

CARRARO S.p.A.

Registered offices in Via Olmo 37, Campodarsego, Padua, Italy

Share capital Euro 21,840,000 fully paid in

Tax code, VAT No. and

enrolment in the Padua Companies' Register under No. 00202040283

Economic and Administrative Roster No. 84.033

**INTERIM REPORT OF THE CARRARO GROUP
AS OF 30 JUNE 2004**

The results disclosed as of 30 June confirm the positive trend already highlighted in the first quarter thanks to the generalized pick-up on all the markets in which the Group operates, particularly the USA, Asia and South America. The Group was able to react to the sharp acceleration in demand and adapt the production capacity achieving, during the period, Euro 240.107 million in sales revenues, up by 20.35% when compared with the first six months of 2003, disclosing recovery mainly during the second quarter (+ 30% of sales with respect to the same period in the previous year). Encouraging figures which are better than the budget forecasts.

EBIT came to Euro 12.832 million (5.34% of sales revenues), + 20.64 % when compared with 30 June 2003 (Euro 10.637 million, 5.33% of sales revenues), thanks to the partial surmounting of the supply difficulties which occurred during the first quarter, leading to extraordinary transport costs which cut into the profitability, and also thanks to the increased volumes, which permitted an improved absorption of the fixed overheads, the latter having remained more or less unchanged on last year. By contrast, the period of tension with regards to raw material costs has still not come to an end, and is still subject to careful monitoring.

The improvement in the operating result is by now evident with regards to all the Group companies. The only exceptions are Carraro Korea, who we will deal with further on, and F.O.N. which, after a start to the year focused on restructuring activities, only begun to show the benefits of said activities in the last part of the six-month period thus deferring more important results to the second half of the year, results by contrast already clearly identifiable at O&KA where the EBIT rose from Euro -0.125 million to Euro 0.703 million, mainly thanks to the new manufacturing set-up.

Reflecting this favourable performance, the consolidated net income came to Euro 4.254 million, having more than doubled when compared with the first six months of 2003 (Euro 2.040 million).

As anticipated in the strategic plan, the activities for the rationalization and enhancement of our presence in the Far East are continuing.

In particular, the decision was taken to close-down Carraro Korea, since a production unit destined to serve the local market alone with continuously disappointing economic results, was considered no longer justifiable. Voluntary liquidation was chosen as the method for closure, being less onerous and, as of 30 June after having absorbed the loss of Euro 638 thousand, provisions were made gross of the tax effect for Euro 700 thousand.

The Asiatic area remained an important element of our growth strategy and, on a consistent basis with this, a new development phase for India started up, launching a new business project for the production of gears which will see SIAP 80% involved and Carraro India 20% committed, with an investment, over three years, of Euro 12 million for the construction of the factory in Pune.

The project serves the growth plans of the components business, backs the considerable growth prospects of Carraro India as leader with regards to the manufacture of agricultural drivelines, thus overcoming the limited local production capacities for quality gear boxes, and in conclusion represents an important stage for the growth strategies in the entire Asiatic area.

By way of confirmation of this strategic choice, a work team is already operative and is currently examining the most opportune logics for the creation of a “China project” which will be launched during the second half of the year.

The satisfactory generation of cash flow, Euro 15.896 million, a steady supervision of the working capital and a careful investment policy, targeted at raising the technological level and the productivity of our plants, has led to the brilliant result of reducing the net indebtedness, which as of 30 June dropped to under Euro 80 million. The ratio of borrowed to shareholders' equity (gearing) fell to 135.64%, increasingly nearer to the strategic objective of 100%; the cash generated was used in order to re-purchase 25 of the 100 million bonds maturing in May 2006. Net financial expense also fell, Euro 3.211 million, entirely to the benefit of the interest cover which came to 9.23 compared with 4.91 a year ago.

The organization model adopted, focused on the Business Units, co-ordinated and supported by the central divisions which make it possible to guarantee the synergic opportunities and the exploitation of the skills, confirmed its validity. After the natural period of adjustment, the setting-up activities

will proceed in particular in the areas destined to sustain development and future growth the most, such as R&D. The research and development division has been enhanced by the arrival of new resources and the appointment of a Group Director for Engineering and R&D, responsible for intensifying the propensity towards innovation, by means of extending the technical skills to the domains of electronics and hydraulics and the development, within the Group and outside with its customers, of co-engineering programmes.

Sales revenues

During the period, consolidated sales revenues reached the Euro 240.107 million mark as against Euro 199.507 million reported in the same period last year, involving an increase of 20.35% towards which all the Group companies contributed.

More specifically, Carraro India and Carraro Argentina increased their sales revenues, when compared with the first half of 2003, by 68.71% and 39.10% respectively.

A breakdown of sales revenues by division, with the weight of each division on total sales and the change when compared with the first half of 2003, is provided below:

Breakdown of sales by division (in thousands of Euro)

<i>Division</i>	<i>1st half of 2004</i>	<i>%</i>	<i>1st half of 2003</i>	<i>%</i>	<i>Δ% 1st half 2004 1st half 2003</i>
Off-Highway:	181,806	75.72	148,030	74.20	+22.82
Agriculture division	83,143	34.63	69,495	34.83	+19.64
Construction equipment division	98,663	41.09	78,535	39.37	+25.63
On-Highway:	32,876	13.70	30,730	15.40	+6.98
Material handling	13,484	5.62	11,876	5.95	+13.54
Auto & truck	6,739	2.81	6,157	3.09	+9.54
Gears	12,653	5.27	12,697	6.36	-0.35
Stationary	5,907	2.46	3,738	1.87	+58.03

(escalators)					
Spare parts	15,761	6.56	12,829	6.43	+22.85
Other	3,757	1.56	4,180	2.10	-10.12
TOTAL	240,107	100.00	199,507	100.00	+20.35

Sales are broken down by geographic area as follows:

Sales by geographic area (in thousands of Euro)

<i>Geographical area</i>	<i>1st half of 2004</i>	<i>%</i>	<i>1st half of 2003</i>	<i>%</i>	<i>Δ% 1st half 2002 '04 1st half 2002 '03</i>
North America	63,895	26.61	42,257	21.18	+51.21
Germany	32,694	13.62	28,113	14.09	+16.29
UK	27,647	11.51	20,002	10.03	+38.22
France	24,178	10.07	21,021	10.54	+15.02
Korea	3,420	1.42	2,873	1.44	+19.04
Poland	5,440	2.27	6,197	3.11	-12.22
South America	17,389	7.24	14,270	7.15	+21.86
India	7,664	3.19	7,063	3.54	+8.51
Other countries outside EU (*)	3,636	1.51	2,438	1.22	+49.14
Other EU countries (*)	17,923	7.47	20,332	10.19	-11.85
Total abroad	203,886	84.91	164,566	82.49	+23.89
Italy	36,221	15.09	34,941	17.51	+3.66
Total	240,107	100.00	199,507	100.00	+20.35
Total EU countries(*)	140,103	60,02	130,606	65.46	+10.33

(*) In order to facilitate the comparison, the figures relating to 2003 have been reclassified, taking into account the countries which as of 1 May 2004 joined the European Union.

EBIT

The consolidated EBIT rose by 20.64% to Euro 12.832 million (5.34% of sales revenues), as

against Euro 10.637 million, 5.33% of sales revenues, as of 30 June 2003.

Financial expense

Net financial expense amounted to Euro 3.211 million, equating to 1.34% of sales revenues, down with respect to the balance of Euro 3.919 million (1.96%) in the first half of 2003.

The interest cover calculated on the EBITDA came to 9.23 as against 5.05 in December 2003 (4.91 as of 30 June 2003).

Extraordinary items

Extraordinary items as of 30 June 2004 (Euro 950 thousand) essentially refer to the estimate of the charges deriving from the winding-up of Carraro Korea and to the charges provided in order to cover the risks deriving from the findings of the recent tax assessment.

Net result

The net income as of 30 June 2004 came to Euro 4.254 million (1.77% of sales revenues) and doubled with respect to the figure of Euro 2.040 million (1.02% of sales revenues) as of 30 June 2003.

Amortization, depreciation and Cash-flow

Amortization and depreciation of Euro 11.471 million (Euro 11.896 million as of 30 June 2003) was provided for. This gave rise to a cash-flow of Euro 15.896 million, compared with Euro 13.836 million during the first half of 2003, up 14.89%.

Capital expenditure

Gross consolidated investments amounted to Euro 7.757 million and are intended to raise the technological level of the plants and adapt the production capacity to the increased demand (Euro 11.047 million in the first half of 2003).

Research and Innovation

During the first half of the year, Research and Innovation costs were expensed for Euro 4.814 million, equating to 2 % of sales revenues, compared with Euro 4.108 million (2.06% of sales revenues) during the first six months of 2003.

Net financial position

The net financial position as of 30 June 2004, disclosing debt of Euro 76.555 million, despite including the payment of the dividend for Euro 4.620 million, has improved with respect to 31 December 2003 (borrowing of Euro 97.368 million) and 30 June 2003 (Euro 103.140 million).

Gearing, the borrowing to net equity ratio, was equal to 135.64%, versus 153.25% as of 31 March 2004 and 174.86% as of 31 December 2003.

Resources and training

In order to support the rise in demand, the number of employees involved in manufacturing activities increased exclusively with recourse to temporary employment contracts. The Group's workforce as of 30 June 2004 numbered 2,256 individuals, compared with 2,132 as of 31 December 2003, including 1,738 blue-collar workers (1,628 as of 31 December 2003) of which 190 were temporary (56 temporary as of 31 December 2003). Staff employed at the Italian establishments amounted to 1,402, while those at foreign plants came to 854 (as of 31 December 2003 there were 1,270 employees in Italy and 862 abroad).

Performance of the consolidated companies

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

Carraro S.p.A.

The Parent Company generated sales revenues of Euro 170.797 million, up by 17.36% when compared with the Euro 145.535 million reported in the first half of 2003 thanks to the recovery seen in the Construction Equipment and Agricultural markets.

Exports weighed in for 85.15% on sales revenues compared with 80.94% during the first six months of 2003. The areas where the majority of sales went to were: the U.S.A. with 30.8% (23.7% as of 30 June 2003) and the European Union (Italy excluded), taking into consideration the countries who joined on 1 May 2004, with 45.34% (45.9% as of 30 June 2003 the number of countries being equal).

The EBIT came to Euro 7.263 million (4.25% of sales revenues), down 11.97% when compared

with the Euro 8.251 million (5.67% of sales revenues) reported as of 30 June 2003; the decrease was mainly due to the supply difficulties experienced during the first quarter which led to extraordinary transport costs that eroded profitability.

Net financial expense totalled Euro 1.977 million, 1.16% of sales revenues, disclosing an improvement on the Euro 2.611 million reported as of 30 June 2003 (1.79% of sales revenues). This result was affected by the performance during the first quarter which, as already mentioned, involved extraordinary transport costs due to the use of air transport for several deliveries, so as to keep the level of customer satisfaction high.

Extraordinary costs have been recorded for a total of Euro 700 thousand, referring to charges anticipated for the afore-mentioned winding-up of Carraro Korea and Euro 250 thousand provided against the evaluation of the risks deriving from a recent tax assessment.

Net income for the period came to Euro 1.790 million (1.05% of sales revenues) compared with Euro 2.310 million (1.59%) in the previous year

Amortization and depreciation was charged for Euro 5.464 million as against Euro 5.900 million in the previous year, generating a cash-flow of Euro 7.254 million versus Euro 8.210 million in June 2003.

Gross investments during the first half amounted to Euro 3.393 million, down with respect to the figure of Euro 6.550 million in the same period during 2003.

The net financial position improved and stood at Euro 44.236 million, against a balance as of 31 December 2003 of Euro 58.945 million (Euro 67.872 million in June 2003).

Staff on the payroll as of 30 June 2003 numbered 910 units, 862 as of 30 June 2003 and 844 as of 31 December 2003, up with respect to the previous periods due to the introduction of workers under temporary employment contracts (107 as of 30 June 2004).

SIAP S.p.A.

Driven by the increase in the Group's demand, sales revenues were up, and as of 30 June 2004 came to Euro 33.961 million, up 14.92% on the balance of Euro 29.552 million as of 30 June 2003; EBIT also rose 44.25% to Euro 3.035 million (8.94% of sales revenues), as against Euro 2.104 million (7.12% of sales revenues) as of 30 June 2003.

Net income totalled Euro 1.268 million, up on the figure of Euro 0.807 million as of 30 June 2003. With amortization and depreciation of Euro 2.863 million, down with respect to Euro 3.049 million as of 30 June 2003, the cash flow came to Euro 4.131 million (Euro 3.856 million in the

same period of the previous year).

The company made investments of Euro 1.460 million (Euro 2.124 million during the first half of 2003) aimed at enhancing the production capacity.

The net financial position, disclosing borrowing of Euro 12.741 million, has improved with respect to 31 December 2003 (Euro 15.320 million, Euro 12.127 as of 30 June 2003).

The workforce as of 30 June 2004 numbered 429 units (including 67 under temporary contracts), 392 as of 30 June 2003 (363 as of 31 December 2003).

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

Since this is the first accounting period, the comments on the income statement balances as of 30 June 2004 do not present a comparison with the first six months of 2003.

Sales revenue as of 30 June 2004 amounted to Euro 1.741 million, closing the six-month period with EBIT of Euro 69 thousand and net income of Euro 9 thousand.

Amortization and depreciation came to Euro 56 thousand (3.22% of sales revenues), and the cash-flow was positive for Euro 65 thousand.

Intangible fixed assets (software) were purchased for a total of Euro 22 thousand.

The company has financial payables outstanding for Euro 0.384 million.

Net financial expense came to Euro 13 thousand (0.75% of sales revenues) and concerns bank interest on overdraft balances.

The workforce at the end of June 2004 numbered 63 units, comprising 9 office-workers and 54 blue-collar workers.

Carraro India Ltd.

During the first half of 2004, the Indian company saw an increase in sales revenues of 68.71% thanks to the favourable performance of both the internal market and the foreign markets. Sales revenues came Euro 11.663 million, compared with Euro 6.913 million as of 30 June 2003.

EBIT improved and totalled Euro 0.812 million, 6.96% of sales revenues, compared with Euro 0.567 million (8.20% of sales revenues) as of 30 June 2003.

With net exchange differences, gains amounting to Euro 0.124 million (losses of Euro 0.173 million as of 30 June 2003) and net financial expense of Euro 0.437 million (Euro 0.559 million as of 30 June 2003), the first half of 2004 closed with net income of Euro 0.390 million (net loss of Euro 0.165 million as of 30 June 2003).

Amortization and depreciation amounted to Euro 0.601 million (Euro 0.545 million as of 30 June 2003) and the cash-flow disclosed a positive balance of Euro 0.991 million (Euro 0.380 million as of 30 June 2003).

Investments, made in order to improve the production capacity of the plants, amounted to Euro 0.171 million (Euro 0.116 million as of 30 June 2003).

The net financial position, disclosing borrowing of Euro 8.869 million, improved when compared with the figure of Euro 9.836 million as of 31 December 2003 (Euro 11.866 as of 30 June 2003).

Staff on the payroll as of 30 June 2004 amounted to 141 units, 156 at the end of December 2003, 124 at the end of June 2003.

Carraro Argentina S.A.

The positive market trend encouraged the rise in sales revenues which at Euro 21.069 million increased 39.10% as against Euro 15.147 million in June 2003.

The EBIT rose from Euro 1.308 million (8.63% of sales revenues) as of 30 June 2003 to Euro 2.691 million as of 30 June 2004 (12.77%), up by 105.73%.

Net income rose to Euro 2.686 million (Euro 1.147 million as of 30 June 2003).

With amortization and depreciation standing at Euro 0.660 million (Euro 0.562 as of 30 June 2003), the cash flow amounted to Euro 3.346 million (Euro 1.709 million as of 30 June 2003).

Investments totalling Euro 0.825 million (Euro 0.937 million during the first half of 2003), were made in order to sustain increased demand.

The net financial position, with a positive balance of Euro 2.244 million, improved with respect to Euro 0.589 million as of 31 December 2003 and Euro 1.198 million as of 30 June 2003.

Staff on the payroll came to 265 units, 251 as of 31 December 2003 (256 as of 30 June 2003). The increase is linked to the increase in production activities and is based on the employment of temporary staff.

F.O.N. S.A.

Industrial restructuring activities continued, aimed at creating the basis for making F.O.N. one of the most important centres for the development of the Driveline business. The results of these activities will be more clearly visible during the second half of the year.

Sales revenues amounted to Euro 4.551 million, up by 5.89% when compared with Euro 4.298 million as of 30 June 2003.

EBIT presented a negative balance of Euro 0.117 million, -2.57% of sales revenues (with a positive balance of Euro 0.138 million, 3.21% of sales revenues, as of 30 June 2003).

With exchange gains of Euro 0.046 million (losses of Euro 0.204 million in June 2003) and net financial expense of Euro 0.098 million, a net loss for the year was reported amounting to Euro 0.169 million (Euro 0.124 million as of 30 June 2003).

Amortization and depreciation of Euro 0.287 million (Euro 0.197 as of 30 June 2003) led to a cash-flow equating to Euro 0.118 million compared with Euro 0.073 million as of 30 June 2003.

Investments amounted to Euro 1.833 million (Euro 0.899 million as of 30 June 2003) and were made in order to improve the production capacity of the plants.

The net financial position disclosed borrowing of Euro 5.019 million, and was up with respect to Euro 3.974 million as of 31 December 2003 and Euro 3.292 million as of 30 June 2003, following the afore-mentioned investments and the modest rise in working capital.

The number of employees came to 204 units, 214 as of 31 December 2003, 234 at the end of June 2003.

Carraro Deutschland GmbH

This company is a financial holding company and holds 100% of the share capital of O&K Antriebstechnik. At the end of the six-month period, the income statement closed with a loss of Euro 49 thousand; loss of Euro 11 thousand as of 30 June 2003.

O&K Antriebstechnik GmbH

The sales revenues amounting to Euro 27.268 million were up by 19.13% when compared with the figure as of 30 June 2003 (Euro 22.889 million) thanks to the rising sales volumes especially for the business linked to systems for escalators and reduction units.

EBIT came to Euro 0.703 million (Euro -0.125 million as of 30 June 2003).

Net financial expense amounted to Euro 0.191 million, 0.70% of sales revenues (Euro 0.174 million, 0.76% of sales revenues as of 30 June 2003) and the net income for the period came to Euro 0.522 million, compared with a loss reported in June 2003 of Euro 0.334 million.

Amortization and depreciation was charged for a total of Euro 0.509 million (Euro 0.496 million as of 30 June 2003) generating a cash flow of Euro 1.031 million (Euro 0.162 million as of 30 June

2003).

Gross investments amounted to Euro 0.396 million, as against Euro 0.322 million in June 2003.

The net financial position as of 30 June 2004 disclosed borrowing of Euro 3.173 million and has improved with respect to 31 December 2003 (borrowing of Euro 3.577 million) and June 2003 (Euro 3.707 million).

The number of employees came to 216 units (207 as of 31 December 2003, 222 as of 30 June 2003).

Carraro International S.A.

During the first half of 2003, the financial holding company reported a loss of Euro 0.762 million (net income of Euro 0.024 million as of 30 June 2003) as a result of the complete writedown of the equity investment in Carraro Korea for Euro 0.823 million, net of which the result would have disclosed income of Euro 61 thousand.

The net financial position disclosed borrowing of Euro 1.402 million (Euro 1.532 million as of 31 December 2003, Euro 1.581 million as of 30 June 2003).

Carraro North America Inc.

Sales revenues as of 30 June 2004 totalled Euro 8 thousand (Euro 1.037 million as of 30 June 2003). EBIT was positive with a balance of Euro 2 thousand (negative balance of Euro 0.392 million, -37.80% of sales revenues as of 30 June 2003), after having recorded sales commission for Euro 624 thousand (Euro 712 thousand as of 30 June 2003).

The accounting period closed with a net loss of Euro 24 thousand (loss of Euro 0.431 million as of 30 June 2003); said loss reflected the re-directing of activities towards an exclusively sales-oriented sphere.

Amortization and depreciation of Euro 0.246 million was charged (Euro 0.273 million as of 30 June 2003), generating a positive cash flow of Euro 0.222 million (negative balance of Euro 0.158 million as of 30 June 2003).

The net financial position disclosed borrowing of Euro 1.440 million, down significantly when compared with Euro 3.088 million as of 31 December 2003 (Euro 2.883 million as of 30 June 2003).

Only one individual was employed on the payroll (3 as of 31 December 2003, 13 as of 30 June

2003).

Carraro Korea Co. Ltd.

As already illustrated, the winding-up process has started for the Korean subsidiary. The results indicated below represent the operational performance up until 30 June 2004 and include, in light of the previous comments, the writing-off of the company's equity.

Sales revenues during the first six months of 2004 amounted to Euro 3.403 million, an improvement when compared with the balance of Euro 2.571 million last year which, if you recalled, was influenced by the crisis affecting the company's most important customer. The rise in sales revenues, however, is not enough to guarantee profitability conditions for the company; the EBIT, in fact, remained at a loss of Euro 0.435 million (loss of Euro 0.643 million in June 2003).

The net result for the period disclosed a loss of Euro 0.638 million (loss of Euro 0.8 million as of 30 June 2003) and includes the writing-off of the equity for Euro 191 thousand.

The net financial position disclosed borrowing of Euro 1,429 million, a deterioration with respect to the figure of Euro 0.876 million as of 30 June 2003.

Share performance

The positive trend in the listing of the stock continued and during the first half of 2004 reported an average official price of Euro 2.81.

It reached its minimum value on 14 January 2004 at Euro 2.46 and its maximum value, Euro 3.12, on 28 June 2004.

Final considerations

Examination of the orders' portfolio indicates a second half to the year which should see further growth, this permits us to forecast economic results for the entire year which are at least in line with those reported in the first half. The divisions directly tasked with sustaining the additional demand such as Purchasing, Logistics and Production, ensure all the activities necessary for the achievement of the growth and margin objectives with great motivation and determination.

Interim Report of the Carraro Group as of 30 June 2004

The Chairman of the Board of Directors

Mario Carraro

Interim Report of the Carraro Group as of 30 June 2004

TRANSACTIONS OF THE CARRARO S.p.A. GROUP WITH RELATED PARTIES as of 30 June 2004

(as per CONSOB communication DAC/98015375 dated 27 February 1998)

(EURO '000s)

Financial transactions

Economic transactions

FINANCIAL RECEIVABLES	FINANCIAL PAYABLES
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SALES OF COMPONENTS, PRODUCTS AND SPARE PARTS	INDUSTRIAL SERVICES	SALES OF OTHER SERVICES AND SUNDRY CHARGES	INTEREST INCOME	PURCHASES OF PLANT, MACHINERY AND EQUIPMENT	PURCHASES OF COMPONENTS, PRODUCTS AND SPARE PARTS	PURCHASES OF INDUSTRIAL SERVICES	PURCHASES OF OTHER SERVICES AND SUNDRY CHARGES
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Associated companies

Agrialia S.p.A.

Stm S.r.l.

Elcon S.r.l.

387	
84	

7,257		275			56	87	17
2	402	51	11		2,854	3	2
			1		53		

Other related parties

Fonderie del Montello S.p.A.

Maus S.p.A.

Meccanica del Piave S.p.A.

E.P.S. S.r.l.

1,033	

		77	15	508	12,222	10	
		27		61	43	3	
759	13	17		17	957	236	3
						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 and equipment for the production of systems for auto-traction; the purchases of services refer mainly to services for industrial processing. Purchases from Maus S.p.A. relate to the supply of specific machine tools with the related spare parts and accessories.

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

Interest income is generated by outstanding loans.