



Carraro Group

Interim Financial Report for the six months to 30 June 2008

CARRARO S.p.A.

Head Office in 35011 Campodarsego (PD) at Via Olmo no. 37

Share Capital Euro 21,840,000 wholly paid-up

Tax Code, VAT and Registration Number in

the Padua Companies Register 00202040283 – R.E.A. No. 84.033

GENERAL INFORMATION

BOARD OF DIRECTORS

In office until approval of the 2008 Financial Statements (Appointed, General Meeting 11.05.2006 – Powers conferred, Board resolutions 11.05.2006 and 26.06.2007)

MARIO CARRARO	Chairman
ENRICO CORRADI	Deputy Chairman
CARLO BORSARI	Managing Director
FRANCESCO 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 Remuneration Committee

BOARD OF STATUTORY AUDITORS

In office until approval of the 2008 Financial Statements (Appointed, General Meeting 11.05.2006)

ROBERTO SACCOMANI	Chairman
FRANCESCO SECCHIERI	Regular Auditor
FEDERICO MEO	Regular Auditor
RENZO LOTTO	Alternate Auditor
MARINA MANNA	Alternate Auditor

EXTERNAL AUDITORS

from 2007 to 2015

PricewaterhouseCoopers S.p.A.

PARENT COMPANIES

Finaid S.p.A.

Under the terms and for the purposes of Consob Communication no. 97001574 of 20 February 1997, we state that: The Chairman Mr Mario Carraro, the Deputy Chairman Mr Enrico Carraro and the Managing Director Mr Carlo Borsari have been given severally powers of legal representation and use of the corporate signature in relations with third parties and in legal actions; they carry on their work within the limits of the powers conferred on them by the Board of Directors at the meetings on 11 May 2006 and 26 June 2007, in accordance with the applicable legal constraints, in terms of matters which cannot be delegated by the Board of Directors and of responsibilities reserved for the Board itself, as well as of the principles and limits provided for in the Company's internal Code of Conduct.

Interim Report on Operations

Interim Financial Report to 30 June 2008

Summary figures	30/06/2008	%	31/12/2007	%	30/06/2007	%	Variance	
AMOUNTS IN €/000							30.06.08 compared with 30.06.07	
							Amount	%
Turnover	511,421		813,734		394,654		29.59%	
EBITDA	41,803	8.17	65,395	8.04	32,878	8.33	27.14%	-1.88%
Operating profit/(loss)	25,438	4.97	39,510	4.86	20,841	5.28	22.06%	-5.81%
Net financial income/(expense)	- 7,629	-1.49	- 10,859	-1.33	- 4,193	-1.06	81.93%	
Financial gains/(losses) on foreign exchange	- 1,985	-0.39	1,228	0.15	1,468	0.25	-300.71%	
Net income from equity interests	-	0.00	-	0.00	-	0.00		
Profit/(loss) before tax	15,824	3.09	29,879	3.67	18,116	4.59	-12.65%	- 32.60%
Tax	- 4,383	-0.86	- 12,757	-1.57	- 7,444	-1.89	-41.12%	
% Tax rate	- 27.7		- 42.7		- 41.1			
Net Profit/(Loss)	10,680	2.09	15,587	1.92	10,043	2.54	6.34%	-17.94%
Basic earnings per share	0.25		0.37		0.24			
Diluted earnings per share	0.25		0.37		0.24			
Depreciation and amortisation	- 16,365	-3.20	- 25,885	-3.18	- 12,037	-3.05	35.96%	
Cash flow	27,045	5.29	41,472	5.10	22,080	5.59	22.49%	-5.48%
Gross investments	29,703	5.81	46,958	5.77	20,055	5.08	48.11%	
Research and Development	8,531	1.67	15,069	1.85	8,116	2.06	5.11%	
Net financial position	- 194,942		- 175,947		- 131,300		-63,642	
Equity (without minority interests)	126,589		126,420		120,816		5,437	
Closing stock	212,532	41.56	182,430	22.42	148,514	37.63	64,018	
Employees	4,465		4,036		3,101		1,364	

INTERIM REPORT ON OPERATIONS AT 30 JUNE 2008
(CONSOLIDATED FIGURES)

The first half of 2008 saw growth with respect to the same period of the previous year, confirming the trend which had begun in the second half of 2007 and was more clearly evident in the first quarter of 2008.

This growth fully involved all segments of interest of each Business Unit; the main reference markets of Drivelines, agriculture and construction equipment, showed continuing strong demand in particular in the regions of Eastern Europe, the Middle East and Asia. Gears and components grew in every application market in particular in the new market devoted to renewable energies, where the Power Controls Business Unit, thanks to strong demand for inverters and electronic controls – for both the photovoltaic and the wind power sectors – also achieved a significant growth rate.

These six months were also characterised by certain extraordinary factors in relation to raw materials in terms of both availability and cost. Thanks to reinforcement of the supply chain and optimisation of manufacturing activities at a global level, the Group managed to minimise the negative effects associated with supply difficulties but – faced as it was with an anomalous trend in purchase costs, in particular in the second quarter of 2008 – had to proceed with a general adjustment of its price lists.

Despite the difficulties mentioned above, both the economic and the financial results remained in line with the budget forecasts.

GENERAL DATA AND COMMENTS

The results for the Group are presented, and commented on briefly, below.

2008 first half data (AMOUNTS IN €/000)

	30.06.2008	% of turnover	30.06.2007	% of turnover	Diff.%
Turnover	511,421		394,654		+29.6
EBITDA	41,803	8.2	32,879	8.3	+27.1
EBIT	25,438	5.0	20,841	5.3	+22.1
Net profit/(loss)	10,680	2.1	10,043	2.5	+6.3
Depreciation and amortisation	16,365	3.2	12,038	3.1	+35.9
Cash flow	27,045	5.3	22,080	5.6	+22.5
Investments	29,703	5.8	20,055	5.1	
Net financial position	194,942		131,300		
Shareholders' equity*	150,158		125,215		
Gearing	1.30		1.05		

*including minorities

Turnover

Consolidated turnover in the first half of 2008 reached 511.421 million euro, up 29.6% compared with the figure for 30 June 2007 (394.654 million euro).

The analysis of the destination of sales for each Business Unit, the main changes and the geographical destination are summarised in the tables below.

Segment reporting**a) business segment**

2008 first half data (AMOUNTS IN €/000)

	SALES			SALES TO THIRD PARTIES			INTRA-GROUP SALES		
	30.6.'08	30.6.'07	Diff. %	30.6.'08	30.6.'07	Diff. %	30.6.'08	30.6.'07	Diff. %
DRIVELINES	354,533	303,420	+16.85	342,935	301,616	+13.70	11,598	1,804	+542.90
GEARS & COMPONENTS	125,133	65,418	+91.28	85,266	30,106	+183.22	39,867	35,312	+12.90
VEHICLES	52,772	50,052	+5.44	51,633	50,014	+3.24	1,139	38	+2897.37
POWER CONTROLS	31,510	12,922	+143.85	31,510	12,918	+143.92	0	4	-100.00
TOTAL ALL SEGMENTS	563,948	431,812	+30.60	511,344	394,654	+29.57	52,604	37,158	+41.56
INTRA-GROUP ELIMINATIONS	-52,527	-37,158	+41.36	77	-	-	-52,604	-37,158	-41.56
CONSOLIDATED TOTAL	511,421	394,654	+29.59	511,421	394,654	+29.59	0	0	0

Drivelines

The increase in revenues of the Drivelines Business Unit is due in particular to sales for agricultural applications, for applications on heavy construction equipment in particular in the Chinese market, and finally to sales of drives destined for mining machinery and tracked cranes.

Gears & Components

In general sales grew in all application sectors in the traditional reference markets with significant growth in the new segment of wind generator drives.

Excluding from the turnover of the Gears & Components Business Unit the turnover of Mini Gears, which was consolidated from 01 August 2007, growth would have come out at 30.5%.

Vehicles

Sales of the Vehicles Business Unit grew slightly, as they were adversely affected by long delays in the supply of tyres, which prevented the unit from meeting demand that was constantly higher than in the previous year.

Power Controls

The extraordinary increase in turnover of the Power Controls Business Unit can be attributed to strong demand from the renewable energy market for wind power and photovoltaics, in the various European geographical areas, in particular in Spain.

b) geographical area

2008 first half data (AMOUNTS IN €/000)

<i>Geographical Area</i>	<i>30.06.2008</i>	<i>%</i>	<i>30.06.2007</i>	<i>%</i>
Germany	89,184	17.44	66,675	16.90
North America	73,704	14.41	63,959	16.21
Great Britain	50,758	9.92	39,230	9.95
France	30,866	6.04	31,280	7.93
South America	25,073	4.90	17,449	4.42
China	20,116	3.93	9,098	2.31
Spain	17,878	3.50	2,154	0.56
India	15,297	3.00	18,064	4.58
Poland	12,988	2.54	11,617	2.94
Other E.U. countries	44,499	8.70	31,086	7.88
Other non-E.U. countries	23,893	4.67	16,886	4.28
Total Foreign Countries	404,256	79.05	307,674	77.96
Italy	107,165	20.95	86,980	22.04
Total	511,421	100	394,654	100
of which:				
Total E.U. countries	353,338	69.09	269,011	68.16
Total non-E.U. countries	158,083	30.91	125,643	31.84

EBITDA and EBIT

2008 first half data (AMOUNTS IN €/000)

	<i>30.06.2008</i>	<i>% of turnover</i>	<i>30.06.2007</i>	<i>% of turnover</i>	<i>Diff.%</i>
EBITDA	41,803	8.2	32,879	8.3	+27.1
EBIT	25,438	5.0	20,841	5.3	+22.1

EBITDA (Earnings before Interest, Taxes, Depreciation and Amortisation) came out at 41.803 million euro with growth of 27.1% compared with 32.879 million euro in the first half of 2007. EBIT (Earnings before Interest and Taxes) came out at 25.438 million euro, up 22.1% compared with the 20.841 million euro of 30 June 2007. As mentioned above, on the whole the results are in line with the budget and an improvement with respect to the first quarter of 2008, despite facing the supply problems described which inevitably caused inefficiencies.

Financial expenses

2008 first half data (AMOUNTS IN €/000)

	30.06.2008	30.06.2007
Financial expenses	7,629	4,193

Net financial expenses in the first half of 2008 amounted to 7.629 million euro, compared with 4.193 million euro at 30 June 2007. The increase on the figure for the previous year is due to higher medium-term indebtedness and the higher cost of money.

Foreign exchange differences

2008 first half data (AMOUNTS IN €/000)

	30.06.2008	30.06.2007
Foreign exchange differences	-1,985	1,468

At 30 June 2008 foreign exchanges were negative by 1.985 million euro, compared with gains of 1.468 million euro at 30 June 2007, and include an adjustment of the medium/long-term loans denominated in euro contracted by the subsidiaries in India where the local currency was devalued with respect to 31 December 2007, and the MTM (Mark-to-Market) effects of designating derivative instruments at fair value.

Net profit

2008 first half data (AMOUNTS IN €/000)

	30.06.2008	% of turnover	30.06.2007	% of turnover	Diff.%
Net profit	10,680	2.1	10,043	2.5	+6.3

The net profit at 30 June 2008 was 10.680 million euro (2.1% of turnover), up 6.3% with respect to the figure for June 2007 (when it was 10.043 million euro, 2.5% of turnover).

Depreciation, amortisation and cash flow

2008 first half data (AMOUNTS IN €/000)

	30.06.2008	% of turnover	30.06.2007	% of turnover	Diff.%
Depreciation and amortisation	16,365	3.2	12,038	3.1	+35.9
Cash flow	27,045	5.3	22,080	5.6	+22.5

Depreciation and amortisation at 30 June 2008 increased to 16.365 million euro compared with 12.038 million euro at 30 June 2007 and the cash flow totalled 27.045 million euro (22.080 million euro at 30 June 2007).

Investments

2008 first half data (AMOUNTS IN €/000)

	30.06.2008	30.06.2007
Investments	29,703	20,055

Investments in the period amounted to 29.703 million euro (20.055 million euro at 30 June 2007), earmarked almost exclusively to increasing manufacturing capacity in particular of the *Gears & Components* unit.

Net financial position and gearing

The net financial position (the sum of bank borrowing, bonds and short-term and medium/long-term loans, net of cash and cash equivalents, marketable securities and financial credits) is negative by 194.942 million euro, an increase compared with the figure for 31 December 2007 which was negative by 175.947 million euro (in June 2007 negative by 131.300 million euro). The increase can be explained by growth in floating capital as a consequence of higher turnover, in some cases leading also to growth in stocks to sustain the supply difficulties mentioned above.

As of 30 June 2008, gearing (the ratio between net debt and owner's equity) stood at 1.30, compared with 1.17 at 31 December 2007, and 1.05 at 30 June 2007.

Significant events in the period

During the first half of 2008 the General Meeting approved an acquisition and disposal programme for a maximum number of ordinary shares of no more than 5% of the share capital and for a term of 18 months, to be effected for a price per ordinary share that may not be less, at the minimum, than 30% and at the maximum than 20% with respect to the reference price quoted for the share in the stock exchange session of the day preceding each transaction. Authorization for acquisition and disposal was also conferred in order to support the liquidity of the share and to intervene to counter fluctuations in the price beyond the normal variations associated with stock market trends.

In May Carraro International S.A. signed a new medium/long-term loan contract for 150 million euro. This liquidity will support the Group's growth and internationalization strategies in accordance with the objectives of the Three Year Plan, which provide for significant investments, mainly with the aim of reinforcing the manufacturing capacity, consolidating the internationalization process and launching new Research and Development projects.

Share price performance

In the first six months of the year Carraro shares were affected by the generalised downward trend seen on the European and American stock exchanges.

In more detail the average price of the share was 5.688 euro, with a minimum quotation of 4.435 euro on 22 January and a maximum quotation of 6.865 euro on January. At the end of the period the share price was 4.621 euro. Between the end of June and the beginning of August the Carraro share price declined further, in

parallel with the trend of the Mibtel and of all the world stock markets, sliding to a minimum of 3.544 euro (16 July) before rising to reach 4.669 euro on 11 August.

Subsequent events

On 1st July 2008 the Carraro Group put in place a process of corporate reorganization, with which it introduced a new model of management and governance which involved the separation of the four Business Units into Drivelines (under the control of Carraro Drive Tech S.p.A.), Gears & Components (under the control of Gear World S.p.A.), Vehicles (Agritalia Division) and Power Controls (under the control of Elettronica Santerno S.p.A.), each of which controlled directly or indirectly by Carraro S.p.A., in its capacity as Parent Company.

This decision was taken in order to better distinguish between the strategic control activities, for which Carraro S.p.A. is responsible, and the work of managing the individual Business Units, with consequent greater focusing and efficiency for each area.

On 1st July 2008, therefore, Carraro S.p.A. conferred on the newly-established company Carraro Drive Tech S.p.A. the company division consisting of all the tangible and intangible assets relating to the industrial activities of the factories of Campodarsego, Gorizia and, for replacement parts, Rovigo, including the equity interests held in the companies active in the Business Unit Drivelines A.E. S.r.l. and Carraro Argentina S.A. and with conferment by Carraro International S.A. of the equity interests held in the companies involved in the Business Unit: Drivelines, Fon S.A., Carraro Qingdao Drive, Carraro Qingdao Trading, and Carraro China Drive.

Subsequently, in the second half of 2008, a further conferment and capital increase of Carraro Drive Tech S.p.A. will be carried out in relation to the Indian interests.

Outlook for the business and risks for the current financial year

The scenario for the second half of 2008 confirms the good performance of the agricultural and alternative energy markets, and a further slowdown in the construction equipment segment which will entail a reduction in turnover of the Drivelines business compared with the forecasts at the start of the year.

Although the supply situation is improving, there is still considerable concern over trends in the costs of raw materials, in response to which the Group is continuing its recovery actions at the commercial level.

To minimize the effects of these difficulties the Group is taking all the necessary actions to enable substantial achievement the targets set.

Related-party transactions

Transactions with related parties carried out during the period gave rise to relationships of a commercial, financial or advisory nature and were expedited at market terms, in the economic interest of the individual companies involved in the transactions.

Interim Financial Report to 30 June 2008

No transactions were carried out that were atypical or unusual with respect to normal business operations and the interest rates and terms applied to and by the companies in their reciprocal financial relationships are in line with market terms.

Detailed information on the transactions carried out with related parties are provided in the Explanatory Notes to the Interim Financial Statements.

**CONDENSED CONSOLIDATED INTERIM FINANCIAL
STATEMENTS
AT 30 JUNE 2008**

CONSOLIDATED INTERIM INCOME STATEMENT AT 30.06.2008

	NOTES	30.06.2008 Euro/000	30.06.2007 Euro/000
A) REVENUES FROM SALES			
1) Products		503,082	390,916
2) Services		3,932	1,097
3) Other revenues		4,407	2,641
TOTAL REVENUES FROM SALES	1	511,421	394,654
B) OPERATING COSTS			
1) Purchases of goods and materials		334,992	257,389
2) Services		91,760	66,893
3) Use of third-party goods and services		2,700	1,568
4) Personnel costs		68,818	51,116
5) Amortisation and depreciation of assets		16,525	12,081
<i>5.a) depreciation of property, plant and equipment</i>		<i>14,548</i>	<i>11,000</i>
<i>5.a) amortisation of intangible assets</i>		<i>1,817</i>	<i>1,037</i>
<i>5.c) devaluation of fixed assets</i>		-	-
<i>5.d) provisions for bad debt</i>		<i>160</i>	<i>44</i>
6) Changes in stocks		-31,132	-16,968
7) Provisions for risks and other liabilities		4,304	2,984
8) Other expenses and income		-1,463	-758
9) Internal construction		-521	-492
TOTAL OPERATING COSTS	2	485,983	373,813
OPERATING PROFIT/(LOSS)		25,438	20,841
C) PROFIT/(LOSS) FROM FINANCIAL ACTIVITIES			
10) Income from equity interests		-	-
11) Other financial income		9,442	732
12) Financial income and expenses		-17,071	-4,925
13) Gains and losses on foreign exchange (net)		-1,985	1,468
14) Adjustments of financial assets		-	-
TOTAL PROFIT/(LOSS) FROM FINANCIAL ACTIVITIES	3	-9,614	-2,725
PROFIT BEFORE INCOME TAXES		15,824	18,116
15) Current and deferred taxes	4	-4,383	-7,444
NET PROFIT/(LOSS)		11,441	10,672
16) Profit/(loss) pertaining to minority interests		-761	-629
CONSOLIDATED GROUP PROFIT/(LOSS)		10,680	10,043
EARNINGS PER SHARE			
- basic and diluted, for profit for the period attributable to ordinary shareholders of the parent company	5	€ 0.25	€ 0.24

CONSOLIDATED INTERIM BALANCE SHEET AT 30.06.2008

	NOTES	30.06.2008 Euro/000	31.12.2007 Euro/000
A) NON-CURRENT ASSETS			
1) Property, plant and equipment	6	228,911	225,062
2) Intangible fixed assets	7	76,460	73,328
3) Real estate investments	8	709	710
4) Equity investments	9	170	195
<i>4.1) Interests in subsidiaries, associates and parents</i>		<i>158</i>	<i>183</i>
<i>4.2) Equity investments held for sale</i>		<i>12</i>	<i>12</i>
5) Financial assets	10	1,404	1,135
<i>5.1) Loans and receivables</i>		<i>-</i>	<i>-</i>
<i>5.2) Other financial assets</i>		<i>1,404</i>	<i>1,127</i>
<i>5.3) Accrued expenses</i>		<i>-</i>	<i>8</i>
6) Deferred tax assets		14,648	12,961
7) Trade receivables and other receivables	11	866	1,905
<i>7.1) Trade receivables</i>		<i>-</i>	<i>-</i>
<i>7.2) Other receivables</i>		<i>866</i>	<i>1,905</i>
TOTAL NON-CURRENT ASSETS		323,168	315,296
B) CURRENT ASSETS			
1) Closing stock	12	212,532	182,430
2) Trade receivables and other receivables	11	229,606	185,499
<i>2.1) Trade receivables</i>		<i>176,465</i>	<i>138,127</i>
<i>2.2) Other receivables</i>		<i>53,141</i>	<i>47,372</i>
3) Financial assets	10	2,252	1,837
<i>3.1) Loans and receivables</i>		<i>84</i>	<i>84</i>
<i>3.2) Other financial assets</i>		<i>1,525</i>	<i>1,141</i>
<i>3.3) Accrued income and prepaid expenses</i>		<i>643</i>	<i>612</i>
4) Cash and cash equivalents	13	41,416	32,655
<i>4.1) Cash in hand</i>		<i>165</i>	<i>138</i>
<i>4.2) Bank current accounts and deposits</i>		<i>40,938</i>	<i>32,478</i>
<i>4.3) Other liquid assets</i>		<i>313</i>	<i>39</i>
TOTAL CURRENT ASSETS'		485,806	402,421
TOTAL ASSETS'		808,974	717,717

CONSOLIDATED INTERIM BALANCE SHEET AT 30.06.2008

	NOTES	30.06.2008 Euro/000	31.12.2007 Euro/000
A) SHAREHOLDER'S EQUITY	14		
1) Share Capital		21,840	21,840
2) Other Reserves		60,344	52,040
3) Profits/(Losses) brought forward		-	-
4) IAS/IFRS first adoption reserve		44,384	44,384
5) Other IAS/IFRS reserves		-326	-143
Foreign currency translation reserve		-10,333	-7,288
6) Profit/(loss) for the period pertaining to the group		10,680	15,587
GROUP SHAREHOLDERS' EQUITY		126,589	126,420
7) Minority interests		23,569	23,584
TOTAL SHAREHOLDERS' EQUITY		150,158	150,004
B) NON-CURRENT LIABILITIES			
1) Financial liabilities	15	148,943	132,234
1.1) Bonds		-	-
1.2) Borrowings		148,943	132,234
1.3) Accrued expenses		-	-
1.4) Other		-	-
2) Trade payables and other payables	16	16,763	14,331
2.1) Trade payables		-	-
2.2) Other payables		16,763	14,331
3) Deferred tax liabilities		10,631	11,941
4) Provision for termination and retirement benefits	17	23,980	25,337
4.1) Provision for termination benefits		18,975	20,602
4.2) Provision for retirement benefits		5,005	4,735
5) Provisions for liabilities and charges	18	2,243	2,270
5.1) Provisions for warranties		1,336	1,213
5.2) Provisions for legal claims		720	879
5.3) Provisions for restructuring and reversion		-	-
5.4) Other provisions		187	178
TOTAL NON-CURRENT LIABILITIES		202,560	186,113
C) CURRENT LIABILITIES			
1) Financial liabilities	15	92,108	79,004
1.1) Bonds		-	-
1.2) Borrowings		86,482	75,861
1.3) Accrued income and prepaid expenses		1,660	1,212
1.4) Other		3,966	1,931
2) Trade payables and other payables	16	345,676	289,877
2.1) Trade payables		307,930	255,997
2.2) Other payables		37,746	33,880
of which to related parties		2,880	2,860
3) Payables for current taxes		10,086	5,479
4) Provisions for liabilities and charges (short-term portion)	18	8,386	7,240
4.1) Provisions for warranties		8,256	7,240
4.2) Provisions for legal claims		130	-
TOTAL CURRENT LIABILITIES		456,256	381,600
TOTAL LIABILITIES		658,816	567,713
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		809,974	717,717

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY
Figures in Euro/000

	Share Capital	Other reserves: equity profit		IAS/IFRS 1st adoption reserve	Treasury shares purchased	Cash flow hedge reserve	Foreign currency translation reserve	Profit / (loss) for period	Group Shareholders' Equity	Minority interests	Total
Balance at 01.01.2007	21,840	17,833	22,794	44,384	-	749	(2,878)	10,534	115,256	3,912	119,168
2007 interim profit	-	-	-	-	-	-	-	10,043	10,043	629	10,672
Income (expense) recognised in shareholders' equity:											
Change in fair value of cash flow hedge derivatives	-	-	-	-	-	756	-	-	756	3	759
Foreign exchange translation differences	-	-	-	-	-	-	12	-	12	5	17
Total income (expense) in the period						756	12	10,043	10,811	637	11,448
Transactions with shareholders:											
Distribution of dividends: Carraro Spa	-	-	-	-	-	-	-	(5,250)	(5,250)	-	(5,250)
Distribution of dividends: other companies	-	-	-	-	-	-	-	-	-	(150)	(150)
Allocation of 2007 net profit	-	-	5,284	-	-	-	-	(5,284)	(5,250)	(150)	(5,400)
			5,284					(10,534)	(5,250)	(150)	(5,400)
Balance at 30.06.2007	21,840	17,833	28,078	44,384	-	1,505	(2,866)	10,043	120,817	4,399	125,216

	Share Capital	Other reserves: equity profit		IAS/IFRS 1st adoption reserve	Treasury shares purchased	Cash flow hedge reserve	Foreign currency translation reserve	Profit / (loss) for period	Group Shareholders' Equity	Minority interests	Total
Balance at 01.01.2008	21,840	17,833	34,207	44,384	-	(143)	(7,288)	15,587	126,420	23,584	150,004
2008 interim profit								10,680	10,680	761	11,441
Income (expense) recognised in shareholders' equity:											
Change in fair value of cash flow hedging derivatives						(206)			(206)	(58)	(264)
Foreign exchange translation differences							(3,071)		(3,071)	(498)	(3,569)
Total income (expense) in the period						(183)	(3,045)	10,680	(3,228)	(497)	(3,725)
Transactions with shareholders:											
Distribution of dividends: Carraro Spa								(6,930)	(6,930)		(6,930)
Distribution of dividends: other companies										(279)	(279)
Allocation of 2007 net profit			8,657					(8,657)			-
Own share purchase					(245)				(245)		(245)
Change in consolidation area			(108)			23	26		(59)	59	-
			8,549		(245)	23	26	(15,587)	(7,234)	(279)	(7,454)
Balance at 30.06.2008	21,840	17,833	42,756	44,384	(245)	(326)	(10,333)	10,680	126,589	23,569	150,158

CONSOLIDATED INTERIM CASH FLOW STATEMENT

	30/06/2008	30/06/2007
	Euro/000	Euro/000
Profit/(loss) for the period pertaining to the Group	10,680	10,043
Profit/(Loss) for the period pertaining to minority interests	761	629
Tax for the period	4,383	7,444
Profit/(loss) before tax	15,824	18,116
Depreciation of property, plant and equipment	14,548	11,000
Amortisation of intangible assets	1,817	1,037
Provisions for liabilities	4,304	2,984
Provisions for employee benefits	2,824	1,554
Net financial income/expense	7,629	4,193
Gains and losses on foreign exchange (net)	1,985	- 1,468
Operational cash flow before changes in NWC	48,931	37,416
Changes in stocks	- 30,102	- 17,596
Changes in trade and other receivables	- 43,070	-20,104
<i>Changes in trade and other receivables from related parties</i>	2	-15
Changes in trade and other payables	58,086	41,914
<i>Changes in trade and other payables to related parties</i>	145	-860
Changes in receivables/payables for deferred taxes	-395	302
Changes in provisions for employee benefits	- 4,181	- 2,467
Changes in provisions for liabilities	- 3,185	- 2,389
Interest received	9,420	996
Interest paid	- 16,623	- 4,863
Tax consolidation expense and income	-20	- 1,224
Tax payments	-2,358	- 2,789
Operational cash flow	16,650	28,321
Investments in PPE and property investments	- 27,894	-18,796
Disinvestments, forex delta and other PPE movements	9,498	586
Investments in intangible assets	- 4,869	-4,929
Disinvestments, forex delta and other intangible asset movements	- 80	-42
Equity investments/disinvestments	25	- 10
Cash flow from investments/disinvestments	- 23,320	- 23,191
Changes in current financial assets	- 2,370	422
Changes in non-current financial assets	- 277	- 410
Changes in current financial liabilities	12,656	3,759
Changes in non-current financial liabilities	16,709	7,415
Changes in reserves	- 3,302	917
Dividends paid	- 7,209	- 5,400
Changes in minority interests	- 776	- 142
Cash flow from financial assets	15,431	6,561
Total cash flow for period	8,761	11,691
Opening cash and cash equivalents	32,655	15,985
Closing cash and cash equivalents	41,416	27,676

EXPLANATORY NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Introduction

Publication of the consolidated interim report of Carraro S.p.A. for the period from 1 January to 30 June 2008 was authorised in a resolution approved by the Board of Directors on 28 August 2008.

Carraro S.p.A. is a joint-stock company registered in Italy at the Padua Companies Register and controlled by Finaid S.p.A.. Carraro S.p.A. is not subject to activity of management and coordination under the terms of Art. 2497 and following of the Civil Code.

The controlling shareholder Finaid S.p.A. does not perform any activity of management and coordination in relation to Carraro, and in particular:

- Finaid is a purely financial holding company;
- Finaid does not issue any instructions to Carraro;
- the Board of Directors of Finaid does not approve Carraro's strategic plans or business plans nor does it "interfere" regularly in its operations; and
- there are no relationships of a commercial or financial nature between Finaid and Carraro.

The present consolidated interim report is presented in euro, as this is the currency in which most of the group's operations are conducted. The foreign companies are included in the consolidated report in accordance with the principles described in the notes that follow. This report is presented in thousands of euro.

The Carraro Group companies are mainly engaged in the manufacture and marketing of transmission systems developed for agricultural tractors, construction equipment, material moving machinery, light commercial vehicles and automobiles. Following the acquisition of Elettronica Santerno S.p.A., since 1 July 2006 the Group has also been producing electronic control and power systems.

2. Reporting criteria and accounting principles

The condensed interim financial statements have been prepared in accordance with Lgs Dec. 58/1998 and with the Regulations for Issuers.

The present financial statements have been prepared applying IAS 34 "Interim Financial Reporting" taking into account the instructions contained in the rules issued by CONSOB in Communication No. DEM 6064293 of 28 July 2006. The report was prepared on the basis of the historical cost principle, except for derivative financial instruments which are designated at fair value.

The accounting principles, consolidation principles and measurement criteria used in preparing the present report were applied in a comparative manner in the periods presented. They are also the same as those used to prepare the consolidated financial statements to 31.12.2007, to which the reader is referred.

2.1 Format of the consolidated interim financial statements

The accounting formats are the same as those used in the annual report.

Adaptation of formats following Consob Resolution 15519

With reference to the reporting of related-party transactions in the financial statements, provided for in Consob Resolution 15519 of 27 July 2006, there were no balances of a significant amount such as to require separate indication to facilitate understanding of the assets and liabilities, financial position and results of the group. Complete details of these amounts are, however, provided in a specific table in paragraph 8 below, which deals with related-party transactions.

It was not necessary to adapt the Income Statement for significant non-recurring costs and revenues and/or costs and revenues resulting from atypical and/or unusual transactions.

2.2 Content of the Consolidated Interim Report

Consolidation area

The consolidated interim report of the Group includes the financial statements of Carraro S.p.A. and of the companies in which it holds, directly or indirectly, the majority of voting rights at the annual general meeting.

The definition of a subsidiary is in keeping with that given in the Group's annual financial statements at 31.12.2007.

The companies consolidated with the line-by-line method are the following:

Name	Head office	Currency	Par value Share capital	Group stake
Parent company:				
Carraro S.p.A.	Campodarsego (PD)	Euro	21,840,000	
Italian subsidiaries:				
Carraro Drive Tech S.p.A.	Campodarsego (PD)	Euro	120,000	100,00%
SIAP S.p.A.	Maniago (PN)	Euro	10,122,616	73,82%
STM S.r.l.	Maniago (PN)	Euro	1,549,080	36,91% (*)
A.E. S.r.l.	Castello d'Argile (BO)	Euro	40,000	90,00%
Elettronica Santerno S.p.A.	Campodarsego (PD)	Euro	2,500,000	67,00%
Gear World S.p.A.	Padua	Euro	35,084,397	73,82%
MG Mini Gears S.p.A.	Padua	Euro	5,000,000	73,82%
Foreign subsidiaries:				
Zao Santerno	Moscow (Russia)	RUB	100,000	67,00%
Elettronica Santerno Industria e Comercio LTDA	Sao Paulo (Brazil)	RS	831,551	67,00%
Carraro Argentina S.A.	Haedo – Buenos Aires (Argentina)	Pesos	77,327,617	99,95%
South America Gears S.A.	Haedo – Buenos Aires (Argentina)	Pesos	27,768,888	73,79%
Carraro India Ltd.	Rajangaon – Pune (India)	Rupees	400,000,000	100,00%
Turbo Gears India Ltd.	Rajangaon – Pune (India)	Rupees	550,000,000	73,82%
Carraro Technologies India Pvt. Ltd.	Bombay (India)	Rupees	18,000,000	100,00%
F.O.N. S.A.	Radomsko (Poland)	Zloty	7,058,220	90,67%
Carraro International S.A.	Luxembourg	Euro	39,318,000	100,00%
Carraro Finance Ltd	Dublin (Ireland)	Euro	100,000	100,00%
Carraro North America Inc.	Calhoun - Georgia (USA)	USD	100	100,00%
Carraro North America Inc.	Virginia Beach – Virginia (USA)	USD	1.000	100,00%
Carraro Deutschland GmbH	Hattingen (Germany)	Euro	10,507,048	100,00%
O&K Antriebstechnik GmbH & Co. KG	Hattingen (Germany)	Euro	2,045,168	100,00%
Carraro Qingdao Drive Systems Co. Ltd.	Shandong (China)	Euro	1,050,000	100,00%
Carraro Qingdao Trading Co. Ltd.	Shandong (China)	Euro	170,000	100,00%
Carraro China Drive System Co. Ltd.	Shandong (China)	USD	13,084,659	100,00%
MG Mini Gears Inc.	Virginia Beach – Virginia (USA)	USD	8,910,000	73,82%
MG Mini Gears North America LLC.	Virginia Beach – Virginia (USA)	USD	20,000	73,82%
MG Mini Gears Property LLC.	Virginia Beach – Virginia (USA)	USD	20,000	73,82%
MG Mini Gears (Shanghai) Trading Co.	Shanghai (China)	USD	200,000	73,82%
MG Mini Gears (Suzhou) Co Ltd.	Jiangsu (China)	USD	4,300,000	73,82%

(*) indirect percentage deriving from the stake of the parent company in Siap S.p.A. (73.82%) and of Siap S.p.A. in STM S.r.l. (50.0001%).

Changes in the consolidation area

The following companies have been included in the consolidation area beginning in the current financial year:

Eletronica Santerno Industria e Comercio LTDA

The company was incorporated on 27 March 2007. During the period the process of registration with the competent authorities was completed and the company began operations.

Carraro North America Inc. (Virginia Beach)

The company was incorporated on 21 November 2007. During the period the company began operations.

South America Gears S.A. and Carraro Argentina S.A.

On 13 February 2008 the deed of division and reduction of the capital of Carraro Argentina S.A. and of incorporation of South America Gears S.A. was registered at the Provincial Directorate of Legal Persons of Buenos Aires (Argentina).

Carraro Drive Tech S.p.A.

The company was incorporated on 4 June 2008 with a share capital of 120,000 euro. On 27 June 2008 the extraordinary general meeting approved, with effect from 1 July 2008, a share capital increase of Euro 11,205,389 subscribed by:

1. Carraro Spa, by conferment, starting from 1 July 2008, of a company division including the equity interests in the companies A.E. Srl and Carraro Argentina S.A.;
2. Carraro International S.A., by conferment, starting from 1 July 2008, of the equity interests in the companies F.O.N. S.A., Carraro Qingdao Drive Systems Co. Ltd., Carraro Qingdao Trading Co. Ltd. and Carraro China Drive System Co. Ltd.

MG Mini Gears S.p.A. and MG Holding S.p.A.

With a deed on 2 April 2008, the company MG Mini Gears S.p.A. was merged by incorporation into MG Holding S.p.A.. The general meeting then resolved to change the name of the company to MG Mini Gears S.p.A.

The following equity interests have been excluded from the consolidation area:

Name	Parent company	Head office	Currency	Par value Share capital	Percentage stake
Carraro PNH Components India Ltd.	Carraro India Ltd.	Bombay (India)	Rupees	10,000,200	99.998%
Carraro Drive Tech do Brasil Comércio de Sistemas Automotivos Ltda.	Carraro Argentina	Sao Paulo (Brazil)	R\$	831,551	99.90%

Carraro PNH Components India Ltd. is a non-operational company, whose only assets consist of land for industrial development and the decision not to consolidate is not considered significant in presenting the accounts.

Carraro Drive Tech do Brasil Comércio de Sistemas Automotivos Ltda. was incorporated on 6 June 2008. As of 30.06.2008 the process of registration with the competent authorities had not been completed and the company had not begun operations.

During the period the liquidation of Carraro Korea Ltd. was completed; on 11 March 2008 the company was cancelled from the register of foreign investments.

The exchange rates applied for the translation of the accounts presented in foreign currencies were as follows:

Currency	2008 1 st half average exchange rate	Exchange rate at 30.06.2008
Indian Rupee	62.3899420	67.79740
Polish Zloty	3.4901111	3.35130
US Dollars	1.5304206	1.57640
Chinese Renminbi	10.7988761	10.80510
Argentine Peso	4.8005903	4.76603
Russian Ruble	36.3769269	36.94770
Brazilian Real	2.5945857	2.51120

3. Accounting principles and measurement criteria

The interim report does not include all the additional information required in the annual financial statements and should therefore be read together with the consolidated annual financial statements at 31.12.2007.

The measurement criteria and the accounting principles are in accordance with those adopted in preparation of the consolidated annual financial statements at 31.12.2007.

4. Information on business segments and geographical areas

The group's business is organized mainly into four business units which represent the group entities grouped together according to the main product types.

The other activities carried on by the group are subsidiary to and in support of the main businesses.

The business units are divided as follows:

1) *Drives and Drivelines*, which groups together the entities devoted to the production of transmission systems (axles and transmissions): Carraro S.p.A. excluding the former Agritalia factory, Carraro Drive Tech S.p.A., AE S.r.l., O&K Antriebstechnik, Carraro Deutschland GmbH, Carraro Argentina, FON, Carraro India, Carraro North America, Carraro Qingdao Drive Systems Co., Carraro China Drive Systems Co., Carraro Qingdao Trading Co.

2) *Gears and Components*, which groups together the entities devoted to the production of components for axles and transmissions: Gear World S.p.A., Siap S.p.A., South America Gears, Turbo Gears India, STM S.r.l., MG Mini Gears S.p.A., Mini Gears Suzhou Co Ltd., Mini Gears Shangai Trad. Ltd, Mini Gears Inc.

3) *Vehicles, consisting of the former Agritalia factory, rented as a company to Carraro S.p.A., devoted to the production of agricultural tractors.*

4) *Power Controls, consisting of Elettronica Santerno S.p.A, Zao Santerno and Elettronica Santerno Industria e Comercio Ltda.*

At 30.06.2008 the company Società Carraro Deutschland GmbH was included in the Business Unit *Drives and Drivelines*; at 30.06.2007 was classified among unallocated businesses.

At 30.06.2008 the company Carraro Technologies India Ltd. was included in the unallocated businesses; at 30.06.2007 it was included in the Business Unit *Drives and Drivelines*.

4.1 Business segments

The most significant information on business segments is presented in the following tables, comparatively for the half-years ended 30.06.2008 and 30.06.2007.

a) economic data

(figures in Euro/000)

30.06.2008	DRIVES & DRIVELINES	GEARS & COMPONENTS	VEHICLES	POWER CONTROLS	ELIMINATIONS AND NON-ALLOCATED BUSINESSES	CONSOLIDATED TOTAL
SALES	354,533	125,133	52,772	31,510	-52,527	511,421
SALES TO THIRD PARTIES	342,935	85,266	51,633	31,510	77	511,421
INTRA-DIVISIONAL SALES	-	-	-	-	-	-
INTER-DIVISIONAL SALES	11,598	39,867	1,139	-	-52,604	-
OPERATING COSTS	346,020	118,702	49,808	24,501	-53,048	485,983
DIRECT/INDIRECT MATERIALS	240,659	56,228	39,246	16,255	-48,528	303,860
USE OF THIRD-PARTY ASSETS AND SERVICES	58,907	32,254	4,128	4,647	-5,476	94,460
EMPLOYEES	37,129	23,022	5,367	3,011	289	68,818
DEPRECIATION AND AMORTISATION	7,147	8,541	196	584	57	16,525
PROVISIONS	3,051	261	922	70	-	4,304
OTHER EXPENSES AND INCOME	-873	-1,604	-51	-66	610	-1,984
OPERATING PROFIT/(LOSS)	8,513	6,431	2,964	7,009	521	25,438

(figures in Euro/000)

30.06.2007	DRIVES & DRIVELINES	GEARS & COMPONENTS	VEHICLES	POWER CONTROLS	ELIMINATIONS AND NON-ALLOCATED BUSINESSES	CONSOLIDATED TOTAL
SALES	303,420	65,418	50,052	12,922	-37,158	394,654
SALES TO THIRD PARTIES	301,616	30,106	50,014	12,918	-	394,654
INTRA-DIVISIONAL SALES	-	-	-	-	-	-
INTER-DIVISIONAL SALES	1,804	35,312	38	4	-37,158	-
OPERATING COSTS	296,608	58,454	44,354	11,085	-36,688	373,813
DIRECT/INDIRECT MATERIALS	204,381	27,424	35,646	7,390	-37,319	237,522
USE OF THIRD-PARTY ASSETS AND SERVICES	49,084	17,273	3,326	1,719	593	71,995
EMPLOYEES	34,659	9,722	4,822	1,829	84	51,116
DEPRECIATION AND AMORTISATION	7,421	4,449	111	156	-55	12,082
PROVISIONS	2,202	259	514	9	-	2,984
OTHER EXPENSES AND INCOME	-1,139	-673	-65	-18	9	-1,886
OPERATING PROFIT/(LOSS)	6,812	6,964	5,698	1,837	-470	20,841

The figures for 30 June 2007 do not include the Mini Gears Group, as this was acquired and consolidated in the second half of 2007.

The company South America Gears S.A. started to do business following the splitting of Carraro Argentina and began operations on 1 April 2008.

5. Notes and comments

Seasonal effects on the business

The business is not subject to particular conditions of a seasonal or cyclical nature.

Revenues and costs

A) Revenues from sales (note 1)

Consolidated turnover in the period reached 511.42 mln euro, an increase of 29.59% with respect to the same period of the previous year.

Analysis by business segment

See the information provided in section 4 above.

B) Operating costs (note 2)

Operating costs showed changes in keeping with the increase in turnover.

Further analysis is provided in the directors' report.

C) Profit/(loss) from financial activities (note 3)

The amount of net financial expenses increased from Euro 4.19 mln to Euro 7.63 mln in line with the increase in total net indebtedness (which went up from Euro 131.3 mln on 30 June 2007 to Euro 194.94 mln).

Net gains and losses on exchange rates were negative by Euro 1.98 mln compared with gains of Euro 1.47 mln at 30.06.2007.

Income taxes (note 4)

The main income tax components in the income statement are:

<i>(Figures in Euro/000)</i>	30.06.2008	30.06.2007
TAXES FROM PREVIOUS YEARS	-726	-329
<i>CURRENT TAXES</i>	<i>7,691</i>	<i>5,638</i>
<i>TAX CONSOLIDATION EXPENSE AND INCOME</i>	<i>20</i>	<i>1,224</i>
<i>DEFERRED TAXES</i>	<i>-2,602</i>	<i>911</i>
TAXES FOR THE PERIOD	5,109	7,773
15) CURRENT AND DEFERRED TAXES	4,383	7,444

Taxes include the effect of accepting the realignment of off-balance-sheet deductions (by Carraro Spa and Minigears Spa) and of the elimination of higher amounts recognised following extraordinary operations (by Minigears Spa) under the terms of Law 244/2007. In particular, the effect of accepting these options entailed recognition in the present financial statements of substitutive taxes of Euro 1,109 thousand and the reversal of deferred taxes payable of Euro 2,260 thousand, with a consequent positive economic effect of Euro 1,151 thousand.

Group earnings per share (note 5)

Profit	30.06.2008 <i>Euro/1,000</i>	31.12.2007 <i>Euro/1,000</i>	30.06.2007 <i>Euro/1,000</i>
Profit for the purposes of calculation of basic earnings per share	10,680	15,587	10,043
Effect of dilution deriving from potential ordinary shares:	-	-	-
Profit for the purposes of calculation of basic earnings per share	10,680	15,587	10,043

Number of shares	30.06.2008 N./1,000	31.12.2007 N./1,000	31.12.2006 N./1,000
Weighted average number of ordinary shares for the calculation of basic earnings per share:	41,998 (*)	42,000	42,000
Effect of dilution deriving from potential ordinary shares:	-	-	-
Weighted average number of ordinary shares for the calculation of diluted earnings per share:	41,998	42,000	42,000

Earnings per share	30.06.2008 Euro	31.12.2007 Euro	31.12.2006 Euro
Basic earnings per share:	0.25	0.37	0.24
Diluted earnings per share:	0.25	0.37	0.24

(*) on 11 June 2008 a treasury share buy-back plan began; more information is provided in note 14.

Dividends paid

The dividends paid by Carraro S.p.A. in the six months (in relation to distribution of the profit for financial year 2007, following the general meeting resolution of 23 April 2008) amounted to a total of Euro 6,930 thousand, or Euro 0.165 per ordinary share.

The Company has not issued shares other than ordinary shares.

In the previous year the dividends paid (in relation to distribution of the 2006 profit) amounted to a total of Euro 5,250 thousand, or Euro 0.125 per ordinary share.

Property, plant and equipment (note 6)

These items present a net balance of Euro 228.91 mln compared with Euro 225.06 mln in the previous period. The breakdown is as follows:

(in thousands of euro)

Description	Land and buildings	Plant and machinery	Industrial equipment	Other assets	Investments in progress and deposits	Total
Historical cost	69,211	175,875	77,154	12,836	7,643	342,719
Provisions for depreciation	-10,798	-64,629	-34,141	-6,445	-	-116,013
Write-downs	-1,007	-279	-330	-28	-	-1,644
Net at 31.12.2007	57,406	110,967	42,683	6,363	7,643	225,062
Movements in 1 st half 2008						
Increases	295	13,165	7,995	1,269	5,170	27,894
Decreases	-3,122	-932	-633	-59	-495	-5,241
Capitalisation	-	37	346	-	-383	-
Change in consolidation area	-	-	-	-	-	-
Depreciation and amortisation	-1,119	-7,945	-4,640	-844	-	-14,548
Reclassification	0	-365	7	-1	359	-
Forex translation diff.	-1,068	-2,103	-462	-101	-521	-4,255
Net at 30.06.2008	52,392	112,824	45,296	6,627	11,773	228,912
Made up of:						
- historical cost	65,272	180,677	81,394	13,703	11,773	352,819
- provisions for depreciation and writedowns	-12,880	-67,853	-36,098	-7,076	-	-123,907

At 30.06.2008 there are leased assets recognised as Plant and Machinery of Euro 5.73 mln and as Land and Buildings of Euro 4.01 mln.

Land and buildings

The decrease is due to the sale of the industrial building in Calhoun (USA) by Carraro North America Inc..

Plant and machinery

The increases are mainly due to investments by Siap S.p.A., Mini Gears S.p.A., Turbo Gears India Ltd and Carraro India Ltd.

Industrial equipment

The increases are mainly due to purchases of casting moulds and tools by Carraro China Drive Systems Ltd, Siap S.p.A. and Mini Gears S.p.A..

Investments in progress and deposits

The increases in Investments in progress and deposits are mainly due to investments being made in Carraro China Drive Systems Ltd., Mini Gears S.p.A., Carraro India Ltd. and Turbo Gears India Ltd..

On the property, plant and equipment of Carraro India there are mortgages guaranteeing the loans granted by Medio Credito Centrale and BNP for a total of Euro 4.03 mln.

Intangible assets (note 7)

These items present a net balance of Euro 76.46 mln compared with Euro 73.33 mln in the previous period. The breakdown is as follows:

(in thousands of euro)

Description	Goodwill	Develop ment costs	Royalties and patents	Licences and Trademarks	Invest. in prog. and deposits	Other investments	Total
Historical cost	58,414	6,728	518	12,743	3,280	2,316	83,999
Provisions for depreciation	-	-3,854	-352	-3,908	-	-375	-8,489
Write-downs	-1,000	-91	-	-	-	-1,091	-2,182
Net at 31.12.2007	57,414	2,783	166	8,835	3,280	850	73,328
Movements in 1 st half 2008							
Increases	3,060	3	255	574	956	21	4,869
Decreases	-	-	-	-	-179	-32	-211
Capitalisation of int. costs	-	-	-	-	-	-	-
Change in consolidation area	-	-	-	-	-	-	-
Depreciation and amortisation	-	-592	-183	-879	-	-164	-1,818
Reclassification	-	-	-	-	-	-	-
Write-downs	-	-	-	-	-	-	-
Forex translation diff.	-	66	57	75	-	92	290
Net at 30.06.2008	60,474	2,260	295	8,605	4,057	767	76,458
Made up of:							
- historical cost	61,474	6,863	773	13,309	4,236	304	86,959
- provisions for depreciation and writedowns	-1,000	-4,603	-478	-4,704	-179	463	-10,501

Goodwill

Goodwill is made up as follows:

With reference to the amounts of goodwill indicated:

- Euro 3.00 mln generated by the consolidation accounts of the unit corresponding to the company O&K Antriebstechnik GmbH & Co. KG., as the difference between the value of the equity interest and the current values of the assets and liabilities of the investee company;
- Euro 18.08 mln generated by the consolidation accounts of the unit corresponding to the company Carraro India Ltd., as the difference between the value of the remaining equity interest purchased in 2006 and the corresponding proportion of the book values of the assets and liabilities of the company;
- Euro 19.21 mln relating to the unit corresponding to the company Elettronica Santerno S.p.A., made up of Euro 2.89 mln of goodwill paid to Casalfiumanese Spa on purchase of the company division and Euro 16.32 mln as the difference between the value of the equity interest and the current value of the investee company. The increase in the period (Euro 3.06 mln) is due to the adjustment in the valuation of the sale option granted to the minority shareholder. Carraro Spa has a purchase option on the remaining 33% of Elettronica Santerno. After the end of the period the agreement with the minority shareholder was revised: the exercise price of the purchase option granted to the Carraro Group was set at Euro 18.00 mln, exercisable from 30 January 2010 until 31 May 2011 and the minority shareholder has a sale option on the same interest exercisable in the 30 business days after 30 March 2010 and in the 30 business days after 31 May 2011.
- Euro 20.21 mln generated by the consolidation accounts of the unit corresponding to the Mini Gears group, as the difference between the value of the equity interest purchased and the current values of the assets and liabilities of the investee companies;

Licences and Trademarks

The increase is mainly due to the purchase of new software by Carraro S.p.A., Elettronica Santerno S.p.A. and Mini Gears S.p.A..

Real estate investments (note 8)

These present a net balance unchanged with respect to the previous period.

Equity interests (note 9)

Change in equity interests in first half of 2008:

(in thousands of euro)

Description	Balance as of 31.12.2007	Increases/ Decreases	Change in consolidation area	Exchange rate adjustments	Balance as of 30.06.2008
Carraro PNH Components India Ltd.	172	-	-	-24	148
Carraro Drive Tech do Brasil Comércio de Sistemas Automotivos Ltda.	-	10	-	-	10
Elettronica Santerno Industria e Comercio LTDA	10	-	-10	-	-
Carraro North America Inc.	1	-	-1	-	-
SUBSIDIARIES	183	10	-11	-24	158
HELD FOR SALE	12	-	-	-	12
TOTAL EQUITY INTERESTS	195	10	-11	-24	170

Equity interests in subsidiaries

The change is due to exchange rate adjustments at 30 June 2008 and to subscription of the share capital of the company Carraro Drive Tech do Brasil Comércio de Sistemas Automotivos Ltda.

Equity investments held for sale

The amount relates to the equity investment in the associated company Elcon Elettronica S.r.l.. The investment was sold during the second half of 2008.

Financial assets (note 10)

Other non-current financial assets

- Available for sale (Euro 0.17 mln): they consist of minority equity interests and therefore do not have a fixed redemption date;
- Cash flow hedging derivatives (Euro 1.23 mln): the figure refers to the fair value at 30.06.2008 of seven I.R.S. contracts signed by Carraro International and Mini Gears S.p.A..

Other current financial assets

Foreign currency cash flow hedging derivatives (Euro 1.52 mln): these relate to the fair value of contracts in existence on 30.06.2008.

Trade receivables and other receivables (note 11)

In the period provisions for bad debt remained substantially in line with the figure at 31.12.2007. The increase in the balance of net receivables with respect to 31.12.2007 (from Euro 138.12 mln to Euro 176.46 mln) is mostly due to the rise in turnover in the first half of 2008.

Other non-current receivables (Euro 0.87 mln) consist mainly of guarantee deposits and prepayments of costs accruing in subsequent periods.

Trade receivables bear no interest and mature on average at 60 days.

Stocks (note 12)

<i>(In thousands of euro)</i>	30.06.2008	31.12.2007
Raw materials	120,650	107,463
Work in progress and semi-finished products	62,520	47,396
Finished products	45,840	40,968
Goods in transit	534	406
Total stocks	229,544	196,233
Provisions for depreciation	-17,012	-13,803
Net value	212,532	182,430

Inventory stocks present a balance of Euro 212.53 mln compared with Euro 182.43 mln at 31.12.2007. In general these changes are dependent on annual production trends. Provisions for inventory depreciation were increased to align the value of slow-moving obsolete stocks to the estimated realisation value.

Cash and cash equivalents (note 13)

<i>(in thousands of euro)</i>	30.06.2008	31.12.2007
Cash on hand	165	138
Bank current accounts and deposits	40,938	32,478
Other cash or cash equivalents	313	39
TOTAL	41,416	32,655

Short-term bank deposits are remunerated at a floating rate.

Shareholders' equity (note 14)

The Annual General Meeting of 23 April 2008 approved a treasury share purchase plan. The purchase will be made on regulated markets according to the following terms:

- the duration of the authorisation is 18 months from the date of the general meeting resolution;
- the authorisation is valid for a maximum number of 2,100,000 ordinary shares, wholly paid up and settled with a par value of Euro 0.52, equivalent to 5% of subscribed and paid-up share capital;
- the maximum purchase price may not be more than 20% higher than the reference price recorded in the stock exchange session prior to each individual transaction;
- the minimum purchase price may not be more than 30% lower than the reference price recorded in the stock exchange session prior to each individual transaction;

At 30 June 2008, 49,813 shares had been purchased for a total investment of Euro 244,770.

At 30 June 2008, the authorised and fully paid-up share capital amounts to Euro 21,840,000 and consists of 42 million ordinary shares with a par value of Euro 0.52 each.

Financial liabilities (note 15)

On 29 May Carraro International S.A. signed for a new loan of Euro 150.00 mln with a pool of banks (Unicredit Corporate Banking SpA as lead manager, Banca Antonveneta SpA, Cassa di Risparmio di Padova e Rovigo SpA and Banca Popolare Friuladria).

In relation to the new loan, the contractual agreements provide for observance of certain “Covenants”, which are calculated on the basis of the consolidated accounting data at 31 December of each year.

The “Covenants” envisaged are the following:

- ratio between Net Financial Position and Equity of less than 1.85;
- ratio between Net Financial Position and EBITDA of less than 3.70;

Failure to observe the parameters will lead to forfeiture of the benefit of the term and an obligation to repay the remaining loan immediately.

On the same date Carraro International S.A. repaid in advance the remainder of the “Club Deal” pooled bank loan (Euro 60 mln) disbursed in 2005.

<i>(in thousands of euro)</i>	30.06.2008	31.12.2007
<u>NON-CURRENT FINANCIAL LIABILITIES</u>		
<u>BORROWINGS</u>		
WITH THIRD PARTIES	148,943	132,234
<u>CURRENT FINANCIAL LIABILITIES</u>		
<u>BORROWINGS</u>		
WITH THIRD PARTIES	86,482	75,861
<u>FINANCIAL ACCRUALS AND DEFERRALS</u>		
WITH THIRD PARTIES	1,660	1,212
<u>OTHER FINANCIAL LIABILITIES</u>		
FAIR VALUE OF INT. RATE DERIVATIVES	-	37
FAIR VALUE OF EXCH. RATE DERIVATIVES	3,966	1,894
	<u>3,966</u>	<u>1,931</u>

Other current financial liabilities

The balance relates to the negative fair value recognised at 30.06.2008 on derivative instruments in existence on foreign currencies.

Net indebtedness is shown in the table below (in thousands of euro):

Net financial position	30.06.2008	31.12.2007	30.06.2007
Borrowings:			
- non-current	148,943	132,233	92,952
- current	86,482	75,861	66,419
non-current financial accruals and deferrals	-	-8	-
current financial accruals and deferrals	1,017	600	-282

NET OF:

Cash and cash equivalents

Cash on hand	-165	-138	-95
Bank current accounts and deposits	-41,251	-32,517	-27,581
Loans and borrowings	-	-	-28
<i>Loans and borrowings with related parties</i>	<i>-84</i>	<i>-84</i>	<i>-84</i>

Securities

Other financial receivables

Net financial position	194,942	175,947	131,300
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Of which payables / (receivables):

- non-current	148,943	132,225	92,952
- current	45,999	43,722	38,348

Net financial position	194,942	175,947	131,300
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Trade payables and other payables (note 16)

Trade payables do not produce interest and on average are settled at 120 days.

Other payables include the position of Carraro Spa and Siap Spa with Finaid Spa for tax consolidation expenses (Euro 2.77 mln).

Termination/retirement benefits (employee benefits) (note 17)

Termination benefits are benefits to employees regulated by the laws in force in Italy and recognised in the financial statements of Italian companies.

On the basis of the changes introduced in Law 296/06, with effect from 30 June 2007, the termination benefits maturing after 1 January 2007 must be paid into a specific treasury reserve established at the pensions agency INPS, or, if the employee so chooses, into a special complementary pension fund. With these contributions there are no more provisions for termination benefits.

The actuarial valuation of termination benefits is carried out according to the actuarial criterion of the "projected unit credit method" with the support of the data issued by ISTAT, the INPS and the ANIA.

Pension and similar funds relate to the liabilities recognised in the accounts of the company O&K Antriebstechnik; the actuarial recalculation, except for the structural differences of the relevant plans, follows the same criterion described for the Italian termination benefit provisions.

The parameters used are the following:

- annual interest rate: 4% - 5%
- real annual rate of increase in wages and salaries: 3% - 3,5%
- annual inflation index: 2%
- pension adjustment index: 1,5%

The accounting treatment for the employee benefits recognised is in accordance with that provided for in IAS 19 for defined benefit plans; the change in the liability recognised between a reporting date and the previous one is fully recognised in the income statement and classified among personnel costs.

Number of employees

The number of employees refers only to the fully consolidated companies and is divided into categories:

Employees	30.06.2008	31.12.2007	30.06.2007
Executives	72	63	54
Administrative staff	1,087	998	779
Blue-collar workers	2,892	2,698	2,118
Temporary	414	277	150
Total	4,465	4,036	3,101

The total number of group employees went up to 4,465 from 4,036 on 31 December 2007 and from 3,101 on 30 June 2007. It is important to note that on 30 June 2006 the Mini Gears group was not consolidated (761 and 707 employees on 30 June 2008 and 31 December 2007, respectively).

Provisions for liabilities and charges (note 18)

The item can be broken down as follows:

<i>(in thousands of euro)</i>	opening balance	increases	decreases	reclassificati on	exchange rate adjustments	closing balance
NON-CURRENT PORTION						
1) WARRANTY	1,213	139	- 16	-	-	1,336
2) COSTS OF LEGAL CLAIMS	879	17	- 147	- 22	- 7	720
3) RENOVATION AND CONV.	-	-	-	-	-	-
4) OTHER PROVISIONS	178	46	- 22	- 8	- 7	187
TOTAL	2,270	202	- 185	- 30	- 14	2,243
CURRENT PORTION						
1) WARRANTY	7,240	4,122	- 3,055	-	- 51	8,256
2) COSTS OF LEGAL CLAIMS	-	130	-	-	-	130
3) RENOVATION AND CONV.	-	-	-	-	-	-
4) OTHER PROVISIONS	-	-	-	-	-	-
TOTAL	7,240	4,252	- 3,055	-	- 51	8,386

Euro 3.07 mln of the product warranty reserve was used for customer claims accepted and the reserve was increased by Euro 4.26 mln on the basis of the expected warranty costs which will be incurred in relation to the sales made.

The increase in the legal claim costs item includes provisions for contingent tax liabilities recognised by MG Mini Gears Spa after tax inspections carried out by the Finance Police in the first half of 2008. The item "Other provisions" includes amounts recognised in the individual companies for future liabilities and charges.

With reference to Carraro S.p.A. the dispute with the I.N.P.S. which began in 1996, over alleged non-payment of contributions, was initially settled on 5 October 1999 by the Padua Lower Court Judge in favour of the company. The sentence was appealed to a higher court and, subsequently, to the Court of Cassation. The latter, on 9 December 2004, accepting the pleadings of Carraro S.p.A., sent the case back to the Court of Appeal of Venice for it to issue a judgement in keeping with the legal principles enunciated by the Supreme Court. Following this remittal, on 17 June 2008, a hearing for discussion was held, but the Court of Appeal, instead of the expected judgement, issued an order in which it requested a technical opinion, which is currently being prepared. On the basis of the information available our assessment of the groundlessness of the allegations made by the Pensions Agency has not changed and, after obtaining an opinion from our consultants, we do not believe that the risk profile of the issue in question needs to be modified.

Obligations and risks

Finance lease liabilities

<i>(In thousands of euro)</i>	30.06.2008	31.12.2007
Finance lease liabilities:		
due within one year	1,498	1,276
due beyond one year	3,222	2,845
	4,720	4,121

Sureties given and commitments

<i>(In thousands of euro)</i>	30.06.2008	31.12.2007
Risks:	-	-
Operating lease commitments	1,066	356

Operating lease payments

These relate to the rental contract for the company division signed by Carraro S.p.A. on 24.03.2005 for a three-year term, and renewed in 2008 for one year. The lessor is Agritalia S.p.A. (a related party) and the annual fee (Euro 1.422 mln) was determined on the basis of an independent valuation. The contract also provides for the chance to exercise an option to purchase the division at a determinable price. Taking into account the prescriptions of IAS 17 this contract is not considered a finance lease. The commitments for leasing fees still to be paid at 30.06.2008 are due at less than 12 months.

Related-party transactions

The Carraro Group is controlled directly by Finaid S.p.A., which as of 30.06.2008 held 50.002% of the shares outstanding.

Transactions between Carraro S.p.A. and its subsidiaries, which are related entities of Carraro S.p.A., were eliminated in the consolidated financial statements and are not shown. Details of transactions between the Carraro Group and other related entities are provided in paragraph 8.

In accordance with the Consob recommendations of 20 February 1997 (DAC/97001574) and 27 February 1998 (DAC/98015375) we can confirm that:

- a) transactions with other group companies and with related parties carried out during the period gave rise to relationships of a commercial, financial or advisory nature and were expedited at market terms, in the economic interest of the individual companies involved in the transactions;
- b) no transactions were carried out that were atypical or unusual with respect to normal business operations and the interest rates and terms applied to and by the companies in their reciprocal financial relationships are in line with market terms.

Fair value

Although there is no substantial correspondence between the carrying amount and the fair value of the financial assets and liabilities, a comparison between the different values is included.

At the end of the period, for financial assets and liabilities which have not already been designated at fair value according to the criteria illustrated above, no significant differences can be found between their carrying amount and their fair value.

6. DERIVATIVE FINANCIAL INSTRUMENTS

6.1 Derivative financial instruments on currencies

The schedules indicate the amounts of the **notional** and **fair values** with reference to the various types of derivative contracts on foreign currencies in existence at 30.06.2008 involving the various group companies.

a) notional values

(figures in Euro/000)

CONTRACT	Carraro SpA	Carraro Argentina	Carraro International	Fon	Carraro India	Turbo Gears	Mini Gears	GROUP TOTAL 30.06.08	GROUP TOTAL 30.06.07
Options (1)									
Put Options			1,856					1,856	12,677
Call Options			1,856					1,856	12,677
Options (2)									
Put Options									
Call Options									
Subtotal Options			3,712					3,712	25,354
Swaps (DCSs)									
(1)		19,535	5,064	10,193	15,831	6,447		57,070	40,559
(2)					456			456	-
(3)					929			929	8,345
TOTAL NOTIONAL VALUES									
		19,535	8,776	10,193	17,216	6,447		62,167	74,258

b) reference currencies and expiry dates of contracts

(figures in Euro/000)

CONTRACT	Carraro SpA	Carraro Argentina	Carraro International	Fon	Carraro India	Mini Gears	Turbo Gears
Options (1)	Ref. currencies		CNY/EUR				
Put Options	Expiry dates		Sept.-Oct. 2008				
Call Options	Expiry dates		Sept.-Oct. 2008				
Swaps (DCSs) (1)	Ref. currencies	ARS/EUR ARS/USD	CNY/EUR CNY/USD	PLN/EUR	INR/EUR INR/USD		INR/EUR INR/USD
	Expiry dates	Jul. 2008 – Jun. 2009 Jul. - Dec. 2008	Jul. 2008 – Mar. 2009 Jul. 2008 – Dec. 2009	Jul. 2008 - Jun. 2009	Jul. 2008 – Mar. 2009 Jul. - Sept. 2008		Jul. 2008 – Mar. 2009 Jul. - Dec. 2008
Swaps (DCSs) (2)	Ref. currencies				INR/EUR		
	Expiry dates				Oct. 2008		
Swaps (DCSs) (3)	Ref. currencies				INR/EUR		
	Expiry dates				Oct. 2008		

c) fair values
(figures in Euro/000)

CONTRACT	Carraro SpA	C. Argentina	C. International	Fon	Carraro India	Turbo Gears	Mini Gears	GROUP TOTAL 30.06.2008	GROUP TOTAL 30.06.2007
Options (1)									
Put Options			4					4	187
Call Options			-138					-138	-61
Options (2)									
Put Options									
Call Options									
Subtotal Options			-134					-134	126
Swaps (DCSs)									
(1)		574	-118	764	-3,084	-625		-2,489	1,608
Swaps (DCSs)									
(2)					83			83	-
Swaps (DCSs)									
(3)					-74			-74	-96

(1) instruments hedging foreign currency sales budget

(2) instruments hedging cash flows of medium/long-term loans (MCC Carraro India)

(3) instruments hedging imbalances of current receivables and payables in foreign currency

d) Details of fair values
(figures in Euro/000)

	30.06.2008		30.06.2007	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
CASH FLOW HEDGE				
Exchange rate risk – Domestic Currency Swap	1.727	-	4.340	1.959
				-323

e) Summary of fair values recognised before tax effect according to their accounting treatment
(figures in Euro/000)

	Carraro SpA	Carraro Argentina	Carraro International	Fon	Carraro India	Turbo Gears	Mini Gears	GROUP TOTAL 30.06.2008	GROUP TOTAL 30.06.2007
F. Value through profit and loss		160	-251	11	-95	-625	-	-800	709
F. Value recognized in equity		414	-	753	-2,979	-	-	-1,812	927
TOTAL		574	-251	764	-3,074	-625	-	-2,612	1,636

6.2 Derivative financial instruments on interest rates

The table shows the details of the **notional** and **fair values** and other information regarding the various types of derivative contract on interest rates in existence at 30.06.2008; on this date the ongoing contracts involved Carraro International S.A. and Mini Gears Spa.

CONTRACT	CURRENCY	EXPIRY	NOTIONAL 30.06.2008	NOTIONAL 30.06.2007	FAIR VALUE 30.06.2008	FAIR VALUE 30.06.2007
			(EURO)	(EURO)	(EURO)	(EURO)
Interest Rate Swaps	EUR	29.11.2010	5,000,000	-	187,297	-
Interest Rate Swaps	EUR	29.05.2012	8,000,000	8,000,000	250,104	279,886
Interest Rate Swaps	EUR	29.05.2012	8,000,000	8,000,000	205,858	214,887
Interest Rate Swaps	EUR	29.05.2012	8,000,000	8,000,000	251,784	282,355
Interest Rate Swaps	EUR	29.05.2012	8,000,000	8,000,000	155,451	140,836
Interest Rate Swaps	EUR	29.05.2012	8,000,000	8,000,000	156,851	142,893
Interest Rate Swaps	EUR	31.03.2013	10,000,000	10,000,000	264,983	161,820
Total cash flow hedging derivatives			55,000,000	50,000,000	1,472,328	1,222,677

7. Events subsequent to the balance sheet date.

The following significant subsequent events occurred:

With effect from 1st July 2008 Carraro Drive Tech S.p.A. received in conferment:

- from Carraro S.p.A. the company division consisting of all the tangible and intangible assets concerning the industrial activities of the factories of Campodarsego, Gorizia and and, for replacement parts, Rovigo, including the equity interests held in the companies active in the Business Unit Drivelines A.E. S.r.l. and Carraro Argentina S.A.
- from Carraro International S.A. equity interests held in the companies active in the Business Unit Drivelines, FON S.A., Carraro Qingdao Drive, Carraro Qingdao Trading, Carraro China Drive.

All the transactions described were carried out at constant accounting values, without the recognition of any capital gains or losses, and on the basis of tax neutrality. Their completion had no effects on shareholders' equity or on the financial position in the consolidated financial statements.

8. Related-party transactions

The following tables provide information on transactions with related parties under the terms of IAS 24.

RELATIONSHIPS OF THE CARRARO S.P.A. GROUP WITH RELATED PARTIES AT 30.06.2008

(Euro/000)

Financial and equity relationships

Economic relationships

FINANCIAL RECEIVABLES	FINANCIAL PAYABLES	TRADE AND OTHER RECEIVABLES	TRADE AND OTHER PAYABLES	SALES OF PRODUCTS	SALES OF SERVICES	OTHER REVENUES	PURCHASES OF GOODS AND MATERIALS	PURCHASE OF SERVICES	USE OF THIRD-PARTY ASSETS AND SERVICES	PURCHASES OF FIXED ASSETS	TAX CONSOLIDATION INCOME	OTHER FINANCIAL INCOME	FINANCIAL COSTS AND EXPENSES
Associated Companies													
Elcon Elettronica S.r.l.	84		10	96									1
Other related parties													
FINAID S.p.A.		2,598	2,880										
Agritalia S.p.A.			15						711	15			
Maus S.p.A.		68	554		32		15			527			
Maus USA Inc.		84											
Meccanica del Piave S.p.A.													
European Power System S.r.l.			3	29		2		7	28				
M.G.T. S.r.l.			19			2							

Notes:

1. Financial relationships

The financial relationships relate to short- and long-term loans.

2. Economic relationships

The most significant economic relations are commercial transactions of purchase and sale of raw materials, semi-finished products and components relating to the production of transmission systems; purchase of services relate mainly to services for industrial processing. Purchases by Maus S.p.A. relate to the supply of specific machine tools and their replacement parts and accessories.

The main sales of services consist of charges for the use of central information systems and the organizational support provided by the parent company in the various functional areas. Commissions and royalties relate to specific commercial agency agreements and the sale of rights to use industrial "know-how".

Interest received is generated by existing loans.

Income from tax consolidation relates to the "return" to the benefit of Carraro S.p.A. on the use of tax losses deriving from the adoption of tax consolidation by Finaid S.p.A..

The Chairman

Mario Carraro

Attestation of the consolidated financial statements under the terms of Art. 154-bis paragraph 5 of Lgs. Dec. 58/1998 (Combined Act on Finance)

1. The undersigned Carlo Borsari, Managing Director, and Enrico Gomiero, Manager Responsible for preparation of the corporate accounting documents of Carraro S.p.A., attest, taking account also of the provisions of Art. 154-*bis*, paragraphs 3 and 4, of Legislative Decree 58 of 24 February 1998:

a) adequacy in relation to the characteristics of the enterprise and

b) the effective application of the administrative and accounting procedures for preparation of the condensed interim financial statements during the first half of 2008.

2. In this regard no significant aspects emerged such as to require disclosure.

3. We can also confirm that:

3.1) the condensed interim financial statements:

a) are prepared in conformity with the international accounting standards endorsed by the European Community under the terms of Regulation (CE) 1606/2002 of the European Parliament and Council, of 19 July 2002;

b) correspond to the figures in the accounting documents and books;

c) give a true and fair view of the economic and financial situation and capital of the Group and of all the companies included in the consolidation;

3.2) the interim report on operations contains references to important events that occurred in the first six months of the year and their impact on the condensed interim financial statements, together with a description of the main risks and uncertainties for the remaining six months of the year and information on significant transactions with related parties.

Date: 28 August 2008

Carlo Borsari
Managing Director

Enrico Gomiero
Chief Financial Officer