

The financial statements have been translated from those issued in Italy, from the Italian into the English language, solely for the convenience of international readers.

CARRARO S.p.A.

Registered office in Campodarsego (PD) – Via Olmo n. 37
Share capital Euro 21,840,000 fully paid in
Fiscal Code/VAT registration and registration with the Companies' Register in
Padua No. 00202040283
R.E.A. Padua No. 84.033

ANNUAL FINANCIAL STATEMENTS AS AT 31 DECEMBER 2003

DIRECTORS' REPORT

Dear Sirs,

The holding company Carraro S.p.A. made sales of Euro 275.896m in 2003, up 1% on the Euro 273.093m of 2002. The increase is attributable, in particular, to the growth of sales of traditional axles (+2.9%), in particular in the construction equipment segment, due to the start of new supply contracts.

Exports accounted for 81.1% of total sales, versus 77.8% in 2002. The main markets were the USA with 24.2% (22.8% in 2002) and the European Union (excluding Italy) with 41% (41.1% in 2002).

If, on the one hand, the start of new contracts resulted in the growth of sales volumes, on the other hand it had an adverse impact on the operating margin which, at this stage, reflects the natural lower profitability of new supplies. EBIT for 2003 was equal to Euro 13.959m (5.06% of sales) versus Euro 15.227m for 2002 (5.58% of sales).

Net financial charges after exchange differences and hedging costs amounted to Euro 5.280m (1.91% of sales), up on the Euro 4.310m (1.58% of sales) of the prior year.

In 2003 the holding company received dividends from the subsidiary SIAP S.p.A. for an amount of Euro 4.884m.

As a result of the losses reported by the subsidiary Carraro International, in turn caused by the losses reported by its subsidiaries Carraro North America and Carraro Korea, the carrying value of the Luxembourg-based entity was adjusted to the corresponding net equity value, recording an impairment write-down of Euro 2.446m.

After the above entries and after net current and deferred taxes of Euro 5.529m, Carraro S.p.A. closed the year 2003 with profit of Euro 8.310m, versus the loss of Euro 8.972m reported in 2002 when, as you will remember, the company's performance was affected to a significant extent by impairment write-downs of equity interests in certain subsidiaries, for an amount of Euro 16.484m.

Depreciation/amortisation, equal to Euro 10.636m, was substantially in line with the Euro 10.603m of 2002.

This resulted in a net cash inflow of Euro 18,946m, versus Euro 1.631m in 2002.

Gross capital expenditure in 2003 totalled Euro 9.996m, versus Euro 11.073m in 2002, and related mainly to the purchase of new machinery to upgrade the production lines.

During 2003 Carraro SpA expensed research and innovation costs for an amount of Euro 6.422m, equal to 2.3% of sales (Euro 6.362m in 2002, 2.3% of sales).

The net financial position as at 31 December 2003, debt of Euro 58.945m, improved on debt of Euro 67.872m as at 30 June 2003 (Euro 79.122m as at 31 December 2002) as a result of a reduction in working capital and to capital expenditure being limited to the value of depreciation.

The headcount as at 31 December 2003, including temporary workers, was 844 (862 as at 30 June 2003), versus 853 as at 31 December 2002.

ANALYSIS BY SEGMENT

Sales

If we analyse sales by product line, sales of traditional axles in the off-highway segment rose by 2.9%, thanks to the start of production of new projects for large customers.

Sales of axles for light commercial vehicles and forklifts declined by 2.7% and sales of cam phaser devices fell by 11.3%, reflecting the slow-down of the automotive market.

Sales of agricultural transaxles declined because they are mainly made on the European market, which in 2003 shrank due to droughts and water rationing.

We note the good performance of spare parts, with sales growing by 9.5%.

The schedules below detail sales by segment and by product line.

Breakdown by product line (in millions of Euro)

<i>Product line</i>	<i>Year ended 31 Dec. 2003</i>	<i>Year ended 31 Dec. 2002</i>	<i>% difference 2003/2002</i>
Traditional axles	181.625	176.504	+2.9%
Axles for light commercial vehicles and forklifts	21.675	22.276	-2.7%
AG transaxles	839	1.440	-41.7%
CE transmissions	19.643	19.598	+0.2%
Gears	0	0.635	-
Cam phaser devices	4.690	5.285	-11.3%
Clutches	1.195	1.613	-25.9%
Spare parts	20.689	18.897	+9.5%
Other	25.540	26.845	-4.9%
TOTAL	275.896	273.093	+1.03%

Breakdown by product line (%)

<i>Product line</i>	<i>Year ended 31 Dec. 2003</i>	<i>Year ended 31 Dec. 2002</i>
Traditional axles	65.8%	64.6%
Axles for light commercial vehicles and forklifts	7.9%	8.2%
AG transaxles	0.3%	0.5%
CE transmissions	7.1%	7.2%
Gears	-	0.2%
Cam phaser devices	1.7%	1.9%
Clutches	0.4%	0.6%
Spare parts	7.5%	6.9%
Other	9.3%	9.9%

Personnel

Personnel employed as at 31 December 2003 (including temporary workers) numbered 844 (divided between the various sites: Campodarsego 673; Gorizia 171, including 591 workers), versus 853 (Campodarsego 683 and Gorizia 170) as at 31 December 2002 (including 586 workers).

As shown by the above figures, in spite of the growth of business volumes Carraro continued implementing measures and plans aimed at limiting costs and balancing overheads.

In 2003, moreover, we started redefining the organisation structure, and the new structure became official in September 2003. The changes made, which involved a significant number of clerks and executives, make it necessary, in order to ensure an effective human resource management and development process, to carry out a wide-ranging exercise that involves mapping the existing job profiles, identifying the new competencies required by the new roles created and/or filled, and mapping the existing resources.

The project, devised in late 2003, started being implemented in January 2004 and the first stage will be completed within April 2004.

Research and Innovation

The year 2003 marks the start of a new phase in our research and development activities.

In the context of the overall reorganisation of the Group, we redesigned the entire structure, management processes and physical layout of the R&D function.

The new structure, which reports to a Drivelines & Drive Engineering manager, is organised by product platform (axles, agricultural transaxles and construction equipment transmissions, drives), includes a competence centre for auxiliary technologies (electronics and hydraulics) and is supported by a program

management team that has been entrusted with optimising the management of the development and validation resources and with monitoring the state of completion of projects in progress.

The number of those projects, which increased significantly in the second half of the year due to the start of large contracts, is expected to rise further in line with our ambitious targets for the next four years; hence the need to adopt management methods suitable to ensure an effective use of existing resources and to reduce time to market.

Product development is therefore regulated by a new, formal, inter-function procedure based on project management, a clear allocation of tasks and responsibilities in the various phases of a product's life cycle, the definition of successive design review steps, and the orderly and methodical release of accurate and exhaustive technical documentation.

In the course of the year we revised and upgraded the layout of the development and validation area, reallocating all R&D staff within a single space, in order to develop skill and knowledge sharing.

The threefold intervention, involving structure, processes and layout, underscores the Group's renewed attention to development, research and innovation activities as the fundamental competitive levers for an enterprise that intends to build and defend a privileged relationship with the OEM as a system integrator, both in traditional segments and in new ones.

Among the most significant developments in 2003 – all based on an in-house developed electronic control module – were the new Powershift transmission for tractors of up to 90 Hp, a new range of drivelines for backhoe loaders, an innovative driveline for construction equipment based on a robotised transmission and suspension axle.

SPECIAL EVENTS OF 2003

In January 2003 the board of directors of Carraro S.p.A. appointed Mr. Gabriele Del Torchio as managing director with the task of managing the business and devising and implementing growth strategies jointly with the company's chairman.

New Strategic Plan

The Group immediately started a formal strategic planning exercise, aimed at ensuring the consistency of short-, medium- and long-term targets, the latter identified within a competitive environment well defined by the new formulation of its mission.

The preparation of the Strategic Plan 2004-2007 was characterised by a top-down/bottom-up approach: it involved all corporate functions, ensuring consistency, fostering an entrepreneurial spirit and stimulating internal cohesion.

The stage of analysis of the Group's competitive positioning led to the decision to modify its organisation structure, in order to promote further the Group's focus on and presence in the various markets. In detail, activities were grouped around 4 business units focusing, respectively, on the segments of complete drive systems (drivelines), hydraulic drives and electrical power-trains (drives), gears and castings (components) and spare parts.

Each business unit operates as a separate 'profit centre', with its own targets and profit and loss account, and has been given large operational autonomy and flexibility for rapid and efficient management of decision-making processes. The business units are supported by 'competence centres', whose task is to contribute to defining the strategic choices necessary for the growth of the Group and for improving management efficiency. Finally, 'service centres' manage the infrastructure supporting the operations of the business units.

The change in organisation structure involved a revision of the key management processes, from the product development procedure to the formal and informal tools used to control performance and variances from the strategic guidelines.

All the above is in line with the best practices recommended by the ISO/TS 16949:2002 regulations, which attest the compliance of corporate processes with the most advanced system of quality management in the automotive industry and emphasise the importance of operating by inter-function processes, and with which the Italian manufacturing sites of the Group have been officially compliant since the end of 2003. Achievement of the ISO/TS 16949:2002 certificate is a step in our strategy to bring Carraro Group in line with the most modern systems of business management which, through continuous control of all the processes involved in meeting customers' requirements, in particular product development and production, constantly strives to achieve continuous improvement, focussing efforts on defect prevention, cost reduction and customer service.

The strategic plan was approved by the Board on 4 December 2003 and then presented to the financial community on 11 December. Fundamental objectives of the plan are: strong growth of sales in the Group's major markets, constant recovery of operating margins, and a marked improvement in the net financial position.

Consistently with the objectives laid down in the plan, on 23 December 2003 Carraro entered into a long-term agreement for the supply of axles to the Same Deutz Fahr group, one of the world's leading tractor manufacturers, with a full range comprising models from 25 to 260Hp, including specialist and tracked tractors, under the trademarks Same, Lamborghini, Hürlimann and Deutz-Fahr. In the context of this agreement, Carraro acquired control of A.E. S.r.l. from Same Deutz Fahr Italia S.p.A.. The new subsidiary, based in Castello d'Argile (Bologna) and with 63 employees, currently covers 75% of the requirement for axles of the Same Deutz Fahr group. The purchase consideration was Euro 10,000, corresponding to the net equity value, and only the entity's assets and liabilities were consolidated into Carraro as at 31 December 2003.

SHARE PRICE FLUCTUATIONS

The price of shares in Carraro SpA rose by 77% since the start of 2003, to an official price of Euro 2.46 on 30 December 2003, versus Euro 1.39 on 2 January 2003. In the course of the year Carraro shares traded at an average official price Euro 1.68. In the first few months of the year the share price initially declined, to a low of Euro 1.27 on 1 April 2003, than rallied and continued to rise in the remaining part of the year, reaching a high of Euro 2.48

on 18 December 2003 (+95.28%). During the first quarter of 2004 the share price continued to grow, reflecting the general trend on the stockmarket; the highest quotation in the period was Euro 3.045 on 8 March 2004.

TREND AND FORECAST FOR 2004

To conclude our report on the year ended 31 December 2003, which is supplemented by a more detailed analysis of the figures in the notes to the financial statements, it is our custom to make a few considerations on the operations of the current year, which basically confirm our past favourable forecasts, with sales in the first quarter of 2004 slightly more than 10% higher than sales of the same period of 2003. Demand appears to be even stronger than this figure indicates, but growth has been slowed by difficulties in supply which in the case of ferrous metals have given rise to paroxysmal tensions with alarming effects on the level of costs and incredible difficulties in provisioning. Very strong growth in demand from China appears to be among the leading causes for this situation, but evidently in the wake of this we cannot rule out speculative pressure at the level of production of and trade in the raw material. We hope this is a temporary phenomenon, as already happened in the past at the beginning of a new financial year, albeit never in so acute a form. Of course, on the one hand the purchasing department is responsible for addressing the continual price rises, both by resorting to the notion of partnership that binds us to our suppliers, and by searching for alternative sources of supply, in line with the Group's general strategy.

We feel the need, in concluding our comments, to express our wish for a greater economic balance among the countries of the world, all the more necessary in an age when markets confront one another in terms of integration. This is closely dependent on political will, which we hope will find again a climate of international relations suitable to accelerate a period of development to which the entire planet is now coming. Without forgetting what can be expected of monetary policy, which – as far as Europe is concerned – does not seem yet to have seized the opportunity of promoting a growth which risks running aground in our continent without cuts to interest rates.

We are aware, at any rate, that the prime engine of the economy are enterprises, in any segment. And as an industrial enterprise our Group is determined to pursue its strategies successfully, reaping the fruits of courageous choices.

EVENTS SUBSEQUENT TO THE CLOSING DATE

In the course of the first quarter of 2004 Carraro International purchased bonds of its own **Eurobond 2001-2006** issue, on the stockmarket, for a total to 31 March 2003 of Euro 20,148,000. The bonds were purchased on an arm's length basis from institutional investors with the aim of investing excess cash. There was no cancellation of the bonds against the corresponding debt.

ADDITIONAL DISCLOSURES

Carraro S.p.A. does not hold own shares, or shares in the parent company Finaid S.r.l., not even through finance companies or intermediaries, and did not trade in those shares in the course of the period.

We state that intercompany transactions relate to trading, financing or consulting and were carried out on an arm's length basis in the economic interests of each of the parties involved.

As concerns the aspects relating to the protection of privacy, as required by annex b) to Legislative Decree 196/2003, we inform you that Carraro will draw up a "Security Planning Document", in compliance with the requirements of the new legislation, within the term prescribed by law, which has been extended to 30 June 2004.

With regard to the transition to International Financial Reporting Standards (IFRS), we have initiated a project, with the support of external consultants, with the aim of drawing up IFRS-compliant consolidated financial statements starting from the year ending December 31, 2005. The project involves the analysis of relevant business and financial phenomena and the identification of the changes to be made to the accounting procedures and financial reporting processes.

As required by Legislative Decree No. 58/98 we attach to this report a list of shares held in Carraro S.p.A. and its subsidiaries by the directors, statutory auditors and general managers, as well as their spouses unless legally separated and dependent underage children, either directly or through subsidiaries, fiduciary companies or intermediaries, as reported on the shareholder's register based on communications received and other information obtained from the directors, statutory auditors and general managers themselves:

Independent directors of Carraro S.p.A. are:

Mr. Giorgio Brunetti – Director

Mr. Antonio Ceola – Director

Mr. Sergio Erede – Director

For an exhaustive analysis of the income statement and balance sheet values reported as at 31 December 2003 we make reference to the notes to the annual financial statements, which have been drawn up in compliance with the laws in force.

Dear Sirs,

The financial statements as at 31 December 2003, which we invite you to approve as submitted, close with profit of Euro 8,310,562 which we propose to appropriate as follows:

- Euro 415,528, equal to 5%, to the legal reserve;
- Euro 4,620,000 to dividends to be paid to the shareholders in the amount of Euro 0.11 per share, which generate a full ordinary tax credit that can be utilised in compliance with the laws in force;
- Euro 3,204,990 to the reserve from accelerated depreciation

- Euro 70,044 to the extraordinary reserve.

The Chairman of the Board of directors
(Mario Carraro)

*CARRARO – Directors' Report
on the financial statements as at 31 December 2003*

CARRARO S.p.A.

Year ended 31 December 2003

ATTACHMENT (A) TO THE DIRECTORS' REPORT

SHARES HELD BY DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS
Legislative decree 24/2/98 No. 58 - Art. 79 Consob Resolution No. 12475 of 6/4/2000 – Appendix 3C

Last and first name	Equity interests in: Carraro S.p.A.	No. of shares held as at 31 Dec. 2002	Shares purchased	Shares sold	No. of shares held as at 31 Dec. 2003
Carraro Mario	directly owned	1,887,755	0	0	1,887,755
	through Finaid S.r.l.	19,111,900	840,000	0	19,951,900
Carraro Francesco	directly owned	1,182,395	0	0	1,182,395
Alessandri Chiara	directly owned	20,000	0	0	20,000
Ceola Antonio	directly owned	5,000	0	0	5,000
Tonin Onofrio	directly owned	5,000	0	0	5,000

ATTACHMENT (B) TO THE DIRECTORS' REPORT

Transactions of the holding company CARRARO S.p.A. with related parties during the year ended 31 December 2003
(as per CONSOB Communication DAC/98015375 dated 27 February 98)

(Euro/000)

Financing**Trading**

FINANCING RECEIVABLES	FINANCING PAYABLES	SALES OF COMPONENTS, GOODS AND SPARE PARTS	INDUSTRIAL SERVICES RENDERED	SALES OF OTHER SERVICES AND SUNDRY CHARGES	COMMISSIONS AND ROYALTIES RECEIVABLE	INTEREST INCOME	PURCHASES OF PLANT, MACHINERY AND EQUIPMENT	PURCHASES OF COMPONENTS, GOODS AND SPARE PARTS	PURCHASES OF INDUSTRIAL SERVICES	PURCHASES OF OTHER SERVICES AND SUNDRY CHARGES	COMMISSIONS AND ROYALTIES PAYABLE	INTEREST EXPENSE
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Subsidiaries

Siap S.p.A.	14,710		72	190		916	2	27,628	144	2		
Carraro Deutschland GmbH												
Carraro India Ltd.			1,253	33	456			149	12			
Carraro Argentina S.A.			11,975	96				5,011	51	154		
Carraro International S.A.		55,000		1								2,832
F.O.N. S.A.	354		193	29		40	1	2,086		6		
O&K Antriebstechnik GmbH			143	70				17	1			
Carraro North America Inc.			116	49				38			1,296	
Carraro Korea Ltd.				36		48		7				

Associated companies

Agritalia S.p.A.			5,880	7	482			604	153	6	16	
Stm S.r.l.					21			194	3			
Elcon Elettronica S.r.l.	84		8			2		34		22		

Other related parties

Fonderie del Montello S.p.A.	1,033		2	106		34	720	18,069		3		
Maus S.p.A.				44			3,127	84	35			
Meccanica del Piave S.p.A.			291	20				1,952	3	1		
Diffusione Europea S.p.A.				9								
European Power System S.r.l.												

Notes:**1. Financing**

Financing transactions relate to short- and long-term loans. The debt of Euro 55m relates to the debenture loan issued by Carraro S.p.A and entirely subscribed by Carraro International S.A..

2. Trading

The major trading accounts relate to purchases and sales of raw materials, semi-finished goods and components for the manufacture of drive systems for self propelling vehicles. Purchases of services are mainly referred to manufacturing processes. Purchases from Maus S.p.A. relate to the supply of specific machine tools with the related spare parts and accessories.

Major sales of services relate to charges for the use of the central information systems and for organisational support provided by the holding company in the various operating areas.

Commissions and royalties relate to specific agency agreements and transfer of rights for the use of industrial know-how.

Interest income is generated from loans currently in place. Interest expense originates from the debenture loan mentioned above.

CARRARO SPA
 VIA OLMO , 37
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ANNUAL FINANCIAL STATEMENTS AS AT 31 DECEMBER 2003 – CARRARO S.p.A.

Dear Sirs,

We submit for your approval the annual financial statements of Carraro S.p.A. as at 31 December 2003, comprising the balance sheet, the income statement and the notes to the financial statements, drawn up in compliance with statutory legislation.

BALANCE SHEET AS AT 31 DECEMBER 2003

	31 December 2003	31 December 2002
A) SHARE CAPITAL ISSUED AND NOT YET PAID		
B) FIXED ASSETS:		
<u>I. INTANGIBLE ASSETS</u>		
1) START-UP AND EXPANSION COSTS		
2) RESEARCH, DEVELOPMENT AND ADVERTISING EXPENSES	158,961	242,279
3) INDUSTRIAL AND OTHER PATENT RIGHTS	193,395	227,672
4) CONCESSIONS, LICENSES, TRADEMARKS AND SIMILAR RIGHTS AND ASSETS	781,144	1,278,749
5) CONSOLIDATION DIFFERENCE		
6) ASSETS UNDER CONSTRUCTION AND ADVANCES	1,833,042	1,238,538
7) OTHER INTANGIBLE ASSETS	1,357,748	1,802,434
TOTAL INTANGIBLE ASSETS	4,324,290	4,789,672
<u>II. TANGIBLE ASSETS</u>		
1) LAND AND BUILDINGS	17,701,273	17,246,701
LESS: ACCUMULATED ORDINARY DEPRECIATION	-5,975,974	-5,465,108
TOT. LAND AND BUILDINGS	11,725,299	11,781,593
2) PLANT AND MACHINERY	57,826,874	55,015,904
LESS: ACCUMULATED ORDINARY DEPRECIATION	-45,501,134	-42,987,494
TOT. PLANT AND MACHINERY	12,325,740	12,028,410
3) INDUSTRIAL AND COMMERCIAL EQUIPMENT	47,596,696	43,957,781
LESS: ACCUMULATED ORDINARY DEPRECIATION	-40,777,174	-37,226,076
TOT. INDUSTRIAL AND COMMERCIAL EQUIPMENT	6,819,522	6,731,705
4) OTHER ASSETS	13,350,059	13,100,420
LESS: ACCUMULATED ORDINARY DEPRECIATION	-11,577,967	-10,919,247
TOT. OTHER ASSETS	1,772,092	2,181,173
5) ASSETS UNDER CONSTRUCTION AND ADVANCES	50,413	1,507,257
TOTAL TANGIBLE ASSETS	32,693,066	34,230,138
<u>III. FINANCIAL ASSETS</u>		
1) EQUITY INTERESTS:		
A) IN SUBSIDIARIES	49,245,881	51,683,091
B) IN ASSOCIATED COMPANIES	2,843,383	2,830,980
C) IN PARENT COMPANIES		
D) IN OTHER COMPANIES	85,841	85,841
E) ADVANCES ON EQUITY INTERESTS		
TOTAL 1)	52,175,105	54,599,912

31 December 2003

31 December 2002

2) RECEIVABLES:		
A) FROM SUBSIDIARIES		
B) FROM ASSOCIATED COMPANIES		
C) FROM PARENT COMPANIES		
D) FROM OTHERS	1,032,914	1,032,914
FALLING DUE BEYOND ONE YEAR	<u>509,801</u>	<u>651,363</u>
TOTAL 2)	1,542,715	1,684,277
3) OTHER SECURITIES		
4) OWN SHARES		
TOTAL FINANCIAL ASSETS	<u>53,717,820</u>	<u>56,284,189</u>
TOTAL FIXED ASSETS B	90,735,176	95,303,999
C) CURRENT ASSETS		
<u>I. INVENTORY</u>		
1) RAW MATERIALS AND CONSUMABLES	18,303,971	18,238,033
2) WORK IN PROGRESS	7,746,578	8,727,188
3) CONTRACTED WORK IN PROGRESS		
4) FINISHED PRODUCTS AND GOODS HELD FOR RESALE	8,030,830	9,030,417
5) PAYMENTS ON ACCOUNT (ADVANCES)		
6) GOODS IN TRANSIT	<u>73,383</u>	<u>152,774</u>
TOTAL INVENTORY	34,154,762	36,148,412
<u>II. RECEIVABLES</u>		
1) TRADE DEBTORS	58,671,165	65,434,631
RELATED PARTIES	12,446	36,348
2) RECEIVABLES FROM SUBSIDIARIES	23,898,864	27,828,759
FALLING DUE AFTER MORE THAN ONE YEAR		
3) RECEIVABLES FROM ASSOCIATED COMPANIES	1,462,311	2,120,985
4) RECEIVABLES FROM PARENT COMPANIES		
5) OTHER DEBTORS FALLING DUE WITHIN ONE YEAR	9,060,276	10,777,722
FALLING DUE AFTER MORE THAN ONE YEAR	<u>152,219</u>	<u>1,015,447</u>
TOTAL RECEIVABLES	93,257,281	107,213,892
<u>III. SHORT-TERM INVESTMENTS</u>		
1) INVESTMENTS IN SUBSIDIARIES		196,550
2) INVESTMENTS IN ASSOCIATED COMPANIES		
3) INVESTMENTS IN PARENT COMPANIES		
4) OTHER INVESTMENTS		
5) OWN SHARES		
6) OTHER SECURITIES	36,868,641	18,890,738
7) REPURCHASE AGREEMENTS ON SECURITIES		
TOTAL SHORT-TERM INVESTMENTS	<u>36,868,641</u>	<u>19,087,288</u>
<u>IV. CASH AND BANK</u>		
1) BANK AND POSTAL DEPOSITS	2,667,464	3,988,308
2) CHEQUES ON HAND		
3) CASH IN HAND	<u>25,230</u>	<u>31,042</u>
TOTAL CASH AND BANK	<u>2,692,694</u>	<u>4,019,350</u>
TOTAL CURRENT ASSETS C	166,973,378	166,468,942
D) ACCRUED INCOME AND PREPAYMENTS		
ACCRUED INCOME	79,674	307,698
PREPAYMENTS FALLING DUE WITHIN ONE YEAR	348,866	328,858
FALLING DUE AFTER MORE THAN ONE YEAR	<u>38,153</u>	<u>61,107</u>
TOTAL ACCRUED INCOME AND PREPAYMENTS D	<u>466,693</u>	<u>697,663</u>
TOTAL ASSETS	258,175,247	262,470,604

BALANCE SHEET AS AT 31 DECEMBER 2003

	31 December 2003	31 December 2002
<u>A) SHAREHOLDERS' EQUITY</u>		
I – SHARE CAPITAL	21,840,000	21,840,000
II – SHARE PREMIUM RESERVE	14,284,972	17,833,456
III – REVALUATION RESERVE		
IV – LEGAL RESERVE	3,120,088	3,120,088
V – RESERVE FOR OWN SHARES IN PORTFOLIO		
VI – STATUTORY RESERVES		
EXTRAORDINARY RESERVE	272,166	3,223,553
RESERVE FROM ACCELERATED DEPRECIATION	3,548,484	5,506,552
RESERVE FROM EXTRAORDINARY INCOME AS PER ARTICLE 55/917		513,741
RESERVE FROM MERGER SURPLUS		
PAYMENTS FROM SHAREHOLDERS TOWARDS SHARE CAPITAL INCREASE		
OTHER RESERVES		
VII. OTHER RESERVES	3,820,650	9,243,846
VIII. PROFITS/(LOSSES) CARRIED FORWARD		
IX. PROFIT/(LOSS) FOR THE PERIOD	8,310,562	-8,971,680
TOTAL SHAREHOLDERS' EQUITY A	51,376,272	43,065,710
<u>B) PROVISIONS FOR RISKS AND CHARGES</u>		
1) PROVISION FOR PENSIONS AND SIMILAR OBLIGATIONS		
2) PROVISIONS FOR TAXES		
3) OTHER PROVISIONS	4,340,000	4,136,096
TOTAL PROVISIONS FOR RISKS AND CHARGES B	4,340,000	4,136,096
C) STAFF LEAVING INDEMNITY (T.F.R.)	11,059,017	10,884,442
<u>D) PAYABLES</u>		
1) BONDS AND DEBENTURE LOANS	55,000,000	55,000,000
2) CONVERTIBLE BONDS AND DEBENTURE LOANS		
3) BANK AND DEBENTURE LOANS FALLING DUE WITHIN ONE YEAR	51,401,364	59,187,992
FALLING DUE AFTER MORE THAN ONE YEAR	3,816,874	6,583,233
4) OTHER FINANCING CREDITORS FALLING DUE WITHIN ONE YEAR		
5) PAYMENTS ON ACCOUNT (ADVANCES)	342,381	270,422
6) TRADE CREDITORS	57,574,476	61,743,208
RELATED PARTIES	46,143	49,439
7) SECURED PAYABLES FALLING DUE WITHIN ONE YEAR		
8) PAYABLES TO SUBSIDIARIES	10,789,739	10,206,378
9) PAYABLES TO ASSOCIATED COMPANIES	111,590	304,247
10) PAYABLES TO PARENT COMPANIES	16,247	22,272
11) TAX PAYABLES FALLING DUE WITHIN ONE YEAR	1,348,433	1,534,022
12) SOCIAL SECURITY PAYABLES FALLING DUE WITHIN ONE YEAR	1,679,502	1,470,184
13) OTHER CREDITORS FALLING DUE WITHIN ONE YEAR	4,135,751	3,970,589
FALLING DUE BEYOND ONE YEAR	103,291	103,291
TOTAL PAYABLES D	186,365,791	200,445,277
<u>E) ACCRUED EXPENSES AND DEFERRED INCOME</u>		
ACCRUED EXPENSES	5,032,398	3,939,079
DEFERRED INCOME FALLING DUE WITHIN ONE YEAR	1,769	
FALLING DUE BEYOND ONE YEAR		
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME E	5,034,167	3,939,079
TOTAL LIABILITIES	258,175,247	262,470,604

MEMORANDUM ACCOUNTS AS AT 31 DECEMBER 2003

	31 December 2003	31 December 2002
<u>A) RISKS</u>		
GUARANTEES GIVEN ON BEHALF OF THIRD PARTIES	13,245,228	13,910,593
SECURITIES DEPOSITED AS GUARANTEE ON BEHALF OF THIRD PARTIES	<u>0</u>	<u>2,066,620</u>
TOTAL A) RISKS	13,245,228	15,977,213
<u>B) COMMITMENTS</u>		
COMMITMENTS TO PURCHASE EQUITY INTERESTS	1,112,345	1,112,345
OTHER COMMITMENTS	<u>103,291</u>	<u>103,291</u>
TOTAL B) COMMITMENTS	1,215,636	1,215,636
TOTAL RISKS AND COMMITMENTS	14,460,864	17,192,849
OTHER MEMORANDUM ACCOUNTS NOT REFLECTING RISKS OR COMMITMENTS		
<u>C) GUARANTEES RECEIVED FROM THIRD PARTIES</u>		
SURETIES RECEIVED FROM THIRD PARTIES	<u>1,898,922</u>	<u>2,843,658</u>
TOTAL C) GUARANTEES RECEIVED FROM THIRD PARTIES	1,898,922	2,843,658
<u>D) GUARANTEES GIVEN ON BEHALF OF CARRARO</u>		
<u>E) GUARANTEES GIVEN BY THIRD PARTIES ON BEHALF OF CARRARO</u>		
SURETIES GIVEN BY THIRD PARTIES ON BEHALF OF CARRARO	<u>23,138,903</u>	<u>30,565,999</u>
TOTAL E) GUARANTEES GIVEN BY THIRD PARTIES ON BEHALF OF CARRARO	23,138,903	30,565,999
<u>F) EXCHANGE RATE AND INTEREST RATE HEDGES</u>		
FORWARD SWAPS ON ACCOUNTS RECEIVABLE	1,698,947	36,649,888
INTEREST RATE SWAPS	55,000,000	65,329,138
FORWARD RATE AGREEMENTS	110,000,000	
FOREIGN CURRENCY OPTIONS	<u>60,307,093</u>	<u>22,620,589</u>
TOTAL F) EXCHANGE RATE AND INTEREST RATE HEDGES	227,006,040	124,599,615

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

	subtotals current year	subtotals prior year	Year ended 31 December 2003	Year ended 31 December 2002
A) VALUE OF PRODUCTION				
1) REVENUE FROM SALES AND SERVICES			275,896,233	273,092,795
2) CHANGES IN STOCKS OF WORK IN PROGRESS AND FINISHED GOODS			-1,980,198	1,926,702
3) CHANGES IN CONTRACTED WORK IN PROGRESS				
4) OWN WORK CAPITALISED			481,375	333,258
5) OTHER INCOME				
A) OTHER	2,854,793	2,009,454		
B) GRANTS		2,704		
TOTAL 5)			<u>2,854,793</u>	<u>2,012,158</u>
TOTAL VALUE OF PRODUCTION A			277,252,203	277,364,913
B) COST OF PRODUCTION				
6) COST OF RAW MATERIALS, CONSUMABLES, SPARE PARTS AND OTHER GOODS			176,402,122	174,440,070
7) COST OF SERVICES			38,953,207	39,205,041
8) COST OF UTILISATION OF THIRD PARTIES' ASSETS			140,898	75,420
9) PERSONNEL COSTS				
A) SALARIES AND WAGES	23,497,648	24,275,147		
B) SOCIAL CONTRIBUTIONS	7,944,636	8,059,668		
C) STAFF LEAVING INDEMNITY (T.F.R.)	1,899,156	1,986,290		
D) PENSIONS AND SIMILAR OBLIGATIONS				
E) OTHER COSTS	621,853	1,544,846		
TOTAL 9)			33,963,293	35,865,951
10) DEPRECIATION AND WRITE-DOWNS				
A) AMORTISATION OF INTANGIBLE ASSETS	1,580,457	1,746,098		
B) DEPRECIATION OF TANGIBLE ASSETS	9,056,413	8,857,358		
C) OTHER WRITE-DOWNS OF ASSETS				
D) WRITE-DOWNS OF RECEIVABLES INCLUDED IN CURRENT ASSETS		337,078		
TOTAL 10)			10,636,870	10,940,534
11) CHANGES IN STOCKS OF RAW MATERIALS, CONSUMABLES, SPARE PARTS AND OTHER GOODS			-65,938	-1,824,829
12) ACCRUALS FOR CONTINGENCIES				
13) OTHER ACCRUALS			2,758,430	2,849,263
14) OTHER OPERATING CHARGES			<u>504,068</u>	<u>586,484</u>
TOTAL COST OF PRODUCTION B			<u>263,292,950</u>	<u>262,137,934</u>
DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION (A-B)			<u>13,959,253</u>	<u>15,226,979</u>
C) FINANCIAL INCOME AND CHARGES				
15) INCOME FROM PARTICIPATING INTERESTS				
A) DIVIDENDS FROM SUBSIDIARIES	7,631,345			
B) DIVIDENDS FROM ASSOCIATED COMPANIES				
C) DIVIDENDS FROM PARENT COMPANIES				
D) OTHER				
TOTAL 15)			7,631,345	
16) OTHER FINANCIAL INCOME				
A) FROM RECEIVABLES RECORDED AS FIXED ASSETS	18,307	25,462		
B) FROM SECURITIES RECORDED AS FIXED ASSETS				
C) FROM SECURITIES RECORDED AS CURRENT ASSETS	16,885	89,997		
D) OTHER				
FROM SUBSIDIARIES	1,004,128	1,159,425		
FROM ASSOCIATED COMPANIES	2,155	3,320		
FROM PARENT COMPANIES				
FROM RELATED PARTIES				
OTHER	<u>4,988,705</u>	<u>7,408,007</u>		
TOTAL D)	5,994,988	8,570,752		
TOTAL 16)			6,030,180	8,686,211

17) INTEREST AND OTHER FINANCIAL CHARGES				
A) FROM SUBSIDIARIES	-2,831,942	-3,298,365		
B) FROM ASSOCIATED COMPANIES				
C) FROM PARENT COMPANIES				
D) FROM RELATED PARTIES				
E) OTHER	-8,373,501	-8,578,675		
TOTAL 17)			-11,205,443	-11,877,040
TOTAL INTEREST AND OTHER FINANCIAL CHARGES C			2,456,082	-3,190,829
<u>D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS</u>				
18) REVALUATIONS				
A) OF EQUITY INTERESTS				
B) OF SHORT-TERM INVESTMENTS				
C) OF SECURITIES RECORDED AS CURRENT ASSETS				
TOTAL 18)				
19) WRITE-DOWNS:				
A) OF EQUITY INTERESTS	-2,453,113	-16,484,002		
B) OF SHORT-TERM INVESTMENTS				
C) OF SECURITIES RECORDED AS CURRENT ASSETS				
TOTAL 19)			-2,453,113	-16,484,002
TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS D			-2,453,113	-16,484,002
<u>E) EXTRAORDINARY INCOME AND EXPENSES</u>				
20) EXTRAORDINARY INCOME AND GAINS ON DISPOSAL.				
A) OTHER EXTRAORDINARY INCOME	109,469	1,087,269		
B) GAINS ON EXTRAORDINARY ASSET DISPOSALS	14,465	737,332		
TOTAL 20)			123,934	1,824,601
21) EXTRAORDINARY EXPENSES AND LOSSES ON DISPOSAL				
A) OTHER EXTRAORDINARY EXPENSES	-227,505	-571,841		
B) LOSSES ON EXTRAORDINARY ASSET DISPOSALS				
C) TAXES OF PRIOR PERIODS	-18,494	-417,052		
TOTAL 21)			-245,999	-988,893
TOTAL EXTRAORDINARY ITEMS E			-122,065	835,708
PROFIT/(LOSS) BEFORE TAX (A-(B+C+D+E))			13,840,157	-361,214
22) TAXES ON INCOME			-5,529,595	-5,359,536
26) PROFIT/(LOSS) FOR THE PERIOD			8,310,562	-8,971,680

<u>Net financial position</u> (amounts in thousands of Euro)	31 December 2003	31 December 2002
Bank loans and overdrafts:		
- within 1 year	51,401	59,188
- beyond 1 year	3,817	6,583
Other financing payables:		
- within 1 year	-	-
- beyond 1 year	-	-
Financing payables:		
- to subsidiaries, associated companies, parent companies	-	-
Bonds and debenture loans:		
- within 1 year	-	-
- beyond 1 year	55,000	55,000
Secured payables:		
- within 1 year	-	-
- beyond 1 year	-	-
Accrued interest expense / deferred interest income	4,469	3,149
LESS:		
Cash and bank	-2,692	-4,019
Securities	-36,869	-18,890
Loans given	-16,181	-21,889
Receivables from factors	-	-
- <u>Net financial position</u>	58,945	79,122
Lease payments:		
- within 1 year	-	-
- beyond 1 year	-	-
- Net financial position (including leases)	58,945	79,122

CASHFLOW STATEMENT (amounts in thousands of Euro)	31 December 2003		31 December 2002	
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		-79,122		-78,680
	ALLOCATIONS	SOURCES	ALLOCATIONS	SOURCES
Profit/(Loss) for the period		8,310		-8,972
Depreciation of tangible assets		9,056		8,857
Amortisation of intangible assets		1,580		1,746
CASH FLOW		18,946		1,631
<i>CURRENT BUSINESS ACTIVITY</i>				
Accruals to staff leaving indemnity (T.F.R.)		1,899		1,986
Utilisation of staff leaving indemnity (T.F.R.)	1,724		2,592	
Accruals to provisions for risks and charges		2,758		2,849
Accruals to provision for deferred taxes				
Utilisation of provision for deferred taxes			258	
Utilisation of provisions for risks and charges	2,538		2,315	
Change in inventory		1,993	3,126	
Change in trade debtors		6,787	12,408	
Change in receivables from subsidiaries, associated companies, parent companies	1,119			2,590
Change in other debtors		2,580		6,274
Change in trade creditors	4,172			1,904
Change in payables to subsidiaries, associated companies, parent companies		385		2,412
Change in other creditors		260	4,161	
Change in lease payments				
Change in other than interest prepayments, accruals and deferrals		7	86	
Outflow/Inflow of funds from current business activity		7,116	6,931	
Total current business activity		26,062	5,300	
<i>NON-CURRENT BUSINESS ACTIVITY</i>				
Accruals/Extraordinary expenses	16		468	
Investing activities:				
- Additions to tangible assets	8,867		9,041	
- Investment in intangible assets	1,129		2,032	
- Leases				
- Net change from disposal		1,363		2,111
Equity interests:				
- Purchase/revaluation of equity interests	28		2,553	
- Sale/write-down of equity interests		2,650		16,655
Advance payment of employees' personal income tax (IRPEF) on staff leaving indemnity (T.F.R.)		142		186
Outflow/Inflow of funds from non-current business activity	5,885			4,858
<i>EQUITY MANAGEMENT</i>				
Reserve from accelerated depreciation				
Other reserves				
Dividend payments				
CASH AND CASH EQUIVALENTS AT END OF PERIOD		-58,945		-79,122

ITEM 1: NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2003
PRESENTATION AND CONTENTS OF THE FINANCIAL STATEMENTS

ACCOUNTING POLICIES, ACCOUNTING PRINCIPLES AND PRESENTATION OF THE FINANCIAL STATEMENTS

These financial statements have been drawn up in compliance with existing legislation. The accounting policies and principles adopted in the previous year's financial statements were maintained in order to ensure consistency.

The accounting principles used are those applicable to going concerns, which the directors consider to be appropriate taking into account the considerations made in the report on operations.

These financial statements are presented in Euro. Euro amounts are shown without decimals, as allowed by article 2423 of the Civil Code as amended, effective 1 January 2002, by article 16, item 8, letter a) of Legislative Decree No. 213/98.

The accounting policies and principles applied to the most significant financial statements items are illustrated below.

INTANGIBLE ASSETS

Intangible assets, if purchased from third parties, are stated at purchase cost inclusive of directly attributable accessory charges; if internally generated, at the purchase cost of the assets or services used including the relevant accessory charges.

Amounts are shown after amortisation allowances, computed on a straight-line basis with reference to the estimated useful life of the assets.

TANGIBLE ASSETS

Tangible assets are stated at purchase or own work cost, inclusive of directly attributable accessory charges, increased by monetary revaluations accounted for in compliance with laws No. 576 of 2 December 1975, No. 72 of 19 March 1983 and No. 413 of 30 December 1991.

Tangible assets, if purchased from third parties, are recognised when ownership is transferred; own work is capitalised on completion of construction.

The costs of improvements, revamping, transformations and extraordinary maintenance are capitalised as increases in the value of the relevant assets if they generate a significant and measurable increase in the capacity, productivity or safety, or extend the useful life, of the relevant assets but in any case for amounts not exceeding the value recoverable through use. The corresponding ordinary costs are expensed as incurred. Fully depreciated assets remain on the balance sheet until scrapped or disposed of. Assets under construction are not depreciated.

Depreciation is accounted for at rates suitable to represent the actual depreciation of the asset, on the basis of its estimated economic life. They correspond to the fiscally allowable rates. Half rates are applied to assets going into service during the year.

In compliance with the accounting treatment recommended by Italian Accounting principle No. 25 issued by *Consiglio Nazionale dei Dottori Commercialisti*, the representative body of the Italian accounting profession, accelerated depreciation accounted for solely to claim fiscal benefits, in addition to ordinary depreciation, is taken directly to an equity reserve, when appropriating profit for the period, without being charged to income. For details, we make reference to the comments to the schedules detailing accumulated ordinary depreciation and movements in shareholders' equity.

Amounts denominated in currencies other than the Euro are translated at the exchange rate ruling on the trade date.

No financial charges have been capitalised as tangible assets.

Tangible assets acquired through leases with redemption commitment are capitalised from the year when the right of redemption is exercised and stated net of accumulated depreciation. The purchase commitment laid down in the contract is disclosed within memorandum accounts.

FINANCIAL ASSETS

Equity interests in subsidiaries and associated companies, as well as in other unlisted companies, are valued at purchase or subscription cost, including accessory charges, less any formally resolved capital reductions.

Write-downs are recorded, based on the directors' prudent estimate, to reflect decreases in the net equity values of individual entities following impairment losses resulting from the latest approved financial statements, or when realisation of the equity interest is considered uncertain.

Receivables recorded within financial assets are carried at estimated realisable value.

INVENTORIES

Inventories are valued as follows:

- Raw materials and consumables: at the lower of average weighted cost and market;
- Work in progress: cost is determined on the basis of production costs incurred in relation to the percentage of completion of the production batch, considering:
 - a) the average weighted cost of the year for materials;
 - b) the cost of direct labour and accessory charges;
 - c) general production overheads, such as indirect labour, maintenance, utilities, fixed manufacturing costs and the portion of technical depreciation reasonably attributable to output;

- Semi-finished and finished products: cost is determined, for each product code, as the yearly average of manufacturing costs, computed when the various processing stages are completed and the batch is booked into inventory, or, in the case of finished products, at estimated realisable value, if lower.

A provision for obsolescence is set up to write down inventories to estimated realisable value.

RECEIVABLES AND PAYABLES

Receivables are stated at estimated realisable value. This corresponds to nominal value adjusted by a specific bad debt provision that covers both accounts that are already known to be uncollectible and doubtful accounts included in the overall balance.

Payables are stated at nominal value.

Accounts denominated in currencies other than the Euro are adjusted to the official exchange rate at the period end and the resulting gains or losses are taken to the income statement.

SHORT-TERM INVESTMENTS

Securities held for trading purposes are carried at the lower of cost, including any premium, and market, determined as the average trading price of the last month.

Investments in unlisted companies are valued at the lower of purchase or subscription cost, less any formally resolved capital reductions, and estimated market value.

CASH AND BANK

Cash and bank are stated at nominal value.

PREPAYMENTS, ACCRUALS AND DEFERRALS

Costs and revenues are accounted for on an accrual basis, with reference to the period to which they relate.

PROVISIONS FOR RISKS AND CHARGES

Accruals for risks and charges are made to cover losses or liabilities that are certain or probable, the amounts and dates of occurrence of which cannot be determined exactly at the year end.

Provisions for taxes include the liability for probable taxes, the amounts and dates of occurrence of which cannot be determined exactly, such as liabilities for probable tax assessments or litigation pending, valued on the basis of their foreseeable outcome.

STAFF LEAVING INDEMNITY (T.F.R., TRATTAMENTO DI FINE RAPPORTO DI LAVORO SUBORDINATO)

Provision is made for the liability towards personnel on the basis of the length of service of each employee at the balance sheet date, in compliance with article 2120 of the Italian Civil Code and national and company-wide labour contracts in force at the balance sheet date.

FINANCIAL DERIVATIVE CONTRACTS

Forward exchange agreements are valued as follows:

if entered into to hedge for accounts payable and receivable, consistently with the accounting policies applied to the underlying assets and liabilities;

- a) if entered into to hedge for projected exports, any exchange differences realised during the period on those transactions are recorded as adjustments to the value of sales revenue as they are considered to be of a commercial nature; the premium or discount accruing on contracts still outstanding at the period end is taken to the income statement and recorded within financial income or charges;
- b) if entered into for trading purposes, consistently with the accounting policies applied to the receivables and payables denominated in foreign currency.

Derivative contracts hedging for interest rate risks are valued under the same accounting policies as the liabilities hedged.

DIVIDENDS

Dividends and the related tax credits are accounted for when received.

COSTS AND REVENUE

Costs and revenue are recognised in accordance with the principle of prudence, on an accrual basis, and the relevant prepayments, accruals and deferrals are accounted for.

Revenue from sales is recognised on transfer of ownership, which generally corresponds to shipment. Revenue from services is recognised at the time the service is rendered.

INFRA-GROUP TRANSACTIONS

In compliance with CONSOB's Recommendations dated 20 February 1997 (DAC/97001574) and 27 February 1998 (DAC/98015375), we state that:

- a) transactions with Group companies and related parties during the period gave rise to trading, financing or consulting receivables/payables and were carried out, on an arm's length basis, in the economic interests of the individual entities involved;

- b) there were no unusual transactions beyond the scope of the ordinary course of business and the interest rates (receivable and payable) and terms applied in financing transactions between the various entities were at arm's length.

CURRENT INCOME TAXES

Current income taxes are provided for on the basis of an estimate of taxable income in consideration of applicable exemptions and tax credits in compliance with the existing legislation.

DEFERRED TAXES

Deferred taxes are provided for temporary differences between the result of operations as per the statutory accounts and taxable income. The contingent fiscal benefit connected with both temporary differences and losses available for carryforward is accounted for when reasonable certainty exists that sufficient taxable income will be available in future to allow their recovery.

The net balance of deferred tax assets and liabilities is recorded on a specific line under heading B) of the liability section of the balance sheet, or within other debtors on line C.II.5 of the assets section.

ITEMS 2-3: NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2003
INTANGIBLE ASSETS

	<u>Historical cost</u>	<u>Beginning balance</u>	<u>Increases</u>	<u>Own work</u>	<u>Decreases</u>	<u>Other changes</u>	<u>Ending balance</u>
1) TOTAL START-UP AND EXPANSION COSTS							
RESEARCH, DEVELOPMENT AND DESIGNING EXPENSES	416,592	242,279			-83,318		158,961
2) TOTAL RESEARCH, DEVELOPMENT AND ADVERTISING	416,592	242,279			-83,318		158,961
3) TOTAL INDUSTRIAL PATENT RIGHTS	542,313	227,672	73,278		-107,555		193,395
4) TOTAL CONCESSIONS, LICENCES, TRADEMARKS	3,198,154	1,278,749	140,130		-637,735		781,144
5) TOTAL GOODWILL							0
ASSETS UNDER CONSTRUCTION AND ADVANCES	1,238,538	1,238,538	614,227	-5,365		-14,358	1,833,042
6) TOTAL ASSETS UNDER CONSTRUCTION AND ADVANCES	1,238,538	1,238,538	614,227	-5,365		-14,358	1,833,042
ADJUSTMENT FOR COMPLIANCE WITH THE LAW	127,964	46,966		5,365	-25,593		26,738
COMPONENTS, MOULDS, AND EQUIPMENT	1,693,083	672,245	236,798		-335,451		573,592
OTHER DEFERRED CHARGES	1,954,025	1,083,223	65,000		-390,805		757,418
7) TOTAL OTHER INTANGIBLE ASSETS	3,775,072	1,802,434	301,798	5,365	-751,849		1,357,748
INTANGIBLE ASSETS	9,170,669	4,789,672	1,129,433		-1,580,457	-14,358	4,324,290

Historical costs relates to the original cost of individual items capitalised that were not fully amortised at the beginning of the year.

Increases, comprising purchase costs and internal costs, totalled Euro 1.129m and are detailed as follows:

- Euro 0.073m for research and patent applications;
- Euro 0.140m for software licences, among which the most significant item was Euro 0.061m relating to licences and software for the administration/finance function; the remainder relates to customisation and supplements to existing software as well as purchases relating to office automation.
- Euro 0.614m relates to expenses for materials, external services and internal costs relating to projects in progress for new product lines developed in connection with similar projects started by customers;
- Euro 0.237m for cost sharing of construction and installation of equipment used by our suppliers. This relates mainly to new products;
- Euro 0.065m stated within other deferred charges relates to the cost of implementation of the internet platform for the purchasing function.

Amounts expensed during the year are shown as decreases, and calculated with reference to the estimated useful life, normally over 5 years.

The ending balance of 'Other deferred charges' relates to the development and implementation of software packages.

ITEM 3: NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2003
COMPOSITION OF THE ITEMS 'START-UP AND EXPANSION COSTS' AND
'RESEARCH, DEVELOPMENT AND ADVERTISING EXPENSES'

RESEARCH, DEVELOPMENT AND ADVERTISING EXPENSES

The balance of 'Research, development and designing costs' as at 31 December 2003 includes:

Tyre control project: Euro 0.034m.

- PTX 200 MR3 project (construction equipment axle): Euro 0.080m.
- PTX 200 CV2 project (hydrostatic transmission): Euro 0.042m.
- Development and designing of new products: Euro 0.003m.

Amortisation allowances totalled Euro 0.083m and are equal to a straight-line rate of 20% of historical cost.

No advertising expenses were capitalised.

Start-up and expansion costs, as well as research, development and advertising expenses are recorded and amortised within the limits established in article 2426, item 5, of the Civil Code.

ITEM 2: NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2003
TANGIBLE ASSETS

Description	Beginning balance	Additions	Internal construction	Decreases	Reclassification	Ending balance
INDUSTRIAL LAND	2,138,306					2,138,306
INDUSTRIAL BUILDINGS	13,584,011	265,566	189,006			14,038,583
OTHER BUILDINGS	380,900					380,900
SITE AND YARD INSTALLATIONS	998,861					998,861
LIGHTWEIGHT CONSTRUCTION	144,623					144,623
1) TOT. LAND AND BUILDINGS	17,246,701	265,566	189,006			17,701,273
GENERIC PLANT	6,570,535	133,204	44,619			6,748,358
SPECIFIC PLANT	8,846,501	440,474	29,466	-27,180		9,289,261
LARGE SPECIFIC PLANT	5,910,861		6,758			5,917,619
KILNS	27,839	5,171				33,010
WATER TREATMENT PLANT	259,560					259,560
TOTAL PLANT	21,615,296	578,849	80,843	-27,180		22,247,808
AUTOMATED MACHINERY	30,752,776	3,563,346	256,760	-1,611,240		32,961,642
GENERIC MACHINERY	2,647,832	2,381		-32,789		2,617,424
TOTAL MACHINERY	33,400,608	3,565,727	256,760	-1,644,029		35,579,066
2) TOT. PLANT AND MACHINERY	55,015,904	4,144,576	337,603	-1,671,209		57,826,874
SPECIFIC TOOLS FOR MACHINES	8,309,122	813,180	277,767	-198,407		9,201,662
TOOLS	4,684,645	157,838		-12,838		4,829,645
LABORATORY EQUIPMENT AND TOOLS	3,508,391	205,906				3,714,297
MISCELLANEOUS TOOLS	3,781,551	129,593				3,911,144
CANTEEN EQUIPMENT	140,593	5,647				146,240
WAREHOUSE AND OTHER TRANSPORT EQUIPMENT	3,003,721	223,558				3,227,279
MOULDS	2,061,570	151,999				2,213,569
CAST MOULDS	18,468,188	1,888,352		-3,680		20,352,860
3) TOT. INDUSTRIAL EQUIPMENT	43,957,781	3,576,073	277,767	-214,925		47,596,696
OFFICE FURNITURE AND FIXTURES	1,625,255	42,554				1,667,809
WORKSHOP FURNITURE AND FIXTURES	802,044	20,527		-11,171		811,400
TOTAL FURNITURE AND FIXTURES	2,427,299	63,081		-11,171		2,479,209
ORDINARY OFFICE MACHINES	15,683					15,683
ELECTRONIC OFFICE MACHINES	9,612,663	201,049		-11,097		9,802,615
TOTAL OFFICE MACHINES	9,628,346	201,049		-11,097		9,818,298
PASSENGER VEHICLES	617,083	181,740		-181,814		617,009
TRANSPORT VEHICLES	19,893	0		0		19,893
FORKLIFT TRUCKS	407,799	7,851		0		415,650
TOTAL VEHICLES	1,044,775	189,591		-181,814		1,052,552
4) TOT. OTHER ASSETS	13,100,420	453,721		-204,082		13,350,059
INTERNAL CONSTRUCTION	425,800	426,990	-804,376			48,414
ADVANCES	1,081,457			-1,079,458		1,999
5) ASSETS UNDER CONSTRUCTION AND ADVANCES	1,507,257	426,990	-804,376	-1,079,458		50,413
TANGIBLE ASSETS	130,828,063	8,866,926	0	-3,169,674		136,525,315

Additions, comprising purchases and internal costs, totalled Euro 8.867m and relate for the most part to the expansion of production capacity through purchases of and/or modifications to automatic machinery as well as equipment and tools for new products.

Additions include:

- Euro 0.455m for improvements to and extraordinary maintenance of existing industrial buildings, yards and lightweight construction;
- Euro 0.470m for improvements to specific plant existing at the Campodarsego and Gorizia sites;
- Euro 3.318m for two new automated work centres at the Campodarsego site; the remaining Euro 0.502m relates to extraordinary maintenance of and improvements to existing automated machinery;
- Over Euro 1.888m for increases and renovation of models and moulds.

Own work, capitalised for an amount of Euro 0.804m, includes direct purchases of specific materials and third party services, in addition to the cost of internal transformation and coded materials.

It relates mostly to improvements and modifications to buildings, plant and machinery and equipment, as well as the installation of new machinery.

The carrying values of assets include revaluations computed in accordance with the law, detailed in the following schedules.

Decreases, equal to Euro 1.803m, relate to sales of assets considered no longer appropriate to the present manufacturing processes.

We point out that in 1994 and 1995 Carraro SpA acquired through leases plant and machinery for an initial principal value of Euro 7.453m. As at 31 December 2003, after redemptions and disposals, the net book value was Euro 6.750m. At that date the tangible assets would have been fully depreciated on the basis of a theoretical depreciation plan applicable if they had been treated as other additions during the period.

The theoretical depreciation allowance on those assets for 2003 would be nil.

ITEM 2: NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2003
 REVALUATION PURSUANT TO LAW No. 576/1975

Description	HISTORICAL COST		ACCUMULATED DEPRECIATION		NET BALANCE OF REVALUATION	
	Beginning balance	Ending balance	Beginning balance	Ending balance	Beginning balance	Ending balance
INDUSTRIAL LAND	2,479	2,479			2,479	2,479
INDUSTRIAL BUILDINGS	103,272	103,272	11,693	11,693	91,579	91,579
1) TOTAL LAND AND BUILDINGS	105,751	105,751	11,693	11,693	94,058	94,058
GENERIC PLANT	24,107	24,107	6,477	6,477	17,630	17,630
SPECIFIC PLANT	635	566	131	130	504	436
** TOTAL PLANT	24,742	24,673	6,608	6,607	18,134	18,066
AUTOMATED MACHINERY	0	0	0	0	0	0
GENERIC MACHINERY	14,826	13,277	4,394	4,394	10,432	8,883
**TOTAL MACHINERY	14,826	13,277	4,394	4,394	10,432	8,883
2) TOTAL PLANT AND MACHINERY	39,568	37,950	11,002	11,001	28,566	26,949
LABORATORY EQUIPMENT AND TOOLS	174	174	116	116	58	58
MISCELLANEOUS TOOLS	232	232	97	97	135	135
CANTEEN EQUIPMENT	202	202	61	61	141	141
WAREHOUSE AND OTHER TRANSPORT EQUIPMENT	2,016	2,016	512	512	1,504	1,504
3) TOTAL INDUSTRIAL AND COMMERCIAL EQUIPMENT	2,624	2,624	786	786	1,838	1,838
OFFICE FURNITURE AND FIXTURES	3,284	3,284	1,892	1,892	1,392	1,392
WORKSHOP FURNITURE AND FIXTURES	547	547	262	262	285	285
**TOTAL FURNITURE AND FIXTURES	3,831	3,831	2,154	2,154	1,677	1,677
ORDINARY OFFICE MACHINES	159	159	87	87	71	71
ELECTRONIC OFFICE MACHINES	2,833	2,833	1,740	1,740	1,093	1,093
**TOTAL OFFICE MACHINES	2,992	2,992	1,827	1,827	1,165	1,165
TOTAL OTHER ASSETS	6,823	6,823	3,981	3,981	2,842	2,842
TOTAL BII	154,766	153,148	27,462	27,461	127,304	125,687

ITEM 2: NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2003
REVALUATION PURSUANT TO LAW No. 72/1983

Description	HISTORICAL COST		ACCUMULATED DEPRECIATION		NET BALANCE OF REVALUATION	
	Beginning balance	Ending balance	Beginning balance	Ending balance	Beginning balance	Ending balance
INDUSTRIAL LAND	16,390	16,390	1,838	1,838	14,552	14,552
INDUSTRIAL BUILDINGS	447,008	447,008	87,166	87,166	359,842	359,842
1) TOTAL LAND AND BUILDINGS	<u>463,398</u>	<u>463,398</u>	<u>89,004</u>	<u>89,004</u>	<u>374,394</u>	<u>374,394</u>
GENERIC PLANT	105,362	105,362	58,946	58,946	46,416	46,416
SPECIFIC PLANT	23,269	23,125	6,117	6,034	17,152	17,091
KILNS	773	773	167	167	606	606
WATER TREATMENT PLANT	7	7	1	1	6	6
** TOTAL PLANT	<u>129,411</u>	<u>129,267</u>	<u>65,231</u>	<u>65,148</u>	<u>64,180</u>	<u>64,119</u>
AUTOMATED MACHINERY	97,244	97,244	31,516	31,516	65,728	65,728
GENERIC MACHINERY	65,634	62,029	31,897	31,319	33,737	30,710
**TOTAL MACHINERY	<u>162,878</u>	<u>159,273</u>	<u>63,413</u>	<u>62,835</u>	<u>99,465</u>	<u>96,438</u>
2) TOTAL PLANT AND MACHINERY	<u>292,289</u>	<u>288,540</u>	<u>128,644</u>	<u>127,983</u>	<u>163,645</u>	<u>160,557</u>
SPECIFIC TOOLS FOR MACHINES	185,891	185,891	127,144	127,144	58,747	58,747
TOOLS	119,081	119,081	56,528	56,528	62,553	62,553
LABORATORY EQUIPMENT AND TOOLS	13,751	13,751	5,684	5,684	8,067	8,067
MISCELLANEOUS TOOLS	26,113	26,113	12,639	12,639	13,474	13,474
CANTEEN EQUIPMENT	3,204	3,204	1,483	1,483	1,721	1,721
WAREHOUSE AND OTHER	57,049	57,079	28,997	28,997	28,082	28,082
TRANSPORT EQUIPMENT						
MOULDS	21,333	21,333	9,809	9,809	11,524	11,524
CAST MOULDS	119,566	119,566	59,164	59,164	60,402	60,402
3) TOT. INDUSTRIAL EQUIPMENT	<u>546,018</u>	<u>546,018</u>	<u>301,448</u>	<u>301,448</u>	<u>244,570</u>	<u>244,570</u>
OFFICE FURNITURE AND FIXTURES	19,391	19,391	11,283	11,283	8,108	8,108
WORKSHOP FURNITURE AND FIXTURES	5,290	5,290	2,315	2,315	2,975	2,975
**TOTAL FURNITURE AND FIXTURES	<u>24,681</u>	<u>24,681</u>	<u>13,598</u>	<u>13,598</u>	<u>11,083</u>	<u>11,083</u>
ORDINARY OFFICE MACHINES	867	867	560	560	307	307
ELECTRONIC OFFICE MACHINES	31,157	31,157	14,434	14,434	16,723	16,723
**TOTAL OFFICE MACHINES	<u>32,024</u>	<u>32,024</u>	<u>14,994</u>	<u>14,994</u>	<u>17,030</u>	<u>17,030</u>
TRANSPORT VEHICLES	0	0	0	0	0	0
FORKLIFT TRUCKS	6,515	6,515	2,686	2,686	3,829	3,829
**TOTAL VEHICLES	<u>6,515</u>	<u>6,515</u>	<u>2,686</u>	<u>2,686</u>	<u>3,829</u>	<u>3,829</u>
TOTAL OTHER ASSETS	<u>63,220</u>	<u>63,220</u>	<u>31,278</u>	<u>31,278</u>	<u>31,942</u>	<u>31,942</u>
TOTAL BII	<u>1,364,925</u>	<u>1,361,176</u>	<u>550,374</u>	<u>549,713</u>	<u>814,551</u>	<u>811,463</u>

ITEM 2: NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2003
REVALUATION PURSUANT TO LAW No. 413/1991

Description	HISTORICAL COST		ACCUMULATED DEPRECIATION		NET BALANCE OF REVALUATION	
	Beginning balance	Ending balance	Beginning balance	Ending balance	Beginning balance	Ending balance
INDUSTRIAL LAND	537,164	537,164			537,164	537,164
INDUSTRIAL BUILDINGS	1,826,924	1,826,924			1,826,924	1,826,924
SITE AND YARD INSTALLATIONS	25,237	25,237			25,237	25,237
LIGHTWEIGHT CONSTRUCTION	3,616	3,616			3,616	3,616
1) TOTAL LAND AND BUILDINGS	2,392,941	2,392,941			2,392,941	2,392,941
TOTAL BII	2,392,941	2,392,941			2,392,941	2,392,941

We point out that in 1976 a monetary revaluation was performed pursuant to Law No. 576/75 that gave a credit balance of Euro 230,122 in Carraro S.p.A. and Euro 129,114 in the merged company Carraro PNH S.p.A.. During 1983 assets were revalued pursuant to Law No. 72/83 and this gave a credit balance of Euro 2,386,070 in Carraro S.p.A.. The revaluation balances relating to these laws were used in Carraro S.p.A. during 1984 for a free capital increase.

During 1991 Carraro S.p.A. revalued property pursuant to Law No. 413/91 and this gave a credit balance of Euro 1,084,804 before substitute tax of Euro 173,569. By a resolution taken on 31 May 1995 it was used for a free capital increase. During 1991 the merged company Carraro PNH S.p.A. revalued property pursuant to Law No. 413/91 and this gave a credit balance of Euro 1,312,399.

In compliance with the provisions of article 10 Law No. 72/93, the schedules set out above indicate the categories of assets on the balance sheet as at 31 December 2003 that were subjected to revaluation in the past and the related amounts.

ITEM 2: NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2003
ACCUMULATED ORDINARY DEPRECIATION OF TANGIBLE ASSETS

	<u>Beginning balance</u>	<u>Deductible depreciation</u>	<u>Decreases</u>	<u>Reclassifications</u>	<u>Non-deductible depreciation (reversal of accelerated depreciation)</u>	<u>Ending balance</u>
INDUSTRIAL LAND	8,302					8,302
INDUSTRIAL BUILDINGS	4,906,949	416,982				5,323,931
SITE AND YARD INSTALLATIONS	487,061	81,159				568,220
LIGHTWEIGHT CONSTRUCTION	62,796	12,725				75,521
1) TOTAL LAND AND BUILDINGS	5,465,108	510,866				5,975,974
GENERIC PLANT	4,907,182	356,723				5,263,905
SPECIFIC PLANT	5,857,177	626,064	-20,189			6,463,052
LARGE SPECIFIC PLANT	5,080,428	75,397			349,983	5,505,808
KILNS	17,763	2,338				20,101
WATER TREATMENT PLANT	242,517	2,736			4,261	249,514
TOTAL PLANT	16,105,067	1,063,258	-20,189		354,244	17,502,380
AUTOMATED MACHINERY	24,600,760	1,507,463	-1,368,150		891,680	25,631,753
GENERIC MACHINERY	2,281,667	116,222	-30,888			2,367,001
TOTAL MACHINERY	26,882,427	1,623,685	-1,399,038		891,680	27,998,754
2) TOT PLANT AND MACHINERY	42,987,494	2,686,943	-1,419,227		1,245,924	45,501,134
SPECIFIC TOOLS FOR MACHINES	7,671,181	434,147	-196,823		42,014	7,950,519
TOOLS	4,525,622	158,438	-4,031		9,153	4,689,182
LABORATORY EQUIPMENT AND TOOLS	3,264,869	166,068			11,936	3,442,873
MISCELLANEOUS TOOLS	3,613,942	94,310			19,839	3,728,091
CANTEEN EQUIPMENT	137,142	5,052			45	142,239
WAREHOUSE AND OTHER TRANSPORT EQUIPMENT	2,887,613	178,665			5,421	3,071,699
MOULDS	1,677,277	167,164			27,327	1,871,768
CAST MOULDS	13,448,430	2,213,796	-460		219,037	15,880,803
3) TOTAL INDUSTRIAL EQUIPMENT	37,226,076	3,417,640	-201,314		334,772	40,777,174
OFFICE FURNITURE AND FIXTURES	1,360,525	88,434			2,808	1,451,767
WORKSHOP FURNITURE AND FIXTURES	589,764	59,808	-8,749		802	641,625
TOTAL FURNITURE AND FIXTURES	1,950,289	148,242	-8,749		3,610	2,093,392
ORDINARY OFFICE MACHINES	15,374	178			11	15,563
ELECTRONIC OFFICE MACHINES	8,066,656	440,454	-10,988		189,400	8,685,522
TOTAL OFFICE MACHINES	8,082,030	440,632	-10,988		189,411	8,701,085
PASSENGER CARS	471,241	63,017	-181,811		9,896	362,343
TRANSPORT VEHICLES	19,893					19,893
FORKLIFT TRUCKS	395,794	5,454			6	401,254
TOTAL VEHICLES	886,928	68,471	-181,811		9,902	783,490
4) TOTAL OTHER ASSETS	10,919,247	657,345	-201,548		202,923	11,577,967
ACCUMULATED ORDINARY DEPRECIATION	96,597,925	7,272,794	-1,822,089		1,783,619	103,832,249

Accumulated ordinary depreciation increased by the depreciation charge for the period of Euro 9.056m, which reflects the real degree of depreciation of assets and corresponds to the amount computed applying the maximum fiscally allowable rates (Gruppo VII, specie 2a, DM 31/12/88). Of the above amount, Euro 7.273m is fiscally deductible ordinary depreciation and Euro 1.783m is not fiscally deductible because already deducted for tax purposes in previous years due to the application of accelerated depreciation.

Decreases relate to disposals of assets and amounted to Euro 1.882m.

Assets purchased in 2003 with unit value lower than Euro 516 have been fully depreciated.

In 2003 Carraro S.p.A. did not deduct accelerated depreciation in computing income tax.

ITEM 2: NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2003
FINANCIAL ASSETS

	<u>Beginning balance</u>	<u>Increases</u>	<u>Write-downs / Revaluations</u>	<u>Decreases</u>	<u>Ending balance</u>
<u>BIII.1 EQUITY INTERESTS</u>					
SIAP SPA	11,747,161				11,747,161
A. E. SRL		9,000			9,000
CARRARO VERTRIEBS GMBH	8,893,090				8,893,090
CARRARO INDIA PRIVATE LTD.	2,833,000				2,833,000
CARRARO ARGENTINA	19,221,840				19,221,840
CARRARO INTERNATIONAL F.O.N.	7,718,000		-2,446,210		5,271,790
	1,270,000				1,270,000
A) SUBSIDIARIES	51,683,091	9,000	-2,446,210		49,245,881
AGRITALIA SPA	2,830,979			-46	2,830,933
ELCON ELETTRONICA SRL	1	19,352	-6,903		12,450
B) ASSOCIATED COMPANIES	2,830,980	19,352	-6,903	-46	2,843,383
C) PARENT COMPANIES					
D) OTHER EQUITY INTERESTS	85,841				85,841
E) COMMITMENTS TO PURCHASE EQUITY INTERESTS					
TOTAL BIIL.1 EQUITY INTERESTS	54,599,912	28,352	-2,453,113	-46	52,175,105
<u>BIIL.2.D. RECEIVABLES FROM OTHERS</u>					
LOAN TO FOND. MONTELLO	1,032,914				1,032,914
ADVANCE PAYMENT OF EMPLOYEES' PERSONAL INCOME TAX (IRPEF) ON STAFF LEAVING INDEMNITY (T.F.R.)	651,363		18,307	-159,869	509,801
TOTAL BIIL.2.D RECEIVABLES FROM OTHERS	1,684,277		18,307	-159,869	1,542,715

Changes during the year are detailed as follows:

- On 23 December 2003 Carraro acquired a 90% stake in A.E. S.r.l. from the Same group, in connection with an agreement made with that group for the supply of axles by Carraro S.p.A.; the acquired entity specialises in the processing and assembly of axles;
- As at 31 December 2003 Carraro wrote down its equity interest in Carraro International S.A. by Euro 2.446m, to reflect, in addition to the accumulated losses, the decrease in equity due to the write-down of the entity's interests in Carraro Korea Ltd and Carraro North America Inc.;
- The adjustment to the value of the equity interest in Agritalia S.p.A. relates to the repayment of the excess capital contribution towards capital increase made in 2002;
- The increase in the equity interest in Elcon Elettronica S.r.l., for an amount of Euro 0.019m, was effected through the waiver as at 17 March 2003 of part of a previous loan; this payment was allocated to loss coverage and recapitalisation. The value of the equity interest was then written down to the value of the corresponding net equity share.

As for equity interests in foreign subsidiaries, additional differences between the carrying amounts and the corresponding net equity shares were not considered in the impairment review because they related mostly to exchange rate fluctuations.

Receivables from others relate to a loan to the former subsidiary Fonderie del Montello S.p.A. for an original amount of Euro 3.615m. The balance receivable as at 31 December 2003 was Euro 1.033m.

The advance payment of employees' personal income tax (IRPEF) on the staff leaving indemnity (T.F.R.), required by the Budget Law for 1997, was computed in accordance with the provisions of the law.

ITEM 5: NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2003
LIST OF EQUITY INTERESTS

For the list of directly or indirectly held equity interests required by article 2427 of the Civil Code, we make reference to the attached schedule pursuant to article 126 of CONSOB Resolution No. 11971/99 and subsequent amendments.

EQUITY INTERESTS IN OTHER COMPANIES

Legal name	Registered office	Currency	Carrying value
ASSOCIAZIONE NORD EST	PADUA	EURO	1,033
GRUPPO SPORTIVO PETRARCA RUGBY	PADUA	EURO	10,329
SAPI IMMOBILIARE	PADUA	EURO	25,823
CO.NA.I. Consorzio Nazionale Imballaggi	ROME	EURO	784
Consorzio Padova Ricerche	PADUA	EURO	44,774
Isontina Energia - Consorzio per l'acquisto di risorse energetiche	GORIZIA	EURO	516
FONDAZIONE TEATRO LA FENICE	VENICE	EURO	2,582

ITEM 4: NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2003
CHANGES IN ASSETS AND LIABILITIES

	<u>Beginning balance</u>	<u>Change</u>	<u>Ending balance</u>
<u>C.I INVENTORY</u>			
1) RAW MATERIALS AND CONSUMABLES	18,238,033	65,938	18,303,971
2) WORK IN PROGRESS AND SEMI-FINISHED PRODUCTS	8,727,188	-980,610	7,746,578
3) CONTRACTED WORK IN PROGRESS	0	0	0
4) FINISHED PRODUCTS AND GOODS	9,030,417	-999,587	8,030,830
5) ADVANCES	0	0	0
6) GOODS IN TRANSIT	152,774	-79,391	73,383
INVENTORY	<u>36,148,412</u>	<u>-1,993,650</u>	<u>34,154,762</u>

The balance of inventory as at 31 December 2003 was Euro 34.155m , versus Euro 36.148m as at 31 December 2002.

The provision for obsolescence, recorded to adjust the value of obsolete and slow-moving inventory to net realisable value, was equal to Euro 2.900m as at 31 December 2003 and is broken down as follows:

- for raw materials and consumables: Euro 1.244m;
- for work in progress: Euro 0.175m;
- for finished products: Euro 1.481m.

The overall accrual for the period to the provision was equal to Euro 1.70m. During the year Euro 1.40m from the provision was utilised for disposal and scrapping of no longer usable items.

ITEM 4 - 6: NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2003
CHANGES IN VALUES AND DUE DATES OF ASSETS AND LIABILITIES

<u>C II. RECEIVABLES</u>	<u>Beginning balance</u>	<u>Change</u>	<u>Ending balance</u>	<u>falling due beyond one year</u>
<u>1) TRADE DEBTORS:</u>				
DOMESTIC	22,547,427	-3,341,229	19,206,198	
FOREIGN	46,130,661	-4,470,593	41,660,068	
IN LITIGATION	169,132	-146	168,986	
TOTAL TRADE DEBTORS	68,847,220	-7,811,968	61,035,252	
CASH ORDERS PRESENTED AT BANKS	253,524	-32,656	220,868	
BILLS ON HAND	177,062	13,471	190,533	
DEBIT NOTES TO BE ISSUED TO DOMESTIC DEBTORS	44,117	-6,890	37,227	
DEBIT NOTES TO BE ISSUED TO FOREIGN DEBTORS	297,727	-49,464	248,263	
CREDIT NOTES TO BE ISSUED TO DOMESTIC DEBTORS	-11,958	-11,829	-23,787	
CREDIT NOTES TO BE ISSUED TO FOREIGN DEBTORS	-1,010,929	973,092	-37,837	
EXCHANGE RATE ADJUSTMENTS TO FOREIGN DEBTORS	-1,175,118	162,778	-1,012,340	
TOTAL OTHER	-1,856,161	1,067,687	-788,474	
STM SRL	28,573	-16,127	12,446	
DEBIT NOTES TO BE ISSUED TO STM SRL	30	-30	0	
TKM SRL	7,745	-7,745	0	
RECEIVABLES FROM RELATED PARTIES	36,348	-23,902	12,446	
LESS: BAD DEBT PROVISION	-1,987,014		-1,987,014	
TOTAL 1) TRADE DEBTORS	65,470,979	-6,787,368	58,683,611	
<u>2) RECEIVABLES FROM SUBSIDIARIES:</u>				
CARRARO INDIA LTD.	2,684,623	415,067	3,099,690	
SIAP SPA	475,840	-112,537	363,303	
CARRARO N.A. INC.	469,593	449,895	919,488	
CARRARO ARGENTINA	3,010,833	211,437	3,222,270	
CARRARO INTERNATIONAL	307	880	1,187	
CARRARO KOREA	55,050	186,235	241,285	
O&K	625,429	689,660	1,315,089	
F.O.N.	137,819	-8,985	128,834	
TOTAL TRADE RECEIVABLES	7,459,494	1,831,652	9,291,146	
LOANS TO SIAP SPA	17,898,240	-3,188,000	14,710,240	
LOANS TO F.O.N.	2,025,000	-1,671,467	353,533	
LOAN TO CARRARO KOREA	830,000	-830,000		
TOTAL FINANCING RECEIVABLES	20,753,240	-5,689,467	15,063,773	
DEBIT NOTES TO BE ISSUED TO SIAP SPA	1,635	-701	934	
DEBIT NOTES TO BE ISSUED TO CARRARO N.A. INC.	4,647	-1,423	3,224	
DEBIT NOTES TO BE ISSUED TO F.O.N.	491	289	780	
DEBIT NOTES TO BE ISSUED TO O&K	21,425	-12,435	8,990	
DEBIT NOTES TO BE ISSUED TO CARRARO INDIA		1,838	1,838	
DEBIT NOTES TO BE ISSUED TO CARRARO ARGENTINA	18,597	-3,482	15,115	
DEBIT NOTES TO BE ISSUED TO CARRARO KOREA	3,114	-443	2,671	
EXCHANGE RATE ADJUSTMENTS TO CARRARO N.A. INC. ACCOUNTS	-22,699	-108,780	-131,479	
EXCHANGE RATE ADJUSTMENTS TO CARRARO INDIA ACCOUNTS	-231,780	-14,475	-246,255	
EXCHANGE RATE ADJUSTMENTS TO CARRARO ARGENTINA ACCOUNTS	-179,266	117,644	-61,622	
CREDIT NOTES TO BE ISSUED TO SIAP SPA		-50,251	-50,251	
CREDIT NOTES TO BE ISSUED TO CARRARO ARGENTINA	-139	139		
TOTAL OTHER	-383,975	-72,080	-456,055	

TOTAL 2) RECEIVABLES FROM SUBSIDIARIES	27,828,759	-3,929,895	23,898,864	
3) RECEIVABLES FROM ASSOCIATED COMPANIES:				
AGRITALIA SPA	1,929,086	-607,830	1,321,256	
ELCON ELETTRONICA SRL	79,423	-22,307	57,116	
LOANS TO ELCON ELETTRONICA	103,291	-19,352	83,939	
DEBIT NOTES TO BE ISSUED TO AGRITALIA SPA	9,185	-9,185		
TOTAL 3) RECEIVABLES FROM ASSOCIATED COMPANIES	2,120,985	-658,674	1,462,311	
4) RECEIVABLES FROM PARENT COMPANIES:				
5) OTHER DEBTORS:				
VAT FOR MONTHLY CREDIT SETTLEMENT	783,061	-663,713	119,348	
VAT CLAIMED FOR REFUND	1,480,000	-1,125,000	355,000	
IRPEG-ILOR CREDITS	1,197,006	121,034	1,318,040	
TAX ADVANCES	609,432	-609,432		
IRPEG TAX WITHHELD	28,653	-18,141	10,512	
TAX CLAIMED FOR REFUND	36,266		36,266	
EXPORT SUBSIDIES	490,712	97,478	588,190	
TAX PAID ABROAD	0	84,858	84,858	
EXCISE DUTIES	126,109	65,791	191,900	
DEFERRED TAX ASSETS	4,390,795	-1,451,141	2,939,654	
TOTAL RECEIVABLES FROM THE TREASURY	9,142,034	-3,498,266	5,643,768	
VAT CLAIMED FOR REFUND ON FOREIGN SALES	70,601	1,785	72,386	
GUARANTEE DEPOSITS	49,080	2,780	51,860	51,860
OTHER RECEIVABLES	100,359		100,359	
EMPLOYEES	6,129	-3,813	2,316	
SOCIAL SECURITY	94,676	-22,371	72,305	
INSURERS	3,191	8,347	11,538	
OTHER CURRENT RECEIVABLES	2,327,099	930,864	3,257,963	
TOTAL OTHER	2,651,135	917,592	3,568,727	51,860
TOTAL 5) OTHER DEBTORS	11,793,169	-2,580,674	9,212,495	51,860
TOTAL RECEIVABLES	107,213,892	-13,956,611	93,257,281	51,860

Trade debtors totalled Euro 58.684m, after a bad debt provision of Euro 1.987m.

The decrease during the period (Euro -6.787m) is mainly attributable to the monitoring of credit collection and the credit recovery measures taken in 2003.

Receivables from subsidiaries amounted to Euro 23.899m as at 31 December 2003, a decrease of Euro 3.930m mostly attributable to the reduction of the loans to Siap (Euro 3.188m) and F.O.N. (Euro 1.671m) and the repayment of the loan to Carraro Korea (Euro 0.83m).

With reference to 'Other debtors', we point out the reduction of the monthly VAT credit as a result of refunds received in the course of the year and of offsetting.

As at 31 December 2003 Carraro had not yet collected the VAT refund for the first quarter of 2003, amounting to Euro 0.355m.

Other significant decreases relate to the utilisation of tax advances paid in 2002 and the change in deferred tax assets

The balance of Euro 2.940m in deferred tax assets relates to tax advances on items of cost that will become deductible starting from 2004. The deferred tax assets are recorded on the assumption of their recovery through sufficient taxable income to be reported in future periods, which is considered reasonable on the basis of the current business plans. Deferred tax assets are stated net of deferred tax liabilities of Euro 1.322m.

'Other current receivables' includes the balance due from Meccanica Fananese S.r.l. for the sale of the former Trenton business for an amount of Euro 0.866m; also, a balance of Euro 1.777m originating from the factoring of IRPEG tax credits.

Other debtors falling due beyond one year relate to guarantee deposits.

ITEM 4: NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2003
CHANGES IN ASSETS AND LIABILITIES

	<u>Beginning balance</u>	<u>Change</u>	<u>Ending balance</u>
CIII. SHORT-TERM INVESTMENTS			
1) INVESTMENTS IN SUBSIDIARIES	196,550	-196,550	
2) INVESTMENTS IN ASSOCIATED COMPANIES			
3) OTHER INVESTMENTS			
4) OWN SHARES			
5) OTHER SECURITIES	18,890,738	17,977,903	36,868,641
6) REPURCHASE AGREEMENTS ON SECURITIES			
TOTAL CIII. SHORT-TERM INVESTMENTS	19,087,288	17,781,353	36,868,641

During the year the investment in Carraro PNH Components India Ltd. was sold to the subsidiary Carraro India Ltd.

The change in 'Other securities' reflects purchases during the year of commercial credit policies for an amount of Euro 20.140m, as well as the effect of the repayment of government bonds (CCT and BTP) for an amount of Euro 2.161m.

The balance of 'Other securities' is detailed as follows:

<u>SECURITIES HOLDINGS AS AT</u>	
<u>31 DECEMBER 2003</u>	
Certificates of Credit of the Treasury Code 367638 Maturity: 1 January 2007	73,000
Face value Euro 73,000	
Commercial credit policies	36,795,641
Face value Euro 36,871,000	
TOTAL OTHER SECURITIES AS AT 31 DECEMBER 2003	36,868,641

Certificates of Credit of the Treasury of Euro 73,000 relate to a tax refund received by the merged company Carraro PNH S.p.A..

The balance of Euro 36.796m relates to an investment in commercial credit policies secured by guarantees.

ITEM 4-7: NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2003
CHANGES IN ASSETS AND LIABILITIES AND COMPOSITION OF BALANCES

	<u>Beginning balance</u>	<u>Change</u>	<u>Ending balance</u>
CIV. CASH AND BANK			
BANK DEPOSITS (SEE DETAILS)	3,987,101	-1,320,021	2,667,080
POSTAL DEPOSITS	1,207	-823	384
1) BANK AND POSTAL DEPOSITS	3,988,308	-1,320,844	2,667,464
2) CHEQUES			
3) CASH ON HAND	31,042	-5,812	25,230
TOTAL CIV. CASH AND BANK	4,019,350	-1,326,656	2,692,694

The decrease in cash on bank deposits is related to the similar change in borrowings from banks. Overall, as detailed in the schedule on the net financial position accompanying the financial statements schedules, net bank debts decreased from Euro 65.8m as at 31 December 2002 to Euro 55.22m as at 31 December 2003, as a result of both a reduction in loans given and an increase in working capital surplus also following better credit collection and the receipt of VAT refunds.

Bank and postal deposits or current accounts are stated at estimated realisable value. Cash on hand is stated at nominal value.

ITEM 4-7: NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2003
CHANGES IN ASSETS AND LIABILITIES AND COMPOSITION OF BALANCES

A) SHAREHOLDERS' EQUITY

	<u>Beginning balance</u>	<u>Appropriation of result for prior period</u>	<u>Result for the period</u>	<u>Change in reserve from accelerated depreciation</u>	<u>Reclassifications (utilisations /reallocations)</u>	<u>Ending balance</u>
I. SHARE CAPITAL	21,840,000					21,840,000
II. SHARE PREMIUM RESERVE	17,833,456			1,958,068	-5,506,552	14,284,972
III REVALUATION RESERVE						
IV. LEGAL RESERVE	3,120,088					3,120,088
V. RESERVE FOR OWN SHARES IN PORTFOLIO						
VI. STATUTORY RESERVES	-----	-----	-----	-----	-----	-----
<i>EXTRAORDINARY RESERVE</i>	3,223,553	-2,951,387				272,166
<i>RESERVE FROM ACCELERATED DEPRECIATION</i>	5,506,552	-5,506,552		-1,958,068	5,506,552	3,548,484
<i>RESERVE FROM EXTRAORDINARY INCOME AS PER ARTICLE 55/597</i>	513,741	-513,741				
<i>RESERVE FROM MERGER SURPLUS PAYMENTS FROM SHAREHOLDERS TOWARDS SHARE CAPITAL INCREASE NON-REFUNDABLE PAYMENTS FROM SHAREHOLDERS</i>						
VII. OTHER RESERVES	9,243,846	-8,971,680	0	-1,958,068	5,506,552	3,820,650
VIII. PROFITS/(LOSSES) CARRIED FORWARD	-8,971,680	8,971,680				
IX. PROFIT/LOSS FOR THE PERIOD			8,310,562			8,310,562
SHAREHOLDERS' EQUITY	43,065,710		8,310,562	0	0	51,376,272

Share capital is made up of 42,000,000 ordinary shares of nominal Euro 0.52 each.

At the Annual General Meeting held on 14 May 2003, the shareholders resolved to cover the loss for the year 2002 as follows:

- Euro 2,951,387 through the utilisation of part of the extraordinary reserve;
- Euro 513,741 through the utilisation of the entire reserve from extraordinary income as per article 55/597;
- Euro 5,506,552 through the utilisation of the entire reserve from accelerated depreciation, to be replenished at the same time through the utilisation of the share premium reserve.

The fiscal position, as represented in the tax return for fiscal 2002, shows:

- Full tax credit (basket A) of Euro 6,270,799;
- Limited tax credit (basket B) of Euro 9,961,921.

The reserve from accelerated depreciation has been reclassified as share premium reserve for a total of Euro 1.958m, whereof Euro 1.784m relating to depreciation charged to the income statement for statutory purposes in excess of the fiscally deductible allowance and Euro 0.174m relating to disposals of depreciable assets that were subjected to accelerated depreciation in the past.

No deferred tax assets have been provided for the undistributed reserves because for the time being they are not planned to be distributed.

In case of dividend distribution, the provisions of article 2426, item 5, of the Civil Code are complied with.

ITEM 4-7: NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2003
 CHANGES IN ASSETS AND LIABILITIES AND COMPOSITION OF BALANCES

	<u>Beginning balance</u>	<u>Increases</u>	<u>Transfers</u>	<u>Decreases</u>	<u>0.5% INPS charge and pension fund</u>	<u>Ending balance</u>
B. PROVISIONS FOR RISKS AND CHARGES						
1) PROVISION FOR PENSIONS						
PROVISION FOR TAXES						
PROVISION FOR DEFERRED TAXES						
2) PROVISIONS FOR TAXES						
PRODUCT WARRANTY PROVISION	3,284,000	2,758,430		-2,542,430		3,500,000
PROVISION FOR RESTRUCTURING	852,096	3,878		-15,974		840,000
3) OTHER PROVISIONS	4,136,096	2,762,308		-2,558,404		4,340,000
TOTAL B	4,136,096	2,762,308		-2,558,404		4,340,000
C. STAFF LEAVING INDEMNITY (T.F.R.)						
WORKERS	6,839,484	1,057,021	6,763	-836,723	-284,423	6,782,122
CLERKS AND EXECUTIVES	4,044,958	842,136	-4,891	-370,967	-234,341	4,276,895
TOTAL C	10,884,442	1,899,157	1,872	-1,207,690	-518,764	11,059,017

Following an injunction for payment received on 1 March 1996 from the Padua office of INPS, the national social security, for an amount of Euro 0.682m, for alleged omission to pay social charges, including related penalties, Carraro filed an appeal. The Magistrate's Court (Pretore) of Padua nullified the injunction, stating that the sums claimed by INPS were not due. Against this ruling INPS filed an appeal with the Appeals Court on 5 October 1999. The proceeding is now before the Court of Cassation for a final judgment. On the basis of the information currently available, our assessment that the claims by the national social security are groundless is unchanged and we do not believe, based on our consultants' opinion, that the risk profile of the litigation has changed.

The product warranty provision was utilised for an amount of Euro 2.542m and later replenished for an amount of Euro 2.758m in view of the estimated costs to be incurred for contractual warranty obligations on sales. The year-end balance was Euro 3.500m.

With reference to the staff leaving indemnity (T.F.R., *Trattamento di fine rapporto*), increases relate to amounts accrued during the year and decreases relate to advances and indemnities paid out. Separate columns show the INPS charge withheld from employees, equal to 0.50% of income subject to social charges, and amounts transferred to the Cometa supplementary pension fund.

The column 'Transfers' shows indemnities accruing to employees transferred to/from Group companies and changes in grade.

The provision for restructuring was utilised in the course of the year for an amount of Euro 0.016m and as at 31 December 2003 stood at Euro 0.840m. The provision is maintained for the future charges to be borne in relation to the foreseeable reorganization to meet the targets set in the business plan for the period 2004 to 2007 approved by the Board of Directors on 4 December 2003, which will entail an overhaul and the reallocation of Carraro's manufacturing sites within the production structure.

Changes in the staff leaving indemnity (T.F.R.) are recorded in compliance with the law and cover indemnities accruing as at 31 December 2003 to 812 employees, comprising 559 workers, 224 clerks and 29 executives.

ITEM 4-7: NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2003
CHANGES IN ASSETS AND LIABILITIES AND DATES DUE

	<u>Beginning balance</u>	<u>Change</u>	<u>Ending balance</u>	<u>falling due beyond one year</u>
D) PAYABLES				
1) BONDS AND DEBENTURE LOANS	55,000,000		55,000,000	
2) CONVERTIBLE BONDS AND DEBENTURE LOANS				
3) BANK LOANS AND OVERDRAFTS				
CURRENT DEBTS (SEE DETAILS)	57,442,859	-7,572,111	49,870,748	
EXCHANGE RATE ADJUSTMENTS	-1,242,999	7,257	-1,235,742	
LOAN FROM MEDIOCREDITO	9,571,365	-2,988,133	6,583,232	3,816,874
3) BANK LOANS AND OVERDRAFTS	65,771,225	-10,552,987	55,218,238	3,816,874
4) OTHER FINANCING CREDITORS				
5) PAYMENTS ON ACCOUNT (ADVANCES)	270,422	71,959	342,381	
6) TRADE CREDITORS				
DOMESTIC CREDITORS	50,649,336	-4,198,364	46,450,972	
FOREIGN CREDITORS	9,301,715	384,050	9,685,765	
ADVANCES TO DOMESTIC CREDITORS	-780	780		
ADVANCES TO FOREIGN CREDITORS		-159,093	-159,093	
INVOICES TO BE RECEIVED FROM DOMESTIC CREDITORS	1,352,403	386,424	1,738,827	
INVOICES TO BE RECEIVED FROM FOREIGN CREDITORS	593,144	137,311	730,455	
CREDIT NOTES TO BE RECEIVED FROM DOMESTIC CREDITORS	-73,837	-524,257	-598,094	
CREDIT NOTES TO BE RECEIVED FROM FOREIGN CREDITORS	-36,864	-211,981	-248,845	
EXCHANGE RATE ADJUSTMENTS TO FOREIGN CREDITORS	-41,909	16,398	-25,511	
TOTAL OTHER TRADE CREDITORS	1,792,157	-354,418	1,437,739	
PAYABLES TO STM SRL	49,439	-3,296	46,143	
PAYABLES TO RELATED PARTIES	49,439	-3,296	46,143	
6) TRADE CREDITORS	61,792,647	-4,172,028	57,620,619	
7) SECURED PAYABLES				
8) PAYABLES TO SUBSIDIARIES:				
SIAP SPA	7,713,738	-515,230	7,198,508	
CARRARO N.A. INC.	293,801	1,182,016	1,475,817	
CARRARO ARGENTINA	2,022,246	-335,180	1,687,066	
CARRARO INDIA	6,544	161,433	167,977	
F.O.N.	136,719	196,226	332,945	
CARRARO KOREA	761	7,027	7,788	
O&K	138,500	-88,172	50,328	
TOTAL TRADE PAYABLES	10,312,309	608,120	10,920,429	
CREDIT NOTES TO BE RECEIVED FROM CARRARO ARGENTINA	-1,954	1,954	0	
CREDIT NOTES TO BE RECEIVED FROM O&K	-17,122	17,122	0	
INVOICES TO BE RECEIVED FROM O&K	33,311	-33,311	0	
EXCHANGE RATE ADJUSTMENTS TO CARRARO N.A. INC. ACCOUNTS	-8,225	-149,594	-157,819	
EXCHANGE RATE ADJUSTMENTS TO CARRARO ARGENTINA ACCOUNTS	-111,554	107,181	-4,373	
EXCHANGE RATE ADJUSTMENTS TO CARRARO INDIA ACCOUNTS	-387	31,889	31,502	
TOTAL OTHER PAYABLES	-105,931	-24,759	-130,690	
8) PAYABLES TO SUBSIDIARIES	10,206,378	583,361	10,789,739	
9) PAYABLES TO ASSOCIATED COMPANIES				
AGRITALIA SPA	238,347	-167,863	70,484	
ELCON ELETTRONICA SRL	38,350	-11,644	26,706	

CREDIT NOTES TO BE RECEIVED FROM ELCON ELETTRONICA	-450	450		
INVOICES TO BE RECEIVED FROM ELCON ELETTRONICA	28,000	-13,600	14,400	
9) PAYABLES TO ASSOCIATED COMPANIES	304,247	-192,657	111,590	
10) PAYABLES TO PARENT COMPANIES				
FINAID SRL	22,272	-6,025	16,247	
10) PAYABLES TO PARENT COMPANIES	22,272	-6,025	16,247	
11) TAX PAYABLES				
SUNDRY TAXES	127,105	-73,681	53,424	
TAX LIABILITIES AS PER TAX RETURN	73,022	-73,022		
PERSONAL INCOME TAX (IRPEF) WITHHELD FROM EMPLOYEES	1,183,886	-31,718	1,152,168	
PERSONAL INCOME TAX (IRPEF) WITHHELD FROM SELF-EMPLOYED WORKERS	13,220	-3,666	9,554	
PERSONAL INCOME TAX (IRPEF) WITHHELD FROM FREELANCES (WHO RENDER SERVICES ON A CO-ORDINATED AND CONTINUOUS BASIS)	136,789	-3,502	133,287	
11) TAX PAYABLES	1,534,022	-185,589	1,348,433	
12) SOCIAL SECURITY PAYABLES				
INPS (NATIONAL SOCIAL SECURITY)	1,142,959	272,874	1,415,833	
INAIL (NATIONAL INDUSTRIAL ACCIDENT INSURANCE)	-33,529	29,744	-3,785	
INPDAI (SOCIAL SECURITY FUND FOR INDUSTRIAL EXECUTIVES)	115,159	-115,159		
SOCIAL SECURITY FUND OF EXECUTIVES	34,913	14,306	49,219	
FASI (HEALTH INSURANCE FOR EXECUTIVES)	1,883	0	1,883	
EMPLOYEES' SUPPLEMENTARY PENSION FUNDS	32,592	-621	31,971	
INPS 10% SOCIAL SECURITY CONTRIBUTION	8,822	2,022	10,844	
SUPPLEMENTARY PENSION FUND	167,385	6,152	173,537	
12) SOCIAL SECURITY PAYABLES	1,470,184	209,318	1,679,502	
13) OTHER CREDITORS:				
CURRENT DEBTS	176,138	-60,352	115,786	
DIVIDENDS TO SHAREHOLDERS	301	0	301	
DIRECTORS	41,299	265,642	306,941	
THIRD PARTIES' ASSIGNMENT OF SALARIES	1,357	-214	1,143	
TRADE UNIONS	17,887	-459	17,428	
EMPLOYEES	3,733,607	-39,455	3,694,152	
OTHER MEDIUM-/LONG-TERM PAYABLES	103,291	0	103,291	
13) OTHER CREDITORS	4,073,880	165,162	4,239,042	
PAYABLES	200,445,277	-14,079,486	186,365,791	3,816,874

The balance of 'Bonds and debenture loans', equal to Euro 55.0m, relates to a variable-rate debenture loan issued by Carraro S.p.A. on 31 July 2001 and reserved for Carraro International S.A., expiring in May 2006, against which an Interest Rate Swap has been entered into to hedge for exchange rate risk.

Bank loans and overdrafts, net of credit balances on current accounts of Euro 2.667m, totalled Euro 52.551m as at 31 December 2003, versus Euro 61.784m as at 31 December 2002. For comments on the change, see the comments to cash and bank above.

The Mediocredito loan relates to two disbursements at a facilitated interest rate pursuant to Law No. 100/1990 against an investment programme in Argentina and India. The loan agreements are dated July 1999 for Argentina and October 1997 for India. Capital repayment starts after 18 months, after which the loans are redeemable over the next 5 years. The change during the period reflects payments made as per the repayment plan.

The change in tax payables, from Euro 1.534m to Euro 1.348m, relates to the payment during the period of amounts due under the terms of the tax amnesty introduced by the Budget law for 2003 (Law No. 289 of 27 December 2002).

Other payables to employees include Euro 1.377m relating to salaries and wages of December, Euro 1.754m for holidays earned but not taken as at 31 December 2003 and Euro 0.562m for bonuses.

Other payables, equal to Euro 0.103m, relate to amounts withheld as guarantee from the price of property, which will be paid on expiry of the free loan accorded to the sellers, on 30 December 2004.

As at 31 December 2003 there were no payables falling due beyond 5 years.

ITEM 4-6: NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2003
 COLLECTIBILITY OF RECEIVABLES AND PAYABLES
 DETAILS OF BANK BALANCES

<u>BANK</u>	<u>CREDIT BALANCES ON CURRENT ACCOUNTS</u>	<u>DEBIT BALANCES ON CURRENT ACCOUNTS</u>	<u>BALANCES ON ADVANCE ACCOUNTS</u>	<u>BALANCES ON LOAN ACCOUNTS</u>	<u>NET BALANCE</u>
BANCA ANTOVENETA	95,248		-1,717,612		-1,622,364
BANCO AMBROSIANO VENETO	10,761				10,761
CASSA DI RISPARMIO PD-RO		-212,228	-4,018,596		-4,230,824
CASSA RUR. E ARTIGIANA	159,721				159,721
BANCA COMMERCIALE	55,293			-35,000,000	-34,944,707
CREDITO ITALIANO	60,384		-987,758	-925,000	-1,852,374
BNL	11,230		-1,461,831		-1,450,601
BANCA POP. ASOLO MONTEB.	642				642
ISTITUTO S. PAOLO DI TO	137,826		-1,782,477	-615,000	-2,259,651
CASSA RISPARMIO DI FERRARA	730				730
BANCA POP. VICENTINA	3,561				3,561
BANCA POPOLARE DI VERONA	21,831		-1,849,589		-1,827,758
BANCA POPOLARE DI MILANO	26,288				26,288
MONTE PASCHI DI SIENA	1,624,976		-1,299,458		325,518
FORTIS BANK		-1,199			-1,199
ABN-AMRO BANK	323				323
S.PAOLO BANK N.Y.	458,266				458,266
	<u>2,667,080</u>	<u>-213,427</u>	<u>-13,117,321</u>	<u>-36,540,000</u>	<u>-47,203,668</u>

The above schedule analyses credit positions (C.IV.1), totalling Euro 2.667m, and debit positions (D.3), totalling Euro 49.871m, giving a net debit balance of Euro 47.204m.

ITEM 4-7: NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2003
 CHANGES IN ASSETS AND LIABILITIES AND COMPOSITION OF BALANCES

	<u>Beginning balance</u>	<u>Change</u>	<u>Ending balance</u>	<u>Short-term portion</u>	<u>Medium-/long- term portion</u>
<u>D. ACCRUED INCOME AND PREPAYMENTS</u>					
<u>ACCRUED INCOME</u>					
ACCRUED INTEREST INCOME	287,698	-228,024	59,674	59,674	
OTHER ACCRUED INCOME	20,000		20,000	20,000	
TOTAL ACCRUED INCOME	307,698	-228,024	79,674	79,674	
<u>PREPAYMENTS</u>					
INTEREST PREPAYMENTS	15,863	-5,193	10,670	5,193	5,477
CHARGES ON GUARANTEES	80,732	-25,987	54,745	24,208	30,537
INDUSTRIAL RENTALS	3,103	2,384	5,487	5,487	
TECHNICAL SERVICE RENTALS	146,301	-68,788	77,513	77,513	
STATIONERY	57,710	-729	56,981	56,981	
VEHICLES COSTS	2,523	270	2,793	2,793	
INSURANCE	58	83,416	83,474	83,474	
SUBSCRIPTIONS	11,231	-7,413	3,818	3,818	
OTHER PREPAYMENTS	72,444	19,094	91,538	89,399	2,139
TOTAL PREPAYMENTS	389,965	-2,946	387,019	348,866	38,153
TOTAL ACCRUED INCOME AND PREPAYMENTS	697,663	-230,970	466,693	428,540	38,153
<u>E. ACCRUALS AND DEFERRED INCOME</u>					
<u>ACCRUED EXPENSES</u>					
ACCRUED INTEREST EXPENSE	3,452,644	1,086,255	4,538,899	4,538,899	
ACCRUED PERSONNEL EXPENSES	486,349	7,150	493,499	493,499	
OTHER ACCRUED EXPENSES	86	-86	0	0	
TOTAL ACCRUED EXPENSES	3,939,079	1,093,319	5,032,398	5,032,398	
<u>DEFERRED INCOME</u>					
OTHER DEFERRED INCOME		1,769	1,769	1,769	
TOTAL DEFERRED INCOME		1,769	1,769	1,769	
TOTAL ACCRUALS AND DEFERRED INCOME	3,939,079	1,095,088	5,034,167	5,034,167	

Accrued interest income relates mostly to interest accruing on Carraro's securities holdings and to the VAT refund received as at 31 December 2003.

Among prepayments, we point out rentals for technical service relating to future periods, insurance premiums, charges relating to guarantees given to the VAT Office and purchases of stationery in stock as at 31 December 2003.

Accrued interest expense relates to interest accruing on loans up to 31 December 2003. The total includes Euro 2.834m in interest owed on the debenture loan. The change during the period relates to the different dates of loan repayments and new loans and bank overdrafts, with the resulting interest payments, compared to 31 December 2002.

Accrued personnel expenses relate to 14th month payments earned by workers and clerks..

ITEM 9: NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2003
MEMORANDUM ACCOUNTS

A) RISKS**Guarantees given on behalf of others**

DATE ISSUED	TO	ON BEHALF OF	EXPIRY	ORIGINAL AMOUNT	NET BOOK VALUE as at 31 December 2003
11/03/1999	SAN PAOLO IMI BANK - NY	CARRARO N. A.	31/01/2004	11,618,898	3,958,828
13/03/2002	BANK PEKAO	F.O.N.	14/03/2003	250,000	400,000
10/07/2002	BANK PEKAO	F.O.N.	10/07/2003	1,100,000	5,400,000
24/09/2002	SPARKASSE HATTINGEN	O&K A.	30/09/2004	1,300,000	600,227
27/09/2002	BNP PARIBAS	CARRARO INTERNATIONAL	29/11/2004	485,000	485,000
21/01/2003	BNP PARIBAS	SIAP SPA	31/12/2004	120,000	120,000
01/08/2003	SHIN HAN BANK SEOUL	CARRARO KOREA	31/07/2004	1,663,353	2,095,173
31/12/2003	ECA SRL	A.E. SRL	30/06/2006	186,000	186,000
<i>TOTAL</i>					13,245,228

These guarantees were given by Carraro S.p.A. to banks on behalf of subsidiaries against loans received by them.

B) COMMITMENTS**Commitments to purchase equity interests**

LEGAL NAME	SELLER	PERCENTAGE	EXPIRY	As at 31 December 2003
CARRARO ARGENTINA S.A.	SIMEST S.P.A.	6%	2004	1,112,345
<i>TOTAL</i>				1,112,345

This is a commitment to purchase equity interests within the established date based on agreements with third parties.

Other commitments

BENEFICIARY	DESCRIPTION	AMOUNT
PROVINCE OF PADUA	Contribution to revamping and enlargement of road SP 34	103,291

C) GUARANTEES RECEIVED FROM THIRD PARTIES**Sureties received from third parties**

DATE ISSUED	TO	FROM	ON BEHALF OF	EXPIRY	AMOUNT
03/07/1995	CARRARO S.p.A.	FINAID S.r.l.	FONDERIE DEL MONTELLO S.p.A.	31/12/2004	1,032,914
22/04/2002	CARRARO S.p.A.	BANCA POP. EMILIA ROMAGNA	MECCANICA FANANESE SRL	30/11/2004	866,008
<i>Total</i>					1,898,922

This item relates to a surety received from Finaid S.r.l. securing repayment of a loan to Fonderie del Montello S.p.A. for an original amount of ITL 7b and to a surety received from Banca Popolare Emila Romagna securing repayment of the outstanding balance of a loan granted to Meccanica Fananese S.r.l. for the sale of the former Trenton business.

E) GUARANTEES GIVEN BY THIRD PARTIES ON BEHALF OF CARRARO SPA

Sureties given by third parties on behalf of Carraro S.p.A.

GIVEN TO	FROM	NET BOOK VALUE as at 31 December 2003
MEDIOCREDITO CENTRALE	FINAID	6,583,233
SIMEST SPA	FINAID	1,148,290
VAT OFFICE OF PADUA	ASSICURATRICE EDILE	2,496,540
VAT OFFICE OF PADUA	RAS	2,830,662
VAT OFFICE OF PADUA	ZURICH INTERNATIONAL	4,390,128
VAT OFFICE OF GORIZIA	RAS	5,556,288
EDISON ENERGIA	RAS	30,471
OTHER MINOR	BANCA POP. DI VERONA	103,291
<i>Total</i>		23,138,903

These are sureties given by banks, insurers and by the parent company Finaid to various institutions, mainly for VAT refunds, building permits, loans or credit facilities.

F) EXCHANGE RATE AND INTEREST RATE HEDGES

Swaps/Forward agreements on accounts receivable

CURRENCY	AMOUNT HEDGED	EQUIVALENT IN EURO
USD	2,000,000	EURO 1,698,947
<i>Total</i>		1,698,947

This item relates to operations hedging for exchange rate risk of exports denominated in foreign currency forecast for 2004, based on plans provided by customers. The hedges are entered into with banks and finance companies.

The accrued interest expense on outstanding positions has been charged to the income statement within financial charges.

Interest Rate Swaps

CURRENCY	AMOUNT HEDGED	COUNTERPARTY	EQUIVALENT IN EURO
EURO	55,000,000	B.N.P. PARIBAS	EURO 55,000,000
<i>Total</i>			55,000,000

This item relates to contracts entered into with banks to hedge for interest rate risk on outstanding loans as well as on the debenture loan issued by Carraro S.p.A. and reserved for Carraro International S.A..

Forward Rate Agreements

CURRENCY	AMOUNT HEDGED	COUNTERPARTY	EQUIVALENT IN EURO
EURO	55,000,000	B.N.P. PARIBAS	EURO 55,000,000
EURO	55,000,000	B.N.P. PARIBAS	EURO 55,000,000
<i>Total</i>			110,000,000

This item relates to contracts entered into with banks to hedge for interest rate risk on outstanding loans as well as on the debenture loan issued by Carraro S.p.A. and reserved for Carraro International S.A..

Foreign currency options

CURRENCY	TYPE	AMOUNT HEDGED	COUNTERPARTY	EQUIVALENT IN EURO
USD	CALL	25,187,375	B.N.P. PARIBAS	24,965,828
USD	PUT	35,341,265	B.N.P. PARIBAS	35,341,265
<i>Total</i>				60,307,093

This item relates to call and put currency options hedging exchange rate risk on exports forecast for 2004.

For your information we report the market prices as at 31 December 2003 of the hedges in place at that date, by type of contract (negative amounts in brackets):

- foreign currency options: Euro 4.703m
- domestic currency swaps: Euro 0.117m
- interest rate swap: Euro (0.180)m
- forward rate agreements Euro 0.167m.

WE SET OUT BELOW AN EXHAUSTIVE ANALYSIS OF THE INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003 THAT COMPLIES WITH THE REQUIREMENTS OF ITEMS 10-11-12-13-14-15-16 OF ARTICLE 2427 OF THE CIVIL CODE. INCOME STATEMENT ITEMS ARE ANALYSED IN DETAIL. COMMENTS ARE PROVIDED ONLY FOR SIGNIFICANT CHANGES.

ANALYSIS OF THE INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003
HEADING A - VALUE OF PRODUCTION

	subtotals current year	subtotals prior year	FY 2003	FY 2002
<u>1) REVENUE FROM SALES AND SERVICES</u>				
SALES OF PRODUCTS	266,158,573	262,635,735		
SALES RETURNS	-4,128,296	-2,846,702		
OTHER GOODS	11,553,518	10,456,519		
OUTSOURCED WORK	39,771	103,114		
OTHER REVENUE	2,284,664	2,746,420		
VOLUME REBATES TO CUSTOMERS	-11,997	-2,291		
1) REVENUE FROM SALES AND SERVICES	275,896,233	273,092,795	275,896,233	273,092,795
<u>2) CHANGES IN STOCKS OF WORK IN PROGRESS AND FINISHED GOODS</u>				
CHANGE IN STOCKS OF SEMI-FINISHED PRODUCTS	-357,565	1,092,636		
CHANGE IN STOCKS OF WORK IN PROGRESS	-548,005	721,269		
CHANGE IN STOCKS OF FINISHED PRODUCTS	-1,509,326	161,996		
CHANGE IN STOCKS OF SPARE PARTS	390,671	341,305		
CHANGE IN PROVISION FOR OBSOLESCENCE	44,027	-390,504		
2) CHANGES IN STOCKS OF WORK IN PROGRESS AND FINISHED GOODS	-1,980,198	1,926,702	-1,980,198	1,926,702
<u>3) CHANGE IN CONTRACTED WORK IN PROGRESS</u>				
<u>4) OWN WORK CAPITALISED</u>				
			481,375	333,258
<u>5) OTHER INCOME</u>				
ROYALTIES	497,793	612,465		
EXPORT PREMIUMS	205,720	180,353		
WARRANTY INSURANCE REFUNDS		232,406		
ORDINARY GAINS ON ASSETS	206,923	390,108		
OTHER GAINS	1,121,414			
OTHER INCOME	822,943	594,122		
A) OTHER	2,854,793	2,009,454		
OTHER GRANTS		2,704		
B) GRANTS		2,704		
5) OTHER INCOME			2,854,793	2,012,158
VALUE OF PRODUCTION			277,252,203	277,364,913

ANALYSIS OF THE INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003
REVENUE FROM SALES AND SERVICES (LINE 1)

Sales may be broken down by type of product as follows:

PRODUCT LINE	FY 2003 Euro/000	FY 2002 Euro/000
CONSTRUCTION EQUIPMENT AXLES	94,340	78,057
AGRICULTURAL AXLES	81,675	94,225
FORKLIFT AXLES	15,971	16,074
AXLES FOR LIGHT COMMERCIAL VEHICLES	5,704	6,202
GEAR BOXES	2,755	3,112
DIFFERENTIAL HOUSINGS	-	290
OTHER AXLES	5,610	4,222
WHEEL SHAFTS	-	298
GEARS	-	635
IDLE AXLES	4,934	4,462
CLUTCHES	1,195	1,613
CAM PHASER DEVICES	4,690	5,285
TIE RODS	44	68
BALL JOINTS	259	228
AGRICULTURAL TRANSAXLES	839	1,412
POWER SHUTTLE TRANSMISSIONS	19,643	19,598
OTHER AGRICULTURAL TRANSAXLES	-	28
SPARE PARTS	20,689	18,897
OTHER SERVICES	1,720	2,256
SEMI-FINISHED PRODUCTS	3,902	5,101
OTHER	11,926	11,030
TOTAL SALES	275,896	273,093

Sales may be broken down by geographical area as follows:

GEOGRAPHICAL AREA	FY 2003 Euro/000	FY 2002 Euro/000
DOMESTIC SALES	52,251	60,696
<i>EU.</i>	<i>113,127</i>	<i>112,279</i>
<i>NORTH AMERICA</i>	<i>71,345</i>	<i>70,406</i>
<i>OTHER FOREIGN COUNTRIES</i>	<i>39,173</i>	<i>29,712</i>
TOTAL FOREIGN SALES	223,645	212,397
TOTAL SALES	275,896	273,093

ITEM 10: NOTES TO THE FINANCIAL STATEMENTS:

Sales, equal to Euro 275.896m, grew by 1% on FY 2002.

This growth was due to larger sales volumes achieved by traditional axles, in particular those for industrial applications. Other significant changes relate to a decline in sales of agricultural axles (-13.3%) and an increase in sales of spare parts (+9.5%).

The value of sales includes exchange gains of Euro 10.090m (Euro 3.285m in FY 2002) realised during the year on hedging operations.

Foreign sales totalled Euro 223.6m. versus Euro 212.4m del 2002, an increase of 5.3% on FY 2002, and accounted for 81.1% of the total.

Additional details and comments on sales are provided in the directors' report.

Included within extraordinary income on the line 'Other gains' are adjustments to rebates provided for in prior years and reversed in 2003 on the basis of the renegotiation of trade agreements.

ANALYSIS OF THE INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003
HEADING B - COST OF PRODUCTION

	subtotals current year	subtotals prior year	FY 2003	FY 2002
6) COST OF RAW MATERIALS, CONSUMABLES, SPARE PARTS AND OTHER GOODS				
RAW MATERIAL PURCHASES	176,914,712	174,069,533		
RAW MATERIAL RETURNS	-1,639,937	-1,506,672		
NET PURCHASES	<u>175,274,775</u>	<u>172,562,861</u>		
SUNDRY CONSUMABLES	361,468	317,928		
CONSUMABLE TOOLS	1,070,064	1,167,386		
MAINTENANCE MATERIAL	848,326	848,514		
MATERIALS AND SERVICES FOR RESALE	18,778	164,225		
DISCOUNTS AND VOLUME REBATES FROM SUPPLIERS	-1,171,289	-620,844		
OTHER COST OF PRODUCTION	<u>1,127,347</u>	<u>1,877,209</u>		
6) COST OF RAW MATERIALS, CONSUMABLES, SPARE PARTS AND OTHER GOODS			176,402,122	174,440,070
7) COST OF SERVICES				
OUTSOURCED WORK	15,308,888	13,954,927		
MAINTENANCE SERVICES	2,279,519	2,042,814		
SUNDRY INDUSTRIAL SERVICES	3,194,000	3,074,411		
TEMPORARY WORKSHOP WORKERS	799,060	630,977		
TRANSPORTATION AND FREIGHT	1,784,634	1,654,876		
CUSTOMS DUTIES ON IMPORTS	250,988	286,588		
- EXTERNAL SERVICES FOR PRODUCTION	<u>23,617,089</u>	<u>21,644,593</u>		
WATER	29,939	34,744		
ELECTRICAL POWER	518,605	600,407		
GAS - METHANE	879,621	840,544		
FUEL	119,688	110,171		
- SUNDRY SUPPLIES	<u>1,547,853</u>	<u>1,585,866</u>		
REFUNDS OF TRAVEL EXPENSES	1,211,564	1,191,162		
STATIONERY	231,125	227,111		
TELEPHONE AND POSTAGE	360,013	378,820		
SUNDRY EXTERNAL SERVICES	1,826,887	2,319,203		
LONG-TERM CAR RENTALS	287,654	228,697		
TEMPORARY OFFICE WORKERS	130,900	28,658		
CONSULTING	1,614,296	2,401,095		
AUDITING	152,992	172,847		
DIRECTOR'S EMOLUMENTS	1,335,520	1,085,593		
STATUTORY AUDITORS' EMOLUMENTS	52,114	44,778		
CORPORATE INSURANCE POLICIES	777,210	862,718		
TECHNICAL SERVICE FEES	1,416,816	1,686,429		
OTHER CORPORATE EXPENSES	73,834	47,156		
- GENERAL OVERHEADS	<u>9,470,925</u>	<u>10,674,267</u>		
PRESS, TV AND BILLBOARD ADVERTISEMENTS	33,410	45,370		
ADVERTISING EXPENSES	33,148	30,047		
TRADE FAIRS	154,710	33,654		
PROMOTIONAL EXPENSES	26,276	41,634		
ENTERTAINING EXPENSES	123,339	103,292		
OTHER MARKETING EXPENSES	<u>16,122</u>	<u>24,656</u>		
- MARKETING COSTS	387,005	278,653		
POST-SALES SERVICES	2,542,431	2,315,263		
UTILISATION OF WARRANTY PROVISION	-2,542,430	-2,315,263		
CUSTOMS DUTIES ON EXPORTS	86,009	137,138		
TRANSPORTATION AND FREIGHT	2,218,863	2,859,513		
COMMISSIONS	1,474,498	1,749,641		
AGENTS' LIABILITY INDEMNITY	0	0		
PACKAGING MATERIALS	77,597	117,476		
OTHER SELLING EXPENSES	<u>73,367</u>	<u>157,894</u>		
- SELLING EXPENSES	3,930,335	5,021,662		
7) COST OF SERVICES			38,953,207	39,205,041

8) COST OF UTILISATION OF THIRD PARTIES'**ASSETS**

RENTS	114,512	46,020
ROYALTIES	26,386	29,400

8) COST OF UTILISATION OF THIRD PARTIES' ASSETS

140,898	75,420
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9) PERSONNEL COSTS

WAGES	11,570,577	11,691,604
ADDITIONAL MONTHLY PAYMENTS OF WORKERS	1,410,833	1,457,842
ACCRUAL TO PROVISION FOR STAFF LEAVING INDEMNITY OF WORKERS	330	792
SALARIES	9,543,666	10,147,417
ADDITIONAL MONTHLY PAYMENTS OF CLERKS AND EXECUTIVES	972,235	978,339
ACCRUAL TO PROVISION FOR STAFF LEAVING INDEMNITY OF CLERKS AND EXECUTIVES	7	-847
A) SALARIES AND WAGES	23,497,648	24,275,147
SOCIAL CONTRIBUTIONS ON WAGES	4,688,092	4,697,695
SOCIAL CONTRIBUTIONS ON SALARIES	3,446,126	3,552,015
STATE SUBSIDIES FOR SOCIAL CONTRIBUTIONS ON WAGES	-100,473	-105,421
STATE SUBSIDIES FOR SOCIAL CONTRIBUTIONS ON SALARIES	-89,109	-84,621
B) SOCIAL CONTRIBUTIONS	7,944,636	8,059,668
LEAVING INDEMNITY OF WORKERS	1,057,022	1,123,452
LEAVING INDEMNITY OF CLERKS AND EXECUTIVES	842,134	862,838
C) STAFF LEAVING INDEMNITY (T.F.R.)	1,899,156	1,986,290
D) PENSIONS AND SIMILAR OBLIGATIONS	0	0
PERSONNEL COSTS	152,916	1,073,779
INSURANCE POLICIES OF EMPLOYEES	97,598	80,678
COMPANY CANTEEN	371,339	390,389
E) OTHER COSTS	621,853	1,544,846

9) PERSONNEL COSTS

33,963,293	35,865,951
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10) DEPRECIATION AND WRITE-DOWNS

A) AMORTISATION OF INTANGIBLE ASSETS	1,580,457	1,746,098
ORDINARY DEPRECIATION OF BUILDINGS	510,866	510,430
ORDINARY DEPRECIATION OF PLANT	1,417,502	1,502,619
ORDINARY DEPRECIATION OF MACHINERY	2,515,365	2,442,370
ORDINARY DEPRECIATION OF TRANSPORT VEHICLES	78,373	62,704
ORDINARY DEPRECIATION OF FURNITURE AND FIXTURES	151,852	163,242
ORDINARY DEPRECIATION OF OFFICE MACHINES	630,043	740,253
ORDINARY DEPRECIATION OF EQUIPMENT AND TOOLS	3,752,412	3,435,740
B) DEPRECIATION OF TANGIBLE ASSETS	9,056,413	8,857,358
C) OTHER WRITE-DOWNS OF ASSETS		
D) WRITE-DOWNS OF RECEIVABLES INCLUDED IN CURRENT ASSETS		337,078

10) DEPRECIATION AND WRITE-DOWNS

10,636,870	10,940,534
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11) CHANGES IN STOCKS OF RAW MATERIALS, CONSUMABLES, SPARE PARTS AND OTHER GOODS

CHANGES IN STOCKS OF RAW MATERIALS	-354,452	-383,659
CHANGES IN STOCKS OF FINISHED GOODS	456,931	-2,106,019
CHANGES IN STOCKS OF CONSUMABLES	-512,445	349,786
CHANGE IN ACCRUAL TO PROVISION FOR OBSOLESCENCE	344,028	315,063

11) CHANGES IN STOCKS OF RAW MATERIALS, CONSUMABLES, SPARE PARTS AND OTHER GOODS

-65,938	-1,824,829
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12) ACCRUALS FOR CONTINGENCIES**13) OTHER ACCRUALS**

ACCRUAL TO WARRANTY PROVISION	2,758,430	2,849,263		
13) OTHER ACCRUALS			2,758,430	2,849,263
<u>14) OTHER OPERATING CHARGES</u>				
NON-DEDUCTIBLE COSTS	1,401	2,947		
ASSOCIATION DUES	104,200	131,971		
SUBSCRIPTIONS	42,332	40,022		
COST OF INSTITUTIONAL REPORTING OF LISTED COMPANIES	120,270	148,392		
INDIRECT TAXES AND DUTIES	16,741	21,871		
DEDUCTIBLE TAXES	16,644	9,569		
NON DEDUCTIBLE TAXES	107,858	108,234		
ORDINARY LOSSES ON TANGIBLE ASSETS	2,579	22,732		
ROAD TAX	23,390	18,897		
DISCOUNTS GIVEN AND ROUNDING OFF	13,352	11,241		
DONATIONS	19,399	19,586		
OTHER CHARGES	35,902	51,022		
14) OTHER OPERATING CHARGES			<u>504,068</u>	<u>586,484</u>
COST OF PRODUCTION			263,292,950	262,137,934

Purchases of raw materials, consumables and goods rose from Euro 174.44m to Euro 176.40m. If we consider also changes in stocks of raw materials and consumables, total consumption went from Euro 172.6m to Euro 176.3m, equal to 63.9% of sales versus 63.2% for FY 2002, therefore the change was not significant if referred to sales volumes.

As for cost of services, we point out an increase in external industrial services, due to larger use of outsourced processing and temporary workers. Overheads decreased, with particular reference to consulting costs and other external services.

The cost of post-sales services under warranty incurred in 2003 totalled Euro 2.54m and was entirely covered through the utilisation of the corresponding provision. For potential warranty risks on products sold up to 31 December 2003 an accrual to the warranty provision was made for an amount of Euro 2.76m.

Freight costs on sales decreased (Euro 2.22m, versus Euro 2.86m of FY 2002) as part was passed on to customers.

Personnel costs decreased on FY 2002 by a total of Euro 1.903m, both in terms of salaries and related social charges and in terms of other costs (training and accessory charges).

Depreciation of tangible assets went from Euro 8.857m of FY 2002 to Euro 9.056m of FY 2003, with no significant change.

ITEM 15: NOTES TO THE FINANCIAL STATEMENTS

The headcount as at 31 December is detailed by category as follows:

	31 December 2003	31 December 2002
Executives	29	26
Clerks	224	234
Workers	559	569
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Total employees	812	829
Temporary workers	32	24
Total	844	853

The decrease is due to a decision not to replace resigning employees.

ITEM 16: NOTES TO THE FINANCIAL STATEMENTS

Line B 7) shows emoluments paid to directors and statutory auditors, as required by item 16) of article 2427 of the Civil Code.

In detail:

Directors' emoluments	Euro	1,335,520
Statutory auditors' emoluments:	Euro	52,114

Pursuant to article 78 of the implementing regulations of Legislative Decree No. 58 of 24 February 1998 (adopted by CONSOB Resolution No. 12475 of 6 April 2000), we append hereto the list of compensation, of any type and in any form, paid to the directors, statutory auditors and general managers, also by Carraro's subsidiaries.

ANALYSIS OF THE INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003
HEADING C – FINANCIAL INCOME AND CHARGES

	subtotals current year	subtotals prior year	FY 2003	FY 2002
15) INCOME FROM PARTICIPATING INTERESTS				
DIVIDENDS	4,884,061			
TAX CREDITS ON DIVIDENDS	2,747,284			
15) INCOME FROM PARTICIPATING INTERESTS	7,631,345		7,631,345	
16) OTHER FINANCIAL INCOME				
A) FROM RECEIVABLES RECORDED AS FIXED ASSETS	18,307	25,462		
B) FROM SECURITIES RECORDED AS FIXED ASSETS				
BEGINNING BALANCE	-2,235,117	-2,240,846		
PURCHASES				
SALES	2,162,166			
ENDING BALANCE	73,000	2,235,117		
COUPONS	16,836	95,726		
C) FROM SECURITIES RECORDED AS CURRENT ASSETS	16,885	89,997		
INTEREST INCOME FROM LOANS TO SUBSIDIARIES	1,004,128	1,159,425		
- INTEREST INCOME FROM SUBSIDIARIES	1,004,128	1,159,425		
INTEREST INCOME FROM LOANS TO ASSOCIATED COMPANIES	2,155	3,320		
- INTEREST INCOME FROM ASSOCIATED COMPANIES	2,155	3,320		
INTEREST INCOME FROM BANKS	46,037	118,508		
INTEREST INCOME FROM LOANS	33,655	43,531		
INTEREST INCOME FROM FINANCING OPERATIONS	635,351	298,744		
INTEREST INCOME FROM TRADE DEBTORS	59,846	34,086		
INTEREST INCOME FROM THE TREASURY	25,666	61,178		
OTHER INTEREST INCOME	249	669		
DIFFERENCE ON HEDGING OPERATIONS	133,551	320,265		
EXCHANGE GAINS	4,054,350	6,531,026		
- OTHER	4,988,705	7,408,007		
D) OTHER	5,994,988	8,570,752		
16) OTHER FINANCIAL INCOME			6,030,180	8,686,211
17) INTEREST AND OTHER FINANCIAL CHARGES				
OTHER INTEREST CHARGES FROM SUBSIDIARIES	-2,831,942	-3,298,365		
- INTEREST CHARGES FROM SUBSIDIARIES	-2,831,942	-3,298,365		
INTEREST CHARGES FROM BANKS	-3,915,858	-2,308,181		
INTEREST CHARGES FROM OTHERS	-303,511	-455,541		
BANK COMMISSIONS AND CHARGES	-71,378	-83,049		
DIFFERENCE ON HEDGING OPERATIONS	0	-17,171		
EXCHANGE LOSSES	-4,082,754	-5,714,733		
- OTHER INTEREST CHARGES	-8,373,501	-8,578,675		
17) INTEREST AND OTHER FINANCIAL CHARGES			-11,205,443	-11,877,040
FINANCIAL INCOME AND CHARGES			2,456,082	-3,190,829

ITEM 12: NOTES TO THE FINANCIAL STATEMENTS

The balance of income from participating interests relates to dividends paid by Siap on 24 September 2003 and the related tax credit.

Overall, net financial charges totalled Euro 5.175m, versus Euro 3.191m of FY 2002. If we exclude exchange gains and losses (which in FY 2003 gave a net loss of Euro 0.028m, versus a net gain of Euro 0.816m in FY 2002) and income from participating interests, net financial charges amounted to Euro 5.147m, versus Euro 4.007m of FY 2002.

They were equal to 1.88% of sales, versus 1.47% of FY 2002.

The line 'Difference on hedging operations' shows the total of differences between the spot and forward values recorded on both swaps closed as at 31 December 2003 and contracts outstanding at that date, for the portion accruing to that date.

ANALYSIS OF THE INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003
HEADING D - ADJUSTMENT TO THE VALUE OF FINANCIAL ASSETS

	subtotals current year	subtotals prior year	FY 2003	FY 2002
18) REVALUATIONS				
A) OF EQUITY INTERESTS				
B) OF OTHER INVESTMENTS				
C) OF SECURITIES RECORDED AS CURRENT ASSETS				
18) REVALUATIONS				
19) WRITE-DOWNS				
A) OF EQUITY INTERESTS	2,453,113	16,484,002		
B) OF OTHER INVESTMENTS				
C) OF SECURITIES RECORDED AS CURRENT ASSETS				
19) WRITE-DOWNS			2,453,113	16,484,002
ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS			2,453,113	16,484,002

Write-downs of equity interests, equal to Euro 2.453m, as illustrated further above, relate to the following entities:

- Carraro International S.A. for an amount of Euro 2.446m;
- Elcon Elettronica S.r.l. for an amount of Euro 0.007m.

ANALYSIS OF THE INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003
HEADING E - EXTRAORDINARY INCOME AND EXPENSES

	subtotals current year	subtotals prior year	FY 2003	FY 2002
<u>20) EXTRAORDINARY INCOME AND GAINS ON DISPOSAL</u>				
EXTRAORDINARY INCOME	35,732	1,030,240		
OTHER INCOME	73,737	57,029		
- OTHER EXTRAORDINARY INCOME	109,469	1,087,269		
- GAINS ON EXTRAORDINARY ASSET DISPOSALS	14,465	737,332		
20) EXTRAORDINARY INCOME AND GAINS ON DISPOSAL			123,934	1,824,601
<u>21) EXTRAORDINARY EXPENSES AND LOSSES ON DISPOSAL</u>				
EXTRAORDINARY EXPENSES	-196,249	-335,002		
OTHER EXPENSES	-31,256	-236,839		
- OTHER EXTRAORDINARY EXPENSES	-227,505	-571,841		
- TAXES OF PRIOR PERIODS	-18,494	-417,052		
21) EXTRAORDINARY EXPENSES AND LOSSES ON DISPOSAL			-245,999	-988,893
EXTRAORDINARY INCOME AND EXPENSES			-122,065	835,708

ITEM 13: NOTES TO THE FINANCIAL STATEMENTS

The balance of extraordinary income and expenses gave net extraordinary expenses of Euro 0.122m and relates to later income from suppliers and customers as well as minor adjustments to be considered ordinary in relation to the volume of business.

In FY 2002 the Company recorded significant extraordinary income both due to adjustments to tax and other provisions and to the gain on the sale of the business of the former Trenton manufacturing site.

ITEM 14: NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2003
INCOME TAX FOR THE PERIOD

	subtotals current year	subtotals prior year	FY 2003	FY 2002
IRPEG	1,885,281	193,620		
IRAP	2,193,173	2,302,543		
DEFERRED TAXES	1,451,141	2,863,373		
22) INCOME TAX FOR THE PERIOD			5,529,595	5,359,536

ITEM 14: NOTES TO THE FINANCIAL STATEMENTS

Income tax for the period has been provided at the rates established by fiscal legislation, in particular Euro 1.89m for IRPEG, corporation tax and Euro 2.19m for IRAP, trade income tax.

Moreover, net deferred tax liabilities have been provided, for an amount of Euro 1.45m, for temporary differences between taxable income and the pre-tax result of operations as per the statutory financial statements.

The main temporary differences that involved accounting for deferred tax liabilities (and assets) are:

- write-downs of equity interests deductible in future periods;
- adjustments to taxed provisions accounted for (provision for restructuring, provision for obsolescence, provision for bad debts, product warranty provision)
- utilisation from the reserve from accelerated depreciation of the portion for the period.

We point out that the income statement does not include value adjustments or accruals posted solely for fiscal purposes.

These financial statements, comprising the balance sheet, the income statement and the notes thereto, present fairly the financial position as at 31 December 2003 and the result of operations for the year then ended and correspond to the accounting records.

THE CHAIRMAN

(Mario Carraro)

CARRARO S.p.A.**LIST OF EQUITY INTERESTS EXCEEDING 10% AS AT 31 DECEMBER 2003** (as per article 126 of Reg. Draghi CONSOB Resolution No. 11971/99)**1) DIRECTLY OWNED**

Legal name	Registered office	Capital stock		Total number of shares/quotas	Number of shares/quotas owned	Total number of voting rights	Number of voting rights held	Net equity as at 31 Dec. 2003 (Euro equivalent) as per Legislative decree No. 127/91	Profit/(Loss) for FY 2003 (Euro equivalent) as per Legislative decree No. 127/91	% held as at 31 Dec. 2003	Carrying value of equity interest (Euro)
		currency	amount								
SIAP SPA	MANIAGO (PN)	EUR	10,122,616	10,122,616	10,122,616	10,122,616	10,122,161	19,134,967	833,949	100.00%	11,747,161
CARRARO DEUTSCHLAND GmbH	HATTINGEN (GERMANY)	EUR	10,507,048	1	1	1	1	8,871,641	(21,455)	100.00%	8,893,090
CARRARO INDIA Ltd.	PUNE (INDIA)	INR	400,000,000	40,000,000	20,400,000	40,000,000	20,400,000	1,972,300	141,025	51.00%	2,833,000
CARRARO ARGENTINA S.A.	HAEDO (ARGENTINA)	ARS	25,809,288	25,809,288	24,234,922	25,809,288	24,234,922	17,047,716	1,884,319	93.90%	19,221,840
CARRARO INTERNATIONAL S.A.	LUXEMBOURG	EUR	9,850,000	9,850	9,849	9,850	9,849	5,256,800	(2,445,816)	99.99%	5,271,790
F.O.N. S.A.	RADOMSKO (POLAND)	PLN	7,058,220	705,822	598,452	901,214	793,844	1,285,631	5,225	84.79%	1,270,000
A.E. S.r.l.	CASTELLO D'ARGILE (BO)	EUR	10,000	10,000	9,000	10,000	9,000	10,000	(1,345,034)	90.00%	9,000
AGRITALIA SPA	ROVIGO	EUR	6,680,648	12,847,400	4,282,467	12,847,400	4,282,467	5,946,011	(734,638)	33.33%	2,830,933
ELCON ELETTRONICA S.r.l. (*)	TRIESTE	EUR	50,000	50,000	12,450	50,000	12,450	62,182	12,181	24.90%	12,450

2) INDIRECTLY OWNED

Legal name	Registered office	Owned through (direct parent)	Capital stock		Total number of shares/ quotas	Number of shares/ quotas owned	Total number of voting rights	Number of voting rights held	Net equity as at 31 Dec. 2003 (Euro equivalent) as per Legislative decree No. 127/91	Profit/(Loss) for FY 2003 (Euro equivalent) as per Legislative decree No. 127/91	% held as at 31 Dec. 2003	Carrying value of equity interest (Euro)
			currency	amount								
STM S.r.l.	MANIAGO (PN)	SIAP S.p.A.	EUR	1,549,080	1,549,080	774,540	1,549,080	774,540	4,966,794	(188,209)	50.00%	769,263
O&K Antriebstechnik & Co. GmbH KG	HATTINGEN (D)	CARRARO DEUTSCHLAND GmbH	EUR	2,045,168	1	1	1	1	3,568,430	528,115	100.00%	8,040,315
CARRARO KOREA Ltd.	ULSAN (KOREA)	CARRARO INTERNATIONAL S.A.	KW	3,000,000,000	600,000	600,000	600,000	600,000	606,518	(1,019,620)	100.00%	823,349
CARRARO NORTH AMERICA Inc.	CALHOUN (GA - U.S.A.)	CARRARO INTERNATIONAL S.A.	USD	100	100	100	100	100	4,683,258	(1,084,617)	100.00%	5,728,212
CARRARO PNH COMPONENTS INDIA Ltd.	MUMBAY (INDIA)	CARRARO INDIA Ltd.	INR	10,000,200	1,000,020	1,000,000	1,000,020	1,000,000	169,829	-	99.99%	173,665
TURBO GEARS INDIA Ltd.	MUMBAY (INDIA)	CARRARO INDIA Ltd.	INR	20,000,200	2,000,020	2,000,000	2,000,020	2,000,000	342,117	-	99.99%	347,381

NOTE: The net equity and result o operations of foreign entities shown above have been translated, respectively, at the exchange rate of 31 December 2003 and at the average exchange rate of the year 2003.

**APPENDIX TO THE NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2003**

**EMOLUMENTS PAID TO DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS
as per Legislative Decree No. 58 of 24 February 1998 - article 78 of CONSOB Resolution No. 12475 of 6 April 2000 – Appendix 3C –
Form 1**

Last and first name	DESCRIPTION OF OFFICE			EMOLUMENTS
	Entity	Job title	Term in office	Euro/000 Year 2003
Carraro Mario	Carraro S.p.A.	Chairman and Managing Director	2003-2005 (appointed at AGM of 14 May 2003)	647.0
	Siap S.p.A.	Chairman and Managing Director	2003-2005 (appointed at AGM of 29 May 2003)	30.0
Gabriele Del Torchio	Carraro S.p.A.	Managing Director	2003-2005 (appointed at AGM of 14 May 2003)	431.8
	Siap S.p.A.	Managing Director	2003-2005 (appointed at AGM of 29 May 2003)	60.0
Carraro Francesco	Carraro S.p.A.	Member of the Board	2003-2005 (appointed at AGM of 14 May 2003)	26.0
Carraro Enrico	Carraro S.p.A.	Member of the Board	2003-2005 (appointed at AGM of 14 May 2003)	52.0
Carraro Tomaso	Carraro S.p.A.	Member of the Board	2003-2005 (appointed at AGM of 14 May 2003)	230.0
	Siap S.p.A.	Member of the Board	2003-2005 (appointed at AGM of 14 May 2003)	20.0
Tonin Onofrio	Carraro S.p.A.	Member of the Board	2003-2005 (appointed at AGM of 14 May 2003)	52.0
Ceola Antonio	Carraro S.p.A.	Member of the Board	2003-2005 (appointed at AGM of 14 May 2003)	26.0
Brunetti Giorgio	Carraro S.p.A.	Member of the Board	2003-2005 (appointed at AGM of 14 May 2003)	26.0
Erede Sergio	Carraro S.p.A.	Member of the Board	2003-2005 (appointed at AGM of 14 May 2003)	26.0
Cortellazzo Antonio	Carraro S.p.A.	President of Board of statutory auditors	2003-2005 (appointed at AGM of 14 May 2003)	22.5
Secchieri Francesco	Carraro S.p.A.	Statutory auditor	2003-2005 (appointed at AGM of 14 May 2003)	15.0
	Siap S.p.A.	Statutory auditor	2003-2005 (appointed at AGM of 29 May 2003)	8.4
Lotto Renzo	Carraro S.p.A.	Statutory auditor	2003-2005 (appointed at AGM of 14 May 2003)	8.7
Fontana Aldo	Carraro S.p.A.	Statutory auditor	appointed at AGM of 14 June 2000, in office until 14 May 2003	4.9
Votta Tiziana	Carraro S.p.A.	General manager	in office since 27 January 1997	312.1

DISCLOSURE CONCERNING RELATED PARTIES (pursuant to CONSOB communication DEM/2064231 of 30 September 2002)

During 2003 the following amounts were paid to parties related to the members of the Company's boards:
(Euro/000)

Studio Bonelli, Erede, Pappalardo	460
Studio Mocellini	70

**AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW
DECREE N° 58 DATED 24 FEBRUARY 1998**

To the Shareholders of
Carraro SpA

- 1 We have audited the financial statements of Carraro SpA as of December 31, 2003. These financial statements are the responsibility of the directors of Carraro SpA. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB (the Italian Regulatory Commission for Companies and the Stock Exchange). Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to our report dated April 22, 2003.

- 3 In our opinion, the financial statements of the Carraro SpA as of December 31, 2003 comply with the laws governing the criteria for their preparation; accordingly, they give a true and fair view of the financial position and of the results of operations of the company.

Padua, April 20, 2004

PricewaterhouseCoopers SpA

Signed by Nicola Piovan
(Partner)

This report has been translated into the English language solely for the convenience of international readers.