

**CARRARO S.p.A.**

Headquartered in Campodarsego (PD) – Via Olmo n. 37

Share capital of 21,840,000 euro fully paid-in

Tax code, VAT number, and

membership number of the Business Register of Padua 00202040283

Economic and Administrative Register No. 84.033

**HALF-YEAR REPORT OF THE CARRARO GROUP AS AT JUNE 30, 2007**

All of the Group's core markets – agriculture, industrial, and material handling – grew compared to the first half of 2006, though with different dynamics, and helped by the ever-more important role of countries such as India, China, and Turkey, who helped offset the significant fall (-15%) in the construction equipment market in the United States.

The contribution of new businesses connected to the renewable energy sector (solar and wind) was positive, as they continue to maintain excellent growth rates that are higher than the traditional market average.

In addition, growth in the components area was also very strong, benefiting from the production contribution of Turbo Gears, the now fully-operational Indian gear factory.

The delocalisation process started in recent years – now in a phase of further strengthening with the opening of a new factory in China and the expansion of Carraro India – and an attentive sourcing policy, contributed to the improvement of the Group's profitability, despite the growth trend in the cost of raw materials.

In accordance with the strategic plan, the process of focalisation and enhancement of the various business areas of the Group continued. An example of this is the birth of Gear World, an industrial project of the components area aiming to gather all the operations of the Carraro Group already present in the sector (Siap in Italy, Turbo Gears in India, and the gears division of Carraro Argentina), by integrating them with newly-acquired companies – an example of which is the recent acquisition of miniGears SpA – in order to seize the opportunities of a market rich in applications and high development potential.

A particular emphasis has been placed on the enhancement and reorganisation of the business structure with the creation of supervisors in the areas of greatest strategic interest and potential growth, and on R&D activities, continuing in the development and strengthening of Carraro Technologies, the research and planning centre in India.

Therefore, the first half of 2007 ended with more than satisfactory results compared to the first half of 2006, supported, as we shall see, by the inclusion of new entities in the consolidation area such as Elettronica Santerno and STM. Sales grew by 22.33% to 394.654 million euro, EBITDA gross profitability by 42.0% to 32.879 million euro, operating profit by 73.37% to 20.841 million euro, and net profit reached 10.043 million euro. The net financial position, 131.3 million euro, was stable over the course of the first half of 2007, negative by 131.082 million euro.

The new strategic plan, now in the process of being drafted, will be dedicated to the expansion of new business and the Group's growth prospects, and will be presented to the financial community in the upcoming month of October.

## Sales

Consolidated sales reached 394.654 million euro in the first half of the year, an increase of 22.33% in relation to the figure from June 2006 (322.613 million euro).

In comparable terms – and thus without considering the contribution of the two companies, STM S.r.l. and Elettronica Santerno S.p.A., which were not yet present during the first half of 2006 – sales as at June 30, 2007 reached 374.428 million euro, corresponding to growth of 16.06% compared to June 30, 2006.

The distribution of sales by market segment is the following:

(Amounts in thousands of euro)

	SALES			CONSOLIDATED SALES			INTER-DIVISION SALES		
	2007	2006	% Diff.	2007	2006	% Diff.	2007	2006	% Diff.
DRIVES & DRIVELINES	303,420	274,330	+10.60	301,616	268,631	+12.28	1,804	5,699	-68.35
COMPONENTS	65,418	45,822	+42.77	30,106	15,436	+95.04	35,312	30,386	+16.21
VEHICLES	50,052	39,321	+27.29	50,014	38,546	+29.75	38	775	-95.10
POWER CONTROL	12,922	0	-	12,918	0	-	4	0	-
<b>TOTAL FOR MARKET SEGMENT</b>	<b>431,812</b>	<b>359,473</b>	<b>+20.12</b>	<b>394,654</b>	<b>322,613</b>	<b>+22.33</b>	<b>37,158</b>	<b>36,860</b>	<b>+0.81</b>
INTER-DIVISION SALES ELIMINATIONS	-37,158	-36,860	+0.81	0	0	-	-37,158	-36,860	+0.81
<b>CONSOLIDATED TOTAL</b>	<b>394,654</b>	<b>322,613</b>	<b>+22.33</b>	<b>394,654</b>	<b>322,613</b>	<b>+22.33</b>	<b>0</b>	<b>0</b>	<b>0</b>

The following table illustrates the breakdown of sales by geographical area:

(Amounts in thousands of euro)

Geographical Area	First Half 2007	%	First Half 2006	%	Δ% First Half '07 First Half '06
North America	63,959	16.21	72,579	22.50	-11.88
Germany	66,675	16.89	58,821	18.23	+13.35
France	31,280	7.93	31,214	9.68	+0.21
UK	39,230	9.94	28,543	8.85	+37.44
India	18,064	4.58	14,754	4.57	+22.43
South America	17,449	4.42	12,786	3.96	+36.47
Poland	11,617	2.94	9,122	2.83	+27.35
China	9,098	2.31	6,942	2.15	+31.06
Turkey	9,359	2.37	4,869	1.51	+92.22
Other EU Areas	33,229	8.42	22,693	7.03	+46.43
Other Areas Outside the EU	7,714	1.95	5,557	1.72	+38.82
<b>Total Foreign</b>	<b>307,674</b>	<b>77.96</b>	<b>267,880</b>	<b>83.03</b>	<b>+14.86</b>

Italy	86,980	22.04	54,733	16.97	+58.92
<b>Total</b>	<b>394,654</b>	<b>100</b>	<b>322,613</b>	<b>100</b>	<b>+22.33</b>
<b>Total EU Area</b>	<b>269,011</b>	<b>68.16</b>	<b>205,126</b>	<b>63.58</b>	<b>+31.14</b>
<b>Total Area Outside the EU</b>	<b>125,643</b>	<b>31.84</b>	<b>117,487</b>	<b>36.42</b>	<b>+6.94</b>

### **EBITDA**

EBITDA equalled 32.879 million euro (8.33% of sales), an increase of 42.0% compared to the figure from the first half of 2006, which equalled 23.154 million euro (7.18% of sales).

In comparable terms, EBITDA amounted to 28.610 million euro, an increase of 23.56%, thanks to the positive contribution of production delocalisations (India, China, and Poland) and to greater sales volumes favouring greater absorption of fixed costs.

### **Operational Profit**

The consolidated operating profit as at June 30, 2007 equalled 20.841 million euro (5.28% of sales), up by 73.37% compared to the figure from June 2006, which equalled 12.021 million euro (3.73% of sales). This result would be 17.138 million euro in comparable terms, an increase, in any case, of 42.57%.

### **Financial charges**

Net financial charges amounted to 4.193 million euro, 1.06% of sales, a slight increase compared to sales from the first half of 2006, which were 3.288 million euro, or 1.02% of sales.

The interest cover calculated on the EBITDA came to 7.84, while in December 2006 it equalled 7.31 (7.04 as at June 30, 2006).

### **Exchange differences**

Net exchange differences were positive by 1.468 million euro compared to net exchange differences that were negative in June 2006 by 724 thousand euro.

### **Net Result**

Net profit as at June 30, 2007 equalled 10.043 million euro (2.54% of sales) compared to 3.789 million euro (1.17% of sales) as at June 30, 2006. In comparable terms as cited above, net profit would be 9.133 million euro.

### **Cash flow**

The cash flow (intended as the sum of net profit, amortisation and depreciation of fixed assets) generated in the first half of the year equalled 22.080 million euro, as against 14.922 million euro in the first half of 2006, an increase of 47.97%.

In comparable terms, the cash flow would be 20.604 million euro, an increase of 38.07%.

### **Investments**

Investments of 20.055 million euro were made, an increase over the 12.788 million euro in the first half of 2006, primarily aimed at increasing production capacity, the construction of the new plant in China, currently in progress, and the expansion of the Indian plant.

### **Research and Innovation**

8.116 million euro were spent on research and innovation, a stable figure compared to the 8.050 million euro spent in the first half of 2006.

In the first half of 2007, the Group's product development plan was updated, in accordance with the synergetic objective of producing energy-efficient systems for power transmission, which nonetheless are more and more widespread on the technological and application level.

In the area of axles and transmissions, development of a new line of agricultural transmissions was started, including advanced technical solutions for reduced consumption, which will strengthen Carraro's position in the agricultural machine sector as a global supplier of transmission systems. The work of redefining the axle line continued at the same time, with the purpose of optimising models and improving overall reliability.

In the special tractor segment, development continued of a new line of vehicles conforming to the Tier III EU standards on polluting emissions, producing the first prototypes undergoing functional and durational tests.

In the area of power electronics, these last six months saw the extension of the supply of products relative to the renewable energy market, in accordance with market trends, and the renewal of the supply of medium-power industrial inverters.

Furthermore, work commenced on a project developing new electric and hybrid traction systems.

"Carraro Technologies Ltd", the engineering company founded in India in 2006, further consolidated its operational size and capacity in accordance with the group's notable international expansion, becoming an important partner in the majority of the Carraro Group's product development projects.

The second worldwide engineering convention of the Carraro Group was held during the first half of the year, reinforcing the development of skills and efficiency among the product development centres' various areas of competence.

Product development processes continued to evolve as well. We leveraged the new potential offered by the PLM platform, which offers strong protection in the knowledge management area, in order to guarantee the efficient worldwide flow of information in relation to the product and its life cycle.

### **Net Financial Position**

The net financial position, negative to the tune of 131.300 million euro, is almost unchanged compared to the 131.082 million euro in March 2007 and 131.361 million euro in December 2006.

Gearing – the borrowing to net equity ratio – was 104.86%, slightly improved compared to 106.07% in March 2007 (110.23% in December 2006 and 89.29% in June 2006).

### **Resources and training**

The Group's personnel as at June 30, 2007 consisted of 3,101 employees (150 of which were temporary). As at June 30, 2006, there were 2,658 employees (109 of which were temporary), while as at December 31, 2006, there were 2,857 employees (70 of which were temporary).

1,819 people were employed at the Italian sites, as against 1,573 employees as at June 30, 2006; 1,282 people were employed at the foreign sites, as against 1,085 as at June 30, 2006.

### **Particular events of the half-year**

Over the course of the first half of the year, the Group developed and completed an important separation, organisation, and development project of Business Unit Components, which was launched on April 27, 2007 with the founding of the Gear World S.r.l. (GW) company.

Subsequently, on May 10, 2007, Carraro S.p.A. transferred 100% of its share capital in SIAP S.p.A. and 20.01% of its share capital in Carraro Argentina S.A. to Gear World.

On May 29, 2007, a further transfer of 99.9998% of the share capital of Turbo Gears India Pvt. Ltd. was made by Carraro International S.A.

Following these transactions, the share capital of Gear World S.r.l. amounted to 25,900,000 euro, allocated as follows: 61.78% with Carraro S.p.A. and 38.22% with Carraro International S.A.

For the latest developments of the transaction, see the "Events subsequent to closing" section.

### **Performance of the consolidated companies**

We report hereafter the most significant data concerning the activities of the companies belonging to the Carraro Group.

#### **Carraro S.p.A.**

The parent company obtained sales revenues of 237.941 million euro, an increase of 7.21% compared to 221.936 million euro in 2006.

Exports accounted for 81.6% of sales (85.1% in the first half of 2006). The largest sales destination areas were the U.S., with 16.3% (22.9% as at June 30, 2006) and the European Union (excluding Italy) with 55.4% (53.5% as at June 30, 2006).

EBITDA equalled 10.492 million euro (4.41% of sales), an increase of 11.89% compared to 9.377 million in the first half of 2006 (4.23% of sales).

Operating profit equalled 6.143 million euro (2.58% of sales), an increase of 26.22% compared to the June 2006 figure of 4.867 million euro (2.19% of sales).

Net financial charges amounted to 2.181 million euro or 0.92% of sales during the period, compared to 1.653 million euro as at June 30, 2006 (0.74% of sales).

The net exchange differences were positive by 90 thousand euro, as against 270 thousand euro as at June 30, 2006.

Net profit as at June 30, 2007 was 7.523 million euro (3.16% of sales); as at June 30, 2006 it equalled 3.121 million euro (1.41% of sales) and included dividends from subsidiary companies (SIAP) of 6.4 million euro.

Amortisation and depreciation was charged for 4.349 million euro, as against 4.510 million euro the year prior, and cash flow equalled 11.872 million euro, as against 7.631 million euro in June 2006.

Investments in the first half of the year amounted to 3.535 million euro, compared with 3.038 million during the same period in 2006, primarily aimed at sourcing activities and the strengthening of information technology.

The net financial position was negative by 54.288 million euro (65.027 million euro in March 2007 and 38.189 million euro as at June 30, 2006).

There were 1,082 employees on the payroll as at June 30, 2007 (59 of which were temporary), as against 1,045 (31 of which were temporary) as at June 30, 2006, and 1,046 (25 of which were temporary) as at December 31, 2006.

## **SIAP S.p.A.**

Thanks to strong demand from the Group's companies and third-parties, sales in the first half of 2007 reached 54.253 million euro, an increase of 19.15% compared to sales as at June 30, 2006 equalling 45.534 million euro. EBITDA was 8.086 million euro (14.91% of sales) and grew by 22.10% compared to 6.623 million euro in 2006 (14.55% of sales). The operating profit reached 4.442 million euro (8.19% of sales), as against 3.266 million euro (7.17%) in 2006 (+36.04% compared to 2006).

The net profit grew as well, to 2.368 million euro (4.37% of sales), recording an increase of +64.74% compared to 1.438 million euro (3.16 % of sales) of June 30, 2006.

With amortisation and depreciation of 3.644 million euro compared to 3.357 million euro as at June 30, 2006, the cash flow equalled 6.013 million euro (4.795 million euro over the same period the year prior).

The company invested 5.614 million euro (4.551 million euro in the first half of 2006) in increasing its production capacity.

The net financial position was negative to the tune of 16.4 million euro, an increase compared to 13.454 million euro as at March 31, 2006, due to the stated investments. Still, this was an improvement compared to the figure of June 30, 2006, which was negative for 21.568 million euro.

491 units were employed as at June 30, 2007 (65 of which were temporary), compared to 462 as at June 30, 2006 (429 as at December 31, 2006).

## **STM S.r.l.**

Completely consolidated with the acquisition of control on November 1, 2006, STM operates in the heat pressing of steel, and supports the Group's companies operating in the components business (SIAP in Italy, TGL in India, the Gear division of Carraro Argentina) with its skills and products, and has developed significant qualified business relationships with third parties operating in the qualified automotive and truck sectors.

Sales in the first half of 2007 amounted to 12.635 million euro, 58% of which was to third parties and 42% of which went to the Group's companies, an increase of 22.4% compared to 10.321 million euro in June 2006.

EBITDA grew by 26.84% to 2.306 million euro (18.25% of sales), from 1.818 million euro in June 2006 (17.61% of sales). Operating profit amounted to 1.866 million euro (14.77% of sales), an increase of 28.69% compared to 1.450 million euro (14.05% of sales) in the first half of 2006.

The first half of the year ended with a net profit of 1.061 million euro, +36.37% compared to the net profit of June 30, 2006 of 778 thousand euro.

With amortisation and depreciation equal to 440 thousand euro the cash flow was positive by 1.501 million euro (1.146 million euro as at June 30, 2006). Investments totalling 292 thousand euro were made, aimed at increasing production capacity (820 thousand euro in the first half of 2006).

The net financial position was negative by 4.111 million euro; it was negative by 4.166 million euro in March 2007, and 3.903 million euro in June 2006.

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

Sales as at June 30, 2007 decreased to 16.324 million euro compared to 20.984 million euro in the first half of 2006 due to the phasing out of certain products.

EBITDA equalled 695 thousand euro (4.26% of sales), an increase of 39.77% compared to 497 thousand euro in June 2006 (2.37% of sales).

The operating result of the first half of the year was 613 thousand euro or 3.76% of sales (422 thousand euro in the first half of 2006, 2% of sales), an increase of 45.26%.

Net profit amounted to 310 thousand euro (1.9% of sales), compared to 252 thousand euro as at June 30, 2006 (1.2% of sales).

With amortisation and depreciation of 82 thousand euro (75 thousand euro as at June 30, 2006), cash flow equalled 391 thousand euro (327 thousand euro as at June 30, 2006).

The net financial position was negative by 5.009 million euro; it was 3.318 million euro as at March 31, 2007, and 4.978 million euro in June 2006.

At the end of June 2007, the staff consisted of 65 people (66 as at June 30, 2006 and 61 in December 2006).

#### **Elettronica Santerno S.p.A.**

The company joined the Carraro Group on July 1, 2006, and as a consequence comparative data are not illustrated.

As at June 30, 2007, sales reached 12.922 million euro, 66% in the industrial sector and 34% in the energy sector. Compared to the second half of 2006, in which sales amounted to 11.427 million euro, the first half of 2007 showed an increase of 13.08%.

EBITDA equalled 1.963 million euro (15.19% of sales), Operating profit was 1.837 million euro (14.21% of sales), and net profit equalled 910 thousand euro, 7.04% of sales.

With amortisation and depreciation of 126 thousand euro, cash flow was positive by 1.036 million euro.

Investments amounting to 292 thousand euro were made, aimed at increasing production capacity.

The net financial position was negative by 4.912 million euro (4.268 million euro in March 2007) and the personnel consisted of 78 employees, an increase compared to the 59 people who were employed in December 2006, in order to sustain the company's significant development plan.

#### **F.O.N. S.A.**

The first half of 2007 signalled a turning point for the Polish company which, having completed its reorganisation and modernisation process, became able to sustain a significant growth in volume. Sales nearly doubled, to 31.088 million euro, +82.72% compared to 17.014 million euro in the first half of 2006.

On the profitability front, the first signs of a distinct improvement are evident. EBITDA equalled 2.174 million euro (6.99% of sales) as against 264 thousand euro in 2006 (1.55% of sales), and the operating result was positive by 1.398 million euro (4.5% of sales), negative in 2006 by 493 thousand euro.

Net financial charges went from 190 thousand euro in June 2006 (1.1% of sales) to 468 thousand euro in June 2007 (1.5% of sales).

The first half of 2007 ended with a profit of 794 thousand euro, 2.55% of sales (a loss of 747 thousand euro as at June 30, 2006).

With amortisation and depreciation of 776 thousand euro (757 thousand euro as at June 30, 2006), cash flow equalled 1.570 million euro, as against 10 thousand euro as at June 30, 2006.

Investments amounted to 1.682 million euro (1,757 thousand euro as at June 30, 2006) for the increase in production capacity and the launching of new supply channels.

The net financial position was negative by 15.643 million euro, an improvement compared to 16.140 million as at March 31, 2007 (10.473 million euro as at June 30, 2006).

There were 187 employees, as compared with 188 as at December 31, 2006, and 193 at the end of June 2006.

### **Carraro Deutschland GmbH**

This company is a financial holding company, and holds control of 100% of the share capital of the O&K Antriebstechnik company. At the end of the half-year, the income statement showed a loss of 12 thousand euro, compared with a loss of 10 thousand euro as at June 30, 2006.

### **O&K Antriebstechnik GmbH**

This company is still involved in the reorganisation process aimed at redesigning its product mix and industrial structure. Despite showing an improvement in profitability in recent months, this process will produce more consistent effects starting in the next financial year.

Sales as at June 30, 2007 of 32.066 million euro declined by 8.63% compared to 2006's figure, 35.094 million euro.

EBITDA equalled 655 thousand euro (2.04% of sales), compared with 1.255 million euro (3.58 of sales) as at June 30, 2006.

Operating profit decreased to 288 thousand euro (0.90% of sales), compared to 926 thousand euro (2.64% of sales) as at June 30, 2006.

Net financial charges amounted to 326 thousand euro, 1.02% of sales (232 thousand euro, 0.66% of sales, as at June 30, 2006) and net profit for the period was 3 thousand euro, as against profit of 551 thousand euro as at June 30, 2006.

Amortisation and depreciation was charged for 367 thousand euro (329 thousand euro as at June 30, 2006), generating a cash flow equal to 370 thousand euro (880 thousand euro as at June 30, 2006).

Gross investments of 573 thousand euro were made (397 thousand euro in June 2006) for reorganisation and industrial efficiency activities.

The financial position as at June 30, 2007 was negative by 7.413 million euro, nearly unchanged compared to March 31, 2007, negative by 7.579 million euro (3.963 million euro to June 2006).

There were 199 units employed (188 as at December 31, 2006; 199 as at June 30, 2006).

### **Carraro International S.A.**

This Luxembourg company reinforced its job of coordinating financial activities over the course of the first half of 2007, intensifying its effort in gathering credit lines for the purpose of financing the Group's activities.

Consistent with its role as holding company of the Group's foreign equity, this company signed the increases of share

capital of Turbo Gears India Pvt. Ltd. and Carraro China Drive Systems Co. Ltd., and furthermore participated in the reorganisation of the components group by underwriting an increase in the capital of Gear World SpA on May 29, 2007 through an allocation of shares held in Turbo Gears India Pvt. Ltd.

In an effort to strengthen business activities, the setting-up of a branch office in Switzerland (Lugano) was completed on June 13, 2007, whose main purpose is product marketing for the mechanical and electronic industries and business services.

As at June 30, 2007, the company closed with a profit of 240 thousand euro (profit of 198 thousand euro as at June 30, 2006).

The net financial position was negative by 35.5 million euro (31.204 million euro as at March 31, 2007; 5.488 million euro as at June 30, 2006).

#### **Carraro Finance Ltd.**

This company, founded on December 22, 2006 and headquartered in Dublin, Ireland, is a subsidiary company of Carraro International and has the purpose of supporting the parent company in its financial activities and acts as an international treasury for the Group.

As at June 30, 2007, the financial statements showed a loss of one thousand euro.

The net financial position in June 2007 was positive by 28.086 million euro, unchanged compared to March 31, 2007.

#### **Carraro North America Inc.**

The operating result was negative by 51 thousand euro (positive by 131 thousand euro as at June 30, 2006).

The financial year closed with a net loss equal to 51 thousand euro (profit of 133 thousand euro as at June 30, 2006).

Amortisation and depreciation were charged for 68 thousand euro (126 thousand euro as at June 30, 2006), resulting in a cash flow of 17 thousand euro (259 thousand euro as at June 30, 2006).

The net financial position was positive by 192 thousand euro, positive for 85 thousand euro as at March 31, 2007, and positive for 178 thousand euro as at June 30, 2006.

The number of employees equalled five, as compared with three people as at December 31, 2006 and one in June 2006.

#### **Carraro Argentina S.A.**

Carraro Argentina's growth trend in sales volumes was confirmed, in the face of greater demand originating from the North American and European agricultural markets.

Despite this, several supply difficulties had a negative impact on profitability, resulting in greater purchase and logistical costs in addition to a series of production inefficiencies.

Sales grew by 19.73%, totalling 30.860 million euro compared to 25.774 million euro in June 2006.

EBITDA equalled 2.711 million euro (8.78% of sales), a decrease of 12.35% compared to 3.093 million euro in June 2006 (12% of sales).

The operating margin went from 1.811 million euro (7.03% of sales) as at June 30, 2006 to 1.440 million euro as at

June 30, 2007 (4.67% of sales), a decrease of 20.49%.

With exchange differences positive by 259 thousand euro, (positive in 2006 as well by 107 thousand euro), net profit totalled 1.015 million euro, a decrease of 17.63% compared to 1.232 million euro as at June 30, 2006.

With amortisation and depreciation of 1.271 million euro (1.282 as at June 30, 2006), cash flow amounted to 2.286 million euro (2.514 million euro as at June 30, 2006).

Investments amounted to 723 thousand euro, a decrease compared to 1.650 million euro in the first half of 2006.

The net financial position was positive by 1.722 million euro (positive by 1.505 million euro as at March 31, 2007 and positive by 2.249 million as at June 30, 2006).

There were 387 people employed, as compared with 356 as at December 31, 2006 (352 as at June 30, 2006). This increase is related to the increase in production activities.

### **Carraro India Ltd.**

Thanks to local market demand and the production transfers effected in the last financial year, the Indian company's sales grew by 23.65% compared to the June 2006 figure, and was recorded at 21.399 million euro, as against 17.307 million euro.

EBITDA went from 1.849 million euro (10.68% of sales) to 2.656 million euro (12.41% of sales), an increase of 43.67%.

Operating profit also showed a marked improvement of +62.0% and amounted to 2.174 million euro, equal to 10.16% of sales, compared to 1.342 million euro (7.75% of sales) as at June 30, 2006.

Exchange differences were positive by 640 thousand euro (negative by 547 thousand in June 2006).

Net financial charges equalled 365 thousand euro, 1.71% of sales; 495 thousand euro as at June 30, 2006, 2.86% of sales.

The first half of 2007 closed with a profit of 2.266 million euro, 10.59% of sales (profit of 422 thousand euro in June 2006, 2.44% of sales).

Amortisation and depreciation equalled 482 thousand euro (507 thousand euro as at June 30, 2006) and cash flow was positive by 2.748 million euro (929 thousand euro as at June 30, 2006).

Investments amounting to 1.642 million euro (238 thousand euro as at June 30, 2006) were aimed at the strengthening of production capacity and the expansion of the industrial site.

The net financial position, negative for 12.062 million euro, was stable compared to 10.102 million euro of March 31, 2007 and 11.672 million euro in June 2006.

There were 205 units employed as at June 30, 2007, as compared with 192 at the end of December 2006 and 179 at the end of June 2006.

### **Turbo Gears India Ltd.**

This company became progressively operating over the course of the previous financial year, therefore data from the first half of 2006 were heavily influenced by the starting production phase.

Sales as at June 30, 2007 reached 5.664 million euro (1.749 million euro in June 2006).

EBITDA was recorded at 1.031 million euro, equal to 18.2% of sales (negative by 153 thousand euro as at June 30, 2006).

The operating result was positive by 666 thousand euro, 11.76% of sales (negative by 382 thousand euro the previous year).

The half-year period closed with a net profit of 582 thousand euro, 10.27% of sales (in 2006 with a loss of 929 thousand euro).

Investments were made totalling 1.063 million euro, compared with 1.058 million euro in June 2006, and the net financial position was negative by 7.153 million euro, compared with 5.915 million euro as at March 31, 2007, and 5.817 million euro in June 2006.

215 units were employed by Turbo Gears, compared with 180 in December 2006 and 122 in June 2006.

#### **Carraro Technologies India Ltd.**

This company was founded in July of 2006, thus comparison data are not available for the current financial year.

Revenues in the first half of 2007 reached 323 thousand euro and EBITDA was negative by 62 thousand euro. The company closed with a loss of 82 thousand euro and a net financial position that was positive by 76 thousand euro.

The personnel totalled 29 units, as compared with the 16 units employed in December 2006.

#### **Carraro Qingdao Drive System Co. Ltd.**

In the first half of 2007, this company had sales almost exclusively comprised of reducers for escalators of 5.662 million euro, more than double the 2.520 million of June 2006.

EBITDA equalled 740 thousand euro (13.06% of sales), as against 278 thousand euro (11.03% of sales) in June 2006. Operating profit reached 650 thousand euro, 11.48% of sales, an increase compared to 231 thousand euro, 9.17% of sales, in June 2006.

The financial year closed with a net profit of 647 thousand euro, 11.43% of sales, compared with 169 thousand euro, 6.71% of sales in June 2006. With amortisation and depreciation equal to 90 thousand euro (47 thousand euro in 2006), cash flow equalled 737 thousand euro (191 thousand euro in June 2006). Investments in the launching of new products amounted to 347 thousand euro.

The net financial position was positive by 464 thousand euro; it was positive by 184 thousand euro in June 2006.

The personnel consisted of 55 units, as compared with 32 as at June 30, 2006 and 44 in December 2006.

#### **Carraro China Drive System Co. Ltd.**

This company, launched on January 19, 2007, is building a new Chinese plant for the production of axles.

As at June 30, it had made investments of 4.123 million euro against a total project value of 11 million euro, financially supported by the increases in capital paid in by the parent company Carraro International.

#### **Stock performance**

The first half of 2007 represented the best performance in history of Carraro's stock, recording an average price of 6.368 euro, with growth at the beginning of the year of 109.32%, a minimum value of 4.12 euro on January 8 and a maximum value of 9.41 euro on July 12.

The period between the middle of July and the middle of August saw the stock adjust to general market trends and feel the repercussions of the American Stock Exchange related to the American real estate crisis. For this reason, the value fell to a minimum of 6.55 euro (August 10) during this period before settling at 7.70 euro at the end of August.

### **Events subsequent to closing**

The companies miniGears S.p.A. and MG Holding S.p.A., leaders in the gear sector, were acquired with the investment of a financial partner as a first step in the process of developing Gear World.

To this end, on July 19, 2007, Gear World Srl was transformed into an S.p.A. (*società per azioni* – joint stock company), with a resolution to increase share capital to 35,084,397 euro, to be fully underwritten by Interbanca S.p.A. As a result of this increase in capital, Interbanca holds 26.18% of the share capital of Gear World, while the remaining 74.82% will continue to be held by the Carraro Group, in particular by Carraro S.p.A. (45.6%) and Carraro International S.A. (28.22%).

On July 30, 2007, 100% of the shares of the holding company MG Holding S.p.A. was acquired, and, in turn, 100% of the shares of miniGears S.p.A., with payment by the company of the price of 50,000,000 euro.

### ***Acquisition of Zao Santerno***

As foreseen by the framework agreement signed on the occasion of the acquisition of a controlling share (67%) of the company Elettronica Santerno S.p.A., on July 27, 2007, the same Elettronica Santerno S.p.A. completed the acquisition from Fincasalfiumanese S.p.A. of 100% of the share capital of the Russian company named "Zao Santerno", headquartered in Moscow. The price agreed upon for this transaction equalled the nominal value of the share capital of 100,000 roubles (equivalent to about 3,000 euro).

### **Management and types of financial risks**

The strategy of the Carraro Group for the management of financial risks conforms to the corporate objectives defined in the guidelines (so-called "policies") approved by the Board of Directors of Carraro S.p.A.; in particular, it aims to minimise rate and exchange risks and optimise the cost of debt.

These risks are managed by respecting the principle of prudence and consistent with the "best practices" of the market; all risk management transactions are managed at the central level.

The major objectives indicated by the policy are the following:

#### ***A) exchange risks:***

- 1) to cover all transactions, both commercial as well as financial, from the risk of fluctuation.
- 2) to comply with the logic of "currency balance" in the covering of risk as much as possible, by favouring compensation between currency costs and revenues and between currency receivables and payables, so as to activate the relative hedging only for the uncompensated excess balance.
- 3) not to allow the use and holding of derived instruments or similar for the sole purpose of trading.
- 4) to only allow the use of instruments traded on the regulated markets for hedging transactions.

B) *Rate risks:*

- 1) to cover financial assets and liabilities from the risk of interest rate variation.
- 2) in hedging risk, to comply with the general criteria of balance between loans and utilisations defined for the group by the Board of Directors of Carraro S.p.A. during the approval of the multi-year plans and budget (variable-rate quota and fixed-rate quota, short-term quota and medium/long-term quota).
- 3) to only allow the use of instruments negotiated on the regulated markets for hedging transactions.

**Performance and business outlook for 2007**

It is expected that the ongoing growth trend will continue over the second half of the year, supported by all the main core markets, with the only exclusion being the U.S., with a decrease in construction equipment.

The launching of the new Chinese plant in October and the doubling of the Indian plant are confirmed, as expected.

The consolidation of the results of the newly-acquired miniGears SpA will begin on August 1, which will contribute to the improvement of the Group's EBITDA.

In the area of new business, we confirm the positive performance of Elettronica Santerno, which we expect will close the year with growth close to 50% compared to the pro forma of the year prior.

The Chairman of the Board of Directors

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Mario Carraro