

Carraro S.p.A.

**SUMMARY INTERIM CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2006**

CARRARO SPA

VIA OLMO , 37

35011 CAMPODARSEGO (PADUA), ITALY

SHARE CAPITAL EURO 21,840,000 FULLY PAID-IN

Tax Code, VAT No. and enrolment No.

in the Padua Companies' Register 00202040283 - Economic & Administrative Roster No. 84.033

GENERAL INFORMATION**BOARD OF DIRECTORS**

In office until approval of the 2008 financial statements	MARIO CARRARO	Chairman
		CARLO BORSARI
	Chief Executive Officer	
(Appointments, Shareholders' meeting dated 11 May 2006 -	FRANCESCO CARRARO	Director
Granting of powers, BoD resolution dated 11 May 2006)	ENRICO CARRARO	Director
	TOMASO CARRARO	Director
	GIORGIO BRUNETTI (1)	Director
	ANTONIO CORTELLAZZO (1) (2)	Director
	SERGIO EREDE (2)	Director
	ONOFRIO TONIN (1) (2)	Director
	(1) Members of the Internal Auditing Committee	
	(2) Members of the Emoluments Committee	

BOARD OF STATUTORY AUDITORS

In office until approval of the 2008 financial statements	ROBERTO SACCOMANI	Chairman
	FRANCESCO SECCHIERI	Acting Auditor
(Appointments, Shareholders' meeting dated 11 May 2006)	FEDERICO MEO	Acting Auditor
	RENZO LOTTO	Alternate Auditor
	MARINA MANNA	Alternate Auditor

INDEPENDENT AUDITING FIRM:

THREE-YEAR PERIOD 2004-2005-2006

Reconta Ernst & Young S.p.A.**PARENT COMPANY:****FINAID S.r.l.**

Pursuant to and for the purposes of Consob Communication No. 97001574 dated 20 February 1997, shareholders are hereby informed that:

The Chairman Mr. Mario Carraro and the Chief Executive Officer Mr. Carlo Borsari are severally vested with the legal representation and the corporate signature in dealings with third parties and before the legal authorities; they exercise their activities within the sphere of the powers granted to them by the Board of Directors during the meeting held on 11 May 2006, in observance of the applicable legal restrictions, in terms of matters which cannot be delegated by the Board of Directors and the relevant reservations in favour of said Board, as well as the principles and limits contemplated by the Company's Code of Self-governance.

INTERIM CONSOLIDATED INCOME STATEMENT AS OF 30 JUNE 2006

	NOTE	30 June 2006 Euro/1,000s	30 June 2005 Euro/1,000s
A) REVENUES FROM SALES			
1) Products		317,090	317,973
2) Services		2,149	1,923
3) Other revenues		<u>3,374</u>	<u>3,291</u>
TOTAL REVENUES FROM SALES	1	<u>322,613</u>	<u>323,187</u>
B) OPERATING COSTS			
1) Purchases of goods and materials		211,387	243,351
2) Services		54,108	54,523
3) Use of third-party goods and services		1,723	1,365
4) Payroll and related costs		43,355	40,095
5) Amortization, depreciation and writedowns of assets		<u>11,197</u>	<u>11,627</u>
5.a) <i>depreciation of tangible fixed assets</i>		10,230	9,703
5.b) <i>amortization of intangible fixed assets</i>		903	1,825
5.c) <i>writedown of fixed assets</i>		0	0
5.d) <i>writedown of receivables</i>		64	99
6) Changes in inventories		-11,768	-42,069
7) Provisions for risks and sundry		2,246	2,504
8) Other income and expense		-1,426	-966
9) Internal construction		<u>-231</u>	<u>-271</u>
TOTAL OPERATING COSTS	2	<u>310,592</u>	<u>310,159</u>
OPERATING RESULT (EBIT)		<u>12,021</u>	<u>13,028</u>
C) RESULT OF FINANCIAL ACTIVITIES			
10) Income from equity investments		0	0
11) Other financial income		2,661	3,215
12) Financial costs and expense		-5,949	-6,011
13) Exchange gains and losses (net)		-724	859
14) Value adjustments to financial assets		<u>352</u>	<u>269</u>
TOTAL RESULT OF FINANCIAL ACTIVITIES	3	<u>-3,660</u>	<u>-1,668</u>
PRE-TAX RESULTS		<u>8,361</u>	<u>11,360</u>
15) Current and deferred taxation	4	-4,542	-5,153
NET RESULT FROM OPERATING ACTIVITIES		<u>3,819</u>	<u>6,207</u>
NET RESULT OF ACTIVITIES UNDERGOING DISPOSAL		<u>0</u>	<u>0</u>
NET RESULT		<u>3,819</u>	<u>6,207</u>
16) Result pertaining to minority interests		-30	-733

GROUP CONSOLIDATED RESULT

<u>3,789</u>	<u>5,474</u>
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PROFIT PER SHARE

- basic, for net income for the period attributable to the ordinary shareholders of the Parent Company	€0.09	€0.13
- diluted, for net income for the period attributable to the ordinary shareholders of the Parent Company	€0.09	€0.13

INTERIM CONSOLIDATED BALANCE SHEET AS OF 30 JUNE 2006

	NOTE	30 June 2006 Euro/1,000s	31 December 2005 Euro/1,000s
A) NON-CURRENT ASSETS			
1) Tangible fixed assets	5	149,488	153,396
2) Intangible fixed assets	6	8,433	8,354
3) Real estate property investments	7	712	703
4) Equity investments in subsidiary, associated and parent companies	8	3,562	3,353
5) Financial assets	9	<u>1,117</u>	<u>475</u>
5.1) Loans and receivables		133	216
5.2) Other financial assets		752	258
5.3) Prepaid financial expenses		232	1
6) Deferred tax assets		12,791	12,695
7) Trade and other receivables	10	<u>1,684</u>	<u>1,443</u>
7.1) Trade receivables		0	0
7.2) Other receivables		<u>1,684</u>	<u>1,443</u>
TOTAL NON-CURRENT ASSETS		<u>177,787</u>	<u>180,419</u>
B) CURRENT ASSETS			
1) Closing inventories	11	124,934	115,836
2) Trade and other receivables	10	<u>182,527</u>	<u>168,699</u>
2.1) Trade receivables		146,592	136,402
2.2) Other receivables		35,935	32,297
3) Financial assets	9	<u>2,037</u>	<u>5,820</u>
3.1) Loans and receivables		486	471
3.2) Other financial assets		283	1,371
3.3) Financial accrued income and prepaid expenses		1,268	3,978
4) Liquid funds	12	<u>36,306</u>	<u>55,754</u>
4.1) Cash		103	259
4.2) Bank current and deposit accounts		35,847	55,494
4.3) Other liquid funds		<u>356</u>	<u>1</u>
TOTAL CURRENT ASSETS		<u>345,805</u>	<u>346,109</u>
TOTAL ASSETS		<u>523,592</u>	<u>526,528</u>

INTERIM CONSOLIDATED BALANCE SHEET AS OF 30 JUNE 2006

	NOTE	30 June 2006 Euro/1,000s	31 December 2005 Euro/1,000s
A) SHAREHOLDERS' EQUITY			
1) Share capital		21,840	21,840
2) Other reserves		39,873	24,106
3) Retained earnings (accumulated losses)		0	0
4) Reserve for initial application of IAS/IFRS		44,384	44,384
5) Other IAS/IFRS reserves		271	82
Reserve for translation differences		-1,273	2,454
6) Result for the period pertaining to the Group		3,789	21,029
GROUP SHAREHOLDERS' EQUITY		<u>108,884</u>	<u>113,895</u>
7) Minority interests		2,654	2,205
TOTAL SHAREHOLDERS' EQUITY		<u>111,538</u>	<u>116,100</u>
B) NON-CURRENT LIABILITIES			
1) Financial liabilities	13	<u>76,435</u>	<u>12,022</u>
1.1) Bonds		0	0
1.2) Loans		76,435	12,022
1.3) Deferred financial income		0	0
1.4) Other		0	0
2) Trade and other payables	14	<u>255</u>	<u>0</u>
2.1) Trade payables		0	0
2.2) Other payables		255	0
3) Deferred tax liabilities		3,696	3,897
4) Employee leaving indemnity/pension	15	<u>22,442</u>	<u>22,411</u>
4.1) Employee leaving indemnity		17,206	17,037
4.2) Pensions and similar		5,236	5,374
5) Provisions for risks and charges	16	<u>2,445</u>	<u>2,582</u>
5.1) Guarantee provisions		1,947	2,037
5.2) Provisions for charges on disputes		365	405
5.3) Restructuring and reversion provisions		8	0
5.4) Other provisions		125	140
TOTAL NON-CURRENT LIABILITIES		<u>105,274</u>	<u>40,912</u>
C) CURRENT LIABILITIES			
1) Financial liabilities	13	<u>63,177</u>	<u>129,749</u>
1.1) Bonds (current portions)		0	74,889
1.2) Loans		61,139	46,462
1.3) Financial accrued expenses and deferred income		378	6,377
1.4) Other		1,660	2,021
2) Trade and other payables	14	<u>227,819</u>	<u>225,533</u>
2.1) Trade payables		203,073	205,555
2.2) Other payables		24,746	19,978
3) Liabilities for current taxation		9,960	9,134
4) Provisions for risks and charges (current portions)	16	<u>5,824</u>	<u>5,100</u>
4.1) Guarantee provisions		5,824	5,100

4.2) Provisions for charges on disputes	0	0
4.3) Restructuring and reconversion provisions	0	0
4.4) Other provisions	0	0
TOTAL CURRENT LIABILITIES	<u>306,780</u>	<u>369,516</u>
TOTAL LIABILITIES	<u>412,054</u>	<u>410,428</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>523,592</u>	<u>526,528</u>

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY
Amounts in Euro/1,000s

	Share capital	Other reserves: capital earnings	Retained earnings (acc. losses)	Reserve for initial application of IAS/IFRS	Other IAS/IFRS reserves	Reserve for translation differences	Result for period	Allocation to shareholders	Minority interests	Total	
Balance as of 1 Jan. 2005	21,840	17,833	8,724	-	42,240	-	(2,324)	2,870	91,183	1,478	92,661
Effects deriving from initial application of IAS 32 and 39	-	-	-	-	2,144	-	-	-	2,144	-	2,144
Balance as of 1 Jan. 2005 adjusted	21,840	17,833	8,724	-	44,384	-	(2,324)	2,870	93,327	1,478	94,805
Allocation of 2004 net income:											
- to dividends	-	-	-	-	-	-	(5,250)	(5,250)	-	-	(5,250)
- to the legal reserve	-	-	314	-	-	-	(314)	-	-	-	-
- to retained earnings	-	-	(2,694)	-	-	-	2,694	-	-	-	-
Income (loss) registered as of 30 June 2005:											
- recorded under shareholders' equity	-	-	-	-	-	-	5,474	5,474	733	-	6,207
- recorded in the income statement	-	-	-	-	-	-	-	-	-	-	-
Change in scope of consolidation	-	-	-	-	-	-	-	-	-	-	-
Translation differences	-	-	-	-	-	-	4,223	-	4,223	246	4,469
Balance as of 30 June 2005	21,840	17,833	6,344	-	44,384	-	1,899	5,474	97,774	2,457	100,231

	Share capital	Other reserves: capital earnings	Retained earnings (acc. losses)	Reserve for initial application of IAS/IFRS	Other IAS/IFRS reserves	Reserve for translation differences	Result for period	Allocation to shareholders	Minority interests	Total	
Balance as of 1 Jan. 2006	21,840	17,833	6,273	-	44,384	82	2,454	21,029	113,895	2,205	116,100
Allocation of 2005 net income:											
- to dividends	-	-	-	-	-	-	(5,250)	(5,250)	-	-	(5,250)
- to the legal reserve	-	-	609	-	-	-	(609)	-	-	-	-
- to retained earnings	-	-	15,170	-	-	-	(15,170)	-	-	-	-
Income (loss) registered as of 30 June 2005:											
- recorded under shareholders' equity	-	-	-	-	-	189	-	189	-123	-	66
- recorded in the income statement	-	-	-	-	-	-	3,789	3,789	30	-	3,819
Change in scope of consolidation	-	-	(12)	-	-	-	-	(12)	837	-	825
Translation differences	-	-	-	-	-	-	(3,727)	-	(3,727)	(295)	(4,022)
Balance as of 30 June 2006	21,840	17,833	22,040	-	44,384	271	(1,273)	3,789	108,884	2,654	111,538

INTERIM CONSOLIDATED CASH FLOW STATEMENT

Cash flow statement	30 June 2006	30 June 2005
BALANCES IN €/000s		
Group net income/loss for the year	3,789	5,474
Net income/loss for the year pertaining to minority interests	30	733
Taxation for the year	4,542	5,153
Pre-tax result	8,361	11,360
Depreciation of tangible fixed assets	10,230	9,703
Amortization of intangible fixed assets	903	1,825
Writedown of fixed assets	-	0
Provisions for risks	2,246	2,504
Provisions for employee benefits	1,923	1,764
Net financial income/expense	3,288	2,796
Exchange gains and losses (net)	724	-859
Income from equity investments	-	-100
Value adjustments to financial assets	-352	-169
Operating cash flow before changes in working capital	27,323	28,824
Change in inventories	-9,098	-44,453
Change in trade and other receivables	-14,067	-30,911
Change in trade and other payables	2,541	61,577
Change in receivables/payables for deferred taxation	82	813
Change in provisions for employee benefits	-1,892	761
Change in risk provisions	-1,659	-1,550
Dividends received	-	100
Interest received	5,140	5,871
Interest paid	-11,947	-11,453
Payment of taxes	-4,095	-2,532
Operating cash flow	-7,673	7,047
Investments in /disposals of tangible fixed assets and property investments	-6,331	-17,535
Investments in /disposals of intangible fixed assets	-982	-963
Effects from changes in the scope of consolidation	-	-
Effects from exchange rate translation on fixed assets	-	-
Investments in /disposals of equity investments	143	1,677
Effects from exchange rate translation on equity investments	-	-
Cash flow from investments/disposals	-7,170	-16,821
Change in current financial assets	348	-1,460
Change in non-current financial assets	-411	-1,121
Change in current financial liabilities	-60,574	92,432
Change in non-current financial liabilities	64,413	-72,559
Change in share capital	-	-
Change in reserves	-3,550	6,367

Dividends paid out	-5,250	-5,250
Change in minority interests	419	247
Cash flow from financial activities	-4,605	18,656
Total cash flow for period (change in liquid funds)	-19,448	8,882
Opening liquidity as of 1 January	55,754	38,851
Closing liquidity as of 30 June	36,306	47,733

**EXPLANATORY NOTES TO THE INTERIM SUMMARY CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY 2006 – 30 JUNE 2006****1. General introduction**

Carraro S.p.A. is a joint-stock company established in Italy at the Padua Companies' Register.

These summary financial statements are drawn up in Euro since this is the currency in which the majority of the Group's transactions are carried out. The foreign companies are included in the consolidated financial statements on the basis of the principles indicated in the following notes. The financial statements are expressed in thousands of Euro.

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

2. Basis of presentation and accounting standards

These summary interim consolidated financial statements are drawn up in compliance with the provisions of Accounting Standard IAS 34 "Interim Financial Statements" and Article 81 of the Issuers' Regulations (CONSOB Resolution No. 11971/1999).

These financial statements have been prepared on the basis of the principle of historic cost, with the exception of derivative financial instruments which are recorded at fair value.

2.1 Form of the interim consolidated accounting schedules

With regards to the form of the consolidated accounting schedules, the Company has opted to present the following types of accounting formats:

Interim consolidated balance sheet

The consolidated balance sheet is presented in contrasting sections with separate indication of the Assets, Liabilities and Shareholders' equity.

In turn, the Assets and the Liabilities are stated in the consolidated financial statements on the basis of their classification as current and non-current.

Interim consolidated income statement

The consolidated income statement is presented with regards to its classification by nature.

Interim consolidated cash flow statement

The consolidated cash flow statement is presented, showing the changes in the liquid funds and equivalents (as shown in the balance sheet format) divided up by areas of formation of the cash flows as indicated by the international accounting standards.

Statement of changes in interim consolidated shareholders' equity

The statement of changes in consolidated shareholders' equity is presented as required by the international accounting standards, with separation indication of the result for the year and all revenues, income, expense and charges not recorded in the income statement, but charged directly to consolidated shareholders' equity on the basis of specific IAS/IFRS accounting standards.

2.2 Content of the interim consolidated financial statements***Scope of consolidation***

The Group's summary interim 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 definition of subsidiary company is consistent with that indicated in the annual financial statements of the Group as of 31 December 2005.

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

Name	Registered offices	Currency	Nominal value of share capital	Interest holding
SIAP S.p.A.	Maniago (PN)	Euro	10,122,616	100%
A.E. S.r.l.	Castello d'Argile (BO)	Euro	40,000	90%
Elettronica Santerno S.p.A.	Campodarsego (PD)	Euro	2,500,000	67.00%
Carraro Deutschland GmbH	Hattingen (Germany)	Euro	10,507,048	100%
Carraro Argentina S.A.	Haedo – Buenos Aires (Argentina)	Argentine Peso	25,809,288	99.90%
Carraro India Ltd.	Rajangaon – Pune (India)	Indian Rupee	400,000,000	51%
Turbo Gears India Ltd.	Rajangaon – Pune (India)	Indian Rupee	370,000,000	90.20%
F.O.N. S.A.	Radomsko (Poland)	Polish Zloty	7,058,220	90.667%
Carraro International S.A.	Luxembourg	Euro	9,850,000	99.99%
Carraro North America Inc.	Calhoun - Georgia (USA)	US Dollar	100	100%
O&K Antriebsstechnik GmbH & Co. KG	Hattingen (Germany)	Euro	2,045,168	100%
Carraro Qingdao Drive Systems Co. Ltd.	Shandong (China)	Euro	490,000	100%
Carraro Qingdao Trading Co. Ltd.	Shandong (China)	Euro	170,000	100%
Carraro Technologies India Pvt. Ltd.	Mumbai (India)	Indian Rupee	1,000,000	100%

Change in the scope of consolidation:

The following companies were included within the scope of consolidation as from this accounting period:

Carraro Technologies India Pvt Ltd.

The Company was formed on 14 June 2006 and will carry out design, research and development activities supporting industrial activities in favour of the Group.

Elettronica Santerno Spa

On 22 June 2006, Carraro S.p.A. acquired the company New Power 102 Srl with share capital of Euro 10,000; subsequently, the company resolved a share capital increase of Euro 2.49 million. This increase was subscribed by Carraro Spa (Euro 1.665 Million) and by Fincasalfiunese Spa (Euro 0.825 Million). On 30 June 2006, the extraordinary meeting of the shareholders resolved the transformation of the company into a joint-stock concern (S.p.A.) and the variation of the company name to Elettronica Santerno S.p.A.. With effect as from 1 July 2006, the company acquired the business segment involved in the production of electronic control and power systems from Fincasalfiunese Spa. (see subsequent section 7)

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

Name	Parent company	Registered offices	Currency	Nominal value of share capital	Interest holding
Carraro PNH Components India Ltd.	Carraro India Ltd.	Mumbai (India)	Indian Rupee	10,000,200	99.998%
Carraro Korea Ltd.	Carraro International S.A.	Ulsan (Republic of Korea)	South Korean Won	3,000,000,000	100%

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

Carraro Korea Ltd. was placed in liquidation during 2004 and is currently dormant. The final closure is envisaged during 2006.

The exchange rates applied for the conversion of the foreign currency financial statements are the following:

Company	Currency	Average exchange rate for the 1st half of 2006	Exchange rate as of 30 June 2006
Carraro India Ltd.	Indian Rupee	55.2773928	58.5514
Turbo Gears India Ltd.	Indian Rupee	55.2773928	58.5514
Carraro Technologies India Pvt. Ltd.	Indian Rupee	55.2773928	58.5514
F.O.N. S.A.	Polish Zloty	3.8909904	4.0546
Carraro North America Inc.	US Dollar	1.2298833	1.2713
Carraro Qingdao Drive Systems Co. Ltd.	Chinese Renminbi	9.8777579	10.1648
Carraro Qingdao Trading Co. Ltd.	Chinese Renminbi	9.8777579	10.1648
Carraro Argentina S.A.	Argentine Peso	3.7704580	3.92172

3. Accounting standards and policies

The summary interim consolidated financial statements do not contain all the supplementary information required in the annual financial statements and should therefore be interpreted together with the annual consolidated financial statements as of 31 December 2005.

The accounting standards and policies are consistent with those adopted for the preparation of the annual consolidated financial statements as of 31 December 2005, with the exception of the adoption of the following compulsory amendments as from 1 January 2006:

- IAS 39 *Financial instruments: reporting and valuation* ("IAS 39") – *Amendment relating to financial guarantee agreements* – which has amended the sphere of application of IAS 39 in order to include therein financial guarantee agreements issued. The amendment deals with the treatment of the financial guarantee agreements by the issuer. According to IAS 39 thus amended, the financial guarantee agreements are initially recorded at fair value and generally valued at the greater between the value determined in accordance with the provisions of IAS 37 *Potential provisions, liabilities and assets* and the value initially recorded net, if appropriate, of the cumulative amortization recorded in compliance with IAS 18 *Revenues*;
- IAS 39 – *Amendment relating to the hedges of infraGroup transactions envisaged* – which amended IAS 39 so as to permit that the foreign currency exchange rate risk relating to an infraGroup transaction envisaged as highly probable, can qualify as a hedged element in a hedge of financial flows, on condition that the transaction is denominated in a currency other than the reporting currency of the company involved in the transaction and that the exchange risk has an impact on the financial statements;
- IAS 39 – *Amendment relating to the fair value option* – which limited the use of the option for designating any financial asset or liability to be valued at fair value in the income statement.
- IFRIC 4 – *Determine whether a contractual agreement contains a lease* – This interpretation, adopted by the European Union in November 2005 (EC Regulation No. 1910-2005), envisaged that for the agreements which do not have a legal leasing form but which contain a lease, the same must however be classified as a financial lease or an operating lease, in accordance with the matters anticipated by IAS 17.

The adoption of these amendments has not had any effect on the economic results or the financial position of the Group.

4. Information by sector of activities and geographic area

The Group's activities are essentially organized into three business divisions (business units) which represent the Group entities grouped together according to the main product types. The other activities carried out by the Group are accessory and support the main ones.

The business units are structured as follows:

1) *Drives and Drivelines*, which groups together the entities dedicated to the production of driveline systems (axles and drivelines): Carraro S.p.A. excluding the former Agritalia factory, A.E. Srl, O&K Antriebstechnik, Carraro Argentina, FON, Carraro India, Carraro North America, Carraro Qingdao Drive Systems Co..

2) *Components*, which groups together the entities dedicated to the production of components for axles and drivelines: Siap S.p.A. and Turbo Gears India.

3) *Vehicles*, comprising the former Agritalia factory, rented under a business rental format to Carraro S.p.A., dedicated to the manufacture of agricultural tractors.

4.1 Sectors of activities

The most significant information for the period 30 June 2006, by sector of activities, is shown in the table below, presented on a comparative basis with the period ended 30 June 2005.

a) Income statement

(balances in Euro/000s)

30 June 2006	DRIVES & DRIVELINES	COMPONENTS	VEHICLES	ELIMINATIONS AND UNALLOCATED ACTIVITIES	CONSOLIDATED TOTAL
SALES	274,330	45,822	39,321	-36,860	322,613
SALES TO THIRD PARTIES	268,631	15,436	38,546	0	322,613
SALES WITHIN DIVISIONS	0	0	0	0	0
SALES BETWEEN DIVISIONS	5,699	30,386	775	-36,860	0
OPERATING COSTS	266,644	42,938	37,770	-36,760	310,592
DIRECT/INDIRECT MATERIALS	186,789	20,165	29,279	-36,613	199,620
SERVICES AND USE OF THIRD PARTY ASSETS	40,528	11,691	3,712	-100	55,872
HEADCOUNT	31,519	7,505	4,331	0	43,355
AMORTIZATION/DEPRECIATION	7,590	3,585	107	-85	11,197
PROVISIONS	1,609	182	455	0	2,205
OTHER INCOME AND EXPENSE	-1,391	-190	-114	38	-1,657
OPERATING RESULT (EBIT)	7,686	2,884	1,551	-100	12,021
NET RESERVES FROM ACTIVITIES UNDERGOING DISPOSAL					

The result as of 30 June 2006 of the associated company STM S.r.l. recorded in the consolidated financial statements for a total of Euro 0.352 million, is attributable to the "Components" business sector.

(balances in Euro/000s)

30 June 2005	DRIVES & DRIVELINES	COMPONENTS	VEHICLES	ELIMINATIONS AND UNALLOCATED ACTIVITIES	CONSOLIDATED TOTAL
SALES	280,183	43,543	30,943	-31,482	323,187
SALES TO THIRD PARTIES	276,999	15,563	30,625	0	323,187
SALES WITHIN DIVISIONS	0	0	0	0	0
SALES BETWEEN DIVISIONS	3,184	27,980	318	-31,482	0
OPERATING COSTS	268,550	40,608	31,491	-30,490	310,159
DIRECT/INDIRECT MATERIALS	186,316	19,379	26,611	-31,025	201,281
SERVICES AND USE OF THIRD PARTY ASSETS	43,071	10,836	2,047	-65	55,889
HEADCOUNT	30,645	6,966	2,484	0	40,095
AMORTIZATION/DEPRECIATION	7,764	3,192	60	611	11,627
PROVISIONS	1,936	297	271	0	2,504
OTHER INCOME AND EXPENSE	-1,182	-62	18	-11	-1,237
OPERATING RESULT (EBIT)	11,633	2,935	-548	-992	13,028
NET RESERVES FROM ACTIVITIES UNDERGOING DISPOSAL					

The result as of 30 June 2005 of the associated company STM S.r.l. recorded in the consolidated financial statements for a total of Euro 0.170 million, is attributable to the "Components" business sector".

5. Notes and comments

Seasonal trend of activities

The activities are not subject to particular seasonal or cyclical conditions.

Revenues and costs

A) Revenues from sales (note 1)

During the six-month period, consolidated sales revenues amounted to Euro 322.61 million, essentially stable with respect to the same period last year.

Analysis by sector of activities and by geographic area

Reference should be made to the information shown under point 4 above.

B) Operating costs (note 2)

With regards to operating costs, there was a slight decrease in the incidence on sales of consumption of direct and indirect materials; payroll and related costs rose (from Euro 40 million to Euro 43.4 million) reflecting, amongst other things, the enhancement of the structure dedicated to research and development activities.

Other operating costs did not reveal any particularly significant changes with respect to the first half of 2005. Further analysis is provided in the Directors' Report.

C) Result of financial activities (note 3)

The value of the net financial income and expense increased from Euro 2.8 million to Euro 3.3 million in line with the rise in total net indebtedness (which rose from Euro 81.32 million to Euro 99.59 million).

Net exchange gains and losses, presenting a loss of Euro 0.72 million compared with a gain of Euro 0.86 million as of 30 June 2005, deteriorated due to the devaluation of certain currencies pertaining to emerging countries, in particular the Indian Rupee.

Income taxes (note 4)

The main components making up the income taxes in the income statement are as follows:

	30 June 2006	30 June 2005
- TAXATION RELATING TO PREVIOUS YEARS	-149	0
<i>CURRENT TAXES</i>	<i>2,845</i>	<i>6,012</i>
<i>INCOME AND CHARGES FROM TAX CONSOLIDATION</i>	<i>2,245</i>	<i>0</i>
<i>DEFERRED TAXES</i>	<u><i>-379</i></u>	<u><i>-859</i></u>
TAXATION FOR THE YEAR	<u>4,691</u>	<u>5,153</u>
15) CURRENT AND DEFERRED TAXES	4,542	5,153

Dividends paid

The dividends paid by Carraro S.p.A. in the six-month period (relating to the distribution of 2005 net income, as per the general shareholders' meeting resolution dated 11 May 2006) amounted in total to Euro 5,250 thousand, equating to Euro 0.125 per ordinary share.

The Company has not issued any shares other than the ordinary ones.

In the previous accounting period, the dividends paid (relating to the distribution of 2004 net income) amounted in total to Euro 5,250 thousand, equating to Euro 0.125 per ordinary share.

Real estate property, plant and machinery (note 5)

This account group presents a net balance of Euro 149.49 million, as against Euro 153.40 million in the previous year.

The balance is analysed as follows

(Balances in thousands of Euro)

Items	Land and buildings	Plant and machinery	Industrial equipment	Other tangible fixed assets	Construction in progress and advanced payments	Total
Historic cost	49,553	112,451	47,809	8,696	2,636	221,145
Accumulated depreciation	-5,054	-37,636	-20,012	-4,053	-	-66,755
Writedowns	-972	-13	-9	-	-	-994
Net value as of 31 Dec. 2005	43,527	74,802	27,788	4,643	2,636	153,396
Change during the first half of 2006						
Increases	390	5,686	3,359	684	1,226	11,245
Decreases	-	-71	-5	-86	-33	-195
Capitalization						
Change in scope of consolidation						
Depreciation	-836	-5,734	-3,083	-577	-	-10,230
Change in advance payments						
Reclassifications	397	1,355	-548	-242	-1,480	-518
Exchange translation difference	-1,449	-1,892	-637	-94	-138	-4,210
Net balance as of 30 June 2006	42,029	74,146	26,774	4,328	2,211	149,488
Comprising:						
- historic cost	49,287	115,492	49,061	8,724	2,211	224,775
- accumulated depreciation	-6,220	-41,346	-22,287	-4,396	-	-74,249
- writedowns	-1,038	-	-	-	-	-1,038

As of 30 June 2006, there were no assets acquired by means of leasing agreements.

Land and buildings

The increase mainly refers to improvements and increases in the real estate property of the companies F.O.N. S.A., Carraro Argentina S.A and Siap S.p.A..

Plant and machinery

The increases in Plant and machinery essentially concern the investments of Turbo Gears India Ltd., Siap S.p.A., F.O.N. S.A. and Carraro Argentina S.A..

Industrial equipment

The increases in Industrial equipment mainly refer to purchases of dies for casting and tooling of Carraro S.p.A., Carraro Argentina S.A., Turbo Gears India Ltd. and Siap S.p.A..

Construction in progress and advanced payments

The increases in Construction in progress and advance payments are essentially due to the investments being made within F.O.N. S.A. (Euro 0.47 million), Siap S.p.A. (Euro 0.25 million) and Carraro S.p.A. (Euro 0.44 million).

In general, the increases recorded during the period for the various categories refer to the enhancement of the production capacity and the ordinary replacement of plant, machinery and equipment.

Real estate property, plant and machinery belonging to Carraro India is encumbered by mortgages guaranteeing loans outstanding with Medio Credito Centrale and Exim Bank for a total of Euro 2.10 million.

Intangible fixed assets (note 6)

This account groups presents a net balance of Euro 8.43 million, as against Euro 8.35 million in the previous year.

The balance is analysed as follows

(Balances in thousands of Euro)

Items	Goodwill	Development costs	Rights and patents	Concessions, licences and trademarks	Assets in process of formation and advances	Other intangible fixed assets	Total
Historic cost	4,000	4,918	380	3,512	989	258	14,057
Accumulated depreciation	-	-2,091	-174	-2,236	-	-174	-4,675
Writedowns	-1,000	-28	-	-	-	-	-1,028
Net value as of 31 Dec. 2005	3,000	2,799	206	1,276	989	84	8,354
Change in the first half of 2006:							
Increases	-	532	23	340	635	13	1,543
Decreases	-	-	-	-	-26	-	-26
Capitalization of internal costs	-	-	-	-	-	-	-
Change in scope of consolidation	-	-	-	-	-	-	-
Amortization	-	-311	-49	-539	-	-4	-903
Change in advance payments	-	-	-	-	-	-	-
Reclassifications	-	-482	-	39	-5	-39	-487
Writedowns	-	-	-	-	-	-	-
Exchange translation difference	-	-42	-	1	-	-6	-47
Net balance as of 30 June 2006	3,000	2,496	180	1,117	1,593	47	8,434
Comprising:							
- historic cost	4,000	4,921	403	3,834	1,593	63	14,814
- accumulated depreciation	-	-2,402	-223	-2,716	-	-16	-5,357
- writedowns	-1,000	-23	-	-	-	-	-1,023

Goodwill

The item Goodwill comprises the value generated by the consolidation entries of the company O&K Antriebstechnik GmbH & Co. KG., being the difference between the value of the equity investment and the current values of the assets and liabilities of the investee company.

As from 1 January 2004, the Goodwill is no longer amortized and is annually subject to assessment so as to detect any reduction in value.

Development costs

The main increases were due to Development costs incurred by the companies Carraro S.p.A. and F.O.N. S.A. and concerned the design of new product lines developed in connection with similar projects launched by the customers. Other studies concerning products are still in the design stage and are recorded under assets in process of formation.

Development costs generated internally are capitalized at cost.

Concessions, licences and trademarks

The increase mainly refers to the purchase of new design software for Carraro S.p.A..

Real estate property investments (note 7)

This account group presents a net balance of Euro 0.71 million, compared with Euro 0.70 million in the previous year.

The change refers to exchange adjustments as of 30 June 2006.

Equity investments in subsidiary, associated and parent companies (note 8)

Change in equity investments during the first half of 2006:

(Balances in thousands of Euro)

Items	Net value as of 31 Dec. 2005	Increases/Decreases	Writedown s/Revaluati ons	Exchange adjustment	Net value as of 30 June 2006
Carraro Pnh Components India Ltd.	188	-	-	-16	170
Carraro Korea Ltd.	-	-	-	-	-
SUBSIDIARY COMPANIES	188	-	-	-16	170
STM SRL	3,153	-	227	-	3,380
Elcon Srl	12	-	-	-	12
ASSOCIATED COMPANIES	3,165	-	227	-	3,392
PARENT COMPANIES	-	-	-	-	-
TOTAL EQUITY INVESTMENTS	3,353	-	227	-16	3,562

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

Equity investments in subsidiary companies

The change refers to exchange adjustments as of 30 June 2006.

Equity investments in associated companies

The changes refers to the valuation of the investment using the equity method.

Financial assets (note 9)

Non-current loans and receivables: these comprise Irpef advances on employee leaving indemnities of Carraro S.p.A. and Siap S.p.A. (Euro 0.13 million)

Current loans and receivables: these include loans granted by Carraro S.p.A. to Elcon S.r.l. (Euro 0.08 million) and by Siap to STM Srl (Euro 0.39 million);

Other non-current financial assets

- Available for sale (Euro 0.15 million): these comprise minority interests and therefore they do not have a pre-established payment date;
- *Cash flow hedge derivatives* (Euro 0.62 million): the amount refers to the fair value as of 30 June 2006 of four I.R.S. agreements entered into by Carraro International against a pool loan disbursed in the period.

Other current financial assets

- Available for sale (Euro 0.07 million): these comprise Treasury Credit Certificates (CCT) held Carraro S.p.A..
- Receivable derivatives on foreign currency hedging the cash flow (Euro 0.21 million): these concern the fair value of agreements outstanding as of 30 June 2006.

Trade and other receivables (note 10)

During the period, the allowance for doubtful receivables remained more or less in line with that as of 31 December 2005.

The increase in the balance of net receivables when compared with 31 December 2005 (from Euro 136.4 million to Euro 146.6 million) is essentially attributable to the pick-up in sales revenues during the first half of 2006, when compared with the decrease in the second half of 2005.

Other non-current receivables (Euro 1.68 million) mainly comprise guarantee deposits and prepaid costs pertaining to subsequent accounting periods.

Trade receivables are non-interest bearing and have an average maturity of 90 days.

Inventories (note 11)

(Balances in thousands of Euro)

Items	31 Dec. 2005	30 June 2006	Change
Value at cost	125,324	136,040	10,716
Allowance for doubtful receivables	-9,488	-11,106	-1,618
Net balance as of	115,836	124,934	9,098

Inventories present a balance of Euro 124.93 million, compared with Euro 115.84 million as of 31 December 2005.

The increase mainly concerns the companies Carraro Spa, Siap Spa, C. Argentina and FON; the value of O&KA's inventory by contrast has decreased, as a rule these are changes linked to the annual production trends.

Liquid funds (note 12)

(Balances in thousands of Euro)

	31 Dec. 2005	30 June 2006
Cash	259	103
Current accounts and bank deposits	55,494	35,847
Other liquid funds or equivalent assets	<u>1</u>	<u>356</u>
TOTAL	<u>55,754</u>	<u>36,306</u>

Short-term bank deposits are remunerated at floating rates.

Financial liabilities (note 13)

On 29 May 2006, the non-convertible bond denominated in Euro and issued by Carraro International S.A. on 29 May 2001, was reimbursed.

On 29 May 2006, a loan was granted to Carraro International S.A. for a total of Euro 80.00 million, maturing on 29 May 2012 and repayable in six-monthly instalments. The rate applied equates to the 6-month Euribor rate plus 0.80%.

This loan, granted by a pool of banks and guaranteed by Carraro S.p.A., forms part of a loan agreement totalling Euro 100.00 million entered into on 28 June 2005. The remaining sum not yet disbursed (Euro 20.00 million) can be used as a revolving line of credit under the same interest rate conditions.

In relation to the "Club Deal" loan, a number of covenants have been established, subject to six-monthly assessment.

By means of the exchange of communications dated 18 May 2006, and in agreement with the banks taking part in the pool, the reference parameters were suspended so as to review them.

If they have been applied as of 30 June 2006, these parameters would have been observed in any event.

Loans from third parties

The analysis is shown in the following table:

COMPANY	LENDER	BALANCE (*) (Euro/Mlns)	MATURITY	INTEREST RATE	RATE TYPE	CURRENCY
Carraro S.p.A.	San Paolo	1.07	06/2011	1.01%	fixed	Euro
SIAP S.p.A.	B.Pop.Verona	2.81	03/2009	3-month Euribor + 1%	floating	Euro
SIAP S.p.A.	Interbanca	0.65	03/2008	3-month Euribor + 0.75%	floating	Euro
Elettronica Santerno	Simest	0.29	11/2011	1.41%	fixed	Euro
FON SA	Banca Pekao	3.63	04/2011	1-month Wibor + 0.75%	floating	PLZ
FON SA	Fortis Bank	1.94	11/2011	1-month Wibor + 0.55%	floating	PLZ
Carraro India	MedioCredito Centrale	2.57	04/2010	6-month Euribor + 2.25%	floating	Euro
Carraro India	MedioCredito Centrale	1.93	04/2011	6-month Euribor + 1.60%	floating	Euro
Carraro India	Exim Bank	0.17	12/2006	16%	fixed	RUPEE
Turbo Gears	BNP	3.25	11/2011	8.58%	fixed	RUPEE
Turbo Gears	MedioCredito Centrale	2.60	12/2014	6-month Euribor + 1.25%	floating	Euro
Carraro International	Pool banks (**)	80.00	05/2012	6-month Euribor + 0.80%	floating	Euro

(*) inclusive of the short-term portion, recorded under current loans

(**) Pool banks: Banca Antonveneta, B. Popolare di Verona, Mediobanca, Mediocredito Centrale, Cassa di Risparmio Padova e Rovigo.

The Group avails in total of short-term bank credit facilities for a total of Euro 160 million . These credit facilities can be revoked and can also be used on a mixed basis for current account overdrafts and short-term loans with a maximum duration of 12 months; the related balance totals Euro 61.14 million.

The interest rate conditions vary according to the country of use and can be summarized as follows:

- Europe (excluding Poland): Euribor + 0.40%

- Poland: Wibor + 0.50%

India (INR) 10%

Other current financial liabilities

The balance refers to the negative fair value reported as of 30 June 2006 on derivative instruments outstanding on currency.

The net indebtedness is illustrated in the following table (in thousands of Euro):

Net financial position	30 June 2006	30 June 2005
Bonds:		
- not current	-	-
- current	-	74.367
Loans:		
- not current	76,435	6,701
- current	61,138	48.833
Non-current financial accruals and deferrals	-232	821
Current financial accruals and deferrals	-889	
NET OF:		

Liquid funds		
Cash	-103	-79
Bank current and deposit accounts	-36,203	-47,654
Loans and receivables	-486	-1,504
Securities	-73	-73
Other financial receivables		-93
Net financial position	99,587	81,319
Of which payables / (receivables):		
- not current	76,203	7,522
- current	23,384	73,890
Net financial position	99,587	81,319

Trade and other payables (note 14)

Trade payables are non-interest bearing and settled on average within 90 days. Overall, there were no particularly significant changes with respect to 31 December 2005.

Other payables comprise the positions of Carraro Spa and Siap Spa vis-à-vis Finaid Srl for the tax consolidation liabilities (Euro 4.03 million).

Employee leaving indemnity/pensions (employee benefits) (note 15)

The employee leaving indemnity refers to the employee benefits disciplined by current legislation in Italy, as recorded in the financial statements of the Italian companies; said liabilities have been calculated in accordance with the actuarial method of the "projected unit credit method" with the support of the data issued by Istat (the central institute of statistics), Inps (national institute of social insurance) and Ania (national association of insurance companies).

The pension funds and similar refer to the liabilities recorded in the financial statements of the company O&K Antriebstechnik; the actuarial recalculation made, subject to the structural differences of the related plans, follows the same criteria described for the Italian leaving indemnity reserves.

The parameters used are as follows:

- annual interest rate: 4% - 4.25%
- annual rate of effective increase in remuneration: 3% - 3.5%
- annual inflation index: 1,5%
- pension adaptation index: 1.5%

The accounting treatment of employee benefits recorded in the financial statements follows that envisaged by standard IAS 19 for fixed benefit plans; the change in the liability noted between the end of the period and the previous one is booked in full to the income statement and classified under payroll and related costs.

Headcount

The total number of Group employees passed from 2,523 to 2,658 mainly as a result of the increase in temporary workers (+ 93 units).

Provisions for risks and charges (note 16)

This item comprises:

<i>(Balances in thousands of Euro)</i>	<u>Opening balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Reclassificati ons</u>	<u>Exchange rate adjustments</u>	<u>Closing balance</u>
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NON-CURRENT PORTION

1) WARRANTY	2,037	53		-143	-	1,947
2) CHARGES PERTAINING TO DISPUTES	405	-	-10	-	-30	365
3) RESTRUCTURING AND RECONVERSION	-	-	-	8	-	8
4) OTHER PROVISIONS	140	17	-	-28	-4	125
TOTAL	2,582	70	-10	-163	-34	2,445

CURRENT PORTION

1) WARRANTY	5,100	2,177	-1,560	143	-38	5,824
2) CHARGES PERTAINING TO DISPUTES	-	-	-	-	-	-
3) RESTRUCTURING AND RECONVERSION	-	-	-	-	-	-
4) OTHER PROVISIONS	-	-	-	-	-	-
TOTAL	5,100	2,177	-1,560	143	-38	5,824

The product warranty reserve was utilized for Euro 1.56 million for amounts granted to customers and was increased by Euro 2.23 million in relation to the anticipated warranty costs to be incurred in relation to sales made.

The item Charges pertaining to disputes includes a provision of Euro 0.25 million for a dispute with the staff on the Carraro Argentina S.A. payroll.

The item Other provisions includes the balances recorded in the statements of the individual companies against future charges and liabilities.

With reference to Carraro S.p.A., shareholders are informed that the dispute outstanding with I.N.P.S., the social security institution, started in 1996 for the alleged omission to pay contributions, was closed on 5 October 1999 by the Padua lower court magistrate in favour of the Company. 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.

Commitments and risks

As of 30 June 2006, there were no residual agreements or payables relating to financial leases.

Guarantees given and commitments

	30 June 2006	31 Dec. 2005
Risks		
Commitments for operating leases	3,325	4,275

Operating lease instalments

These refer to the rental contract for the business segment stipulated on 24 March 2005, with a duration of three years subsequently extendable year by year. The lessor is Agritalia S.p.A. (related party) and the annual fee (Euro 1.90 million) has been determined on the basis of an independent appraisal. The contract also envisages the possibility of exercising an option for the purchase of the company at a price which can be determined. Taking into account the provisions of IAS 17, it is not believed that the contract has the nature of a financial lease. The commitments for instalments still to be paid as of 30 June 2006, have maturity dates within 12 months for a total of Euro 1.90 million and beyond 12 months but within 5 years for a total of Euro 1.425 million.

Transactions with related parties

The Carraro Group is directly controlled by Finaid S.r.l., which as of 30 June 2006 held 50.001% of the shares in circulation.

The transactions between Carraro S.p.A. and its subsidiary companies, which are related parties of Carraro S.p.A., have been eliminated in the consolidated financial statements and are not commented on in these notes. The details of the transactions between the Carraro Group and other related parties are indicated in section 8.

Fair value

When an essential coincidence between the book value and the fair value of the financial assets and liabilities does not exist, steps are taken to include a comparison between the various values.

At the end of the period, it was not possible to detect significant differences between the book value and the fair value for the financial assets and liabilities which had not already been recorded at fair value in accordance with the standards indicated previously.

6. DERIVATIVE FINANCIAL INSTRUMENTS**6.1 Derivative financial instruments on currency**

The tables indicate the **notional** and the **fair values** referring to the various types of derivative contracts on foreign currency outstanding as of 30 June 2006, pertaining to the various Group companies.

a) notional values

(balances in Euro/000s)

CONTRACT	Carraro SpA	C. Argentina	Fon	Carraro India	GROUP TOTAL
Options (1)					
Put options	2,660	10,504	3,797		16,961
Call options	5,320	10,504	3,797		19,621
Options (2)					
Put options		2,746			2,746
Call options		2,746			2,746
<i>Sub-total</i>	7,980	26,500	7,594	-	42,074
Swaps (DCS) (1)	5,203	8,904	4,946	11,072	30,125

b) reference currencies and contract maturities

CONTRACT		Carraro SpA	C. Argentina	Fon	Carraro India
Options (1)	Reference currency	EURO/US\$	ARS/US\$	PLN/EURO	
	Maturity	Sept.-Dec. 2006	Sept.-Dec. 2006	Aug.-Dec. 2006	
		Mar.-Apr. 2007	Jan.-May 2007		
Options (2)	Reference currency		ARS/US\$		
	Maturity		July-Sept. 2006		
Swaps (DCS) (1)	Reference currency	EURO/US\$	ARS/US\$	PLN/EUR- PLN/USD	INR/EURO- INR/US\$
	Maturity	Jan.-June 2007	Sept.-Dec. 2006	July-Nov. 2006	July-Dec. 2006
				Jan.-June 2007	Jan.-Apr. 2007

c) fair value

(balances in Euro/000s)

CONTRACT	Carraro SpA	C. Argentina	Fon	Carraro India	GROUP TOTAL
Options (1)					
Put options	122	69	93		284
Call options	(58)	(338)	19		(377)
Options (2)					

Put options		9			9
Call options		(27)			(27)
<i>Sub-total</i>	64	(288)	112		(112)
Swaps (DCS) (1)	2	(870)	(15)	(424)	(1,307)

(1) instruments activated to hedge sales budget in foreign currency

(2) instruments activated to hedge the imbalance of current receivables and payables in foreign currency

The fair values as of 30 June 2006 of the financial instruments on exchange rates are calculated by a leading financial appraisal firm with the aid of the following financial models:

- Synthetic forward agreements: forward exchange rate method;
- Swaps: Black-Scholes-Merton formula

The source for the foreign currency exchange rates is provided by the ECB for all the exchange rates with the Euro and by the EMTA for the ARS/US\$ exchange rate.

The counterparts with whom the contracts are stipulated are leading national and international banking institutions.

The financial instruments on currency are used, on a consistent basis with the financial risk management policy adopted by the Company, to hedge the risks deriving from exchange rate fluctuations and concern the sales volumes compared with the budget exchange rate and the collections and payments of short and medium-term receivables and payables with respect to the historic value.

For the purposes of recording the agreements hedging sales budgets in foreign currency outstanding as of the period end date in the financial statements, the following is stated:

a) transactions activated up until 31 December 2005

Given the operating method adopted, according to which the contracts are usually activated with a timescale which ranges between 2 and 12 months and what is more for amounts which hedge a multitude of individual transactions, these instruments, without prejudice to the essential hedging objectives of the Group, are handled solely for accounting purposes and in accordance with the IAS/IFRS as speculative, with registration of the changes in their fair value in the income statement.

b) transactions activated as from 1 January 2006

For certain agreements, in particular those relating to Domestic Currency Swaps and all the other conditions envisaged by the applicable IAS/IFRS, the hedge accounting approach has been applied with reference to the cash flow hedges (hedging of future financial flow). Consequently, the related fair value changes are reflected in an equity reserve, net of the tax effect.

A summary of the fair values recorded as of 30 June 2006, gross of the tax effect and according to their tax treatment, is presented below:

Swaps (DCS)	Carraro SpA	C. Argentina	Fon	Carraro India	GROUP TOTAL
Fair value recorded in income statement	(9)	(871)	33	(60)	(907)
Fair value recorded under shareholders' equity	11	1	(48)	(364)	(400)
Total	2	(870)	(15)	(424)	(1,307)

In total, net fair value changes from foreign currency derivatives totalling Euro 0.48 million have been recorded in the income statement for the period.

6.2 Derivative financial instruments on interest rates

The tables indicate the **notional** and the **fair values** and other information referring to the various types of derivative contracts on interest rates outstanding as of 30 June 2006; as of that date, the contracts open concerned just Carraro International S.A..

CONTRACT	CURRENCY	MATURITY	NOTIONAL VALUE	FAIR VALUE
			(EURO)	(EURO)
Interest Rate Swaps	EURO	29.05.2012	8,000,000	129,109
Interest Rate Swaps	EURO	29.05.2012	8,000,000	224,865
Interest Rate Swaps	EURO	29.05.2012	8,000,000	228,501
Interest Rate Swaps	EURO	29.05.2012	8,000,000	20,020
<i>Total cash flow hedge derivatives</i>			32,000,000	602,495

The financial instruments on interest rates are used, on a consistent basis with the financial risk management policy adopted by the Group, so as to reduce the risks deriving from changes in interest rates with an impact on both the value of the underlying financial assets and liabilities and on the cash flows deriving from the collection and payment of interest.

The interest rate derivatives portfolio as of 30 June 2006, comprised four I.R.S. agreements, including three stipulated against a loan granted by a pool of banks in favour of Carraro International S.A. on 29 May 2006; these agreements have been treated for accounting purposes as cash flow hedges, and as such with recording of their fair value as of 30 June 2006 in a specific equity reserve, once the related tax effect has been deducted, since the requisites exist with regards to amount hedged, maturity and expected efficacy.

The fair values as of 30 June 2006 of the financial instruments on interest rates have been calculated by a leading financial appraisal firm using the method of the forward rates / discount cash flow model.

7. Events subsequent to the year end date

The following significant subsequent events are commented on:

Elettronica Santerno Spa

With effect as of 1 July 2006, Elettronica Santerno Spa (formerly New Power 102 S.r.l.) acquired a business segment (known as Elettronica Santerno) from Fincasalfiومانese Spa, specialized in the production of static power converters used for electronic speed regulation and for the conversion, marketing and after sales service relating to inverters; the purchase value came to Euro 0.40 million.

Carraro India Ltd

On 12 September 2006, acquisition of 49% of Carraro India Ltd was completed.

8. Transactions with related parties

The following statements present information relating to transactions with related parties in accordance with the IAS 24 standard.

CARRARO S.p.A. GROUP TRANSACTIONS WITH RELATED PARTIES as of 30 June 2006

(EURO '000s)

Financial and equity transactions

Economic transactions

FINANCIAL RECEIVABLES	FINANCIAL PAYABLES	TRADE AND OTHER RECEIVABLES	TRADE AND OTHER PAYABLES	SALES OF COMPONENTS, PRODUCTS AND SPARE PARTS	INDUSTRIAL SERVICES	SALES OF OTHER SERVICES AND SUNDRY CHARGES	COMMISSION AND ROYALTIES RECEIVABLE	INTEREST INCOME AND DIVIDENDS FROM INVESTEE COMPANIES	INCOME FROM TAX CONSOLIDATION	PURCHASES OF PLANT, CANTEEN 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
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Associated companies

Stm S.r.l.
Elcon Elettronica S.r.l.

387		410	3,050		519	4		133		37	4,766		2		
84		52	183					1			295	9			

Other related parties

FINAID S.r.l.
Agritalia S.p.A.
Maus S.p.A.
Meccanica del Piave S.p.A.
European Power System S.r.l.
M.G.T. S.r.l.

			4,025												
		148	8,242										880		
		94	85		30					3	19				
		0	2,100							525	17				
			7									6			
		9			2										

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, 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 and 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.

The Chairman

Mario Carraro

CARRARO SPA SCHEDULES

INTERIM INCOME STATEMENT AS OF 30 JUNE 2006

	30 June 2006	30 June 2005
A) REVENUES FROM SALES		
1) Products	216,509,311	225,903,541
2) Services	1,566,323	1,171,250
3) Other revenues	<u>3,861,057</u>	<u>5,897,561</u>
TOTAL REVENUES FROM SALES	<u>221,936,691</u>	<u>232,972,352</u>
B) OPERATING COSTS		
1) Purchases of goods and materials	162,764,422	190,730,930
2) Services	27,956,444	32,904,638
3) Use of third-party goods and services	983,423	675,777
4) Payroll and related costs	24,613,153	22,644,705
5) Amortization, depreciation and writedowns of assets	<u>4,509,780</u>	<u>5,028,969</u>
5.a) <i>depreciation of tangible fixed assets</i>	3,896,849	4,034,539
5.b) <i>amortization of intangible fixed assets</i>	612,931	994,430
5.c) <i>writedown of fixed assets</i>	0	0
5.d) <i>writedown of receivables</i>	0	0
6) Changes in inventories	-4,774,018	-27,123,215
7) Provisions for risks and sundry	1,693,148	1,840,419

8) Other income and expense	-588,768	-166,088
9) Internal construction	<u>-87,559</u>	<u>-137,517</u>
TOTAL OPERATING COSTS	<u>217,070,025</u>	<u>226,398,618</u>
OPERATING RESULT (EBIT)	<u>4,866,667</u>	<u>6,573,734</u>
C) RESULT OF FINANCIAL ACTIVITIES		
10) Income from equity investments	2,000,000	2,000,000
11) Other financial income	216,977	416,212
12) Financial costs and expense	-1,870,369	-1,982,897
13) Exchange gains and losses (net)	270,312	-3,375,653
14) Value adjustments to financial assets	<u>0</u>	<u>0</u>
TOTAL RESULT OF FINANCIAL ACTIVITIES	<u>616,920</u>	<u>-2,942,338</u>
PRE-TAX RESULTS	<u>5,483,587</u>	<u>3,631,396</u>
15) Current and deferred taxation	2,362,989	2,007,501
NET RESULT FROM OPERATING ACTIVITIES	<u>3,120,598</u>	<u>1,623,895</u>
NET RESULT OF ACTIVITIES UNDERGOING DISPOSAL	<u>0</u>	<u>0</u>
NET RESULT	<u>3,120,598</u>	<u>1,623,895</u>
PROFIT PER SHARE		
- basic, for net income for the period attributable to the ordinary shareholders	€ 0.07	€ 0.04
- diluted, for net income for the period attributable to the ordinary shareholders	€ 0.07	€ 0.04

INTERIM BALANCE SHEET AS OF 30 JUNE 2006

	30 June 2006	31 December 2005
A) NON-CURRENT ASSETS		
1) Tangible fixed assets	52,807,336	54,892,101
2) Intangible fixed assets	4,205,687	3,872,377
3) Real estate property investments	539,703	539,703
4) Equity investments in subsidiary, associated and parent companies	49,898,477	48,223,303
5) Financial assets	<u>204,211</u>	<u>275,168</u>
5.1) <i>Loans and receivables</i>	118,370	189,327
5.2) <i>Other financial assets</i>	85,841	85,841
5.3) <i>Prepaid financial expenses</i>	0	0
6) Deferred tax assets	5,921,426	5,993,719
7) Trade and other receivables	<u>567,591</u>	<u>478,194</u>
7.1) <i>Trade receivables</i>	0	0
7.2) <i>Other receivables</i>	<u>567,591</u>	<u>478,194</u>
TOTAL NON-CURRENT ASSETS	<u>114,144,431</u>	<u>114,274,565</u>
B) CURRENT ASSETS		
1) Closing inventories	65,261,210	60,387,341
2) Trade and other receivables	<u>120,590,135</u>	<u>114,945,732</u>
2.1) <i>Trade receivables</i>	103,399,288	99,149,334
2.2) <i>Other receivables</i>	17,190,847	15,796,398
3) Financial assets	<u>5,240,956</u>	<u>5,466,008</u>
3.1) <i>Loans and receivables</i>	5,100,353	5,215,353
3.2) <i>Other financial assets</i>	139,472	73,000
3.3) <i>Financial accrued income and prepaid expenses</i>	1,131	177,655
4) Liquid funds	<u>22,786,325</u>	<u>44,998,127</u>
4.1) <i>Cash</i>	57,579	55,081
4.2) <i>Bank current and deposit accounts</i>	22,728,746	44,943,046
4.3) <i>Other liquid funds</i>	<u>0</u>	<u>0</u>
TOTAL CURRENT ASSETS	<u>213,878,627</u>	<u>225,797,208</u>
TOTAL ASSETS	<u>328,023,058</u>	<u>340,071,773</u>

INTERIM BALANCE SHEET AS OF 30 JUNE 2006

	30 June 2006	31 December 2005
A) SHAREHOLDERS' EQUITY		
1) Share capital	21,840,000	21,840,000
2) Other reserves	27,862,141	20,933,448
3) Retained earnings (accumulated losses)	0	0
4) Reserve for initial application of IAS/IFRS	23,793,040	23,793,040
5) Other IAS/IFRS reserves	11,296	0
6) Result for the period	<u>3,120,598</u>	<u>12,178,693</u>
TOTAL SHAREHOLDERS' EQUITY	<u>76,627,075</u>	<u>78,745,181</u>
B) NON-CURRENT LIABILITIES		
1) Financial liabilities	<u>1,071,330</u>	<u>1,071,330</u>
1.1) Bonds	0	0
1.2) Loans	1,071,330	1,071,330
1.3) Deferred financial income	0	0
1.4) Other	0	0
2) Trade and other payables	<u>0</u>	<u>0</u>
2.1) Trade payables	0	0
2.2) Other payables	0	0
3) Deferred tax liabilities	0	0
4) Employee leaving indemnity/pension	<u>12,465,492</u>	<u>12,421,329</u>
4.1) Employee leaving indemnity	12,465,492	12,421,329
4.2) Pensions and similar	0	0
5) Provisions for risks and charges	<u>1,932,946</u>	<u>1,932,146</u>
5.1) Guarantee provisions	1,893,433	1,893,433
5.2) Provisions for charges on disputes	0	0
5.3) Restructuring and reversion provisions	0	0
5.4) Other provisions	<u>39,513</u>	<u>38,713</u>
TOTAL NON-CURRENT LIABILITIES	<u>15,469,768</u>	<u>15,424,805</u>
C) CURRENT LIABILITIES		
1) Financial liabilities	<u>65,078,794</u>	<u>73,717,832</u>
1.1) Bonds (current portions)	0	55,000,000
1.2) Loans	65,037,133	16,124,904
1.3) Financial accrued expenses and deferred income	41,661	2,129,886

1.4) Other	0	463,042
2) Trade and other payables	161,406,757	163,474,832
2.1) Trade payables	148,375,980	152,127,710
2.2) Other payables	13,030,777	11,347,122
3) Liabilities for current taxation	5,336,651	4,909,123
4) Provisions for risks and charges (current portions)	4,104,013	3,800,000
4.1) Guarantee provisions	4,104,013	3,800,000
4.2) Provisions for charges on disputes	0	0
4.3) Restructuring and reversion provisions	0	0
4.4) Other provisions	0	0
TOTAL CURRENT LIABILITIES	235,926,214	245,901,787
TOTAL LIABILITIES	251,395,982	261,326,592
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	328,023,058	340,071,773

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Other reserves: capital	earnings	Retained earnings /accumulated losses	Reserve for initial application of IAS/IFRS	Other IAS/IFRS reserves	Result for the period	Total
Balance as of 1 Jan. 2005	21,840,000	17,833,456	7,082,816	-	22,651,656	-	1,267,176	70,675,104
Effects deriving from initial application of IAS 32 and 39	-	-	-	-	1,141,384	-	-	1,141,384
Balance as of 1 Jan. 2005 adjusted	21,840,000	17,833,456	7,082,816	-	23,793,040	-	1,267,176	71,816,488
Allocation of 2004 net income:								
- to dividends	-	-	-	-	-	-	(5,250,000)	(5,250,000)
- to the legal reserve	-	-	313,790	-	-	-	(313,790)	
- to retained earnings	-	-	(4,296,614)	-	-	-	4,296,614	
Income (loss) registered as of 30 June 2005:								
- recorded under shareholders' equity	-	-	-	-	-	-	-	-
- recorded in the income statement	-	-	-	-	-	-	1,623,895	1,623,895
Balance as of 30 June 2005	21,840,000	17,833,456	3,099,992	-	23,793,040	-	1,623,895	68,190,383

	Share capital	Other reserves: capital	earnings	Retained earnings /accumulated losses	Reserve for initial application of IAS/IFRS	Other IAS/IFRS reserves	Result for the period	Total
Balance as of 1 Jan. 2006	21,840,000	17,833,456	3,099,992	-	23,793,040	-	12,178,693	78,745,181

Allocation of 2005 net income:								
- to dividends	-	-	-	-	-	-	(5,250,000)	(5,250,000)
- to the legal reserve	-	-	608,935	-	-	-	(608,935)	
- to retained earnings	-	-	6,319,758	-	-	-	(6,319,758)	
Income (loss) registered as of 30 June 2006:								
- recorded under shareholders' equity	-	-	-	-	-	11,296	-	11,296
- recorded in the income statement	-	-	-	-	-	-	3,120,598	3,120,598
Balance as of 30 June 2006	21,840,000	17,833,456	10,028,685	-	23,793,040	11,296	3,120,598	76,627,075

INTERIM CASH FLOW STATEMENT

IAS CASH Flow Statement	30 June 2006	30 June 2005
BALANCES IN EURO/1,000s	<i>IAS</i>	<i>IAS</i>
Group net income/loss for the year	3,121	1,624
Net income/loss for the year pertaining to minority interests	-	-
Taxation for the year	2,363	2,007
Pre-tax result	5,484	3,631
Depreciation of tangible fixed assets	3,897	4,035
Amortization of intangible fixed assets	613	994
Writedown of fixed assets	-	-
Provisions for risks	1,693	1,841
Provisions for employee benefits	1,311	1,139
Net financial income/expense	1,653	1,567
Exchange gains and losses (net)	-270	3,376
Income from equity investments	-2,000	-2,000
Value adjustments to financial assets	-	-
Operating cash flow before changes in working capital	12,381	14,583
Change in inventories	-4,874	-27,157
Change in trade and other receivables	-5,733	-25,121
Change in trade and other payables	-2,068	50,801
Change in receivables/payables for deferred taxation	-	562
Change in provisions for employee benefits	-1,267	1,064
Change in risk provisions	-1,389	-1,293
Dividends received	2,000	2,000
Interest received	394	408
Interest paid	-3,958	-3,716
Payment of taxes	-1,862	1,897
Operating cash flow	-6,376	14,028
Investments in /disposals of tangible fixed assets and property investments	-1,812	-3,520
Investments in /disposals of intangible fixed assets	-947	-502
Effects from changes in the scope of consolidation	-	-
Effects from exchange rate translation on fixed assets	-	-
Investments in /disposals of equity investments	-1,675	-61
Effects from exchange rate translation on equity investments	-	-
Cash flow from investments/disposals	-4,434	-4,083
Change in current financial assets	319	-5,830
Change in non-current financial assets	71	56
Change in current financial liabilities	-6,551	63,457

Change in non-current financial liabilities	-	-56,272
Change in share capital	-	-
Change in reserves	-5,240	1,141
Dividends paid out	-	-5,250
Change in minority interests	-	-
Cash flow from financial activities	-11,401	-2,698
Total cash flow for period (change in liquid funds)	-22,211	7,247
Opening liquidity as of 1 January	44,998	29,558
Closing liquidity as of 30 June	22,787	36,805

CARRARO S.p.A.**STATEMENT OF EQUITY INVESTMENTS GREATER THAN 10% AS OF 30 JUNE 2006** (Article 126 Draghi Reg. of the Consob 11971/'99)**1) DIRECTLY HELD INTERESTS**

Company name	Registered offices	Share capital		Total number of shares /holdings	Number of shares /holding held	Total number of voting rights	Number of voting rights held	Net income (loss) as of 30 June 2006 (Euro equivalent)	Shareholders' equity as of 30 June 2006 (Euro equivalent)	Shareholding as of 30 June 2006	Book value of investment (Euro)
		Currency	Amount								
SIAP SPA	MANIAGO, PN (ITALY)	EURO	10,122,616	10,122,616	10,122,616	10,122,616	10,122,616	1,438,280	31,103,056	100.00%	11,747,161
CARRARO DEUTSCHLAND GmbH	HATTINGEN (GERMANY)	EURO	10,507,048	1	1	1	1	(9,051)	8,991,467	100.00%	8,893,090
CARRARO INDIA Ltd.	PUNE (INDIA)	RUPEE	400,000,000	40,000,000	20,400,000	40,000,000	20,400,000	421,988	4,774,218	51.00%	2,833,000
CARRARO ARGENTINA S.A.	HAEDO (ARGENTINA)	ARS	25,809,288	25,809,288	25,783,479	25,809,288	25,783,479	1,232,541	28,229,459	99.90%	20,371,730
CARRARO INTERNATIONAL S.A.	LUXEMBOURG	EURO	9,850,000	9,850	9,849	9,850	9,849	198,370	5,391,839	99.99%	2,961,100
FON S.A.	RADOMSKO (POLAND)	PLZ	7,058,220	705,822	639,946	901,214	835,338	(747,472)	1,476,944	90.667%	1,368,773
A.E. S.r.l.	CASTELLO D'ARGILE (BOLOGNA), ITALY	EURO	40,000	40,000	36,000	40,000	36,000	252,161	414,281	90.00%	36,000
ELCON S.r.l. (*)	TRIESTE (ITALY)	EURO	50,000	50,000	12,450	50,000	12,450	3,498	67,472	24.90%	12,450
ELETTRONICA SANTERNO S.p.A.	CAMPODARSEGO (PD)	EURO	2,500,000	2,500	1,675	2,500	1,675	0	2,499,665	67.00%	1,675,000
CARRARO TECHNOLOGIES INDIA Pvt. Ltd.	MUMBAI (INDIA)	RUPEE	1,000,000	100,000	1,000	100,000	1,000	0	17,079	1.00% (**)	173

(*) balances as of 31 December 2005

(**) Wholly-owned via Carraro International S.A.

2) INDIRECTLY HELD INTERESTS

Company name	Registered offices	Holding company (direct parent company)	Share capital		Total number of shares /holdings	Number of shares /holding held	Total number of voting rights	Number of voting rights held	Net income (loss) as of 30 June 2006 (Euro)	Shareholders' equity as of 30 June 2006 (Euro)	Shareholding as of 30 June 2006	Book value of investment (Euro)
			Currency	Amount								
STM S.r.l.	MANIAGO, PN (ITALY)	SIAP S.p.A.	EURO	1,549,080	1,549,080	774,540	1,549,080	774,540	453,094	6,758,581	50.00%	769,263
O&K Antriebstechnik & Co. GmbH KG	HATTINGEN (GERMANY)	CARRARO DEUTSCHLAND GmbH	EURO	2,045,168	1	1	1	1	551,342	6,977,527	100.00%	8,040,315
CARRARO KOREA Ltd.	ULSAN (KOREA)	CARRARO INTERNATIONAL S.A.	KRW	3,000,000,000	600,000	600,000	600,000	600,000	0	17,584	100.00%	0
CARRARO NORTH AMERICA Inc.	CALHOUN (GA - U.S.A.)	CARRARO INTERNATIONAL S.A.	US\$	100	100	100	100	100	132,526	4,144,121	100.00%	4,075,530
CARRARO PNH COMPONENTS INDIA Lt.d. (*)	MUMBAI (INDIA)	CARRARO INDIA Ltd.	RUPE E	10,000,200	1,000,020	1,000,000	1,000,020	1,000,000	0	182,387	99.99%	170,790
TURBO GEARS INDIA Ltd.	PUNE (INDIA)	CARRARO INDIA Ltd.	RUPE E	370,000,000	37,000,000	7,400,000	37,000,000	7,400,000	(928,526)	4,737,157	20.00%	1,263,847
TURBO GEARS INDIA Ltd.	PUNE (INDIA)	CARRARO INTERNATIONAL S.A.	RUPE E	370,000,000	37,000,000	29,600,000	37,000,000	29,600,000	(928,526)	4,737,157	80.00%	5,390,410
CARRARO QINGDAO DRIVE SYSTEMS CO Ltd	QINGDAO E.T.D.A. (CHINA)	CARRARO INTERNATIONAL S.A.	EURO	1,050,000	1	1	1	1	0	988,932	100.00%	1,050,000
CARRARO QINGDAO TRADING CO Ltd.	QINGDAO E.T.D.A. (CHINA)	CARRARO INTERNATIONAL S.A.	EURO	170,000	1	1	1	1	144,070	159,429	100.00%	170,000
CARRARO TECHNOLOGIES INDIA Pvt Ltd.	MUMBAI (INDIA)	CARRARO INTERNATIONAL S.A.	RUPE E	1,000,000	100,000	99,000	100,000	99,000	0	17,079	99.00%	17,136

(*) balances as of 31 December 2005

NOTE: The shareholders' equity and net income for the year of the foreign companies listed in the tables above have been converted into EURO using the same criteria adopted for the preparation of the consolidated financial statements.