

CARRARO S.p.A.

Registered office in Campodarsego – Via Olmo n. 37

Share capital Euro 21,840,000 fully paid up

Tax code, VAT no. and Campodarsego Companies' Registration no. 00202040283

R.E.A. (Economic Administrative Index) no. 84.033

**QUARTERLY REPORT AS AT 31 MARCH 2007
(CONSOLIDATED FIGURES)**

This document consists of the directors' report, financial statements and related explanatory notes. It has been prepared in accordance with the provisions of article 82 of the Issuers' Regulation (Consob resolution 11971/1999 and subsequent amendments), using the format of Attachment 3D. The figures indicated are prepared in accordance with IAS/IFRS international accounting standards.

DIRECTORS' REPORT

The first quarter of 2007 saw a continuation of the positive trend which started in the second half of the previous year.

Demand in the main reference markets, agricultural and industrial, has remained strong, particularly in the European and Asian regions.

In addition, there has been consistent demand for electronic components – particularly for photovoltaic sector applications – and for mechanical components, most of all for gears.

The relocation of production and of the procurement sources has proceeded in line with the plan and budget, contributing to the positive results recorded for the first quarter of 2007.

More specifically, construction work started on the new plant in China, which will be operational towards the end of this year, along with the expansion of the Carraro plant in India in order to meet the increasing volumes of agricultural transmissions.

The Group consolidated turnover in the first quarter of 2007 reached Euro 188,857 million, up by 23.31% compared to the March 2006 figure.

Ebitda amounted to Euro 16,589 million (8.78% of turnover) with a rise of 50.7% compared with the Euro 11,010 million in the first quarter of 2006.

Ebit amounted to Euro 10,486 million (5.55% of turnover), up by 96.3% compared to Euro 5,343 million at 31 March 2006.

The net profit amounting to Euro 4,746 million (2.51% of turnover) has increased by 169.3% compared to the March 2006 figure of Euro 1,762 million.

The net financial position showed net debt amounting to Euro 131,082 million, substantially stable compared to 31 December 2006 with net debt of Euro 131,361 million and up on the March 2006 figure, which showed net debt of Euro 95,506 million.

Gearing at 31 March 2007 was 106.07%, in December 2006 it was 110.23% and in March 2006 it was 81.93%.

GENERAL DATA

The Group results are set out below and commented schematically.

(VALUES IN €/000)

	31.03.2007	% of turnover	31.03.2006	% of turnover	% Diff.
Turnover	188,857		153,153		23.31
EBITDA (1)	16,589	8.78	11,010	7.19	50.67
EBIT (2)	10,486	5.55	5,343	3.48	96.26
Net result	4,746	2.51	1,762	1.15	169.35
Depreciation and amortisation	6,103	3.23	5,667	3.70	7.69
Cash-flow	10,849	5.74	7,429	4.85	46.04
Investments	7,166		6,627		
Net financial position	-131,082		-95,506		
Shareholders' equity (3)	123,578		116,565		
Gearing	106.07%		81.93%		

(1) EBITDA is understood to be the sum of the operating result, amortisation and depreciation and write-downs of fixed assets (Earnings Before Interest, Taxes, Depreciation and Amortisation);

(2) EBIT is understood to be the operating result (Earnings Before Interest and Tax);

(3) including minorities.

Turnover

The Group's consolidated turnover in the first quarter of 2007 reached Euro 188,857 million, up 23.31% compared with the March 2006 figure. Bearing in mind that in 2006 Elettronica Santerno S.p.A. and STM Srl were consolidated from the second half-year, there has been a 17.48% growth in turnover with comparable values.

The breakdown of sales by destination for each Business Unit, the main variances and geographical destination are summarised in the tables below.

Segment reporting

a) business sector

Figures for 1st quarter 2007

(VALUES IN €/000)

	SALES			SALES TO THIRD PARTIES			INFRA-GROUP SALES		
	31.3.'07	31.3.'06	% diff.	31.3.'07	31.3.'06	% diff.	31.3.'07	31.3.'06	% diff.
DRIVELINES & DRIVES	159,089	143,871	10.58	144,397	127,614	13.15	14,692	16,257	-9.63
COMPONENTS	35,212	22,271	58.11	14,115	6,608	113.60	21,097	15,663	34.69
VEHICLES	24,953	18,987	31.42	24,944	18,931	31.76	9	56	(83.93)
POWER CONTROL	5,401	-	n.a.	5,401	-	n.a.	-	-	-
ELIMINATIONS AND NON-ALLOCATED ACTIVITIES	(35,798)	(31,976)	(11.95)	-	-	-	(35,798)	(31,976)	(11.95)
CONSOLIDATED TOTAL	188,857	153,153	23.31	188,857	153,153	23.31	-	-	-

The performance of the Power Controls Business Unit is not comparable with the previous year since the acquisition of the equity investment in Elettronica Santerno S.p.A. and hence the formation of the new Business Unit took place on 1 July 2006.

b) geographical area

(VALUES IN €/000)

Geographical area	31.03.2007	%	31.03.2006	%
North America	33,218	17.6	35,073	22.9
Germany	33,756	17.9	28,941	18.9
France	16,456	8.7	15,101	9.9
Great Britain	15,385	8.2	13,580	8.9
South America	6,840	3.6	6,716	4.4
India	8,848	4.7	6,316	4.1
Poland	5,868	3.1	4,279	2.8
China	3,689	1.9	3,076	2.0
Turkey	5,710	3.0	2,494	1.6
Other EU areas	15,345	8.1	9,141	6.0
Other non-EU areas	3,984	2.1	3,245	2.1
Total Foreign	149,099	78.9	127,962	83.6
Italy	39,758	21.1	25,191	16.4
Total	188,857	100	153,153	100

EBITDA/EBIT

(VALUES IN €/000)

	31.03.2007	% of turnover	31.03.2006	% of turnover	% diff.
EBITDA	16,589	8.78	11,010	7.19	50.67
EBIT	10,486	5.55	5,343	3.48	96.26

The companies Carraro India Ltd., Carraro Qingdao Drive Systems Co. Ltd. (China) and FON S.A. (Poland), in particular, contributed to the notable improvement over the previous year. A further contribution was made by the consolidation of the results of Elettronica Santerno S.p.A. and STM S.r.l. net of which Ebitda would amount to Euro 14,903 million (8.28% of comparable turnover), a 35.35% increase over the figure at 31 March 2006, and Ebit would be equal to Euro 9,094 million (5.05% of comparable turnover), up 70.20% on the figure at 31 March 2006.

Financial charges

In the first quarter of 2007 financial charges amounted to Euro 2,006 million, as against Euro 1,394 million at 31 March 2006.

Net profit

Net profit for the first quarter of 2007 amounted to Euro 4,746 million, an increase of 169.3% compared to Euro 1,762 million in the first quarter of 2006.

Depreciation and amortisation and Cash Flow

(VALUES IN €/000)

	31.03.2007	% of turnover	31.03.2006	% of turnover	% diff.
Depreciation and amortisation	6,103	3.23	5,667	3.70	7.69
Cash-flow	10,849	5.74	7,429	4.85	46.04

As a result of the increased level of investment in the previous year depreciation and amortisation at 31 March 2007 increased to Euro 6,103 million as against Euro 5,667 million at 31 March 2006 and thanks to the improved result the cash flow amounts to Euro 10,849 million (Euro 7,429 million at 31 March 2006).

Investments

(VALUES IN €/000)

	31.03.2007	31.03.2006
Investments	7,166	6,627

Investments in the first quarter amounted to Euro 7,166 million (Euro 6,627 million at 31 March 2006), a large part of which was destined to increase the production capacity of the Chinese and Indian companies and the components area.

Net financial position

The net financial position showing net debt is stable, remaining at Euro 131,082 million compared to the figure recorded at 31 December 2006 (131,361). The gearing at 31 March 2007 was 106.07%, in December 2006 it was 110.23% and in March 2006 it was 81.93%.

FUTURE BUSINESS OUTLOOK FOR THE CURRENT YEAR

The good start in the first quarter suggests that we will be able to achieve the objectives for the current year. The second half of the year will continue to be supported by a robust growth in volumes; however, it will be more difficult from the profitability point of view as a result of the costs related to major projects which are due to start during this period: mention is made in particular of the start up of the new Chinese plant, the expansion of the Indian plant and the start-up of axle platform standardisation.

O&K is another area of major focus. Despite a positive trend in orders, it is struggling to achieve profitability. Measures are currently being implemented to redesign the product mix and processes and next year should benefit from the results of such action.

FINANCIAL STATEMENTS
CONSOLIDATED INCOME STATEMENT AND BALANCE SHEET DATA
(IAS/IFRS)

Consolidated income statement (values in thousands of Euro)				
	31.03.2007	%	31.03.2006	%
Income from sales	188,857	100.00	153,153	100.00
Purchases of goods and materials	126,394	66.93	104,855	68.46
Services	32,062	16.98	26,231	17.13
Use of third party goods and services	761	0.40	1,019	0.67
Personnel costs	24,916	13.19	21,386	13.96
Amortisation, depreciation and write-downs of assets	6,128	3.24	5,691	3.72
Movements in inventories	-12,256	-6.49	-11,803	-7.71
Accruals for risks	654	0.35	1,056	0.69
Other charges and income	-288	-0.15	-625	-0.41
EBIT	10,486	5.55	5,343	3.49
Earnings from equity investments	0	0	0	0
Net financial charges/income	-2,006	-1.06	-1,394	-0.91
Exchange rate gains and losses(net)	317	0.17	87	0.05
Adjustments in value of financial assets	0	0	146	0.10
Result before tax	8,797	4.66	4,182	2.73
Current and deferred tax	3,786	2.01	2,380	1.55
Net result	5,011	2.65	1,802	1.18
Minority interest	265	0.14	40	0.03
Consolidated Group result	4,746	2.51	1,762	1.15

Consolidated balance sheet (values in thousands of Euro)		
	31.03.2007	31.03.2006
Non-current assets	213,269	180,845
Tangible assets	166,430	153,979
Intangible assets	31,474	6,308
Real estate investments	711	1,101
Equity investments	185	3,496
Financial assets	1,051	1,820
Deferred tax assets	11,901	12,448
Trade and other receivables	1,517	1,693
Current assets	348,454	344,469
Closing inventories	142,910	126,634
Trade and other receivables	179,659	170,664
Financial assets	1,661	6,197
Liquid assets	24,224	30,974
Total assets	561,723	515,314
Shareholders' equity	123,578	116,565
Non-current liabilities	128,306	39,535
Financial liabilities	96,528	10,555
Trade and other payables	1,783	315
Deferred tax liabilities	3,737	3,950
Employee severance indemnity, pension and similar provisions	24,471	22,287
Provisions for risks and charges	1,787	2,428
Current liabilities	309,839	359,214
Financial liabilities	60,437	128,753
Trade and other payables	238,552	215,168
Current tax payables	4,268	9,712
Provisions for risks and charges (short-term portions)	6,582	5,581
Total liabilities and shareholders' equity	561,723	515,314

NET FINANCIAL POSITION

Figures in thousands of Euro

<i>Description</i>	<i>31.03.2007</i>	<i>31.12.2006</i>	<i>31.03.2006</i>
Debentures:			
- non- current	-	-	-
- current	-	-	74,576
Loans:			
- non- current	96,528	85,537	10,555
- current	59,505	62,589	44,146
Financial accruals and prepayments			
- non- current	-111	-88	3,093
- current	-517	-520	-
NET OF:			
Liquid assets			
Cash	-78	-84	-120
Bank balances	-24,146	-15,901	-30,854
Receivables and loans	-99	-99	-588
Securities	-	-73	-73
Receivable from factors			-5,229
Consolidated net financial position	131,082	131,361	95,506

Preparation criteria

The accounting figures set out in this report have been prepared in accordance with the International Financial Reporting Standards (IFRS) based on the historic cost principle, except for derivative financial instruments which are stated at fair value.

The accounting principles adopted by the Group comply with the international IAS/IFRS standards issued by the International Accounting Standards Board (IASB) and adopted by the European Commission in accordance with the procedure indicated in article 6 of Regulation no. 1606/2002 of the European Parliament and Council of 19 July 2002.

Consolidation criteria

The consolidation criteria are the same as those followed for the annual financial statements.

Consolidation scope

The Group consolidated figures include those of Carraro S.p.A. and companies in which the latter holds, directly or indirectly, the majority of voting rights in the ordinary general meeting.

A subsidiary is an entity in which the Group holds, directly or indirectly through its own subsidiaries, more than half the voting rights, unless it can be clearly proven, in exceptional circumstances, that such possession does not constitute control. Control exists also when the parent company holds half, or a smaller portion, of the votes that can be exercised in the meeting if it has:

- (a) control over more than half the voting rights by virtue of an agreement with other investors;
- (b) the power to determine the financial and operating policies of the entity by virtue of a clause in the Articles of Association or a contract;

(c) the power to appoint or remove the majority of the members of the Board of Directors or equivalent corporate governance body, and control of the entity is held by that board or body; or
 (d) the power to exercise the majority of the voting rights in the meetings of the Board of Directors or the equivalent corporate governance body, and control of the entity is held by that board or body.

The companies consolidated with the full integration method are as follows:

Name	Registered office	Currency	Book value Share capital	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%
STM S.r.l.	Maniago (PN)	Euro	1,549,080	50.0001%
Carraro Deutschland GmbH	Hattingen (Germany)	Euro	10,507,048	100%
Carraro Argentina S.A.	Haedo – Buenos Aires (Argentina)	Pesos	97,596,505	99.94%
Carraro India Ltd.	Rajangaon – Pune (India)	Rupee	400,000,000	100%
Turbo Gears India Ltd.	Rajangaon – Pune (India)	Rupee	536,000,000	100%
Carraro Technologies India Pvt. Ltd.	Bombay (India)	Rupee	18,000,000	100%
F.O.N. S.A.	Radomsko (Poland)	Zloty	7,058,220	90.667%
Carraro International S.A.	Luxembourg	Euro	39,318,000	99.99%
Carraro Finance Ltd	Dublin (Ireland)	Euro	100,000	100%
Carraro North America Inc.	Calhoun - Georgia (USA)	US\$	100	100%
O&K Antriebstechnik GmbH &Co. KG	Hattingen (Germany)	Euro	2,045,168	100%
Carraro Qingdao Drive Systems Co. Ltd.	Shandong (China)	Euro	1,050,000	100%
Carraro Qingdao Trading Co. Ltd	Shandong (China)	Euro	170,000	100%
Carraro China Drive Systems Co. LTD	Shandong (China)	US\$	2,200,000	100%

Changes in the consolidation scope:

The company Carraro China Drive System Co. LTD has been included in the consolidation scope as from this year.

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

Name	Parent company	Registered office	Currency	Book value Share capital	Holding
Carraro PNH Components India Ltd.	Carraro India Ltd.	Bombay (India)	Rupee	10,000,200	99.998%
Carraro Korea Ltd.	Carraro International S.A.	Ulsan (Korea)	Kwon	3,000,000,000	100%

Carraro PNH Components India Ltd. is a non-trading company, and its only balance sheet item consists of land designated for industrial use.

The fact that it is not consolidated is not considered to have any relevance for the presentation of the financial statements.

Carraro Korea Ltd. was placed in liquidation in 2004 and is no longer trading. It is expected to be wound up permanently in 2007.

Translation of accounting figures expressed in a foreign currency

The translation into Euro of accounting data expressed in a foreign currency is carried out using the period-end exchange rate for assets and liabilities, the historic rates for shareholders' equity items and the average rates for the period for the income statement.

The exchange differences arising from this translation method are recorded in a special shareholders' equity item with the name "Exchange rate translation difference reserve".

The rates used to translate the figures expressed in foreign currency are as follows:

Company	Currency	Average exchange rate 1/1-31/03/2007	Exchange rate at 31/03/2007
Carraro India Ltd.	Indian Rupee	57.8585156	58.0066
Turbo Gears Ltd.	Indian Rupee	57.8585156	58.0066
Carraro Technologies Ltd.	Indian Rupee	57.8585156	58.0066
F.O.N. S.A.	Polish Zloty	3.8863453	3.8668
Carraro North America Inc.	US Dollar	1.3105859	1.3318
Carraro Qingdao Drive Systems Co. Ltd.	Chinese Renminbi	10.1687843	10.2951
Carraro Qingdao Trading Co. Ltd.	Chinese Renminbi	10.1687843	10.2951
Carraro China Drive Systems Co. Ltd.	Chinese Renminbi	10.1687843	10.2951
Carraro Argentina S.A.	Argentine Peso	4.0573457	4.13104

Accounting principles and valuation criteria

Depreciation is calculated, at constant rates, on the cost of the assets net of residual values, depending on their estimated useful life applying the following percentage rates to the newly purchased assets:

	% YEAR 2006	% YEAR 2007
industrial land	-	-
industrial buildings	2 - 5	2 - 5
plant	4 - 5	4 - 5
machinery	5.56 - 6.67	5.56 - 6.67
equipment	6.67 - 25	6.67 - 25
dies and models	12.50	12.50
fixtures and fittings	6.67	6.67
office machines	12.50 - 20	12.50 - 20
motor vehicles	6.67 - 12.50	6.67 - 12.50

Land is not depreciated.

Assets held as a result of financial lease agreements are depreciated on the basis of their estimated useful life in the same way as for assets owned.

Overall the valuation criteria and accounting principles are the same as those adopted to prepare the annual financial statements.

The Chairman

Mario Carraro