**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 2006

During the six month period, the markets on which the Group operates were essentially stable albeit with differing dynamics; for example the agricultural sector. Growth in new markets such as India, China and Turkey had a compensatory effect with regards to the decrease seen in Europe and South America. In general, the drop in sales volumes which occurred during the second half of last year seems to have come to a standstill. Sales in fact disclose an improvement when compared with the second quarter of 2006 and the last two previous quarters.

The Asiatic region confirmed its importance with regards to the Group's growth strategy, as a market and industrial development opportunity supporting competitiveness, and as an area for the development of high level engineering and technical skills. On a consistent basis with the corporate plans, activities continued for the consolidation of our presence, both industrial and commercial, and a research and design centre was set up in Pune, India (Carraro Technologies) which will employ 40 engineers by the end of the year.

Of similar importance was the role entrusted to the growth areas regarding electronics and renewable sources of energy. This involves new opportunities for technological enhancement for the Group, both in terms of traditional products and for the development of important integrations between mechanics and electronics. The acquisition of control over the company Elettronica Santerno falls within this sphere, finalized on 1° July 2006.

The results as of 30 June are lower than those for the same period last year, which had benefited from a special market trend. Sales revenues have improved, if compared on a quarterly basis, with respect to the second quarter of 2005 and with respect to the last two quarters.

The greater average financial exposure during the period generated by higher working capital and the increase in the cost of money, increased financial expense to Euro 3.288 million (1.02% of sales revenues) when compared with Euro 2.796 million in the previous six month period (0.87% of sales revenues). Net exchange differences produced a loss of Euro 724 thousand, while they had produced a gain of Euro 859 thousand as of 30 June 2005.

Net income, partly as a result of the greater incidence of taxation, fell to Euro 3.789 million, compared with Euro 5.474 million.

## Sales revenues

During the period, consolidated sales revenues came to Euro 322.613 million, essentially stable when compared with the same period last year (Euro 323.187 million) due to the afore-mentioned immobility of the markets on which the Group operates. On a quarterly basis, the second quarter of 2006 (Euro 169.5 million) disclosed an improvement with respect to the first quarter 2006 (Euro 153.15 million).

The Group performed excellently on the new markets of India, Turkey, China and Eastern Europe.

The breakdown of sales revenues by market segment is presented below:

Breakdown of sales revenues by segment (in thousands of Euro) as of 30 June 2006

| **Sales** | **Drives & Drivelines** | **Components** | **Vehicles** | **Eliminations within the Group and assets not allocated** | **Consolidated total** |
|---|---|---|---|---|---|
| SALES | 274,330 | 45,822 | 39,321 | -36,860 | 322,613 |
| Sales to third parties | 268,631 | 15,436 | 38,546 | 0 | 322,613 |
| Sales within divisions | 0 | 0 | 0 | 0 | 0 |
| Sales between divisions | 5,699 | 30,386 | 775 | -36,860 | 0 |

Breakdown of sales revenues by segment (in thousands of Euro) as of 30 June 2005

| **Sales** | **Drives & Drivelines** | **Components** | **Vehicles** | **Eliminations within the Group and assets not allocated** | **Consolidated total** |
|---|---|---|---|---|---|
| SALES | **280,183** | **43,543** | **30,943** | **-31,482** | **323,187** |
| Sales to third parties | 276,999 | 15,563 | 30,625 | 0 | 323,187 |
| Sales within divisions | 0 | 0 | 0 | 0 | 0 |
| Sales between divisions | 3,184 | 27,980 | 318 | -31,482 | 0 |

Sales are broken down by geographic area as follows:

Sales by geographic area (in thousands of Euro)

| ***Geographical area*** | ***1st half of 2006*** | ***%*** | ***1st half of 2005*** | ***%*** | ***Δ % 1st half 2006 1st half 2005*** |
|---|---|---|---|---|---|
| North America | 72,579 | *22.5* | 78,253 | *24.2* | *-7.25* |
| Germany | 58,821 | *18.2* | 46,190 | *14.3* | *+27.35* |
| France | 31,214 | *9.7* | 38,011 | *11.8* | *-17.88* |
| UK | 28,543 | *8.8* | 35,278 | *10.9* | *-19.09* |
| India | 14,754 | *4.6* | 12,854 | *4.0* | *+14.78* |
| South America | 12,786 | *4.0* | 16,131 | *5.0* | *-20.74* |
| Poland | 9,122 | *2.8* | 9,388 | *2.9* | *-2.83* |
| China | 6,942 | *2.2* | 3,795 | *1.2* | *+82.92* |
| Turkey | 4,869 | *1.5* | 2,004 | *0.6* | *+142.96* |
| Other EU areas | 22,691 | *7.0* | 22,389 | *6.9* | *+1.35* |
| Other countries outside EU (*) | 5,569 | *1.7* | 5,421 | *1.7* | *+2.73* |
| **Total abroad** | **267,880** | ***83.0*** | **269,714** | ***83.5*** | ***-0.68*** |
| Italy | 54,733 | *17.0* | 53,473 | *16.5* | *+2.36* |
| **Total** | **322,613** | ***100*** | **323,187** | ***100*** | ***-0.19*** |

| | | | | | |
|---|---|---|---|---|---|
| **Total EU areas** | **205,124** | ***63.6*** | **204,729** | ***63.3*** | ***+0.19*** |
| **Total EU areas** | **117,489** | ***36.4*** | **118,458** | ***36.7*** | ***-0.82*** |

**EBIT**

The consolidated EBIT during the first six months of 2006, came to Euro 12.021 million (3.73% of sales revenues), compared with Euro 13.028 million (4.03% of sales revenues) as of 30 June 2005 as a result of higher overheads relating to the start-up of the new operating units - Turbo Gears in India and Carraro Qingdao in China – and to costs relating to the engineering division. The comparison between the second quarter of 2006, Euro 6.678 million (3.94% of sales revenues) and the second quarter of 2005, Euro 5.371 million (2.97% of sales revenues), was by contrast positive. The analysis of the previous two quarters was also positive: Euro 5.343 million (3.49% of sales revenues) during the first quarter of 2006 and Euro 4.742 million (3.1% of sales revenues) in the fourth quarter of 2005, confirming the improvement trend underway.

**EBITDA**

The EBITDA came to Euro 23.154 million (7.18% of sales revenues) compared with the balance in the first half of 2005 amounting to Euro 24.556 million (7.6% of sales revenues). Once again in this case, the comparison between the second quarter of 2006, Euro 12.144 million (7.17% of sales revenues) and the corresponding period last year, Euro 11.333 million (6.28% of sales revenues) was positive, as was the comparison with the previous two quarters: Euro 11.010 million in the first half of 2006 (7.19% of sales revenues) and Euro 7.713 million in the fourth quarter of 2005 (5.04% of sales revenues).

**Financial expense**

Net financial expense amounted to Euro 3.288 million, 1.02% of sales revenues, up with respect to the Euro 2.796 million reported in the first half of 2005, representing 0.87% of sales revenues.

The interest cover calculated on the EBITDA came to 7.04, compared with 8 as of 31 December 2005 (8.78 as of 30 June 2005).

**Exchange differences**

Net exchange differences presented a loss of Euro 724 thousand when compared with the net exchange gains in June 2005, totalling Euro 859 thousand, as a result of the devaluation of certain currencies of emerging markets, in particular the Indian Rupee, which affected the adjustments of the balance sheet balances and generated a capital loss with respect to the hedging exchange rates; however, it also represents the basis for improved future profitability.

Shareholders are informed that the balance as of 30 June 2006, especially as a result of the matters indicated previously, includes the effect of the *fair value* valuation of derivative trading instruments, presenting a negative balance of Euro 1.019 million.

**Net result**

The net income as of 30 June 2006, amounted to Euro 3.789 million (1.17% of sales revenues), as against Euro 5.474 million (1.69% of sales revenues) as of 30 June 2005.

**Amortization, depreciation and Cash-flow**

Amortization and depreciation of Euro 11.133 million was provided (Euro 11.528 million as of 30 June 2005). This gave rise to a *cash-flow* of Euro 14.922 million, compared with Euro 17.002 million during the first half of 2005.

**Capital expenditure**

Gross consolidated investments amounted to Euro 12.788 million, most of which intended to increase the production capacity in the *components* division (including Turbo Gears) and for the activities for maintaining the technological level for the entire Group; during the first half of 2005, the balance came to Euro 15.349 million.

**Research and Innovation**

Costs for research and innovation were incurred for a total of Euro 8.050 million, equating to 2.5% of sales revenues; the balances presented a sharp increase compared with the balance of Euro 6.320 million (1.96% of sales revenues) incurred during the first half of 2005.

At the end of the first half of 2006, the new engineering company set up in India achieved full operating capacity: “Carraro Tecnologies Ltd”. Carraro Technologies will, among other things, be specifically dedicated to the development of activities for the design of drivelines systems for agricultural applications and will also construct, in the future, an important and avant-garde skills centre in the sector of the technologies and methods for analysis and virtual prototyping applied to Carraro Group products.

The finalization (1 July 2006) of the acquisition of a majority holding in Elettronica Santerno will enhance the mecatronic skills within the Group and will represent the starting point for the development of advanced solutions in the sector of electrical and hybrid traction and, more generally, integrated solutions aimed at energy saving, and the generation of energy from renewable sources.

During Spring 2006, the first prototypes of the new family of drivelines for robotized Construction Equipment were made available for testing at customers’ premises, being the starting point of the plan for the development of the new driveline range.

At the same time, the range of new generation axles was developed, the result of important activities for rationalizing and extending the range in the off –highway sector.

In addition, the phase for the development and implementation of the PLM (Product Lifecycle Management) project for the integrated worldwide management of the information relating to the life cycle of the products continued with satisfactory results, placing Carraro SpA at the forefront in organizational and infrastructural terms in relation to the management of the product development process.

**Net financial position**

The net financial position, presenting borrowing of Euro 99.587 million, includes the payment of the dividend for Euro 5.250 million, up with respect to the balance of Euro 95.506 million as of 31 March 2006.

Gearing, the borrowing to net equity ratio, came to 89.29, as against 81.93 as of 31 March 2006.

**Resources and training**

The Group’s workforce as of 30 June 2006, amounted to 2,658 individuals, of which 109 were under temporary contracts. As of 30 June 2005, employees numbered 2,571 (of which 150 under temporary contracts), while as of 31 December

2005 the employees came to 2,524 (16 under temporary contracts).
Staff employed at the Italian establishments amounted to 1,573, compared with 1,652 employees as of 30 June 2005; those at foreign establishments numbered 1,085, as against 919 as of 30 June 2005.

## Significant events during the period

On 29 May 2006, its natural expiry date, the residual portion of the bond issued by Carraro International SA on 29 May 2001, amounting to Euro 75 million, was reimbursed.
On the same day, a loan from a pool of banks was granted to Carraro International SA for a total of Euro 80 million, having already been raised in 2005 with a group of leading banks; the duration of the loan is from 2006 through 2012.
As of 14 June 2006, the new company Carraro Technologies India Ltd. was established in Pune, 99% owned by Carraro International SA and 1% by Carraro SpA; the company is destined to carry out design, research and development activities in favour of the Group, supporting the industrial activities.

## 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 221.936 million, compared with Euro 232.973 million during the first half of 2005, down by 4.7% when compared with 30 June 2005.
Exports weighed in for 85.1% on sales revenues, compared with 86.1% in the first half of 2005. The areas were the majority of sales went were: the U.S.A. with 22.9% (25.6% as of 30 June 2005) and the European Union (Italy excluded) with 53.5% (51.2% as of 30 June 2005).
The EBIT amounting to Euro 4.867 was down by 29% when compared with the balance of Euro 6.574 million in 2005.
Shareholders are reminded that the Parent Company increasingly performs a corporate role and consequently incurs greater overheads with respect to the other companies, in particular in the R&D area.
Net financial expense was essentially stable as a percentage of sales revenues, amounting during the period to Euro 1.653 million or 0.7% of sales revenues, compared with Euro 1.568 million as of 30 June 2005 (0.7% of sales revenues).
Net income during the first half of 2006 came to Euro 3.121 million (1.4% of sales revenues), compared with Euro 1.624 million (0.7% of sales revenues) during the first half of 2005.
Amortization and depreciation was provided for a total of Euro 4.510 million, as against Euro 5.029 million in the previous year, and the *cash-flow* amounted to Euro 7.631, compared with Euro 6.653 million in June 2005.
Gross investments during the first half came to Euro 3.038 million, down with respect to the balance of Euro 4.241 during the same period in 2005.
The net financial position disclosed borrowing of Euro 38.189 million, against a balance as of 31 March 2006 of Euro 36.860 million (Euro 36.937 million as of 30 June 2005).

Staff on the payroll as of 30 June 2006 numbered 1,045 (of which, 31 temporary), compared with 1,135 (of which, 76 temporary) as of 30 June 2005 and 1,038 (of which, 8 temporary) as of 31 December 2005.

**SIAP S.p.A.**

Sales revenues as of 30 June 2006, amounted to Euro 45.534 million, up by 4.6% when compared with the balance of Euro 43.543 million as of 30 June 2005, thanks to increased demand from Group companies.
The EBIT remained more or less unchanged both in absolute terms and percentage terms when compared with the first half of 2005, amounting to Euro 3.266 million (7.2%), as against Euro 3.067 million (7%) in 2005.
Net income totalled Euro 1.438 million, up by 10.6% when compared with the balance of Euro 1.300 million as of 30 June 2005.
With amortization and depreciation totalling Euro 3.357 million, as against Euro 3.191 million as of 30 June 2005, the cash flow came to Euro 4.795 million (Euro 4.491 million in the same period in the previous year).
The company made investments for a total of Euro 4.551 million (Euro 4.161 million during the first six months of 2005) intended to enhance the production capacity.
The net financial position disclosed borrowing of Euro 21.568 million, an improvement with respect to the Euro 22.681 as of 31 March 2006.
Staff on the payroll as of 30 June 2006 numbered 462 (of which, 73 under temporary contracts), 448 as of 30 June 2005 (394 as of 31 December 2005).

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

Sales revenues as of 30 June 2006 amounted to Euro 20.984 million (Euro 17.326 million during the first six months of 2005). The EBIT for the period was positive with a balance of Euro 422 thousand, equating to 2% of sales revenues (negative balance in 2005 totalling Euro 153 thousand).
Net income totalled Euro 252 thousand, compared with a loss during the first half of 2005 amounting to Euro 257 thousand.
Amortization and depreciation came to Euro 75 thousand (Euro 123 thousand as of 30 June 2005), while the *cash totalled Euro* 327 thousand (negative balance of Euro 134 thousand as of 30 June 2005).
The net financial position disclosed borrowing of Euro 4.978 million, Euro 6.667 million as of 31 March 2006.
The workforce at the end of June 2006 comprised 66 employees (69 as of 30 June 2005 and 63 in December 2005).

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

Sales revenues during the first half of 2006, amounting to Euro 17.014 million, continued to rise and nearly doubled with respect to the balance of Euro 9.175 million as of 30 June 2005.
The EBIT presented a negative balance of Euro 493 thousand, compared with an operating loss of Euro 100 thousand during the first half of 2005. The main causes are attributable to the start-up costs for a new range of products, and the scant presence of local sub-suppliers of component engineering in relation to which our purchase marketing division has launched a series of corrective action in a decisive manner.
The drop in the interest rates in Poland contributed towards the drop in net financial expense, which passed from Euro 313 thousand in June 2005 to Euro 190 thousand in June 2006.
The net result for the period disclosed a loss of Euro 747 thousand (net loss of Euro 381 thousand as of 30 June 2005).
With amortization and depreciation amounting to Euro 757 thousand (Euro 516 thousand as of 30 June 2005), the cash

flow came to Euro 10 thousand, as against Euro 135 thousand as of 30 June 2005.

Investments amounted to Euro 1,757 million (Euro 956 thousand as of 30 June 2005) and were intended to increase the production capacity.
The net financial position disclosed borrowing of Euro 10.473 million, up with respect to the balance of Euro 8.409 million as of 31 March 2006 following the afore-mentioned investments and growth in the working capital consequent to higher sales volumes.
The number of employees came to 193, 195 as of 31 December 2005, 196 at the end of June 2005.

**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 9 thousand; the loss totalled Euro 7 thousand as of 30 June 2005.

**O&K Antriebstechnik GmbH**

Sales revenues of Euro 35.094 million were up by 7.8% when compared with 30 June 2005 with a balance of Euro 32.557 million, thanks to the increased sales volumes of drive applications.
EBIT amounted to Euro 926 thousand (2.6% of sales revenues), disclosing an increase on the balance of Euro 637 thousand as of 30 June 2005 (2% of sales revenues).
Net financial expense totalled Euro 232 thousand, 0.7% of sales revenues (Euro 228 thousand, 0.7% of sales revenues, as of 30 June 2005) and net income for the period amounted to Euro 551 thousand, compared with Euro 561 million as of 30 June 2005.
Amortization and depreciation has been provided for a total of Euro 329 thousand (Euro 512 thousand as of 30 June 2005) generating a *cash flow* of Euro 880 thousand (Euro 1.073 million as of 30 June 2005).
Gross investments were made for Euro 397 thousand, Euro 349 thousand in June 2005.
The financial position as of 30 June 2006 disclosed borrowing of Euro 3.963 million, compared with 31 March 2006 when borrowing amounted to Euro 1.959 million (Euro 5.086 million in June 2005) due to the increase in the working capital, essentially attributable to the warehouse; plans are envisaged for optimizing and reducing said warehouse by the end of the current year.
The number of employees came to 199 (212 as of 31 December 2005, 208 as of 30 June 2005).

**Carraro International S.A.**

The net result of the company as of 30 June 2006 disclosed profit of Euro 198 thousand (profit of Euro 1.142 million as of 30 June 2005).
The net financial position showed borrowing of Euro 5.488 million (Euro 6.818 million as of 31 March 2006).
The company, as per corporate plans, made a further share capital increase in Turbo Gears in March for a total of Euro 965 thousand and subscribed an initial share capital increase of the newly-formed Carraro Technologies for a total of

Euro 17 thousand, an engineering company with registered offices in Pune – India.

On 29 May, the residual value (Euro 75 million) of the bond falling due on said date was reimbursed, using part of the medium-term loan agreement, concluded on 28 June 2005, for a total of Euro 100 million organized under the form of a *club deal* in which leading banks have participated: MCC S.p.A. – Capitalia Gruppo Bancario, Banca Antoniana Popolare Veneta S.p.A., Banco Popolare di Verona e Novara S.c.r.l., Cassa di Risparmio di Padova e Rovigo S.p.A. – Gruppo San Paolo IMI and Mediobanca S.p.A..

**Carraro North America Inc.**

The EBIT was positive for a total of Euro 131 thousand (positive for Euro 541 thousand as of 30 June 2005), after having recorded trade commission for a total of Euro 410 thousand (Euro 821 thousand as of 30 June 2005).

The accounting period closed with net income of Euro 133 thousand (net income of Euro 340 thousand as of 30 June 2005).

Amortization and depreciation was provided for a total of Euro 126 thousand (Euro 139 thousand as of 30 June 2005) leading to a cash flow of Euro 259 thousand (Euro 479 thousand as of 30 June 2005).

The net financial position disclosed a credit balance of Euro 178 thousand, and a credit balance of Euro 4 thousand as of 31 March 2006.

The company had 1 employee, unchanged with respect to 31 December 2005.

**Carraro Argentina S.A.**

Despite the persistence of the period of stagnation affecting the South American market, in particular the Brazilian one, thanks to the exports destined for the United States and Europe, sales revenues rose by 8% to Euro 25.774 million, as against Euro 23.870 million in June 2005.

The EBIT dropped from Euro 2.615 million (11% of sales revenues) as of 30 June 2005 to Euro 1.811 million as of 30 June 2006 (7% of sales revenues).

With exchange gains totalling Euro 107 thousand (gains of Euro 1.855 million in 2005), the net income amounted to Euro 1.232 million, down with respect to the balance of Euro 2.917 million as of 30 June 2005.

Amortization and depreciation of Euro 1.282 million (Euro 878 thousand as of 30 June 2005) led to a cash flow of Euro 2.514 million (Euro 3.795 million as of 30 June 2005).

Investments totalling Euro 1.650 million, compared with Euro 2.041 million during the first half of 2005, were made in order to maintain the production capacity.

The net financial position presented a credit balance of Euro 2.253 million (credit balance of Euro 1.759 million as of 31 March 2006 and credit balance of Euro 3.843 as of 30 June 2005).

Staff on the payroll came to 352 units, 338 as of 31 December 2005 (340 as of 30 June 2005). The increase is linked to the increase in production activities and is based on the employment of temporary staff.

**Carraro India Ltd.**

Sales revenues amounted to Euro 17.307 million, as against Euro 15.461 million as of 30 June 2005, up by 12%.

Thanks in part to the devaluation of the Indian Rupee, the EBIT improved sharply to Euro 1.342 million, equating to 7.8% of sales revenues, compared with Euro 980 thousand (6.3% of sales revenues) as of 30 June 2005.

Exchange differences presented losses totalling Euro 688 thousand (gain of Euro 1.401 million as of 30 June 2005) as a result of the afore-mentioned devaluation with respect to the covering values of the hedging transactions. Net financial expense amounted to Euro 495 thousand (Euro 380 thousand as of 30 June 2005), up with respect to the balance in the previous year, and reflects the increase in the average net financial position (debt balance) and the rise in the cost of money. The first half of 2006 closed with net income of Euro 422 thousand (net income of Euro 1.815 million in June 2005).

Amortization and depreciation amounted to Euro 507 thousand (Euro 530 thousand as of 30 June 2005) and the cash flow presented a positive balance of Euro 929 thousand (Euro 2.345 million as of 30 June 2005).

Investments, made in order to maintain the production capacity of the plants, amounted to Euro 238 thousand (Euro 655 thousand as of 30 June 2005).

The net financial position, disclosing borrowing of Euro 11.672 million, increased with respect to the balance of Euro 9.628 million as of 31 March 2006, mainly as a result of the increase in working capital, due to the rise in volumes.

Staff on the payroll as of 30 June 2006 numbered 179, 166 at the end of December 2005, and 161 at the end of June 2005.

**Turbo Gears Ltd.**

The company's figures are not comparable with those of the previous year, since it is in the first year of the start-up of its production activities. Sales revenues during the first six months amounted to Euro 1.749 million, investments were made for a total of Euro 1.058 million, and the net financial position disclosed borrowing of Euro 5.817 million as against Euro 3.941 million as of 31 March 2006. The net loss for the year came to Euro 929 thousand, being the result of exchange losses totalling Euro 200 thousand on medium/long-term loans and all the inefficiencies typical of this production start-up phase. Said loss is in line with budget forecasts and as per corporate plans the company will be in profit as from the next accounting period.

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

It was also not possible to compare Carraro Qingdao's figures with the previous year's balances; during the six month period, it achieved sales revenues of Euro 2.520, the net result disclosed income of Euro 144 thousand and investments were made for a total of Euro 136 thousand. The net financial position presented a credit balance of Euro 184 thousand.

**Share performance**

During the first half of 2006, Carraro stock registered an average official price of Euro 3.630, disclosing an essentially stable trend, touching a minimum of Euro 3.40 on 12 April 2006 and a maximum of Euro 4.095 on 9 May 2006.

The average price during the first half of 2006, when compared with that at the end of 2005, rose by 6.14%.

**Management and type of financial risks**

The Carraro Group's strategy for the management of financial risks complies with the corporate objectives defined within the guidelines (so-called "policies") approved by Carraro S.p.A.'s Board of Directors; specifically, it aims to minimize the interest and exchange rate risks and optimize the cost of the debt.

The management of these risks is carried out in observance of prudent principles and on a consistent basis with the best market practices and all the risk management transactions are handled at central level.

The main objectives indicated by the policy are as follows:

A) *Exchange rate risks:*

1) hedge all the transactions, both trade and financial, from the fluctuation risk.

2) observe, as far as is possible, a “currency balance” logic when hedging the risk, favouring the off-setting between the foreign currency revenues and costs and the foreign currency receivables and payables, so as to activate the related hedge solely for the excess balance not offset.

3) do not permit the use or holding of derivative and similar instruments solely for trading purposes.

4) permit the use of just instruments traded on organized markets, for hedging transactions.

B) *Interest rate risks:*

1) hedge financial assets and liabilities from the risk of changes in interest rates.

2) observe, when hedging the risk, the general criteria of balance between investments and uses defined for the Group by Carraro S.p.A.’s Board of Directors at the time of approval of the long-term plans and the budget (floating rate and fixed rate portion, short-term and medium/long-term portion).

3) permit the use of just instruments traded on organized markets, for hedging transactions.

## Events subsequent to year end

**ELETTRONICA SANTERNO**

On 1 July 2006, the Parent Company Carraro SpA acquired a controlling interest (67%) in Elettronica Santerno, a company specialized in the production of static power converters, used for the electronic regulation of speed and for the conversion, marketing and after sales service of inverters.

The acquisition is of strategic value since it makes it possible to extend the technological coverage to electronic control and power systems and their integration within the driveline systems which represent the Group’s core business. It also makes it possible for Carraro to gain admittance to the sector involved in the production and conversion of electricity which is currently undergoing sharp growth.

**CARRARO INDIA Ltd.**

The acquisition of the remaining 49% of the subsidiary Carraro India was completed on 12 September 2006, a strategic transaction in light of the extremely important growth prospects of this market both in the agricultural and construction equipment sector which lead us to believe that over the next 3/5 years, the threshold of Euro 100 million in sales revenues will be exceeded.

## Performance and forecasts for 2006

The second half of the year forecasts a solidity of the main markets in line with the previous months. The gradual recovery of profitability will continue both with respect to the corresponding quarters of the previous year and the results achieved in 2005.

Activities are at present fully underway for the integration of the newly acquired Elettronica Santerno, envisaging investments for enhancing the production capacity so as to meet the growing demand especially in the solar energy sector and the start of activities for the development of new product lines.

The Chairman of the Board of Directors

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Mario Carraro