34 executives. The column 'Decreases' relates to advances and indemnities paid out and also comprises amounts accrued by employees transferred between Group companies and changes in grade.

D) Payables

Changes in the account group are analysed as follows:

(in thousands of Euro)

Description	December 31, 2004	December 31, 2003
Bonds	74,367	100,000
Amounts due to shareholders for loans		
Amounts due to banks (see analysis)		
- due within 12 months	33,435	69,210
- due beyond 12 months	4,943	6,933
Amounts due to other providers of finance (see analysis)		
- due within 12 months	412	
- due beyond 12 months		
- leases due within 12 months	60	388
-- leases due beyond 12 months		60
Advances	82	348
Trade accounts	167,557	84,549
Payables represented by credit instruments:		
- due within 12 months		
- due beyond 12 months		
Amounts due to subsidiaries	8	
Amounts due to associated companies	2,330	1,183
Amounts due to parent companies	8	16
Amounts due to the tax authorities	5,880	2,205
Amounts due to social security and welfare institutions	3,142	3,110
Other payables (see analysis)	10,055	11,828
Total	**302,279**	**279,830**

The balance recorded under the item “bonds”, amounting to Euro 74.37 million, refers to the non-convertible bond in Euro issued by Carraro International S.A. as of 29 May 2001, maturing in 2006.
The change in the balance was determined by certain transactions for the repurchase of the bonds carried out on the market by the same issuer Carraro International; the original liability of Euro 100 million is therefore recorded as at 31 December 2004 net of the repurchase value; these bonds were cancelled during 2005.
The significant change in the balance of trade accounts is mainly associated with the increase in volumes for the purchase of assets and services when compared with the same period last year; the increase in the liability was also influenced by the re-definition of the payment terms applied to all the main suppliers benefiting the Group companies.
Amounts due to associated companies include STM S.r.l. for Euro 2.12 million, Agritalia S.p.A. for Euro 0.05 million, and Elcon S.r.l. for Euro 0.16 million.

With regards to the geographic areas involved, payables can be broken down as follows:

(in thousands of Euro)

	Italy	E.U. countries	Asia	U.S.A.	Rest of the world	Total
trade accounts	123,317	24,743	13,515	205	5,777	167,557
due to subsidiary companies			7		1	8
due to associated companies	-2,330					2,330
due to parent companies	-8					8
due to third parties	14,934	2,852	169	286	836	19,077
Total	**140,588**	**27,595**	**13,691**	**491**	**6,614**	**188,980**

The changes and the related comments to the other payable items are included with the following analysis.
Amounts due to banks are analysed as follows:

(in thousands of Euro)

Description	December 31, 2004	December 31, 2003
Current accounts and export advance accounts	30,746	59,905
Exchange rate adjustment on export advances	-1,134	-1,258
Short-term loans in other currencies	952	7,471
Interbanca loan	326	326
Medio Credito Centrale as per Law	2,545	2,766
Total short-term	**33,435**	**69,210**
Long-term loans in other currencies	2,853	1,973
Medio Credito Centrale as per Law	1,272	3,817
Exchange adjustment on loans		
Interbanca loan	818	1,143
Total medium-/long-term	**4,943**	**6,933**
Total amounts due to banks	**38,378**	**76,143**

Amounts due to banks total Euro 38.38 million (positive balance of Euro 0.36 million net of credit balances, investments in securities and liquid funds) compared with Euro 76.14 million as of 31 December 2003 (positive balance of Euro 7.73 million net of credit balances, investments in securities and liquid funds), disclosing, in addition to the effects of the action taken to contain borrowing, also the positive impact of the cash flow generated by operations.

Amounts due to other providers of finance:

(in thousands of Euro)

Description	December 31, 2004	december 31, 2003
Leases falling due within 12 months	60	388
Loan pursuant to Law No. 46/82 of the Department of Industry	412	
Total short-term	**472**	**388**
Leases falling due beyond 12 months		60
Total medium-/long-term		**60**
Total amounts due to other providers of finance	**472**	**448**

During the first half of the year, Carraro S.p.A. raised a loan of Euro 0.41 million for a technological innovation project relating to a new type of product.

Amounts due to the tax authorities include:

(in thousands of Euro)

Description	December 31, 2004	december 31, 2003
VAT owed for settlement	18	4
Income taxes	3,802	202
Employees' personal income tax (IRPEF)	1,954	1,773
Other IRPEF withholdings	98	226
Other tax withholdings	8	
Total	**5,880**	**2,205**

Other payables comprise:

(in thousands of Euro)

Description	December 31, 2004	december 31, 2003
Employees' remuneration	2,419	2,363
Other amounts payable to employees	5,478	4,521
Amounts owed to employees' trade unions	25	24
Amounts payable to corporate bodies	1,078	343
Other payables	1,055	4,577
Total	**10,055**	**11,828**

The original balance of Euro 4.58 million concerning Other payables included Euro 4.18 million for the liability recorded in the financial statements of Carraro North America Inc. generated by a sale and financial lease back transaction on the property of said company, paid off during the year 2004.

Accrued expenses and deferred income

(in thousands of Euro)

Description	December 31, 2004	December 31, 2003
Short-term accrued financial expense	7,007	12,236
Medium-/long-term accrued financial expense		
Accrued personnel expense - short term	570	530
Other short-term accrued expenses		50
Total accrued expenses	**7,577**	**12,816**
Short-term deferred financial income	258	385
Medium-/long-term deferred financial income		
Deferred income from grants – short-term	167	
Deferred income from grants – medium-/long-term		
Other short-term deferred income	140	142
Total deferred income	**565**	**527**
Total Accrued expenses and deferred income	**8,142**	**13.343**

Accrued financial expense includes interest accrued on the bond issued by Carraro International S.A. for Euro 3.08 million and on a contract hedging the interest rate risk relating to said bond for Euro 3.77 million. The remaining amount relates to interest accruing on advances, overdrafts and loans from banks and financial institutions. The reduction in the balance reflects both the effect of the closure of certain Interest Rate Swap transactions and the reduction in bank borrowing.
Accrued personnel expenses relate to the additional months' salaries owed to blue-collar and office workers.

Memorandum accounts

(in thousands of Euro)

Description	Carraro	SIAP	C. Argentina	C.International	F.O.N.	C.India	Total
A)Risks							
Total Risks							
B) Commitments							
- Other commitments	103						103
Total Commitments	**103**						**103**
Other:							
C) Sureties received from third parties	1,033						1,033
D) Sureties given by third parties on behalf of Carraro	15,472						15,472
E) Swaps hedging exchange risks	5,531				3,717	9,275	18,523
F) Contratti di Interest Rate Swap				63,000			63,000
G) Forward Rate Agreement	165,000						165,000
H) Currency options	54,482		45,383		17,025		116.890

Risks
A) The balance of item “Risks” concerning the Memorandum accounts is zero.

Commitments
B) The balance of the item “Commitments” refers to Carraro S.p.A., and concerns a grant for road works.

Other memorandum acounts which do not reflect risks or commitments

Guarantees received from third parties
C) These guarantees include Euro 1.03 million for the residual balance of the surety received from FINAID S.r.l. guaranteeing a loan originally amounting to Euro 3.62 million granted to Fonderie del Montello S.p.A..

Guarantees given by third parties on behalf of Carraro
D) This item relates to sureties issued by banks, insurance companies and the parent company FINAID S.r.l. to various institutions, mostly in relation to VAT rebates, building permits, loans or credit facilities granted and payment extensions.

Exchange rate and interest rate hedging transactions

E) Exchange rate hedges:
This item includes swaps and forward agreements relating to sales denominated in foreign currency anticipated in subsequent months on the basis of the purchasing plans submitted by customers. Contracts are entered into with banks and financial institutions.

F/G) Interest rate risk hedges (interest rate swaps and forward rate agreements):
This item relates to contracts entered into with banks to hedge the risk of interest rate fluctuations on the loans or other debt instruments outstanding. Contracts of a more significant amount were stipulated to cover the interest rate risk on the bond issued by Carraro International; more specifically, a financial structure was put together comprising an I.R.S. contract relating to Carraro International (Euro 63 million) and several F.R.A’s: raised in relation to Carraro Spa (Euro 165 million).
H) Currency options:
Carraro S.p.A., Carraro Argentina S.A. and F.O.N. S.A. have stipulated currency option contracts for hedging purposes which as of 31 December 2004 amounted respectively to Euro 54.48 million, Euro 45.38 million and Euro 17.03 million.

By way of disclosure, the current market values as of 31 December 2004 of the hedging transactions outstanding as of the same date, broken down by category (negative value in brackets), are presented below:

Currency options	Euro 2,516 Ml.
Domestic currency swap	Euro 1,187 Ml.
Interest rate swap	Euro 0,835 Ml.
Forward rate agreement	Euro (0,303) Ml.

Income statement

The main changes in the consolidated income statement items are illustrated below.

A) Value of production

(in thousands of Euro)

Description	December 31, 2004	December 31, 2003
1) Revenue from sales and services		
Traditional axles	291,118	212,762
Light vehicle axles	9,600	7,663
Bogie axles	23,793	24,069
'Power shuttle' transmissions	29,702	19,615
Tractor transmissions	31,651	20,836
Cam phaser transformers	3,228	4,690
Friction clutches	796	1,232
Gears	22,307	22,389
Spare parts	33,482	25,779
Escalator systems	13,351	9,633
Final & Swing drivers	21,586	17,201
Other components	22,383	16,703
Sundry revenue	10,671	7,302
Total 1)	**513,668**	**389,874**
2) Changes in inventories of work in progress semi-finished and finished products		
- Opening inventories (excluding goods in transit)	-31,244	-34,645
- Changes in the scope of cons., translation differences and reclassifications	862	211
- Adjustment of writedown reserve	-334	221
- Closing inventories (excluding goods in transit)	36,186	31,244
Total 2)	**5,470**	**-2,969**
3) Change in contract work in progress		
4) Increase in internally-constructed fixed assets	1,128	658
5) Other revenues and income		
- operating grants	17	59
- export incentives	2,565	1,695
- ordinary capital gains	398	328
- other	2,791	3,387
Total 5)	**5,770**	**5,469**
Totale value of production	**526,035**	**393,032**

Sales revenues for 2004 disclosed an increase of 31.8% when compared with the same period last year mainly relating to sales in the agricultural sector (+ 34%), those of earth moving machines (+ 40.9%), escalator systems (+ 38.6%) and spare parts (+ 29.9%).
The value of sales revenues has been adjusted for the reclassification of exchange gains totalling Euro 5.05 million. (Euro 10.35 million in gains in 2003). Additional comments on the sales performance are contained in the directors' report on operations.

Revenues may be broken down by area of destination as follows:

(in thousands of Euro)

Description	December 31, 2004	December 31, 2003
Italy	81,251	65,034
Other area EU	224,454	163,815
North America	136,288	81,327
Other foreign customers	71,675	79,698
Total	**513,668**	**389,874**

The incidence of sales abroad increased with respect to the same period in the previous year, standing at 84.18% of the total compared with 83.32% in the same period last year. Sales within the EU, excluding Italy, amounted to Euro 224.45 million and those outside the EU came to Euro 207.96 million.

B) Production costs

(in thousands of Euro)

Description	December 31, 2004	December 31, 2003
6) Raw, ancillary and consumable materials and goods for resale		
- Raw material purchases	316,531	215,340
- Raw material returns	-1,561	-1,672
Total	**314,970**	**213,668**
Other production costs:		
- Miscellaneous consumables	1,251	1,238
- Consumable tooling	3,984	3,386
- Maintenance material	2,008	1,729
- Materials and services for resale	706	672
- Volume rebates and discounts - suppliers	-918	-1,481
Total	**7,031**	**5,544**
Total 6)	**322,001**	**219,212**
7) Services		
Outsourced production services:		
- Processing	37,004	24,972
- Maintenance	4,539	4,510
- Other industrial services	7,419	5,432
- Freight, transport and customs	6,980	4,865
- Temporary workshop workers	4,120	1,570
Total	**60,062**	**41,349**
Sundry supplies (utilities)	5,180	4,906
General overheads:		
- Refund of travel expenses	2,296	1,916
- Stationery	454	414
- Postage and telephone	901	850
- Miscellaneous external services	2,771	2,328
- Long-term car hire	421	387
- Temporary office workers	290	131
- Consulting	2,370	2,650
- Directors' emoluments	2,051	1,588
- Statutory auditors' emoluments	369	162
- Company insurance policies	1,543	1,246
- Technical service fees	1,569	1,599
- Sundry corporate expenses	618	783
Total	**15,653**	**14,054**
Marketing costs:		
- Advertising	91	74
- Trade fairs	296	155
- Other	273	186
Total	**660**	**415**
Selling expenses:		
- Payments under warranty	2,462	2,847
- Freight, transport and customs	10,353	4,726
- Utilisation of product warranty provision	-2,538	-2,699
- Commission and royalties	210	277
- Packaging and other selling expenses	439	262

Total	**10,926**	**5,413**
Total 7)	**92,481**	**66,137**
8) Use of third party assets		
- Rental expense	1,622	1,177
- Royalties payable	158	147
- Other	9	
Total 8)	**1,789**	**1,324**
9) Payroll and related costs		
- Wages	29,729	27,079
- Salaries	18,287	17,000
- Social security contributions on wages	10,275	9,088
- Social security contributions on salaries	5,211	4,793
- tfr oEmployee leaving indemnity (T.F.R.) .- blue-collar workers	1,763	1,623
- Employee leaving indemnity (T.F.R.) .- blue-collar workers	1,025	989
- Provision for pensions and similar commitments	429	370
- Company canteen	725	587
- Other personnel costs	897	734
Total 9)	**68,341**	**62,263**
10) Amortization, depreciation and write-downs		
- amortisation of intangible fixed assets	3,060	3,149
- depreciation of tangible fixed assets	18,364	19,059
- Writedowns of fixed assets	21	
- Writedowns (losses on receivables)	108	121
Total 10)	**21,553**	**22,329**
11) Changes in inventories of raw materials		
- Opening inventories (excluding goods in transit)	38,667	37,038
- Changes in the scope of consolidation, translation differences and reclassifications	-1,443	-1,386
- Adjustment of writedown reserve	1,386	689
- Closing inventories (excluding goods in transit)	-53,975	-38,667
Total 11)	**-15,365**	**-2,326**
12) Provisions for contingencies	**251**	**18**
13) Other provisions		
- Product warranty	3,797	3,671
- Scheduled maintenance	115	
- Other risks		
Total 13)	**3,912**	**3,671**
14) Other operating expense		
- membership fees	199	185
- listed company disclosure expense	131	120
- taxes, levies and other duties	517	509
- ordinary capital losses	89	44
- other operating expense	516	433
Total 14)	**1,452**	**1,291**
Total production costs	**496,414**	**373.919**

Purchases of raw and ancillary materials and goods for resale rose, passing from Euro 213.67 million to Euro 314.97 million. Also taking into consideration the changes in inventories, the total value of consumption rose from Euro 216.89 million to Euro 306.64 million, involving an incidence on sales of 59.70% compared with 55.63% last year, disclosing a change attributable to the constant increase in prices of the main raw materials registered in 2004.

The trend in other production costs during the period, with reference to the most significant changes, can be summarized as follows:
- Costs for services passed from Euro 66.14 million (16.96% of sales revenues) to Euro 92.48 million (18% of sales revenues), involving a slight increase both in absolute value and in relation to sales; the increases refer in particular to external processing, industrial services, temporary work and transport for sales;
- Payroll and related costs increased by Euro 6.08 million (+ 9.76%) when compared with the same period last year, both as a result of the renewal of the supplementary in-house agreement and the rise in the number of employees (+ 67 units);

C) – Financial income and expense

C15) Income from equity investments

(in thousands of Euro)

Description	December 31, 2004	December 31, 2003
Other income from equity investments		
Total		

C16) Other financial income

(in thousands of Euro)

Description	December 31, 2004	December 31, 2003
a) from receivables recorded as fixed assets	13	21
c) from securities recorded as current assets	617	20
d) other income:		
- from subsidiaries		
- from associated companies	20	137
- from parent companies		
Other sundry income:		
- interest on loans	31	34
- interest income on bank and post office accounts	334	213
- interest income from the Treasury	75	40
- other interest income	7,409	11,063
- income from hedging transactions	21	134
Total d)	**7,890**	**11,621**
Total	**8,520**	**11,662**

C17) Interest and other financial expense

(in thousands of Euro)

Description	December 31, 2004	December 31, 2003
Interest on loans concerning associated companies		2
Interest expense on bank accounts	1,767	1,621
Interest expense on bank advances	1,259	2,925
Interest expense on loans	11,179	14,445
Interest expense on leases		
Charges on hedging transactions	577	11
Commission and other bank charges	145	180
Other	60	120
Total	**14,987**	**19,304**

Financial balances, recorded under items C16 and C17, present a negative balance of Euro 6,47 million (Euro 5,99 million net of costs for hedging transactions) compared with Euro 7,64 million as of 31 December 2003 (Euro 7.76 million).
The incidence of financial expense on sales revenues net of exchange differences came to 1.26% as against 1.96% in the 2003 financial statements.

C17 bis) – Exchange losses and gains

(in thousands of Euro)

Description	December 31, 2004	December 31, 2003
Exchange gains	4,993	8,677
Exchange losses	-4,131	-9,224
Total	**862**	**-547**

The balance of net exchange differences amounting to Euro 0.862 million includes a negative value of Euro 0.192 million for adjustment to the period end rates.

D) Adjustments to the value of financial assets

The writedown of Euro 1.55 million refers to the writing-off of Agritalia S.p.A.'s value
The revaluation of Euro 0.26 million concerns STM Srl..
The net balance of total value adjustments made to financial assets amounted to Euro 1.292 million.

E) Extraordinary income and expense

E20) Extraordinary income

(in thousands of Euro)

Description	December 31, 2004	December 31, 2003
Gains on disposals	104	22
Income from equity investments		
Taxation relating to previous years	1,211	
Out-of-period income	396	143
Other extraordinary income	52	113
Total	**448**	**256**
Total E20)	**1,763**	**278**

E21) Extraordinary expense

(in thousands of Euro)

Description	December 31, 2004	December 31, 2003
Losses on disposals	1	1
Taxation relating to previous years	1,516	29
Out-of-period expense	452	271
Other extraordinary expense	2,494	851
Total	**2,946**	**1,122**
Total E21)	**4,463**	**1,152**

Taxation relating to previous years was recorded among the income (Euro 1.21 million) and among the expense (Euro 1.19 million) as a result of the resolution Carraro S.p.A.'s general shareholders' meeting which, when allocating the net income, opted for the deduction of accelerated depreciation in the income tax declaration for the 2003 tax period. Expenses for previous years' taxation also includes the entry made by the subsidiary Carraro North America of an amount totalling Euro 0.31 million relating to taxes on industrial property.

The balance of Euro 2.45 million under the item "other expense" includes the provision made by Carraro S.p.A. concerning costs to be incurred for the closure and relocation of the production activities of the Korean factory (Euro 0.7 million) and the writedown of Euro 1.01 million recorded by Carraro North America in relation to industrial property.

The other items concerning extraordinary income and expense refer to the extra amounts from suppliers and to customers and other ordinary minor adjustments made in relation to the volume of activities.

Income taxes for the period

The tax charge for the period comprises the following:

(in thousands of Euro)

Description	December 31, 2004	December 31, 2003
Current taxation	8,215	5,452
Tax credit on dividends		-2,747
Deferred taxes	-1,323	1,395
Total	**6,892**	**4,100**

The balance of current taxes refers to IRES (company earnings' tax) for Euro 1.39 million pertaining to SIAP S.p.A. and Euro 3.52 million concerning Carraro S.p.A., IRAP (regional business tax) for Euro 2.45 million pertaining to Carraro S.p.A., Euro 0.77 million to SIAP S.p.A. and Euro 0.09 million to A.E. S.r.l..
The balance of deferred taxes comprises Euro 1.46 million in deferred tax assets and Euro 0.39 million in deferred tax liabilities recorded in the financial statements of the individual companies, as well as Euro 0.25 million in deferred tax assets generated by consolidation entries.

With reference to the consolidated financial statements, the position and the changes during the year in deferred taxation can be summarized as follows:

Defferet taxt assets			Opening balance	Adjustments/ exchange differences	Changes	Closing balance
Carraro Spa	Ires company earnings' tax	(33%)	2,803,766	-1,057,647	1,446,275	3,192,394
	Irap regional business tax	(4.25%)	135,888	-136,212	12,730	12,406
Siap Spa	Ires company earnings' tax	(33%)				
	Irap regional business tax	(4.25%)				
A.E. Srl	Ires company earnings' tax	(33%)				
	Irap regional business tax	(4.25%)				
Carraro	Trade T.	(18,37)				
Deutschland	Corporate T.	(26.375%)	940,262			940,262
O&KA.	Trade T.	(18.37%)	751,674			751,674
Carraro North America						
Carraro India						
Carraro Argentina						
Carraro International						
Consolidation adjustament	Ires company earnings' tax	(33%)	-190,020		180,169	-9,851
	Irap regional business tax	(4.25%)	-24,472		23,203	-1,269
	Trade T.	(18.37)				
	Corporate T.	(26.375%)	1,712,000		49,000	1,761,000
Total			**4,631,590**	**-1,193,859**	**1,711,377**	**4,896,736**

Deffered tax liabilities		Opening balance	Adjustments/ exchange differences	Changes	Closing balance
Siap Spa	Ires company earnings' tax (33%)	-163,737		-348,173	-511,910
	Irap regional business tax (4.25%)	-23,443		-39,796	-63,239
Carraro North America		-75,073	5,462		-69,611
Total		**-262,253**	**5,462**	**-387,969**	**-644,760**

Headcount

The number of employees shown below relates solely to the companies consolidated on a line-by-line basis and is broken down by category:

Employee category	**December 31, 2003**	Change in consolidation area	Changes	**December 31, 2004**
Executives	39	-2	-3	34
Office workers	457	-7	16	466
Blue-collar workers	1,602	-20	60	1,642
Temporary workers	34	-2	63	95
Total	**2,132**	**-31**	**136**	**2,237**

The rise in the headcount reflects the need to adequately support the additional volumes of activities created during the year under review.

Reconciliation with annual financial statements

A reconciliation between the net income (loss) for the period and shareholders' equity of the Group reported in the consolidated interim financial statements and the net income (loss) for the period and shareholders' equity of Carraro S.p.A. is as follows:

Amount in thousand euro

Description	Profit/(loss) for the current period	Shareholder's equity current period	Profit/(loss) for the prior period	Shareholder's equity prior period
Net income and shareholders' equity of Carraro S.p.A.	6,276	53,032	8,311	51,376
Net income and shareholders' equity of the investee companies	5,973	62,572	-1,179	62,437
Aggregate	12,249	115,604	7,132	113,813
Elimination of book value of the investee companies	4,788	-60,255	4,891	-63,838
Consolidation adjustments	-3,906	5,943	-6,393	5,709
Reporting of minority interests	-393	-1,479	-70	-2,275
Net income and shareholders' equity of the Group	12,738	59,813	5,560	53,409

Consolidation adjustments relate mostly to finance leases, to the determination of the 'intercompany stock profit', to the equity valuation of associated companies and subsidiaries not included in the scope of consolidation, and to value adjustments to goodwill, as well as to deferred taxes on those entries.

These consolidated financial statements, comprising the balance sheet, income statement and explanatory notes provide a true and fair view of the equity and financial position of the Group as well as of the result of its operations for the 2004 accounting period.

Board of Auditors’ Report

To the Shareholders
The consolidated balance sheet for the financial year closing as at 31st December 2004 was drawn up by the Board of Directors of the Carraro S.p.A. Group leader and is made up of the asset and liability statement, profit and loss account, the accompanying notes and several complementary prospectuses.
This documentation, together with the administrators’ report, was made available to the shareholders in accordance with the law.
The balance sheet was audited by Reconta Ernst & Young S.p.A. and the preliminary information received does not highlight any remark or observation.
The Board of Auditors examined the criteria adopted in formulation of the balance sheet, with special reference to the area of consolidation and uniformity in application of accounting principles.
The controls performed enabled the Board of auditors to ascertain that the balance sheet complies with procedures in accordance with pertinent laws in force.
Padua, 15th April 2005

The Board of statutory auditors

(Antonio Cortellazzo)

(Renzo Lotto)

(Francesco Secchieri)

Auditors' Report
in accordance with article 156 of Law Decree N° 58 dated 24 February 1998

To the Shareholders
of Carraro SpA

1. We have audited the consolidated financial statements of Carraro SpA as of December 31, 2004.
These consolidated financial statements are the responsability of the directors of Carraro SpA.
Our responsability is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB (the Italian Regularity Commision for Companies and the Stock Exchange). Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly.
An audit includes examining, on a test basis, evidence supporting the amounts ad disclosures in the financial statements.
An audit also includes assesing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior period, wich are presented for comparative purposes as required by law, reference is made to our report dated April 20, 2004

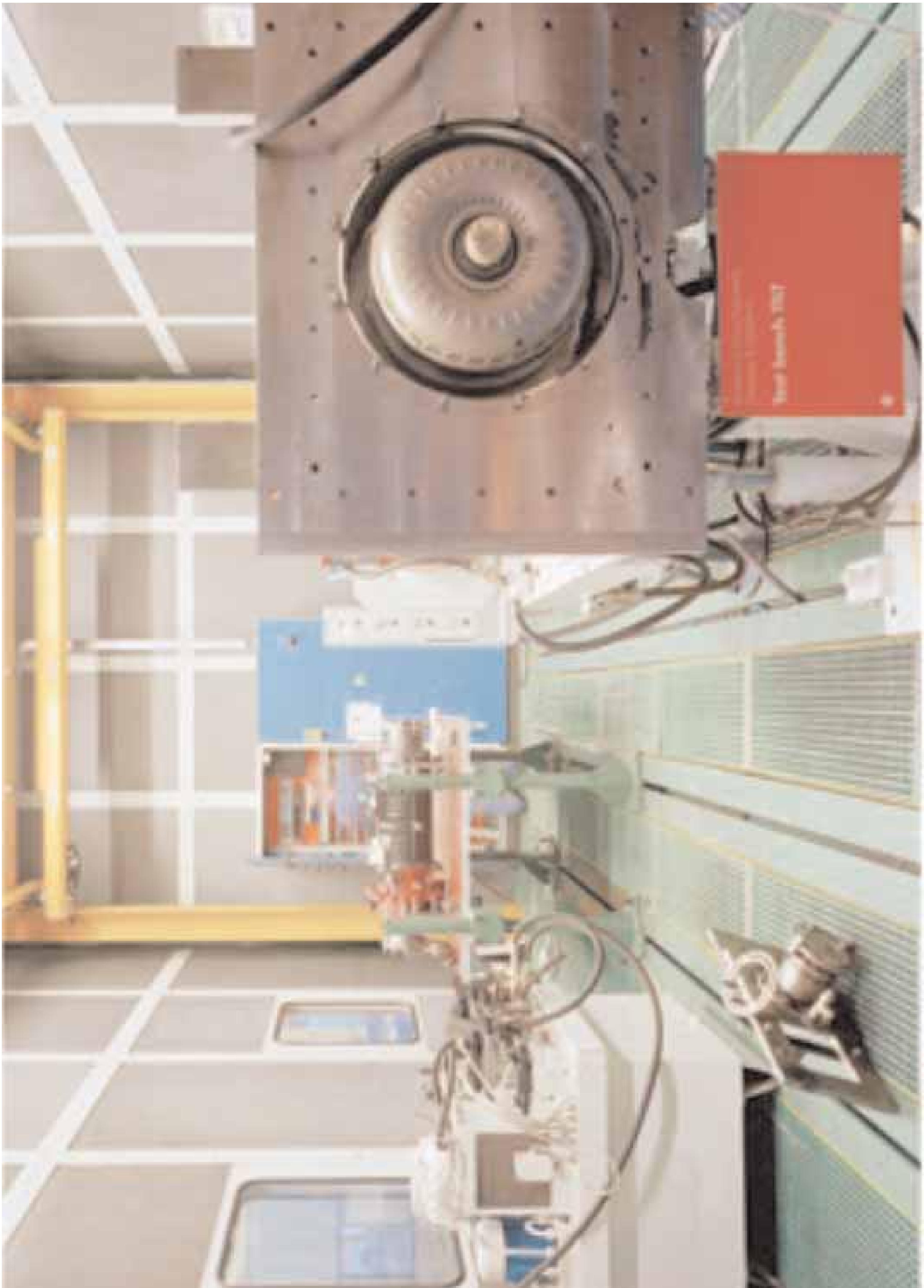
3. In our opinion the consolidated financial statements of the Carraro SpA as of December 31, 2004 comply with the laws governing the criteria for their preparation; accordingly, they give a true and fair view of the consolidated financial position and of the consolidated results of operations of the company.

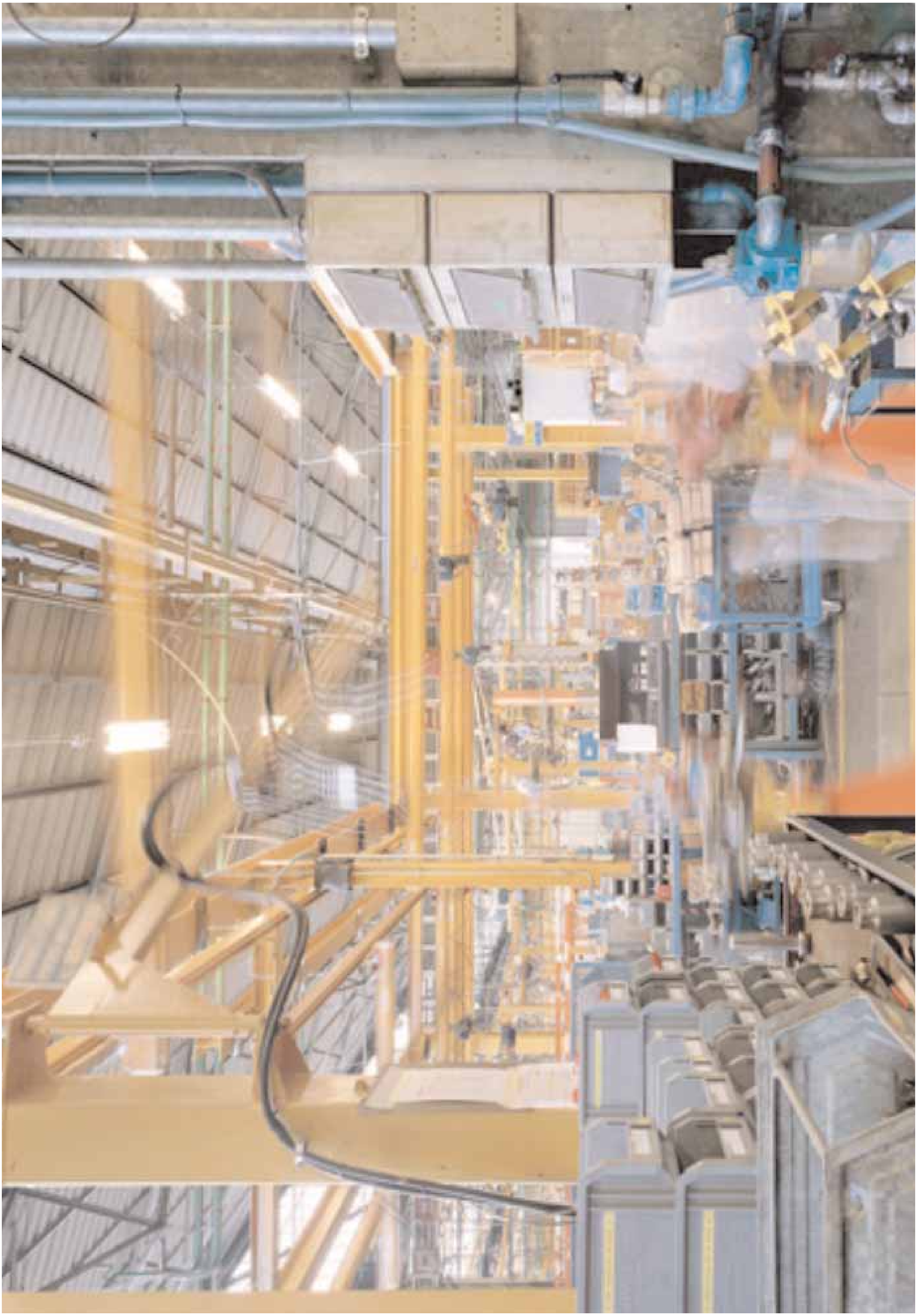
Padua, April 22, 2005

Reconta Ernst & Young SpA

Giuseppe Zucchini
(Partner)

This report has been translated from the original wich was issued in accordance with the Italian legislation





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