

CARRARO S.p.A.

Registered offices in Via Olmo 37, Campodarsego, Padua, Italy
Share capital Euro 21,840,000 fully paid in
Tax Code, VAT No. and enrolment
in the Padua Companies' Register under No. 00202040283
Padua Economic and Administrative Roster No. 84.033

STATUTORY FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004

REPORT ON OPERATIONS

Shareholders,

The Parent Company generated sales revenues of Euro 355.802 million, up by 29% when compared with the Euro 275.896 million as of 31 December 2003. This increase was mainly due to the greater volumes of traditional axles (+ 32.39%) and the additional volumes of drivelines (+ 51.21%), in both cases in the industrial segment.

Exports weighed in for 84.9% compared with 81.1% as of 31 December 2003. The areas where the majority of sales went were: the U.S.A. with 29.6% (24.2% as of 31 December 2003) and the European Union (Italy excluded) with 41.3% (41% as of 31 December 2003).

The operating margin (EBIT) in absolute value increased 20.1% taking the balance to Euro 16.761 million as against Euro 13.959 million in the previous year, whilst it fell in percentage terms of sales revenues to 4.71% compared with 5.06% last year.

The reasons behind this decrease lie on the one hand in the higher transport costs caused by the sudden increase in volumes which during the first part of the year caught several suppliers unawares and on the other hand in the noted and unusual rise in raw material costs, phenomena only partly offset by means of the increase in sales prices, the recharging of the additional logistics costs to suppliers and with the containment of the general costs which dropped as a percentage of sales revenues from 9.7% last year to 8.9% as of 31 December 2004.

Financial expense net of exchange differences and hedging costs amounted to Euro 3.724 million (1.05% of sales revenues), down with respect to the figure of Euro 5.280 million (1.91% of sales revenues) in the previous year.

During 2004, the Parent Company generated income as a result of dividends distributed by the subsidiary SIAP S.p.A. for Euro 4.000 million (Euro 7.631 million as of 31 December 2003).

Following the negative result of the subsidiary Carraro International, deriving from the losses carried forward by the subsidiaries Carraro North America and Carraro Korea, steps were taken to write down the book value of the Luxembourg company in which an investment is held by Euro 2.311 million,

thereby aligning it to the equity value of the same. Furthermore, following the losses disclosed by the associated company Agritalia Spa, which reduced the shareholders' equity of the same to a negative value, steps were taken to write-off the equity investment for Euro 2.831 without providing further provisions in consideration of the waiver by Carraro S.p.A. of participating in the reinstatement of the share capital. As far as the plans anticipated for Agritalia S.p.A. are concerned, to be realized during 2005, reference should be made to the matters indicated in the section concerning subsequent events after year end. Including the provisions of Euro 700 thousand for costs relating to the winding-up of the Korean company, total extraordinary expense as of 31 December 2004 therefore came to Euro 5.842 million (Euro 2.453 million as of 31 December 2003).

After the afore-mentioned items and current and deferred taxation for a total of Euro 4.514 million, the 2004 accounting period closed with net income of Euro 6.276 million, compared with income of Euro 8.310 million as of 31 December 2003.

Amortization and depreciation of Euro 9.921 million were down with respect to the balance of Euro 10.636 million as of 31 December 2003.

This generated a cash-flow of Euro 16.197 as against Euro 18.946 million as of 31 December 2003.

Gross investments during 2004 amounted to Euro 6.063 million compared with Euro 9.996 million at the end of 2003, and mainly concerned the purchase of machinery for modernizing the production lines.

The satisfactory generation of cash subsequent to the drop in working capital and a limited level of investments improved the net financial position with borrowing of Euro 43.118 million Vs. Euro 44.236 million as of 30 June 2004 (Euro 58,945 million as of 31 December 2003).

Staff on the payroll as of 31 December 2004, including temporary staff, came to 913 individuals, 910 as of 30 June 2004 (844 as of 31 December 2003).

BUSINESS SECTOR ANALYSIS

Sales

In detail by product line, sales of traditional off-highway axles increased by 32.4%, thanks to the start-up of production on new projects for important customers and to the positive trend of the market on which the Company operates. Sales of axles for light vehicles and trucks rose 30.4%, thanks to the introduction of new projects and the growth of the lifting truck market. Sales of cam phaser transformers fell by 29.9%, having been affected by the negative performance of the car industry in Italy. sales of friction clutches were down 24.2%, a product line subject to analysis and redefinition.

Mention should be made of the favourable performance of sales of agricultural and industrial drivelines, which rose respectively by 373.8% and 51.2%, thanks to the pick-up on the reference markets and the start of production on new projects.

The satisfactory results of spare part sales was significant, disclosing an increase of 30.7%.

Sales in the various divisions and the product lines are analyzed in detail in the following tables:

Breakdown of sales by product line (in thousands of Euro)

<i>Product line</i>	<i>31.12.2004</i>	<i>31.12.2003</i>	<i>Δ % 31.12.'04 31.12.'03</i>
Traditional axles	233,028	176,015	+32.4%
Light vehicle axles and undercarriages	28,258	21,675	+30.4%
AG Drivelines	3,975	839	+373.8%
CE Drivelines	29,703	19,643	+51.2%
Cam phaser transformers	3,288	4,690	-29.9%
Friction clutches	906	1,195	-24.2%
Spare parts	27,039	20,689	+30.7%
Sundry	29,605	31,150	-5.0%
TOTAL	355,802	275,896	+29.0%

Breakdown of sales by product line (%)

<i>Product line</i>	<i>31.12.2004 %</i>	<i>31.12.2003 %</i>
Traditional axles	65.5%	63.8%
Light vehicle axles and undercarriages	8.0%	7.9%
AG Drivelines	1.1%	0.3%
CE Drivelines	8.3%	7.1%
Cam phaser transformers	0.9%	1.7%
Friction clutches	0.3%	0.4%
Spare parts	7.6%	7.5%
Sundry	8.3%	11.3%

Headcount

Employees in service as of 31 December 2004 (short-term contracts and temporary employment contracts) amounted to 913 units (distributed among the works and the units: Campodarsego 737; Gorizia 159 and Rovigo 17); of these, 643 are represented by blue-collar workers compared with 844 units

(Campodarsego 673 and Gorizia 171) as of 31 December 2003 (of which 591 blue-collar workers).

The contained increase in employee resources was achieved so as to support the additional demand, using employment formats which permitted and continue to permit maximum flexibility with regards to their use.

During 2004, in-depth activities for detecting the most significant job profiles at Headquarters were also carried out, involving an important number of positions. This was a consequence of the new organizational structure and was a preparatory step towards the mapping of the skills, a objective for 2005.

Research and Innovation

The year 2004 marked the formation of a new division entitled “Group Engineering”.

The strategic object is that the Carraro Group should be increasingly perceived as a partner capable of flanking the range of components with that of more advanced and functionally integrated sub-systems and systems, where mechanics, electronics and hydraulics, combined together, render the product highly technological, competitive and even more exclusive.

The decision derives from the need to manage and co-ordinate the product development activities of the entire Group in synergy with Agritalia as well, with a view to greater integration between the different skills on the product lines (axles, drivelines, drives and vehicles). Within this context, the Group is currently making a significant effort in terms of investments for enhancing the engineering area. Within the “Group Engineering” division, a new department “Systems and new Technologies” will have the purpose of overseeing the most advanced technologies in the areas of automation, both in the electronics and hydraulics sector, and of furthering the adoption in-house of a systemic approach towards the development of the products.

Within the complex process for reorganizing the engineering area, there are also another two innovations which are equally important to mention.

The first concerns the “Program Management” department, which is brought to Group level which the precise intention of furthering the adoption of product development methods and processes which are standard within all the companies, consistent with the general strategy and capable of raising the quality standard of the new products.

The second directly involves the Prototypes and Validation department, with the aim of permitting an increasingly far-reaching and tangible approach towards virtual prototyping and the ability to develop and test sub-systems and systems which are technologically varied.

All the product platforms (axles, drivelines, drives) will benefit from these developments starting off from the consolidation of the axles sector (supersteering, integrated suspension systems, etc.) to that which is potentially extremely promising relating to automatic and continual variation drivelines, and the drives sector which is undergoing considerable growth.

This decisive boost to innovation will contribute towards strengthening the identity of the Carraro Group combining advanced industrial policies with a growth strategy directed at positioning itself and making itself perceived as a preferential partner for the definition of new solutions and as an industrial entity capable of exercising increasingly wider options within a macro-economic

context where strategic flexibility is a fundamental value for the success over time of a business.

SIGNIFICANT EVENTS IN 2004

The year 2004 represents the first stage of full application of the renewal action established by means of the strategic plan launched at the end of 2003, and the new records disclosed by the financial statement figures provide confirmation of the validity of the choices and the management lines adopted.

Shareholders' are reminded of the priorities with regards to action taken:

- consolidation of the leadership position on traditional markets and growth in new geographic areas and in new segments;
- the manufacturing re-organization plan, involving the focusing of the plants, the utilization of the companies in Argentina, India, Poland, the outsourcing of the activities with a low added value;
- the consequent improved absorption of the fixed industrial costs;
- the endeavour with regards to Sourcing activities on global markets;
- the efficiency and efficacy of the internal processes as a pre-requisite for an improved customer service and for the lowering of the overheads;
- the renewed emphasis on product innovation;

During the year, the effects of certain macroeconomic phenomenon were registered, the timing and extent of which could not be predicted: the heavy growth in demand, especially in North America, the sharpening of the weakness of the US dollar and the tension with regards to prices of purchase components. Such phenomena required the Group to make further endeavours, aimed in one case at promptly seizing the growth opportunities, and in another case, at avoiding the risk of a drop in profitability.

In both cases the existence of a long-term plan has permitted the Group to react, accelerating in a direction already identified.

Despite the fact that the increase in sales volumes was not expected and planned to such an extent, the performance of the factories was promptly adapted expanding the manufacturing capacity of the plants by means of extraordinary action and measures and impressing the location processes already anticipated by means of the strategic plan at the various sites worldwide with acceleration, with a view to an increasingly more tangible contribution towards the growth plan, rendering the competitive opportunities for which they have been created real.

The international macroeconomic scenario during 2004 saw a heavy inflation of raw materials prices, in particular cast iron and steel, reflected immediately in the costs for purchases of semi-finished products, and the persistence and the emphasis of the extreme weakness of the US dollar, which from January 2003 fell in value by 30%. Factors which have required the adoption of rapid action targeted at containing the negative effects on the Group's competitiveness and profitability.

The anomalous and unusual trend in the increase in raw materials' costs was stemmed with regards to purchases by means of the constant search for global sourcing synergies.

With regards to the US dollar, the efficient policy of "exchange risk hedging",

the negotiation according to contract with the North American customers and the manufacturing localization in Argentina of a significant percentage of the axles intended for the North and South American area (dollar zone) have made it possible to maintain profitability, whose recovery is however due mainly to the ability to absorb fixed costs consequent to a rise in the same which was much less in proportion to the increase in sales revenues.

SHARE PERFORMANCE

As from the start of the year, Carraro stock reported an increase of 47% closing as of 30 December with an official price of Euro 3.60, compared with the listed price as of 2 January 2004 which came to Euro 2.455. The average official price reported by the stock during 2004 came to Euro 3.04. From as early as the first few months of the year, the stock disclosed an upwards trend reporting an initial maximum as of 28 June at Euro 3.12 in order to proceed, reinforcing its growth, until it reached a maximum for the year on 8 October with Euro 3.70. During the first quarter of 2005, the listed prices maintained an upwards performance, reaching a new maximum on 7 March 2005 of Euro 4.435.

PERFORMANCE AND FORECASTS FOR 2005

By way of concluding the report for the 2004 accounting period, whose data is more fully analyzed in the explanatory notes, as usual we have considered it useful to make several comments on the performance so far during 2005.

During the first few months of 2005, the various markets on which the Company operates disclosed a positive trend, with volumes in line with 2004. In particular, the Construction equipment sector disclosed signs of growth in North America and a slight pick-up in Europe, linked to the widespread expectation of an improvement in the macroeconomic scenario. In the Asiatic area, after the exponential growth in sales reported in 2004 especially in China, further growth is expected in 2005, albeit slight.

The agricultural market is expected to maintain the 2004 levels, essentially stable in Europe and India, with further recovery in North America and possible slowdowns in South America, where during the previous year a decisive increase in sales of agricultural tractors was seen.

Within the sphere of these forecasts, backed up by the full application of supply agreements in particular with Caterpillar and Same Deutz-Fahr, sales forecasts for the Group disclose a period of further growth.

The implementation of the action supporting the strategies set forth in the plan will continue during 2005, with particular attention focused on the integration of the fifth Business Unit "Vehicles & powertrains" which will permit an extension of the corporate products portfolio including the range of complete powertrains and vehicles.

SUBSEQUENT EVENTS AFTER YEAR END

On 24 March, the Board of Directors approved the industrial project for the undertaking of the development, assembly and distribution activities for the agricultural tractors of Agritalia.

The formula chosen for the transaction is the business rental format; the salient features are as follows:

- The Business is inclusive of the tangible and intangible fixed assets and other assets, the amounts due to employees, the VAT plafond and the obligations and the contractual relationships and related rights pertaining to the activities for the development, assembly and distribution of agricultural tractors, as well as the distribution of commercial spare parts for said tractors;
- The rental will be effective as from 1 April 2005 and will have a duration of 3 years, which subsequently may be extended from year to year;
- By way of a fee for the rental of the business, Carraro will pay an annual charge calculated by an expert specifically appointed by the companies, taking into consideration the fact that Agritalia will continue to amortize/depreciate the assets making up the Business for the entire duration of the rental.
- Carraro will carry out the warranty service on the products which Agritalia has sold before the effective date of the rental, a service which will be invoiced by Carraro and reimbursed by Agritalia;
- Carraro will have the possibility to exercise the option for the purchase of the Business, inclusive or otherwise of the property, at a pre-established price;
- The Inventory will be sold separately at current market values.

The transaction has a highly strategic value, extremely precise objectives and a far-reaching plan of action.

The Group's strategic plan already anticipated a gradual extension of the supply sphere supporting the objective of positioning as a leading supplier of the "powertrain" system.

This may take place as a result of the full and optimum exploitation of skills within Carraro (drivelines) and Agritalia (skills as vehicle manufacturer and in ancillary systems).

The management of the former Agritalia business will be absorbed within the Group, in a new business unit, entitled "Vehicles & powertrains", which places itself directly under the CEO of the Carraro Group taking advantage of the contribution of the service structures and the Group skill centres.

More specifically, the mission of the new Business Unit "Vehicles & powertrains"- a range of special vehicles, based on the Carraro driveline and conceived and realized under co-design activities or as "turnkey" projects – aims to consolidate a privileged relationship with the OEMs, operating on the agricultural market who are all mutual customers of Carraro and Agritalia.

Since the Group's performance is judged by the latter in its entirety, it is in the fundamental interests of Carraro S.p.A. to check the efficacy and the timescales

of the product development activities, the competitiveness of the range and all the most significant performance drivers.

The Group expects a substantial improvement in the performance within this area of business from the direct intervention of the skill centres common to the Group and from the consequent adoption of the best practices throughout the entire value chain, in particular in the areas of design, purchasing, production, quality and logistics; specifically this improvement concerns:

- an increase in the volume of sales, a function of the renewed credibility as global high added value supplier and thanks to the greater control and flexibility during the offer stage;
- a reduction in product costs, thanks to the identification of optimum designs, the support of the central Global Sourcing division and the recovery of efficiency guaranteed by the transfer within Agritalia of methods and techniques satisfactorily consolidated within Carraro S.p.A.,
- the sharing of the skill and service centres which will be necessary in conclusion for a considerable reduction in general expenses and co-ordination and control costs.

OTHER INFORMATION

Carraro S.p.A. does not hold any own shares or interests in the Parent Company Finaid S.r.l. either via holding companies or third parties, and it has not carried out any transactions during the year on said shares or interests.

Shareholders are informed that infraGroup transactions refer to trade, financial and consultancy dealings, and have been carried out applying normal market conditions in the economic interests of each company involved.

As far as aspects concerning the protection of privacy are concerned, as anticipated in attachment b) to Italian Legislative Decree No. 196/2003, shareholders are informed that the company will take steps to draw up the Programmatic Security Document, updated in accordance with the new legislation, within the legal time limits.

With reference to the process for transition to the international accounting standards (IFRS), the Company is currently launching a project while also availing itself of the support of specific consultants with the aim of drawing up the consolidated financial statements as from the 2005 accounting period. This project anticipates the analysis of the relevant economic and financial phenomena, and the identification of the amendments to be made to the accounting procedures and the processes for representing the financial information.

In accordance with Italian Legislative Decree No. 58/98, the list of equity investments - held in Carraro S.p.A. and in its subsidiary companies by the directors, statutory auditors and general managers as well as by spouses not legally separated and dependent children, directly or via subsidiary companies, trust companies or third parties, emerging from the shareholders' register, from disclosures received and from other information acquired from said directors, statutory auditors and general managers – has been attached to this report.

The following individuals are considered to be independent board members of Carraro S.p.A.:

Giorgio Brunetti - Director

Sergio Erede - Director

For a complete analysis of the balances relating to the balance sheet and income statement for the period ended 31 December 2004, reference should be made to the explanatory notes to the financial statements, which have been drawn up in accordance with the matters set forth by current legislation.

As far as the draft financial statements subject to approval today are concerned, shareholders are reminded that the matters laid down by Italian Legislative Decree No. 6 dated 17 January 2003, containing the reform on company law, have been acknowledged.

The contents of the balance sheet and income statement have been drawn up in compliance with Articles 2424 and 2425 of the Italian Civil Code, reclassifying the balances of the previous year's items, when necessary, in order to render them comparable with those of the accounting period under review.

Said Decree has rescinded the section of Article 2426 of the Italian Civil Code which made it possible to make value adjustments and provisions solely for tax purposes.

The Company, availing itself of the possibility of deducting accelerated depreciation for tax purposes, had in previous years formed a specific reserve established by means of the allocation of part of the net income for the year (method recommended by national accounting standard No. 25).

Albeit in the absence of effects on the income statement, this solution had however led to tax interference in the financial statements. So as to assimilate the new legislation, the reserve for accelerated depreciation has been reclassified among the unrestricted reserves so as to eliminate all reference to its origin of a tax nature.

Shareholders,

The financial statements as of 31 December 2004, which we invite you to approve as presented, closed with net income of Euro 6,275,805, which we propose be allocated as follows:

- Euro 313,790, equating to 5%, to the legal reserve;
- Euro 5,250,000 , to the dividends to be distributed to the shareholders to the extent of Euro 0.125 per share held;
- Euro 712,015, to the extraordinary reserve

The Chairman

(Mario Carraro)

CARRARO S.p.A.
FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004

ATTACHMENT (A) TO THE REPORT ON OPERATIONS

EQUITY INVESTMENTS HELD BY DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS
Italian Legislative Decree No. 58 dated 24 January 1998 - Article 79 of Consob Resolution No. 12475 dated 6 April
2000 - Attachment 3C

Name and surname	Company in which investment held Carraro S.p.A.	No. of shares held as of 31 Dec. 2003	No. of shares purchased	No. of shares sold	No. of shares held as of 31 Dec. 2004
Mario Carraro	Directly held	1,887,755	0	208,105	1,679,650
	Held via Finaid S.r.l.	19,951,900	1,048,105	0	21,000,005
Francesco Carraro	Directly held	1,182,395	0	0	1,182,395
Chiara Alessandri	Directly held	20,000	0	0	20,000
Onofrio Tonin	Directly held	5,000	0	2,500	2,500

ATTACHMENT (B) TO THE REPORT ON OPERATIONS

TRANSACTIONS OF THE PARENT COMPANY CARRARO S.p.A. WITH RELATED PARTIES as of 31 December 2004

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

(EURO '000s)

Financial and operating transactions

Economic transactions

FINANCIAL RECEIVABLES	FINANCIAL PAYABLES	TRADE AND OTHER RECEIVABLES	TRADE AND OTHER PAYABLES	SALES OF COMPONENTS, PRODUCTS AND SPARE PARTS	INDUSTRIAL SERVICES	SALES OF OTHER SERVICES AND SUNDRY CHARGES	COMMISSION AND ROYALTIES RECEIVABLE	INTEREST INCOME	PURCHASES OF PLANT, MACHINERY AND EQUIPMENT	PURCHASES OF COMPONENTS, PRODUCTS AND SPARE PARTS	PURCHASES OF INDUSTRIAL SERVICES	PURCHASES OF OTHER SERVICES AND SUNDRY CHARGES	COMMISSION AND ROYALTIES PAYABLE	INTEREST EXPENSE
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Subsidiary Companies

SIAP S.p.A.	851		4,401	13,318	78		182		778		40,265	25	22	
Carraro Deutschland GmbH														
Carraro India Ltd.			5,205	1,874	2,087		33	587			4,699	40		
Carraro Argentina S.A.			6,027	1,233	11,106		114				5,382			
Carraro International S.A.		55,000	1				1							2,382
F.O.N. S.A.			651	437	147		40	4			2,674		1	
O&K Antriebstechnik GmbH			1,957	182	3		70				131	1		
Carraro North America Inc.			1,876	700	3		7						1,097	
Carraro Korea Ltd.			2,384	8			15							
A.E. S.r.l.	2,050		355	88	255			37			97			

Associated companies

Agritalia S.p.A.			3,417	51	8,233	2	531				129	155	129	
Stm S.r.l.			6	81			21				194			
Elcon Elettronica S.r.l.	84		59	159				2			200			

Other related parties

Fonderie del Montello S.p.A.	1,033		25	8,017			119	31	728	24,578	5			
Maus S.p.A.			21	512			49		285	55	13			
Meccanica del Piave S.p.A.			383	487	723		29			1,661	279	5		
European Power System S.r.l.			1								2			

Notes:

1. Financial transactions

Financial transactions refer to short and long-term loans. The financial payable of Euro 55 Million represents the bond issued by Carraro S.p.A. which was fully subscribed by Carraro International S.A..

2. Economic transactions

The most significant economic transactions represent trade transactions for the purchase and sale of raw materials, semi-finished products and componentry technology for the production of systems for auto-traction; the purchases of services refer mainly to services for industrial processing. Purchases from Maus S.p.A. relate to the supply of specific machine tools and the related spare parts and accessories.

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

Interest income is generated by outstanding loans; interest expense is generated by the afore-mentioned bond issue.

CARRARO SPA
 VIA OLMO , 37
 35011 CAMPODARSEGO (Padua)
 SHARE CAPITAL EURO 21,840,000 FULLY PAID-IN
 Tax Code, VAT No. and enrolment
 in the PADUA Companies' Register No. 00202040283 – Administrative and Economic
 Roster No. 84.033

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004 – CARRARO S.p.A.

Shareholders,

We submit for your approval the financial statements of Carraro S.p.A. as of 31 December 2004, comprising the balance sheet, the income statement and the explanatory notes, drawn up in accordance with the criteria anticipated by current statutory legislation.

BALANCE SHEET AS OF 31 DECEMBER 2004

	Current year	Previous year
A) AMOUNTS DUE FROM SHAREHOLDERS		
B) FIXED ASSETS:		
<u>I. INTANGIBLE FIXED ASSETS</u>		
1) START-UP AND EXPANSION COSTS		
2) RESEARCH, DEVELOPMENT AND ADVERTISING COSTS	1,243,738	158,961
3) INDUSTRIAL PATENTS AND RIGHTS	241,764	193,395
4) CONCESSIONS, LICENCES AND TRADEMARKS	613,066	781,144
5) GOODWILL		
6) ASSETS IN PROCESS OF FORMATION AND ADVANCES	1,585,866	1,833,042
7) OTHER INTANGIBLE FIXED ASSETS	810,328	1,357,748
TOTAL INTANGIBLE FIXED ASSETS	4,494,762	4,324,290
<u>II. TANGIBLE FIXED ASSETS</u>		
1) LAND AND BUILDINGS	17,732,954	17,701,273
LESS ORDINARY ACCUMULATED DEPRECIATION	-6,493,214	-5,975,974
TOTAL LAND AND BUILDINGS	11,239,740	11,725,299
2) PLANT AND MACHINERY	53,685,054	57,826,874
LESS ORDINARY ACCUMULATED DEPRECIATION	-44,275,305	-45,501,134
TOTAL PLANT AND MACHINERY	9,409,749	12,325,740
3) INDUSTRIAL AND COMMERCIAL. EQUIPMENT	50,180,429	47,596,696
LESS ORDINARY ACCUMULATED DEPRECIATION	-43,989,799	-40,777,174
TOTAL INDUSTRIAL AND COMMERCIAL EQUIPMENT	6,190,630	6,819,522
4) OTHER TANGIBLE FIXED ASSETS	13,827,471	13,350,059
LESS ORDINARY ACCUMULATED DEPRECIATION	-12,301,787	-11,577,967
TOTAL OTHER TANGIBLE FIXED ASSETS	1,525,684	1,772,092
5) CONSTRUCTION IN PROGRESS AND ADVANCES	65,093	50,413
TOTAL TANGIBLE FIXED ASSETS	28,430,896	32,693,066
<u>III. FINANCIAL FIXED ASSETS</u>		
1) EQUITY INVESTMENTS		
A) SUBSIDIARIES	48,141,925	49,245,881

B) ASSOCIATED COMPANIES	12,450	2,843,383
C) PARENT COMPANIES		
D) OTHER COMPANIES	85,841	85,841
E) COMMITMENTS TO PURCHASE EQUITY INVESTMENTS		
TOTAL 1)	48,240,216	52,175,105
2) LONG-TERM RECEIVABLES:		
A) SUBSIDIARIES		
B) ASSOCIATED COMPANIES		
C) PARENT COMPANIES		
D) OTHER COMPANIES	1,032,914	1,032,914
BEYOND 12 MONTHS	332,195	509,801
TOTAL 2)	1,365,109	1,542,715
3) OTHER SECURITIES		
4) OWN SHARES		
TOTAL FINANCIAL FIXED ASSETS	49,605,325	53,717,820
TOTAL FIXED ASSETS B	82,530,983	90,735,176
C) CURRENT ASSETS		
<u>I. INVENTORIES</u>		
1) RAW, ANCILLARY AND CONSUMABLE MATERIALS.	22,771,089	18,303,971
2) WORK IN PROGRESS AND SEMI-FINISHED PRODUCTS	10,032,690	7,746,578
3) CONTRACT WORK IN PROGRESS		
4) FINISHED PRODUCTS AND GOODS FOR RESALE	9,975,381	8,030,830
5) ADVANCES		
6) GOODS IN TRANSIT	104,172	73,383
TOTAL INVENTORIES	42,883,332	34,154,762
<u>II. RECEIVABLES</u>		
1) TRADE ACCOUNTS	84,482,669	58,671,165
DUE FROM AFFILIATED COMPANIES	6,347	12,446
2) AMOUNTS DUE FROM SUBSIDIARIES	25,758,249	25,454,543
3) AMOUNTS DUE FROM ASSOCIATED COMPANIES	3,559,321	1,462,311
4) AMOUNTS DUE FROM PARENT COMPANIES		
4-bis) AMOUNTS DUE FROM THE TAX AUTHORITIES	6,888,295	2,776,500
4-ter) TAXES PAID IN ADVANCE	3,204,800	2,939,654
5) AMOUNTS DUE TO THIRD PARTIES WITHIN 12 MONTHS	568,307	1,788,443
BEYOND 12 MONTHS	54,397	152,219
TOTAL RECEIVABLES	124,522,385	93,257,281
<u>III. SHORT-TERM FINANCIAL ASSETS</u>		
1) INVESTMENTS IN SUBSIDIARIES		
2) INVESTMENTS IN ASSOCIATED COMPANIES		
3) INVESTMENTS IN PARENT COMPANIES		
4) OTHER EQUITY INVESTMENTS		
5) OWN SHARES		
6) OTHER SECURITIES	73,000	36,868,641
7) REPURCHASE AGREEMENTS ON SECURITIES		
TOTAL SHORT-TERM FINANCIAL ASSETS	73,000	36,868,641
<u>IV. LIQUID FUNDS</u>		
1) BANK AND POST OFFICE DEPOSITS	29,540,206	2,667,464
2) CHEQUES		
3) CASH AND EQUIVALENTS ON HAND	17,761	25,230

TOTAL LIQUID FUNDS	<u>29,557,967</u>	<u>2,692,694</u>
TOTAL CURRENT ASSETS C	197,036,684	166,973,378
D) ACCRUED INCOME AND PREPAID EXPENSES		
ACCRUED INCOME	7,530	79,674
PREPAID EXPENSES DUE WITHIN 12 MONTHS	402,602	348,866
BEYOND 12 MONTHS	<u>17,917</u>	<u>38,153</u>
TOTAL ACCRUED INCOME AND PREPAID EXPENSES D	428,049	466,693
TOTAL ASSETS	279,995,716	258,175,247

BALANCE SHEET AS OF 31 DECEMBER 2004

	Current year	Previous year
<u>A) SHAREHOLDERS' EQUITY</u>		
I. SHARE CAPITAL	21,840,000	21,840,000
II. SHARE PREMIUM RESERVE	17,833,456	14,284,972
III. REVALUATION RESERVE		
IV. LEGAL RESERVE	3,535,616	3,120,088
V. STATUTORY RESERVES		
VI. RESERVE FOR OWN SHARES IN PORTFOLIO		
EXTRAORDINARY RESERVES	3,547,200	272,166
RESERVE FOR ACCELERATED DEPRECIATION		3,548,484
VII. OTHER RESERVES	3,547,200	3,820,650
VIII. RETAINED EARNINGS (ACCUMULATED LOSSES)		
IX. NET INCOME (LOSS) FOR THE YEAR	6,275,805	8,310,562
TOTAL SHAREHOLDERS' EQUITY A	53,032,077	51,376,272
<u>B) PROVISIONS FOR RISKS AND CHARGES</u>		
1) PENSIONS		
2) TAXATION, INCLUDING DEFERRED	250,000	
3) OTHER PROVISIONS	5,260,433	4,340,000
TOTAL PROVISIONS FOR RISKS AND CHARGES B	5,510,433	4,340,000
<u>C) PROVISION FOR EMPLOYEE LEAVING INDEMNITIES</u>	10,844,136	11,059,017
<u>D) PAYABLES</u>		
1) BONDS	55,000,000	55,000,000
2) CONVERTIBLE BONDS		
3) AMOUNTS DUE TO SHAREHOLDERS FOR LOANS		
4) AMOUNTS DUE TO BANKS WITHIN 12 MONTHS	17,760,660	51,401,364
BEYOND 12 MONTHS	1,272,292	3,816,874
5) AMOUNTS DUE TO OTHER PROVIDERS OF FINANCE WITHIN 12 MONTHS	412,050	
6) ADVANCES	81,686	342,381
7) TRADE ACCOUNTS	103,415,552	57,574,476
DUE TO AFFILIATED COMPANIES	80,659	46,143
8) PAYABLES REPRESENTED BY CREDIT INSTRUMENTS DUE WITHIN 12 MONTHS		
9) AMOUNTS DUE TO SUBSIDIARIES	17,839,587	10,789,739
10) AMOUNTS DUE TO ASSOCIATED COMPANIES	210,397	111,590
11) AMOUNTS DUE TO PARENT COMPANIES	8,003	16,247
12) AMOUNTS DUE TO THE TAX AUTHORITIES WITHIN 12 MONTHS	3,968,472	1,348,433
13) AMOUNTS DUE TO SOCIAL SECURITY AND WELFARE INSTITUTIONS WITHIN 12 MONTHS	1,706,981	1,679,502
14) OTHER PAYABLES DUE WITHIN 12 MONTHS	5,685,357	4,135,751
BEYOND 12 MONTHS		103,291
TOTAL PAYABLES D	207,441,696	186,365,791
<u>E) ACCRUED EXPENSES AND DEFERRED INCOME</u>		
ACCRUED EXPENSES	3,000,699	5,032,398

DEFERRED INCOME DUE WITHIN 12 MONTHS	166,675	1,769
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME E	3,167,374	5,034,167
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	279,995,716	258,175,247

MEMORANDUM ACCOUNTS AS OF 31 DECEMBER 2004

	Current year	Previous year
A) RISKS		
SURETIES GIVEN ON BEHALF OF THIRD PARTIES	18,784,321	13,245,228
SECURITIES DEPOSITED IN GUARANTEE ON BEHALF OF THIRD PARTIES	0	0
TOTAL A) RISKS	18,784,321	13,245,228
B) COMMITMENTS		
COMMITMENTS TO PURCHASE EQUITY INVESTMENTS	0	1,112,345
OTHER COMMITMENTS	103,291	103,291
TOTAL B) COMMITMENTS	103,291	1,215,636
TOTAL RISKS AND COMMITMENTS	18,887,612	14,460,864
OTHER MEMORANDUM ACCOUNTS WHICH DO NOT REFLECT RISKS OR COMMITMENTS		
C) GUARANTEES RECEIVED FROM THIRD PARTIES		
SURETIES RECEIVED FROM THIRD PARTIES	1,032,914	1,898,922
TOTAL C) GUARANTEES RECEIVED FROM THIRD PARTIES	1,032,914	1,898,922
D) GUARANTEES ISSUED ON COMPANY'S BEHALF		
E) GUARANTEES ISSUED BY THIRD PARTIES ON COMPANY'S BEHALF		
SURETIES ISSUED BY THIRD PARTIES ON COMPANY'S BEHALF	15,472,491	23,138,903
TOTAL E) GUARANTEES ISSUED BY THIRD PARTIES ON COMPANY'S BEHALF	15,472,491	23,138,903
F) HEDGING TRANSACTIONS ON EXCHANGE AND INTEREST RATE RISKS		
FORWARD SWAP CONTRACTS ON CURRENCY	5,530,940	1,698,947
INTEREST RATE SWAP AGREEMENTS	0	55,000,000
FORWARD RATE AGREEMENTS	165,000,000	110,000,000
FOREIGN CURRENCY OPTIONS	54,481,941	60,307,093
TOTAL F) HEDGING TRANSACTIONS ON EXCHANGE AND INTEREST RATE SWAPS	225,012,881	227,006,040

INCOME STATEMENT AS OF 31 DECEMBER 2004

	Current year	Sub-total	Previous year	Sub-total	Current year	Previous year
<u>A) VALUE OF PRODUCTION</u>						
1) REVENUES FROM SALES AND SERVICES					355,802,092	275,896,233
2) CHANGE IN INVENTORIES OF WORK IN PROGRESS, SEMI-FINISHED AND FINISHED PRODUCTS					4,230,663	-1,980,198
3) CHANGES IN CONTRACT WORK IN PROGRESS						
4) INCREASES IN INTERNALLY-CONSTRUCTED FIXED ASSETS					800,777	481,375
5) OTHER REVENUES AND INCOME						
A) OTHER INCOME	2,766,711		2,854,793			
B) OPERATING GRANTS		16,514				
TOTAL 5)					<u>2,783,225</u>	<u>2,854,793</u>
TOTAL VALUE OF PRODUCTION A					363,616,757	277,252,203
<u>B) PRODUCTION COSTS</u>						
6) RAW, ANCILLARY AND CONSUMABLE MATERIALS					245,993,108	176,402,122
7) SERVICES					54,982,059	38,953,207
8) USE OF THIRD PARTY ASSETS					252,687	140,898
9) PAYROLL AND RELATED COSTS						
A) WAGES AND SALARIES	25,435,501		23,497,648			
B) SOCIAL SECURITY CONTRIBUTIONS	8,555,031		7,944,636			
C) EMPLOYEE LEAVING INDEMNITIES	1,967,801		1,899,156			
D) PENSIONS AND SIMILAR COMMITMENTS						
E) OTHER COSTS	796,322		621,853			
TOTAL 9)					36,754,655	33,963,293
10) AMORTIZATION, DEPRECIATION AND WRITEDOWNS						
A) AMORTIZATION OF INTANGIBLE FIXED ASSETS	1,563,270		1,580,457			
B) DEPRECIATION OF TANGIBLE FIXED ASSETS	8,357,900		9,056,413			
C) OTHER AMOUNTS WRITTEN-OFF FIXED ASSETS						
D) WRITEDOWN OF CURRENT RECEIVABLES AND OF LIQUID FUNDS						
TOTAL 10)					9,921,170	10,636,870
11) CHANGES IN INVENTORIES OF RAW, ANCILLARY AND CONSUMABLE MATERIALS					-4,467,118	-65,938
12) PROVISIONS FOR CONTINGENCIES					250,000	
13) OTHER PROVISIONS					2,515,000	2,758,430
14) OTHER OPERATING EXPENSE					<u>654,303</u>	<u>504,068</u>
TOTAL PRODUCTION COSTS B					<u>346,855,864</u>	<u>263,292,950</u>
DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION (A-B)					<u>16,760,893</u>	<u>13,959,253</u>
<u>C) FINANCIAL INCOME AND EXPENSE:</u>						
15) INCOME FROM EQUITY INVESTMENTS						
A) INCOME FROM SUBSIDIARIES	4,000,000		7,631,345			
B) INCOME FROM ASSOCIATED COMPANIES						
C) INCOME FROM PARENT COMPANIES						
D) INCOME FROM OTHER EQUITY INVESTMENTS						
TOTAL 15)					4,000,000	7,631,345
16) OTHER FINANCIAL INCOME						

A) FROM RECEIVABLES RECORDED AS FIXED ASSETS	11,159	18,307		
B) FROM SECURITIES RECORDED AS FIXED ASSETS				
C) FROM SECURITIES RECORDED AS CURRENT ASSETS	1,971	16,885		
D) INCOME OTHER THAN THE ABOVE				
FROM SUBSIDIARIES	819,432	1,004,128		
FROM ASSOCIATED COMPANIES	1,683	2,155		
FROM PARENT COMPANIES				
FROM AFFILIATED COMPANIES				
FROM THIRD PARTIES	540,280	934,355		
TOTAL D)	1,361,395	1,940,638		
TOTAL 16)			1,374,525	1,975,830
17) INTEREST AND OTHER FINANCIAL EXPENSE				
A) FROM SUBSIDIARIES	-2,682,698	-2,831,942		
B) FROM ASSOCIATED COMPANIES				
C) FROM PARENT COMPANIES				
D) FROM AFFILIATED COMPANIES				
E) FROM THIRD PARTIES	-2,394,086	-4,290,747		
TOTAL 17)			-5,076,784	-7,122,689
TOTAL 17-bis) EXCHANGE LOSSES AND GAINS			-152,010	-28,404
TOTAL FINANCIAL INCOME AND EXPENSE C			145,731	2,456,082

D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS

18) REVALUATIONS				
A) OF EQUITY INVESTMENTS				
B) OF FINANCIAL FIXED ASSETS				
C) OF SECURITIES HELD AS CURRENT ASSETS				
TOTAL 18)				
19) WRITEDOWNS				
A) OF EQUITY INVESTMENTS	-5,141,623	-2,453,113		
B) OF FINANCIAL FIXED ASSETS				
C) OF SECURITIES HELD AS CURRENT ASSETS				
TOTAL 19)			-5,141,623	-2,453,113
TOTAL VALUE ADJUSTMENTS D			-5,141,623	-2,453,113

E) EXTRAORDINARY INCOME AND EXPENSE

20) INCOME AND GAINS ON DISPOSALS				
A) OTHER INCOME	326,720	109,469		
B) INCOME FROM EXTRAORDINARY GAINS	78,815	14,465		
C) TAXATION RELATING TO PREVIOUS YEARS	1,211,231			
TOTAL 20)			1,616,766	123,934
21) EXPENSE AND LOSSES ON DISPOSALS				
A) OTHER EXPENSE	-1,393,075	-227,505		
B) EXTRAORDINARY LOSSES ON DISPOSALS				
C) TAXATION RELATING TO PREVIOUS YEARS	-1,198,922	-18,494		
TOTAL 21)			-2,591,997	-245,999
TOTAL EXTRAORDINARY ITEMS E			-975,231	-122,065
PRE-TAX RESULT (A-(B+C+D+E))			10,789,770	13,840,157
22) INCOME TAXES FOR THE YEAR (CURRENT, DEFERRED, PREPAID)			-4,513,965	-5,529,595
23) NET INCOME/(LOSS) FOR THE YEAR			6,275,805	8,310,562

<u>Net financial position</u> (in thousands of Euro)	31 Dec. 2004	31 Dec. 2003
Amounts due to banks:		
- due within 12 months	17,761	51,401
- due beyond 12 months	1,272	3,817
Amounts due to other providers of finance:		
- due within 12 months	412	-
- due beyond 12 months	-	-
Financial payables:		
- due to subsidiary, associated and parent companies:	-	-
Bonds:		
- due within 12 months	-	-
- due beyond 12 months	55,000	55,000
Payables represented by credit instruments;		
- due within 12 months	-	-
- due beyond 12 months	-	-
Financial accruals and deferrals	2,322	4,469
NET OF:		
Liquid funds	-29,558	-2,692
Securities	-73	-36.869
Loans receivable	-4,018	-16,181
Amounts due from factoring companies	-	-
- <u>Net financial position</u>	43,118	58,945
Leasing payables:		
- due within 12 months	-	-
- due beyond 12 months	-	-
- <u>Net financial position (including leasing)</u>	43,118	58,945

CASH FLOW STATEMENT (in thousands of Euro)	31 Dec. 2004		31 Dec. 2003	
NET FINANCIAL POSITION AT BEGINNING OF PERIOD		-58,945		-79,122
	ALLOCATION	SOURCES	ALLOCATION	SOURCES
Net income (loss) for the period		6,276		8,310
Depreciation of tangible fixed assets		8,358		9,056
Amortization of intangible fixed assets		1,563		1,580
Cash flow		16,197		18,946
<i>CURRENT OPERATING ACTIVITIES</i>				
Provision for employee leaving indemnities (TFR)		1,968		1,899
Utilization of provision for employee leaving indemnities (T.F.R.)	2,183		1,724	
Provision to risk reserves		2,765		2,758
Provision for deferred taxation				
Utilisation of provision for deferred taxation				
Utilization of risk reserves	895		2,538	
Change in inventories	8,728			1,993
Change in trade receivables	26,061			7,043
Change in amounts due from subsidiary, associated and parent companies	9,597		1,374	
Change in amounts due from third parties	3,393		845	
Change in amounts due from the tax authorities	4,111			1,973
Change in amounts due for prepaid taxes	265			1,451
Change in trade payables		49,183	7,479	
Change in amounts due to subsidiary, associated and parent companies		3,833		3,692
Change in amounts due to third parties		3,833		260
Change in leasing payables				
Change in non-financial accruals and deferrals		318		7
Current operating activities		6,667		7,116
Total current activities		22,864		26,062
<i>NON-CURRENT OPERATING ACTIVITIES</i>				
Provisions/Extraordinary expense	700		16	
Investment activities:				
- new investments	4,329		8,867	
- investments in intangible fixed assets	1,734		1,129	
- leasing				
- net change from disposals		233		1,363
Equity investments:				
- purchase/revaluation of equity investments	1,205		28	
- sale/writedown of equity investments		5,142		2,650
Personal income tax (IRPEF) advance on leaving indemnities (TFR)		178		142
Non-current operating activities	2,415		5,885	
<i>EQUITY OPERATIONS</i>				
Reserve for accelerated depreciation				
Other reserves				
Dividend payments	4,622			

NET FINANCIAL POSITION AT END OF PERIOD			-43,118		-58,945

ITEM 1 EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF 31
DECEMBER 2004
FORM AND CONTENT OF THE FINANCIAL STATEMENTS

ACCOUNTING POLICIES, PRINCIPLES AND BASIS OF PRESENTATION

The financial statements have been drawn up in observance of current legislation, maintaining the same accounting policies and the same accounting principles adopted in the previous year in order to ensure the consistency of the balances presented.

The accounting principles used are those applicable to going concerns, which the directors believe to be appropriate in light of the matters already illustrated in the report on operations.

These financial statements have been drawn up in Euro; the amounts in Euro are without decimal figures in accordance with the matters established by Article 2423 of the Italian Civil Code, as amended, with effect as of 1 January 2002, by Article 16.8, letter a) of Legislative Decree 213/98.

The content matter of the balance sheet and income statement is compliant with that anticipated by the layouts pursuant to Articles 2424 and 2425 of the Italian Civil Code, as amended by Italian Legislative Decree No. 6 dated 17 January 2003. As requested by Article 2423-ter, section 5, of the Italian Civil Code, the previous year's balances have been reclassified, where necessary, in order to render them comparable with those for the period under review as anticipated by the new financial statement formats.

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

INTANGIBLE FIXED ASSETS

Intangible fixed assets, if acquired from third parties, are stated at purchase cost including directly chargeable related costs, while if they are realized internally, they are stated at the purchase cost of the goods or services utilized including any related charges.

The amounts are recorded in the financial statements net of the amortization charged, as calculated systematically on a straight-line basis taking into account the estimated residual useful life of the assets concerned.

TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at purchase or internal construction cost, including directly chargeable related expenses, as increased by monetary revaluations made in compliance with the provisions of Law 576 dated 2 December 1975, Law 72 dated 19 March 1983 and Law 413 dated 30 December 1991.

Tangible fixed assets, if originating from outside, are recorded in the financial statements when the transfer of ownership has taken place, while those constructed internally are stated when construction has been completed.

Costs for improvements, modernization, transformation and maintenance are capitalized by increasing the value of the related assets if said costs involve a significant and measurable increase in capacity, productivity, safety or useful life and in any event do not exceed the value recoverable via use. Similar costs that represent ordinary maintenance 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 calculated systematically using rates which make it possible to allocate the real depreciation of the assets, taking into account the estimated economic-technical life. These are equal to the ordinary rates fiscally allowed. Assets which have entered service during the year are depreciated at half the standard rate.

The conversion of the balances expressed in foreign currency is carried out using the historic exchange rate prevailing at the time the transactions was carried out.

No financial expense has been charged to the value of tangible fixed assets.

Tangible fixed assets acquired via leasing contracts involving redemption agreements, are recorded among the balance sheet assets as from the year in which the right to redeem is exercised, and are stated net of adjustments for depreciation charged. The commitment to purchase anticipated by the contract is recorded among the memorandum accounts.

Assets with a low unit cost and recurrent use normally identifiable with maintenance materials, spare parts and assets with a unit value of less than Euro 516.46, have a cycle of use which in the majority of cases does not vary greatly from 12 months and they originate a more or less constant charge to the income statement.

Therefore, even though they are capitalized, they contribute towards forming the income for the period in which they are purchased by means of the provision of a depreciation charge equal to the cost incurred.

FINANCIAL FIXED ASSETS

Equity investments in subsidiary and associated companies, as well as those in other unlisted companies, are valued on the basis of purchase or subscription cost including related charges and net of any reductions in share capital formally authorized.

The writedowns are carried out, according to the prudent estimate of the Directors, in order to reflect the decreases which have taken place in the shareholders' equity of the individual companies following permanent losses in value emerging from the last set of approved financial statements or if it is believed the realization of the investment is uncertain.

Long-term receivables are stated at estimated realisable value.

The conversion of balances expressed in currencies other than the Euro takes place by using the historic exchange rate prevailing at the time the transaction was carried out.

INVENTORIES

Inventories have been valued according to the following criteria:

- Raw and ancillary materials: at the lower of weighted average purchase cost and market value;
- Work in progress: cost is determined on the basis of production costs incurred in relation to the stage of completion of the product batch taking into consideration:
 - a) the weighted average acquisition cost for the year for the materials utilized;
 - b) the cost of direct labour and related charges;
 - c) general production costs such as indirect labour, maintenance, consumption, fixed production costs and technical depreciation for the portion reasonably attributable to the products;
- semi-finished and finished products: cost is determined, for each product code, with reference to the annual average of production costs noted on completion of the processing phases and the deposit of the batch in the warehouse, or, for finished products, at estimated realizable value if lower.

An inventory writedown reserve is provided, in order to align the inventories to their estimated realizable value.

RECEIVABLES AND PAYABLES

Receivables are stated at estimated realizable value. This value corresponds with the nominal value adjusted by the allowance for doubtful accounts provided specifically, destined to cover both amounts that are already unrecoverable and those which have not yet emerged, but are forecast or latent, and which are inherent to receivable balances recorded in the financial statements.

Payables are stated at face value.

FOREIGN CURRENCY ASSETS AND LIABILITIES

Items expressed in currencies other than the Euro, with the exception of fixed assets, are adjusted to the official exchange rate as of the year-end and the related gains and losses are charged to the income statement. Any net gains are set aside in a specific non-distributable reserve until they are realized.

SHORT-TERM FINANCIAL ASSETS

Investment securities not held over the long-term are stated at the lower of purchase cost, including any premiums, and market value reported at year end.

Equity investments in unlisted companies are stated at the lower of purchase or subscription cost, net of any reduction in the share capital formally authorized, and their estimated market value.

LIQUID FUNDS

Liquid funds are stated at face value.

ACCRUALS AND DEFERRALS

These are recorded on an accruals basis in accordance with the principle of matching the related costs and revenues for the period.

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are made for the purpose of covering losses or liabilities of a determinate nature, which are certain or probable, the timing and extent of which cannot be determined at period end.

The reserve for taxation covers the liability for probable taxes, the timing and extent of which cannot be determined, such as liabilities for probable assessments or disputes under way, valued on the basis of the estimated outcome of the same.

EMPLOYEE LEAVING INDEMNITIES (TFR)

This item reflects the liability provided for on the basis of the length of service accrued by individual employees as of the balance sheet date, in accordance with the provisions of Article 2120 of the Italian Civil Code and national and supplementary labour agreements in force at year end.

DERIVATIVE CONTRACTS

Forward foreign currency agreements are valued as follows:

- a) if hedging accounts payable and receivable, on a consistent basis with the related assets and liabilities;
- b) if hedging anticipated exports, any exchange differences realized during the period on these transactions adjust the revenues in that they are considered to be of a commercial nature; the accrued premium or discount matured on contracts still open at period end are charged to the income statement among the financial items;
- c) if entered into for trading purposes, on a consistent basis with the receivables and payables expressed in foreign currency.

Derivative contracts hedging interest rate risks are valued on a consistent basis with the liabilities hedged.

DIVIDENDS

Dividends are recorded at the time their distribution is authorized.

COSTS AND REVENUES

These are stated in the financial statements on a prudent and accruals basis, with indication of the related accruals and deferrals.

Revenues from the sale of products are recognized at the time ownership is transferred, which usually coincides with shipment. Revenues deriving from the provision of services are charged at the time the service is rendered.

INFRAGROUP TRANSACTIONS

In accordance with the CONSOB Recommendations dated 20 February 1997 (DAC/97001574) and 27 February 1998 (DAC/98015375), shareholders are informed that:

- a) transactions with Group companies and related parties which have taken place during the period, have given rise to trade, financial or consultancy-related dealings and have been performed, on an arms'-length basis, in the economic interests of the individual companies involved in the transactions;
- b) no atypical or unusual transactions have been entered into with respect to normal business operations and the interest rates and conditions applied (lending and borrowing) to financial transactions between the various companies are in line with market conditions.

CURRENT INCOME TAXES

Current income taxes have been provided for on the basis of an estimate of taxable income, taking into account the concessions applicable and any tax credits due in accordance with current provisions.

DEFERRED TAXATION

Deferred taxation is calculated on timing differences between the results for statutory purposes and taxable income. The potential tax benefit associated with both the timing differences and any losses which may be carried forward is recorded when reasonable certainty exists that sufficient taxable income will be available in the future to allow their recovery.

The net balance of deferred tax assets and liabilities is recorded in a specific reserve under item B) of the liabilities or item C.II.4-ter of the assets.

ITEM 2-3 EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004
INTANGIBLE FIXED ASSETS

	<u>Historical cost</u>	<u>Net value beginning of year</u>	<u>Increases during the year</u>	<u>Internal jobs during the year</u>	<u>Decreases during the year</u>	<u>Other changes</u>	<u>Total</u>
1) TOTAL START-UP AND EXPANSION COSTS RESEARCH, DEVELOPMENT AND DESIGN COSTS	394,901	158,961		1,454,697	-369,920		1,243,738
2) TOTAL RESEARCH, DEVELOPMENT AND DESIGN COSTS	394,901	158,961		1,454,697	-369,920		1,243,738
3) TOTAL INDUSTRIAL PATENTS AND RIGHTS	471,697	193,395	164,885		-116,516		241,764
4) TOTAL CONCESSIONS, LICENCES AND TRADEMARKS	1,839,458	781,144	249,767		-417,845		613,066
5) TOTAL GOODWILL CAPITALIZATION OF INTERNAL COSTS	1,833,042	1,833,042	1,207,521	-1,454,697			1,585,866
6) TOTAL ASSETS IN PROCESS OF FORMATION AND ADVANCES COSTS FOR ADAPTATION TO LEGISLATION	1,833,042	1,833,042	1,207,521	-1,454,697			1,585,866
SHARED DIE AND EQUIPMENT COSTS	79,518	26,738			-16,977		9,761
OTHER DEFERRED COSTS	1,467,979	573,592	111,569		-313,904		371,257
7) TOTAL OTHER INTANGIBLE FIXED ASSETS	1,575,540	757,418			-328,108		429,310
INTANGIBLE FIXED ASSETS	<u>3,123,037</u>	<u>1,357,748</u>	<u>111,569</u>		<u>-658,989</u>		<u>810,328</u>
	7,662,135	4,324,290	1,733,742		-1,563,270		4,494,762

Historical cost refers to the original cost of the individual items capitalized which, at the start of the year, were not completely amortized.

The increases, which include purchase costs and internal costs, amount to Euro 1.734 million, and refer to:

- Euro 1.455 million for projects relating to new products, for which the development stage has ended and the applications stage started;
- Euro 0.165 million for research and applications on patents;
- Euro 0.250 million for the granting of software licenses, including due to importance Euro 0.049 million relating to licences and programmes intended for the administration/finance area; the remainder concerns amendments and integrations to existing programmes as well as purchases relating to office automation;
- Euro 1.208 million refers to costs for purchasing materials, external services and internal costs, relating mainly to projects underway for new product lines developed in connection with similar projects launched by customers;
- Euro 0.112 million for shared expenses for the construction and start-up of equipment utilized by our suppliers. These refer mainly to new products.

The amounts expensed during the year are indicated under decreases, and are calculated on the basis of the expected useful duration, which normally runs out after a period of 5 years.

The closing balance of the item "other deferred costs" concerns development and implementation costs for software used by the Company's computerized information systems.

ITEM 3 EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004
COMPOSITION OF THE ITEMS "START-UP AND EXPANSION COSTS"
AND "RESEARCH, DEVELOPMENT AND ADVERTISING COSTS"

RESEARCH, DEVELOPMENT AND ADVERTISING COSTS

The item "Research, development and design costs" comprises, with reference to the residual value as of 31 December 2004:

- Pneumatic control project for Euro 0.017 million.
- PTX 200 MR3 project (axles for earth-moving machines) for Euro 0.040 million.
- PTX 200 CV2 project (hydrostatic drivelines) for Euro 0.021 million.
- Study and design of new projects for Euro 0.002 million.
- Powershift control project (electronically-controlled drivelines) for Euro 0.055 million.
- 506 driveline project (for agricultural applications) for Euro 1.109 million.

The amortization charges for the year came to Euro 0.370 million and correspond to a straight-line portion of 20% of the historic cost.

No advertising costs have been capitalized.

The recording and amortization of start-up and expansion costs, and research, development and advertising costs takes place in accordance with the limits pursuant to Article 2426.5 of the Italian Civil Code.

ITEM 2 EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004
TANGIBLE FIXED ASSETS

Description	Beginning of the year	Increases	Internal jobs	Decreases	Reclassificati ons	Total
LAND AND BUILDINGS	2,138,306					2,138,306
INDUSTRIAL BUILDINGS	14,038,583	16,718	9,768			14,065,069
NON-INDUSTRIAL BUILDINGS	380,900					380,900
EQUIPMENT, LAND AND YARDS	998,861	212				999,073
TEMPORARY CONSTRUCTIONS	<u>144,623</u>	<u>4,983</u>				<u>149,606</u>
1) TOTAL LAND AND BUILDINGS	17,701,273	21,913	9,768			17,732,954
GENERAL PLANT	6,748,358	40,332	20,942	-2,763		6,806,869
SPECIFIC PLANT	9,289,261	375,353	23,838	-179,493		9,508,959
LARGE INFRASTRUCTURES	5,917,619	5,229	43,300	-1,237,053		4,729,095
TREATMENT FURNACES	33,010			-6,197		26,813
PURIFICATION PLANT	<u>259,560</u>					<u>259,560</u>
TOTAL PLANT	22,247,808	420,914	88,080	-1,425,506		21,331,296
AUTOMATIC MACHINERY	32,961,642	247,439		-3,410,401		29,798,680
GENERAL MACHINERY	<u>2,617,424</u>	<u>26,460</u>		<u>-88,806</u>		<u>2,555,078</u>
TOTAL MACHINERY	<u>35,579,066</u>	<u>273,899</u>		<u>-3,499,207</u>		<u>32,353,758</u>
2) TOTAL PLANT AND MACHINERY	57,826,874	694,813	88,080	-4,924,713		53,685,054
SPECIFIC EQUIPMENT FOR MACHINERY	9,201,662	247,947	99,368	-150,508		9,398,469
TOOLING	4,829,645	112,239		-18,296		4,923,588
WORKSHOP EQUIPMENT AND INSTRUMENTS	3,714,297	113,264		-63,635		3,763,926
MISCELLANEOUS EQUIPMENT	3,911,144	275,867		-1,756		4,185,255
COMPANY CANTEEN EQUIPMENT	146,240	6,056				152,296
TRANSPORT, WAREHOUSE AND OTHER EQUIPMENT	3,227,279	204,996		-130,352		3,301,923
DIES	2,213,569	46,089				2,259,658
MODELS FOR FOUNDING	<u>20,352,860</u>	<u>1,875,039</u>		<u>-32,585</u>		<u>22,195,314</u>
3) TOTAL INDUSTRIAL EQUIPMENT	47,596,696	2,881,497	99,368	-397,132		50,180,429
OFFICE FURNITURE AND FURNISHINGS	1,667,809	29,808				1,697,617
WORKSHOP FURNITURE AND FURNISHINGS	<u>811,400</u>	<u>34,968</u>		<u>-713</u>		<u>845,655</u>
TOTAL FURNITURE AND FURNISHINGS	2,479,209	64,776		-713		2,543,272
ORDINARY OFFICE MACHINES	15,683					15,683
ELECTRONIC OFFICE MACHINES	<u>9,802,615</u>	<u>342,193</u>		<u>-19,982</u>		<u>10,124,826</u>
TOTAL OFFICE MACHINES	9,818,298	342,193		-19,982		10,140,509
PEOPLE TRANSPORT VEHICLES	617,009	144,301		-54,585		706,725
OBJECT TRANSPORT. VEHICLES	19,893					19,893
INTERNAL MEANS OF TRANSPORT	<u>415,650</u>	<u>1,422</u>				<u>417,072</u>
TOTAL VEHICLES	<u>1,052,552</u>	<u>145,723</u>		<u>-54,585</u>		<u>1,143,690</u>
4) TOTAL OTHER TANGIBLE FIXED ASSETS	13,350,059	552,692		-75,280		13,827,471
INTERNAL JOB ORDERS	48,414	178,295	-197,216			29,493
ADVANCES	<u>1,999</u>				33,601	35,600
5) CONSTRUCTION IN PROGRESS AND ADVANCES	<u>50,413</u>	<u>178,295</u>	<u>-197,216</u>		33,601	65,093
TANGIBLE FIXED ASSETS	136,525,315	4,329,210		-5,397,125	33,601	135,491,001

The increases, which include purchases and internal costs, amount to Euro 4.329 million, and mainly concern the enhancement of the production capacity by means of purchases and/or changes to automatic machinery and well as equipment and tools for new products.

These increases include:

- Euro 0.032 million for extraordinary improvements and maintenance on existing buildings, yards and temporary constructions;
- Euro 0.061 million for improvements on general plant existing at the Campodarsego and Gorizia factories;
- Euro 0.399 million for improvements on specific plant existing at the Campodarsego and Gorizia factories;
- Euro 0.247 million for improvements and extraordinary maintenance on automatic machinery at the Campodarsego and Gorizia factories;
- Over Euro 1.922 million for the increase and renewal of the model and die pool.

Internal constructions, capitalized for Euro 0.197 million, include direct purchases of specific materials and third-party services, as well as costs for internal transformation and coded materials.

These mainly concern improvements and changes to buildings, plant and machinery.

The value of the assets includes revaluations carried out in accordance with the law, details of which are shown in the tables below.

Decreases amounting to Euro 5.397 million mainly refer to the sale of plant and machinery to Group companies as part of the plans for relocating a number of industrial processes.

ITEM 2: EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004
REVALUATION LAW No. 576/1975

Description	REVALUATIONS - HISTORICAL COST		REVALUATIONS - ACCUMULATED DEPRECIATION		NET BALANCE OF REVALUATIONS	
	Opening balance	Closing balance	Opening balance	Closing balance	Opening residual balance	Closing residual 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	<u>105,751</u>	<u>105,751</u>	<u>11,693</u>	<u>11,693</u>	<u>94,058</u>	<u>94,058</u>
GENERAL PLANT	24,107	24,107	6,477	6,477	17,630	17,630
SPECIFIC PLANT	566	566	130	130	436	436
** TOTAL PLANT	<u>24,673</u>	<u>24,673</u>	<u>6,607</u>	<u>6,607</u>	<u>18,066</u>	<u>18,066</u>
AUTOMATIC MACHINERY	0	0	0	0	0	0
GENERAL MACHINERY	13,277	8,048	4,394	2,704	8,883	5,344
**TOTAL MACHINERY	<u>13,277</u>	<u>8,048</u>	<u>4,394</u>	<u>2,704</u>	<u>8,883</u>	<u>5,344</u>
2) TOTAL PLANT AND MACHINERY	<u>37,950</u>	<u>32,721</u>	<u>11,001</u>	<u>9,311</u>	<u>26,949</u>	<u>23,410</u>
WORKSHOP EQUIPMENT AND INSTRUMENTS	174	174	116	116	58	58
MISCELLANEOUS EQUIPMENT	232	232	97	97	135	135
COMPANY CANTEEN EQUIPMENT	202	202	61	61	141	141
TRANSPORT, WAREHOUSE AND OTHER EQUIPMENT	2,016	2,016	512	512	1,504	1,504
3) TOTAL INDUSTRIAL AND COMMERCIAL EQUIPMENT	<u>2,624</u>	<u>2,624</u>	<u>786</u>	<u>786</u>	<u>1,838</u>	<u>1,838</u>
OFFICE FURNITURE AND FURNISHINGS	3,284	3,284	1,892	1,892	1,392	1,392
WORKSHOP FURNITURE AND FURNISHINGS	547	547	262	262	285	285
**TOTAL FURNITURE AND FURNISHINGS	<u>3,831</u>	<u>3,831</u>	<u>2,154</u>	<u>2,154</u>	<u>1,677</u>	<u>1,677</u>
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	<u>2,992</u>	<u>2,992</u>	<u>1,827</u>	<u>1,827</u>	<u>1,165</u>	<u>1,165</u>
TOTAL OTHER TANGIBLE ASSETS	<u>6,823</u>	<u>6,823</u>	<u>3,981</u>	<u>3,981</u>	<u>2,842</u>	<u>2,842</u>
TOTAL BII	<u>153,148</u>	<u>147,919</u>	<u>27,461</u>	<u>25,771</u>	<u>125,687</u>	<u>122,148</u>

ITEM 2: EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004
REVALUATION LAW No. 72/1983

Description	REVALUATIONS - HISTORICAL COST		REVALUATIONS - ACCUMULATED DEPRECIATION		NET BALANCE OF REVALUATIONS	
	Opening balance	Closing balance	Opening balance	Closing balance	Opening residual balance	Closing residual 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>
GENERAL PLANT	105,362	105,362	58,946	58,946	46,416	46,416
SPECIFIC PLANT	23,125	23,125	6,034	6,034	17,091	17,091
TREATMENT FURNACES	773	773	167	167	606	606
PURIFICATION PLANT	7	7	1	1	6	6
** TOTAL PLANT	<u>129,267</u>	<u>129,267</u>	<u>65,148</u>	<u>65,148</u>	<u>64,119</u>	<u>64,119</u>
AUTOMATIC MACHINERY	97,244	84,506	31,516	28,650	65,728	55,856
GENERAL MACHINERY	62,029	58,399	31,319	25,963	30,710	32,436
**TOTAL MACHINERY	<u>159,273</u>	<u>142,905</u>	<u>62,835</u>	<u>54,613</u>	<u>96,438</u>	<u>88,292</u>
2) TOTAL PLANT AND MACHINERY	<u>288,540</u>	<u>272,172</u>	<u>127,983</u>	<u>119,761</u>	<u>160,557</u>	<u>152,411</u>
SPECIFIC EQUIPMENT FOR MACHINERY	185,891	185,891	127,144	127,144	58,747	58,747
TOOLING	119,081	119,081	56,528	56,528	62,553	62,553
AUTOMATIC MACHINERY	13,751	13,751	5,684	5,684	8,067	8,067
GENERAL MACHINERY	26,113	26,113	12,639	12,639	13,474	13,474
COMPANY CANTEEN EQUIPMENT	3,204	3,204	1,483	1,483	1,721	1,721
TRANSPORT, WAREHOUSE AND OTHER EQUIPMENT	57,049	57,079	28,997	28,997	28,082	28,082
DIES	21,333	21,333	9,809	9,809	11,524	11,524
MODELS FOR FOUNGING	119,566	119,566	59,164	59,164	60,402	60,402
3) TOTAL INDUSTRIAL AND COMMERCIAL 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 FURNISHINGS	19,391	19,391	11,283	11,283	8,108	8,108
WORKSHOP FURNITURE AND FURNISHINGS	5,290	5,290	2,315	2,315	2,975	2,975
**TOTAL FURNITURE AND FURNISHINGS	<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>
OBJECT TRANSPORT VEHICLES	0	0	0	0	0	0
INTERNAL MEANS OF TRANSPORT	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 TANGIBLE 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>1,361,176</u>	<u>1,344,808</u>	<u>549,713</u>	<u>541,491</u>	<u>811,463</u>	<u>803,317</u>

ITEM 2: EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF 31
DECEMBER 2004

REVALUATION LAW No. 413/1991

Description	REVALUATIONS - HISTORICAL COST		REVALUATIONS - ACCUMULATED DEPRECIATION		NET BALANCE OF REVALUATIONS	
	Opening balance	Closing balance	Opening balance	Closing balance	Opening residual balance	Closing residual 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
EQUIPMENT, LAND AND YARDS	25,237	25,237			25,237	25,237
TEMPORARY CONSTRUCTIONS	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

Shareholders' are reminded that during 1976, a monetary revaluation was made in accordance with Law 576/75 which led to a positive balance of Euro 230,122 within Carraro S.p.A. and Euro 129,114 within the merged company Carraro PNH S.p.A.. During 1983, the revaluation of assets pursuant to Law 72/83 was applied, which led to a positive balance of Euro 2,386,070 in Carraro S.p.A.. The revaluation balances relating to these laws were utilized during 1984 in Carraro S.p.A. for a bonus share capital increase.

With regards to Carraro S.p.A., during 1991, a revaluation was made for property in accordance with Law 413/91, which led to a positive balance of Euro 1,084,804, gross of the substitute tax of Euro 173,569. By means of the resolution dated 31 May 1995, the balance was used for a bonus share capital increase. During 1991, a revaluation was made within the merged company Carraro PNH S.p.A. on property in accordance with Italian law No. 413/91, leading to a positive revaluation balance of Euro 1,312,399.

In accordance with the matters laid down by Article 10 of Law 72 dated 19 March 1993, the tables below indicate the categories of assets outstanding as of 31 December 2004, for which, in the past, revaluations have been made, together with their amount.

ITEM 2 EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004
 ORDINARY ACCUMULATED DEPRECIATION OF TANGIBLE FIXED ASSETS

	<u>Beginning of the year</u>	<u>Depreciation</u>	<u>Decreases</u>	<u>Reclassificatio ns</u>	<u>Total</u>
INDUSTRIAL LAND	8,302				8,302
INDUSTRIAL BUILDINGS	5,323,931	423,534			5,747,465
EQUIPMENT, LAND AND YARDS	568,220	80,869			649,089
TEMPORARY CONSTRUCTION	<u>75,521</u>	<u>12,837</u>			<u>88,358</u>
1) TOTAL LAND AND BUILDINGS	5,975,974	517,240			6,493,214
GENERAL PLANT	5,263,905	347,184	-2,763		5,608,326
SPECIFIC PLANT	6,463,052	632,920	-144,158		6,951,814
LARGE INFRASTRUCTURES	5,505,808	251,453	-1,237,054		4,520,207
TREATMENT FURNACES	20,101	2,726	-6,197		16,630
PURIFICATION PLANT	<u>249,514</u>	<u>6,997</u>			<u>256,511</u>
TOTAL PLANT	17,502,380	1,241,280	-1,390,172		17,353,488
AUTOMATIC MACHINERY	25,631,753	2,114,929	-3,191,942		24,554,740
GENERAL MACHINERY	<u>2,367,001</u>	<u>88,882</u>	<u>-88,806</u>		<u>2,367,077</u>
TOTAL MACHINERY	<u>27,998,754</u>	<u>2,203,811</u>	<u>-3,280,748</u>		<u>26,921,817</u>
2) TOTAL PLANT AND MACHINERY	45,501,134	3,445,091	-4,670,920		44,275,305
SPECIFIC EQUIPMENT FOR MACHINERY	7,950,519	520,892	-149,073		8,322,338
TOOLING	4,689,182	117,603	-11,396		4,795,389
WORKSHOP EQUIPMENT AND INSTRUMENTS.	3,442,873	164,777	-63,635		3,544,015
MISCELLANEOUS EQUIPMENT	3,728,091	128,534	-1,756		3,854,869
COMPANY CANTEEN EQUIPMENT	142,239	6,288			148,527
TRANSPORT, WAREHOUSE AND OTHER EQUIPMENT	3,071,699	170,440	-130,352		3,111,787
DIES	1,871,768	164,470			2,036,238
MODELS FOR FOUNDING	<u>15,880,803</u>	<u>2,324,326</u>	<u>-28,493</u>		<u>18,176,636</u>
3) TOTAL INDUSTRIAL AND COMMERCIAL EQUIPMENT	40,777,174	3,597,330	-384,705		43,989,799
OFFICE FURNITURE AND FURNISHINGS	1,451,767	64,053			1,515,820
WORKSHOP FURNITURE AND FURNISHINGS	<u>641,625</u>	<u>54,143</u>	<u>-714</u>		<u>695,054</u>
TOTAL FURNITURE AND FURNISHINGS	2,093,392	118,196	-714		2,210,874
ORDINARY OFFICE MACHINES	15,563	65			15,628
ELECTRONIC OFFICE MACHINES	<u>8,685,522</u>	<u>564,257</u>	<u>-19,118</u>		<u>9,230,661</u>
TOTAL OFFICE MACHINES	8,701,085	564,322	-19,118		9,246,289
PEOPLE TRANSPORT VEHICLES	362,343	109,341	-54,587		417,097
OBJECT TRANSPORT VEHICLES	19,893				19,893
INTERNAL MEANS OF TRANSPORT	<u>401,254</u>	<u>6,380</u>			<u>407,634</u>
TOTAL VEHICLES	<u>783,490</u>	<u>115,721</u>	<u>-54,587</u>		<u>844,624</u>
4) TOTAL OTHER TANGIBLE FIXED ASSETS	<u>11,577,967</u>	<u>798,239</u>	<u>-74,419</u>		<u>12,301,787</u>
ORDINARY ACCUMULATED DEPRECIATION	103,832,249	8,357,900	-5,130,044		107,060,105

Ordinary accumulated depreciation has increased due to the portion of depreciation charged to the income statement for Euro 8.358 million, which reflects the real degree of depreciation of the assets and corresponds to the calculation made applying the maximum ordinary rates fiscally allowed (Group VII, type 2a, Ministerial Decree 31/12/88).

Decreases concern the disposal of assets, and amount to Euro 5.130 million.

ITEM 2 EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004
FINANCIAL FIXED ASSETS

	<u>Opening balance</u>	<u>Increases</u>	<u>Writedowns</u>	<u>Decreases</u>	<u>Closing balance</u>
BIII.1 EQUITY INVESTMENTS					
SIAP SPA	11,747,161				11,747,161
ASSALI EMILIANI 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	1,149,890			20,371,730
CARRARO INTERNATIONAL	5,271,790		-2,310,690		2,961,100
F.O.N.	1,270,000	56,844			1,326,844
A) SUBSIDIARIES	49,245,881	1,206,734	-2,310,690		48,141,925
AGRITALIA SPA	2,830,933		-2,830,933		
ELCON SRL	12,450				12,450
B) ASSOCIATED COMPANIES	2,843,383		-2,830,933		12,450
C) PARENT COMPANIES					
D) OTHER EQUITY INVESTMENTS	85,841				85,841
E) COMMITMENTS TO PURCHASE EQUITY INVESTMENTS		1,148,282		-1,148,282	
TOTAL BIII.1 EQUITY INVESTMENTS	52,175,105	2,355,016	-5,141,623	-1,148,282	48,240,216
BIII.2.D. RECEIVABLES DUE FROM THIRD PARTIES					
FIN. FOND. MONTELLO	1,032,914				1,032,914
PERSONAL INCOME TAX ADVANCE (IRPEF) ON TERMINATION INDEMNITIES (TFR)	509,801	11,159		-188,765	332,195
TOTAL BIII.2.D RECEIVABLES DUE FROM THIRD PARTIES	1,542,715	11,159		-188,765	1,365,109

Changes during the year reflect the following:

- during the period, the holding of 6% in the share capital of Carraro Argentina S.A. was repurchased from Simest S.p.A.;
- the interest held in the company F.O.N., Fabryka Osi Napedowych S.A. was increased from 84.788% to 88.270% as a result of the purchase of additional shares from third parties.
- as of 31 December 2004, the equity investment in Carraro International S.A. was written down for Euro 2.311 million, as a result of both the pre-existing accumulated losses and the decrease in the equity consequent to the writedown which this company recorded against its investments in Carraro Korea Ltd and Carraro North America Inc.;
- following the losses registered by the associated company Agritalia S.p.A., which reduced the equity of the same to a negative value, steps were taken to write-off the equity investments for Euro 2.831 million in consideration of the waiver by Carraro S.p.A. of participating in the re-establishment of the share capital.

As far as equity investments in foreign subsidiaries are concerned, the additional differences between the book value and the respective portions of pertinent shareholders' equity are not taken into consideration in the valuation of any permanent losses in value since they are essentially referable to the negative trend in exchange rates, which are not expected to be permanent.

Amounts due from third parties refer to a loan granted to the company Fonderie del Montello S.p.A. for an initial value of Euro 3.615 million. The residual balance as of 31 December 2004 came to Euro 1.033 million.

The advance personal income tax (IRPEF) paid on employee severance indemnities (TFR), anticipated by the 1997 Finance Bill, has been calculated in accordance with the provisions of the law.

ITEM 5 EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004
LIST OF EQUITY INVESTMENTS

For the list of equity investments anticipated by Article 2427 of the Italian Civil Code, held directly or indirectly, reference should be made to the attached schedule pursuant to Article 126 of CONSOB Resolution 11971/99 and subsequent amendments.

EQUITY INVESTMENTS IN OTHER COMPANIES

Corporate name	Registered offices	Currency	Book value of the equity investment
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 EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004
CHANGE IN ASSET AND LIABILITY BALANCES

	<u>Opening balance</u>	<u>Change</u>	<u>Closing balance</u>
<u>C.I INVENTORIES</u>			
1) RAW, ANCILLARY AND CONSUMABLE MATERIALS	18,303,971	4,467,118	22,771,089
2) WORK IN PROGRESS AND SEMI-FINISHED PRODUCTS	7,746,578	2,286,112	10,032,690
3) CONTRACT WORK IN PROGRESS			
4) FINISHED PRODUCTS AND GOODS FOR RESALE	8,030,830	1,944,551	9,975,381
5) ADVANCES			
6) GOODS IN TRANSIT	73,383	30,789	104,172
INVENTORIES	34,154,762	8,728,570	42,883,332

Inventories present a balance of Euro 42.883 million as against Euro 34.155 million in 2003.

The inventory writedown reserve, recorded in order to align the value of obsolete and slow-moving inventories to estimated realizable value, comes to Euro 3,930 million and is made up as follows:

- raw, ancillary and consumable materials for Euro 1.501 million;
- semi-finished products for Euro 0.195 million;
- finished products for Euro 2.234 million.

The total provision made during the year to the reserve amounts to Euro 1.765 million. During the period, Euro 0.735 million was utilized for divestments and the scrapping of assets no longer usable.

ITEM 4 – 6 EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004

CHANGES IN ASSET-LIABILITY BALANCES AND COLLECTIBILITY

<u>C II. RECEIVABLES</u>	<u>Opening balance</u>	<u>Change</u>	<u>Closing balance</u>	<u>Due beyond 12 months</u>
<u>1) TRADE ACCOUNTS:</u>				
CUSTOMERS – ITALY	19,206,198	903,649	20,109,847	
CUSTOMERS – ABROAD	41,660,068	25,197,269	66,857,337	
CUSTOMERS – DISPUTES	168,986	39,362	208,348	
TOTAL TRADE RECEIVABLES	61,035,252	26,140,280	87,175,532	
BANKS - CUSTOMER LOAN ACCOUNTS	220,868	-220,868		
PORTFOLIO NOTES	190,533	-190,099	434	
DEBIT NOTES TO BE ISSUED – CUSTOMERS ITALY	37,227	-37,227		
DEBIT NOTES TO BE ISSUED – CUSTOMERS ABROAD	248,263	18,344	266,607	
CREDIT NOTES TO BE ISSUED – CUSTOMERS ITALY	-23,787	-85,605	-109,392	
CREDIT NOTES TO BE ISSUED – CUSTOMERS ABROAD	-37,837	-59,169	-97,006	
EXCHANGE ADJUSTMENTS CUSTOMER ABROAD	-1,012,340	245,848	-766,492	
TOTAL OTHER	-788,474	82,191	-706,283	
STM SRL	12,446	-6,099	6,347	
AMOUNTS DUE FROM AFFILIATED COMPANIES	12,446	-6,099	6,347	
LESS- ALLOWANCE FOR DOUBTFUL ACCOUNTS	-1,987,014		-1,987,014	
TOTAL 1) TRADE ACCOUNTS	58,683,611	25,805,405	84,489,016	
<u>2) AMOUNTS DUE FROM SUBSIDIARIES:</u>				
CARRARO INDIA Ltd.	3,273,355	2,186,550	5,459,905	
SIAP SPA - trade balances	363,303	37,417	400,720	
SIAP SPA - other receivables	1,200,000	2,800,000	4,000,000	
A.E. SRL		355,288	355,288	
CARRARO N.A. INC.	919,488	1,169,099	2,088,587	
CARRARO ARGENTINA	3,222,270	2,945,700	6,167,970	
CARRARO INTERNATIONAL	1,187	-214	973	
CARRARO KOREA	423,299	1,960,929	2,384,228	
O&K	1,315,089	642,320	1,957,409	
F.O.N.	128,834	522,075	650,909	
TOTAL ORDINARY RECEIVABLES	10,846,825	12,619,164	23,465,989	
LOANS SIAP SPA	14,710,240	-13,859,000	851,240	
LOAN A.E. SRL		2,050,000	2,050,000	
LOANS F.O.N.	353,533	-353,533		
TOTAL LOANS	15,063,773	-12,162,533	2,901,240	

DEBIT NOTES TO BE ISSUED SIAP SPA	934	-934		
DEBIT NOTES TO BE ISSUED CARRARO N.A. INC.	3,224	-3,224		
DEBIT NOTES TO BE ISSUED FON	780	-774		6
DEBIT NOTES TO BE ISSUED O&K	8,990	-8,990		
DEBIT NOTES TO BE ISSUED CARRARO INDIA	1,838	-1,838		
DEBIT NOTES TO BE ISSUED CARRARO ARGENTINA	15,115	-15,115		
DEBIT NOTES TO BE ISSUED CARRARO KOREA	2,671	-2,671		
EXCHANGE ADJUSTMENT CARRARO N.A. INC.	-131,479	-81,183		-212,662
EXCHANGE ADJUSTMENT CARRARO INDIA	-246,255	-8,608		-254,863
EXCHANGE ADJUSTMENT CARRARO ARGENTINA	-61,622	-79,839		-141,461
CREDIT NOTES TO BE ISSUED SIAP SPA	-50,251	50,251		
TOTAL OTHERS	-456,055	-152,925		-608,980
TOTAL 2) AMOUNTS DUE FROM SUBSIDIARY COMPANIES	25,454,543	303,706		25,758,249
3) AMOUNTS DUE FROM ASSOCIATED COMPANIES:				
AGRITALIA SPA	1,321,256	2,096,546		3,417,802
ELCON SRL	57,116	1,683		58,799
LOANS ELCON	83,939	1		83,940
CREDIT NOTES TO BE ISSUED AGRITALIA SPA		-1,220		-1,220
TOTAL 3) AMOUNTS DUE FROM ASSOCIATED COMPANIES	1,462,311	2,097,010		3,559,321
4) AMOUNTS DUE FROM PARENT COMPANIES:				
4-bis) AMOUNTS DUE FROM THE TAX AUTHORITIES				
VAT CREDIT FOR « MONTHLY SETTLEMENT	119,348	5,196,043		5,315,391
VAT REBATES REQUESTED	355,000	225,000		580,000
IRPEG-ILOR CREDITS	1,318,040	-1,310,500		7,540
IRPEG WITHHOLDING TAX	10,512	51,131		61,643
CREDITS FOR TAXES TO BE RECOVERED	36,266			36,266
EXPORT CREDIT PREMIUMS	588,190	74,163		662,353
CREDITS FOR TAXES PAID ABROAD	84,858	-84,858		
EXCISE CREDITS	191,900	-21,148		170,752
VAT REQUESTED FOR REBATE ABROAD	72,386	-18,036		54,350
TOTAL 4-bis) AMOUNTS DUE FROM THE TAX AUTHORITIES	2,776,500	4,111,795		6,888,295
4-ter) PREPAID TAXES				
DEFERRED TAX ASSETS	2,939,654	265,146		3,204,800
TOTAL 4-ter) PREPAID TAXES	2,939,654	265,146		3,204,800
5) AMOUNTS DUE FROM THIRD PARTIES:				
GUARANTEE DEPOSITS	51,860	2,537		54,397
OTHER MEDIUM/LONG-TERM RECEIVABLES	100,359	-100,359		
AMOUNTS DUE FROM « EMPLOYEES	2,316	5,658		7,974
AMOUNTS DUE FROM « SOCIAL SECURITY AND WELFARE INSTITUTIONS	72,305	14,433		86,738
AMOUNTS DUE FOR DIVIDENDS TO BE COLLECTED				

AMOUNTS DUE FROM INSURANCE COMPANIES	11,538	-9,597	1,941	
MISCELLANEOUS CURRENT RECEIVABLES	1,702,284		471,654	
TOTAL 5) AMOUNTS DUE FROM THIRD PARTIES	1,940,662	-1,317,958	622,704	54,397
RECEIVABLES	93,257,281	31,265,104	124,522,385	54,397

Trade accounts or amounts due from customers, net of the allowance for doubtful amounts for Euro 1.987 ML., amount to Euro 84.489 million.

The increase of Euro 25.805 million reported during the year is mainly attributable to the significant rise in turnover when compared with 2003.

Amounts due from subsidiary companies present a balance of Euro 25.758 million, compared with Euro 25.255 million as of 31 December 2003; the most significant changes include the reduction of the loans to Siap (Euro 13.859 million) and to FON (Euro 0.354 million), the increase in the loan to A.E. (Euro 2.050 million), the balance of Euro 4.00 million relating to dividends authorized to be collected from Siap S.p.A., as well as the overall increase in trade receivables.

An increase was also seen in amounts due from Carraro Korea (Euro 2.099 million). These receivables refer to advances granted to the company in order to permit the start-up and continuation of the winding-up procedures; account was taken of the recoverability of these amounts when calculating the provision to the reserve for winding-up charges recorded among the liabilities.

Amounts due from the tax authorities presented a balance of Euro 6.888 million, involving an increase of Euro 4.112 million mainly attributable to the rise in the monthly VAT credit (Euro 5.169 million) already requested for partial rebate during 2005 (Euro 4.59 million) and the decrease in the IRES (company earnings' tax) credit.

As of 31 December 2004, the VAT rebate relating to the third quarter of 2004 had not yet been received, Euro 0.580 million.

The decrease in miscellaneous current receivables (Euro 0.520 million) essentially reflects the collection of the residual credit of Euro 0.866 million from Meccanica Fananese S.r.l. for the sale of the former Trenton business segment which took place in 2002, and the collection of Euro 1.777 million deriving from the transfer of Irpeg (corporate income tax) credits.

The balance of Euro 3.205 million for deferred tax assets refers to prepaid taxes on cost items whose tax deductibility will materialize as from 2005. These receivables are provided for under the supposition that they will be recoverable, by means of the attainment of adequate future taxable income, considered achievable on the basis of the economic-financial plans outstanding.

Amounts due from third parties beyond 12 months concern guarantee deposits.
There are no receivables with maturities of more than 5 years.

The breakdown of receivables by geographic area is presented in the table below:

(in thousands of Euro)

	Italy	EU countries	Asia	U.S.A.	Rest of the world	Adjusting provisions	TOTAL
Receivables:							
- trade accounts	20,215	29,983	3,391	28,124	4,763	(1,987)	84,489
- due from subsidiaries	7,048	2,609	7,844	2,089	6,168		25,758
- due from associated companies	3,559	-	-	-	-		3,559
- due from parent companies	-	-	-	-	-		-
- due from third parties	10,716	-	-	-	-		10,716
TOTAL	41,538	32,592	11,235	30,213	10,931	(1,987)	124,522

ITEM 4 EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004
CHANGES IN ASSET AND LIABILITY BALANCES

	Opening balance	Change	Closing balance
CIII. SHORT-TERM FINANCIAL ASSETS			
1) INVESTMENTS IN SUBSIDIARY COMPANIES			
2) INVESTMENTS IN ASSOCIATED COMPANIES			
3) OTHER INVESTMENTS			
4) OWN SHARES			
5) OTHER SECURITIES	36,868,641	-36,795,641	73,000
6) REPURCHASE AGREEMENTS ON SECURITIES			
TOTAL CIII. SHORT-TERM FINANCIAL ASSETS	36,868,641	-36,795,641	73,000

The change in the balance of "Other securities" represents the disinvestment carried out during the year of commercial credit policies for Euro 36.795 million.

The balance recorded under the item "Other securities" is analyzed in the table below:

<u>STATEMENTS OF SECURITIES</u> <u>AS OF 31 DECEMBER 2004</u>	
Treasury Credit Certificates Code. 367638 Maturity 1 January 2007 Nominal Value Euro 73.000	73,000
TOTAL OTHER SECURITIES AS OF 31 DECEMBER 2004	73,000

The treasury credit certificates amounting to Euro 0.073 million relate to a tax rebate obtained by the merged company Carraro PNH S.p.A..

ITEM 4 EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004
CHANGES IN ASSET AND LIABILITY BALANCES

	Opening balance	Change	Closing balance
CIV. LIQUID FUNDS			
BANK (SEE ANALYSIS)	2,667,080	26,872,996	29,540,076
POST OFFICE	384	-254	130
1) BANK AND POST OFFICE DEPOSITS	2,667,464	26,872,742	29,540,206
2) CHEQUES			
3) CASH AND EQUIVALENTS ON HAND	25,230	-7,469	17,761
TOTAL CIV. LIQUID FUNDS	2,692,694	26,865,273	29,557,967

The increase in bank resources is linked to the similar change in short-term financial assets pursuant to point C.III above.

Amounts due from banks and post offices for deposits or current accounts existing are recorded in the financial statements on the basis of their estimated realizable value. Cash and equivalents on hand are expressed at face value.

ITEM 4-7 EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004

CHANGES IN ASSET AND LIABILITY BALANCES AND COMPOSITION OF ITEMS

A) SHAREHOLDERS' EQUITY

	<u>Opening balance</u>	<u>Allocation of net result</u>	<u>Dividends</u>	<u>Increases/decreases</u>	<u>Reclassifications</u>	<u>Closing balance</u>
I. SHARE CAPITAL	21,840,000					21,840,000
II. SHARE PREMIUM RESERVE	14,284,972			1,999,728	1,548,756	17,833,456
III REVALUATION RESERVES						
IV. LEGAL RESERVE	3,120,088	415,528				3,535,616
V. STATUTORY RESERVES						
VI. OWN SHARES IN PORTFOLIO EXTRAORDINARY RESERVE	272,166	70,044			3,204,990	3,547,200
RESERVE FOR ACCELERATED DEPRECIATION	3,548,484	3,204,990		-1,999,728	-4,753,746	
VII. OTHER RESERVES	3,820,650	3,690,562	-	-	-	3,547,200
VIII. PREVIOUS YEARS' NET INCOME (LOSS)	8,310,562	-3,690,562	-4,620,000			-
IX. NET INCOME (LOSS) FOR THE YEAR				6,275,805		6,275,805
SHAREHOLDERS' EQUITY	51,376,272	-	-4,620,000	6,275,805	-	53,032,077

The share capital comprises 42,000,000 ordinary shares with a par value of Euro 0.52 each. No shares with dividend rights, bonds convertible into shares and securities or similar instruments have been issued. No other financial instruments have been issued which assign equity and investment rights.

The shareholders' meeting as of 14 May 2004 authorized the following allocations of net income for the year 2003:

- Euro 415,528 to the legal reserve;
- Euro 3,204,990 to the reserve for accelerated depreciation;
- Euro 70,044 to the extraordinary reserve.
- Euro 4,620,000 by way of a gross dividend to the extent of Euro 0.11 per share.

The reserve for accelerated depreciation has been reclassified under the share premium reserve for a total of Euro 2.000 million, of which Euro 1.908 million corresponding to statutory depreciation charged to the income statement in excess with respect to the portion fiscally deductible and for Euro 0.092 million following the disposal of depreciable assets subject in the past to accelerated depreciation.

In accordance with the new provisions for the so-called "clean-up of the financial statements (pursuant to Italian Legislative Decree No. 6/2003), the residual balance of the reserve for accelerated depreciation amounting to Euro 4.753 million, has been reclassified under the share premium reserve for a total of Euro 1.548 million (taking the latter to the original value of Euro 17,833,456) and under the extraordinary reserve for Euro 3.205 million.

ITEM 7-BIS EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

The following table illustrates the shareholders' equity items analytically indicated by origin, possibility of use and distribution together with their utilization in previous years.

Nature/Description	Amount	Possibility of utilization	Portion available	Summary of the uses made in previous years	
				to cover losses	other
Share capital	21,840,000	---	---		
Capital reserves:					
Share premium reserve	17,833,456	A, B, C	17,833,456 (1)		
Net income reserves:					
Legal reserve	3,535,616	B	---		
Retained earnings	3,547,200	A, B, C	3,547,200	26,118,716	4,620,000
Net income for the year	6,275,805	A, B, C	5,962,015		
Total			27,342,671		
Portion not distributable			20,663,060 (2)		
Residual distributable portion			6,679,611		

Key:

A: for share capital increase

B: for coverage of losses
for distribution to

C: shareholders

(1) in accordance with Article 2431.1 of the Italian Civil Code, the share premium reserve cannot be distributed until the legal reserve has reached a fifth of the share capital;

(2) this represents the sum total of the portion not distributable due to the part destined to cover deferred costs not yet amortized in accordance with Article 2426.5 totalling Euro 2,829,604 and as a result of the share premium reserve which is not yet distributable for Euro 17,833,456.

As established by Article 109.4 of Italian Presidential Decree No. 917/1986, in the event of distribution, the equity reserves and the net income for the year will contribute towards forming the income if, and to the extent that, the sum total of the remaining equity reserves, other than the legal reserve, and the remaining retained earnings are lower than Euro 5,093,053. This amount corresponds to the accelerated depreciation and provision to the allowance for doubtful receivables deducted with respect to those charged to the income statement, net of the reserve for deferred taxation reflecting the amounts deducted.

ITEM 4-7 EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004
CHANGES IN ASSET AND LIABILITY BALANCES

	<u>Opening balance</u>	<u>Increases</u>	<u>Transfers</u>	<u>Decreases</u>	<u>0.5% deduction and pension provision</u>	<u>Closing balance</u>
B. PROVISIONS FOR RISKS AND CHARGES						
1) PENSION FUND						
PROVISION FOR TAXATION		250,000				250,000
2) TAXATION		250,000				250,000
PRODUCT WARRANTY REALLOCATION/RESTRUCTURING CHARGES FUND	3,500,000	2,400,000		-2,294,567		3,605,433
PERIODIC MAINTENANCE FUND	840,000	700,000				1,540,000
		115,000				115,000
3) OTHER PROVISIONS	4,340,000	3,215,000		-2,294,567		5,260,433
TOTAL B	4,340,000	3,465,000		-2,294,567		5,510,433
C. RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES						
BLUE-COLLAR WORKERS	6,782,122	1,090,838	-17,519	-1,137,278	-293,379	6,424,784
OFFICE WORKERS AND EXECUTIVES	4,276,895	876,963	-20,894	-467,172	-246,440	4,419,352
TOTAL C	11,059,017	1,967,801	-38,413	-1,604,450	-539,819	10,844,136

Further to the payment injunction received from the Padua INPS as of 1 March 1996 totalling Euro 0.682 million for the alleged omission to pay contributions and related sanctions, an appeal has been presented by the Company. The magistrate of Padua cancelled said injunction declaring the sums claimed by INPS undue. INPS presented an appeal against this decision on 5 October 1999. On 9 December 2004, the Court of Cassation upheld the appeal presented by Carraro S.p.A. and sent it again before the Venice Court of Appeal. On the basis of the information currently available, the evaluations on the groundlessness of the request forwarded by the Social Security Body, have not changed and it is not believed, based on the opinion of our consultants, that the risk profile of the dispute in question had altered.

The provision for tax risks (Euro 0.25 million) was provided in relation to the current estimate of the liabilities to be incurred following the assessment carried out by the Regional Tax Office, which was formalized by means of an official notification record.

The product warranty reserve has been utilized for Euro 2.295 million and subsequently re-adjusted for an amount of Euro 2.400 million in relation to anticipated costs which the company estimates it may have to incur for the commitment for contractual guarantees on sales, thus presenting, at year end, a balance of Euro 3.605 million.

The reserve for corporate reallocations and restructuring, having increased by Euro 0.700 million, is destined to absorb the liabilities deriving from the production reallocation of the Korean factory which led to the placement in liquidation of Carraro Korea in July 2004.

In relation to the reserve for employee termination indemnities, the increases refer to indemnities accrued during 2004 while the decreases refer to advances and indemnities paid. The INPS deduction is indicated in the specific column, equating to 0.50% of income assessable for social security purposes, to the charge of employees, together with the amounts transferred to the supplementary pensions fund "Cometa".

The transfers column includes the portions accrued by employees transferred to/from Group companies and promotions.

The provisions for employee termination indemnities have changed in accordance with the legal criteria and cover the amount accrued as of 31 December 2004 by 820 employees of which 561 blue-collar workers, 227 office workers and 32 executives.

ITEM 4-6 EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004
CHANGES IN ASSET-LIABILITY ITEMS AND COLLECTIBILITY

	<u>Opening balance</u>	<u>Change</u>	<u>Closing balance</u>	<u>- Due beyond 12 months</u>
D) PAYABLES				
<u>1) BONDS</u>	55,000,000		55,000,000	
<u>2) CONVERTIBLE BONDS</u>				
<u>3) AMOUNTS DUE TO SHAREHOLDERS FOR LOANS</u>				
<u>4) AMOUNTS DUE TO BANKS</u>				
CURRENT PAYABLES (SEE ANALYSIS)	49,870,748	-33,521,842	16,348,906	
EXCHANGE ADJUSTMENT	-1,235,742	102,913	-1,132,829	
MEDIOCREDITO LOAN	6,583,232	-2,766,357	3,816,875	1,272,292
4) AMOUNTS DUE TO BANKS	55,218,238	-36,185,286	19,032,952	1,272,292
<u>5) AMOUNTS DUE TO OTHER PROVIDERS OF FINANCE</u>				
MINISTRY OF INDUSTRY LOAN (LAW 46/82)		412,050	412,050	
5) AMOUNTS DUE TO OTHER PROVIDERS OF FINANCE		412,050	412,050	
<u>6) ADVANCES</u>	342,381	-260,695	81,686	
<u>7) TRADE ACCOUNTS</u>				
SUPPLIERS ITALY	46,450,972	40,367,248	86,818,220	
SUPPLIERS ABROAD	9,685,765	4,418,725	14,104,490	
ADVANCES TO SUPPLIERS – ABROAD	-159,093	-24,251	-183,344	
INVOICES TO BE RECEIVED – ITALY	1,738,827	638,582	2,377,409	
INVOICES TO BE RECEIVED – ABROAD	730,455	334,060	1,064,515	
CREDIT NOTES TO BE RECEIVED- ITALY	-598,094	122,433	-475,661	
CREDIT NOTES TO BE RECEIVED - ABROAD	-248,845	-5,288	-254,133	
EXCHANGE ADJUSTMENT SUPPLIERS ABROAD	-25,511	-10,433	-35,944	
TOTAL OTHER PAYABLES SUPPLIERS	1,437,739	1,055,103	2,492,842	
AMOUNTS DUE TO STM SRL	46,143	34,516	80,659	
AMOUNTS DUE TO AFFILIATED COMPANIES	46,143	34,516	80,659	
7) TRADE ACCOUNTS	57,620,619	45,875,592	103,496,211	
8) PAYABLES REPRESENTED BY CREDIT INSTRUMENTS				
<u>9) AMOUNTS DUE TO SUBSIDIARY COMPANIES</u>				
SIAP SPA	7,198,508	6,119,259	13,317,767	
A.E. SRL		88,181	88,181	
CARRARO N.A. INC.	1,475,817	-749,973	725,844	
CARRARO ARGENTINA	1,687,066	-453,884	1,233,182	
CARRARO INDIA	167,977	1,728,555	1,896,532	
F.O.N.	332,945	103,134	436,079	
CARRARO KOREA	7,788		7,788	
O&K	50,328	131,633	181,961	
TOTAL TRADE PAYABLES	10,920,429	6,966,905	17,887,334	
CREDIT NOTES TO BE RECEIVED CARRARO ARGENTINA		-160	-160	

INVOICES TO BE RECEIVED FON		1,146	1,146	
EXCHANGE ADJUSTMENT CARRARO N.A. INC.	-157,819	131,960	-25,859	
EXCHANGE ADJUSTMENT CARRARO ARGENTINA	-4,373	4,373		
EXCHANGE ADJUSTMENT CARRARO INDIA	31,502	-54,376	-22,874	
TOTAL OTHER	-130,690	82,943	-47,747	
9) AMOUNTS DUE TO SUBSIDIARY COMPANIES	10,789,739	7,049,848	17,839,587	
10) AMOUNTS DUE TO ASSOCIATED COMPANIES:				
AGRITALIA SPA	70,484	-19,327	51,157	
ELCON SRL	26,706	132,534	159,240	
INVOICES TO BE RECEIVED ELCON	14,400	-14,400		
10) AMOUNTS DUE TO ASSOCIATED COMPANIES	111,590	98,807	210,397	
11) AMOUNTS DUE TO PARENT COMPANIES:				
FINAID SRL	16,247	-8,244	8,003	
11) AMOUNTS DUE TO PARENT COMPANIES	16,247	-8,244	8,003	
12) AMOUNTS DUE TO THE TAX AUTHORITIES:				
SUNDRY TAXATION	53,424	-46,263	7,161	
INCOME TAX DECLARATION TAXATION		2,652,824	2,652,824	
PERSONAL INCOME TAX - EMPLOYEES	1,152,168	102,234	1,254,402	
PERSONAL INCOME TAX - FREELANCE WORKERS	9,554	-2,672	6,882	
PERSONAL INCOME TAX – CONTINUOUS AND CO-ORDINATED WORKERS	133,287	-86,084	47,203	
12) AMOUNTS DUE TO THE TAX AUTHORITIES	1,348,433	2,620,039	3,968,472	
13) AMOUNTS DUE TO SOCIAL SECURITY AND WELFARE INSTITUTIONS:				
INPS	1,415,833	20,864	1,436,697	
INAIL	-3,785	1,589	-2,196	
EXECUTIVE WELFARE FUND	49,219	7,277	56,496	
FASI	1,883	-1,883		
EMPLOYEE SUPPLEMENTARY FUNDS	31,971	982	32,953	
INPS 10% WELFARE CONTRIB. FUNDS	10,844	-3,191	7,653	
SUPPLEMENTARY WELFARE FUND	173,537	1,841	175,378	
13) AMOUNTS DUE TO SOCIAL SECURITY AND WELFARE INSTITUTIONS	1,679,502	27,479	1,706,981	
14) OTHER PAYABLES:				
CURRENT PAYABLES	115,786	217,294	333,080	
SHAREHOLDERS' DIVIDEND ACCOUNT	301		301	
BOARD OF DIRECTORS	306,941	692,188	999,129	
THIRD PARTIES REMUNERATION ACCOUNT	1,143	23	1,166	
TRADE UNION ORGANIZATIONS	17,428	11	17,439	
AMOUNTS DUE TO EMPLOYEES	3,694,152	640,090	4,334,242	
OTHER PAYABLES	103,291	-103,291		
14) OTHER PAYABLES	4,239,042	1,446,315	5,685,357	
PAYABLES	186,365,791	20,663,855	207,441,696	1,272,292

The balance of the item “Bonds” amounting to Euro 55.0 million refers to a bond issue at a floating rate of interest issued by Carraro S.p.A. as of 31 July 2001 and reserved for Carraro International S.A., with a fixed maturity of May 2006, against which an Interest Rate Swap exists covering the interest rate risk.

Amounts due to banks, net of bank deposits receivable of Euro 29.540 million, amount to Euro –10.507 million compared with Euro 52.551 million as of 31 December 2003; with regards to the change, in addition to the matters indicated in relation to the figures on liquid funds, consideration should also be taken of the positive effect of the cash flow generated by core business activities (Euro 16.197 million) and the trend in uses and sources, in particular with regards to trade receivables and payables, as indicated in detail in the statement of cash flows.

The Mediocredito loan refers to a disbursement made at an assisted rate of interest as per Law 100/1990 against a programme of investment in Argentina. The agreement is dated July 1999 and anticipates a period of interest-only payments for 18 months and a subsequent period of repayments for 5 years. The change reported during the year reflects the repayments made as per the financial repayment plan.

During the year, a loan was raised for a total of Euro 0.412 million against a technological innovation project for a new type of product.

The increase in amounts due to the tax authorities, which rose from Euro 1.348 million to Euro 3.968 million, was determined by the provision for tax liabilities relating to IRES (company earnings' tax) and IRAP (regional business tax) due for the period.

Other amounts due to employees include Euro 1.360 million relating to December wages and salaries, Euro 1.946 million for untaken holiday entitlement accrued as of 31 December 2004 and Euro 1.028 million for employee bonuses.

As of 31 December 2004, there were no payables due beyond 5 years.

The breakdown of payables by geographic area is shown in the following table:

(in thousands of Euro)

	Italy	EU countries	Asia	U.S.A.	Rest of the world	TOTAL
Payables:						
- trade accounts	88,799	9,519	5,014	86	78	103,496
- due to subsidiary companies	13,406	619	1,881	700	1,233	17,839
- due to associated companies	210	-	-	-	-	210
- due to parent companies	8	-	-	-	-	8
- due to third parties	11,360	-	-	-	-	11,360
TOTAL	113,783	10,138	6,895	786	1,311	132,913

ITEM 4-6 EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004
COLLECTIBILITY OF RECEIVABLES AND PAYABLES
COMPOSITION OF BANKS

<u>BANK</u>	<u>RECEIVABLE BALANCES RUNNING CURRENT ACCOUNTS</u>	<u>PAYABLE BALANCES RUNNING CURRENT ACCOUNTS</u>	<u>ADVANCE ACCOUNT BALANCES</u>	<u>TOTAL BALANCE TOTAL</u>
BANCA ANTOVENETA	214,442		-1,818,793	-1,604,351
BANCA DI ROMA	42,628			42,628
CASSA DI RISPARMIO PD-RO	6,478,088		-3,864,605	2,613,483
CASSA RUR. E ARTIGIANA	156,379			156,379
BANCA COMMERCIALE	59,229			59,229
CREDITO ITALIANO	58,004			58,004
BNL	137,343		-5,107,962	-4,970,619
ISTITUTO S. PAOLO DI TO	144,541		-1,240,876	-1,096,335

CASSA RISPARMIO DI FERRARA	843		843
BANCA POP. VICENTINA	5,497		5,497
BANCA POPOLARE DI VERONA	54,362	-4,316,670	-4,262,308
BANCA POPOLARE DI MILANO	2,070		2,070
MONTE PASCHI DI SIENA	20,509,847		20,509,847
FORTIS BANK	22,163		22,163
ABN-AMRO BANK	215		215
PEKAO BANK DI RADOMSKO	2,622		2,622
S.PAOLO BANK N.Y.	1,651,803		1,651,803
	<u>29,540,076</u>	<u>-16,348,906</u>	<u>13,191,170</u>

The table above shows in detail the creditor balances (C.IV.1) for Euro 29.540 million and the debtor balances (D.4) for Euro 16.349 million, which disclose a net credit balance totalling Euro 13.191 million.

ITEM 4-7 EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004

CHANGES IN ASSET AND LIABILITY BALANCES AND COMPOSITION OF ITEMS

	<u>Opening balance</u>	<u>Change</u>	<u>Closing balance</u>	<u>Short-term portion</u>	<u>Medium/long- term portion</u>
D. ACCRUED INCOME AND PREPAID EXPENSES					
<u>ACCRUED INCOME</u>					
FINANCIAL	59,674	-54,058	5,616	5,616	
OTHER INCOME	20,000	-18,086	1,914	1,914	
TOTAL ACCRUED INCOME	79,674	-72,144	7,530	7,530	
<u>PREPAID EXPENSES</u>					
FINANCIAL	10,670	132,373	143,043	142,758	285
CHARGES ON SURETIES	54,745	-20,494	34,251	17,572	16,679
INDUSTRIAL FEES	5,487	-2,987	2,500	2,500	
TECHNICAL ASSISTANCE FEES	77,513	-26,315	51,198	51,162	36
STATIONERY STOCK	56,981	33,280	90,261	90,261	
VEHICLE COSTS	2,793	-348	2,445	2,445	
INSURANCE	83,474	-24,614	58,860	58,860	
SUBSCRIPTIONS	3,818	-52	3,766	3,766	
OTHER	91,538	-57,343	34,195	33,278	917
TOTAL PREPAID EXPENSES	387,019	33,500	420,519	402,602	17,917
TOTAL ACCRUED INCOME AND PREPAID EXPENSES	466,693	-38,644	428,049	410,132	17,917
E. ACCRUED EXPENSES AND DEFERRED INCOME					
<u>ACCRUED EXPENSES</u>					
FINANCIAL	4,538,899	-2,067,939	2,470,960	2,470,960	
PAYROLL AND RELATED COSTS	493,499	36,240	529,739	529,739	
TOTAL ACCRUED EXPENSES	5,032,398	-2,031,699	3,000,699	3,000,699	
<u>DEFERRED INCOME</u>					
EU AND GOVERNMENT GRANTS		166,675	166,675	166,675	
OTHER	1,769	-1,769			
TOTAL DEFERRED INCOME	1,769	164,906	166,675	166,675	
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	5,034,167	-1,866,793	3,167,374	3,167,374	

Accrued financial income refers to interest accrued.

Prepaid expenses include technical assistance fees pertaining to future accounting periods, advance insurance premiums, prepaid expenses on charges relating to sureties issued in favour of the VAT office and prepaid expenses on stationery purchases in inventories as of 31 December 2004.

Accrued financial expense refers to interest on loans accrued as of 31 December 2001; the total amount includes Euro 2.382 million of interest expense accrued on the bond issue. The change during the year reflects the different frequency of repayments and the raising of loans and bank advances, with the related payment of the interest, when compared with 31 December 2003.

Accrued expense for personnel refers to the balances accrued for the 14th month salary of blue-collar and office workers.

ITEM 9 EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF 31
DECEMBER 2004
MEMORANDUM ACCOUNTS

A) RISKS**Sureties given on behalf of third parties**

ISSUE DATE	IN FAVOUR OF	ON BEHALF OF	MATURITY	ORIGINAL AMOUNT	RESIDUAL BALANCE
11/03/1999	SAN PAOLO IMI BANK - NY	CARRARO N. A.	31/12/2005	11,618,898	1,468,321
13/03/2002	BANK PEKAO	FON	30/11/2005	250,000	400,000
10/07/2002	BANK PEKAO	FON	30/11/2005	1,100,000	3,580,000
10/07/2002	BANK PEKAO	FON	30/11/2005	3,500,000	3,550,000
04/11/2004	BANK PEKAO	FON	30/11/2005	550,000	550,000
02/08/2004	SAN PAOLO IMI SPA	FON	ON REVOCATION	450,000	450,000
13/04/2004	SAN PAOLO IMI SPA	O. & K.A.	ON REVOCATION	600,000	600,000
31/12/2003	ECA SRL	A.E. SRL	30/06/2006	186,000	186,000
07/11/2003	SAN PAOLO IMI SPA	CARRARO ARGENTINA S.A.	ON REVOCATION	8,000,000	8,000,000
<i>TOTAL</i>					18,784,321

These are sureties issued by Carraro S.p.A. in favour of banks on behalf of the subsidiary companies against loans granted to them.

B) COMMITMENTS**Other commitments**

BENEFICIARY	DESCRIPTION	AMOUNT
PROVINCE OF PADUA	Grants for road works	103,291

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

ISSUE DATE	IN FAVOUR OF	RECEIVED BY	ON BEHALF OF	MATURITY	AMOUNT
03/07/1995	CARRARO S.p.A.	FINAID S.r.l.	FONDERIE DEL MONTELLO S.p.A.	31/12/2005	1,032,914
<i>Total</i>					1,032,914

This is a surety received by Finaid S.r.l. to guarantee the repayment of a loan originally amounting to Lire 7 billion granted to Fonderie del Montello S.p.A..

E) GUARANTEES GIVEN BY THIRD PARTIES ON COMPANY'S BEHALF**Sureties given by third parties on behalf of Carraro**

IN FAVOUR OF	RECEIVED BY	RESIDUAL AMOUNT
MEDIOCREDITO CENTRALE	FINAID	3,816,875
PADUA VAT OFFICE	ASSICURATRICE EDILE	3,138,375
PADUA VAT OFFICE	RAS	2,239,137
PADUA VAT OFFICE	ZURICH INTERNATIONAL	4,390,127
GORIZIA VAT OFFICE	RAS	1,840,784
ERGON ENERGIA SRL	HELVETIA ASSICURAZIONI	47,193
<i>Total</i>		15,472,491

These are sureties issued by banks, insurance companies and by the Parent Company Finaid in favour of various Bodies mainly for VAT rebates, building concessions, loans or lines of credit granted.

F) HEDGING TRANSACTIONS ON EXCHANGE RATE AND INTEREST RATE RISKS**Swaps/forward contracts on currency**

CURRENCY	AMOUNT HEDGED	EQUIVALENT VALUE IN EURO
US dollars	6,980,000	EURO 5,530,940
<i>Total</i>		5,530,940

These are transactions hedging exchange risks relating to exports anticipated for the year 2005 expressed in foreign currency, carried out on the basis of programmes provided by customers. The contracts are stipulated with banking and financial counterparts.

The expense accrued on outstanding contracts was charged to the income statement among the financial captions.

- Forward rate agreements

CURRENCY	AMOUNT HEDGED	COUNTERPART	EQUIVALENT VALUE IN EURO
EURO	55,000,000	B.N.P. PARIBAS	EURO 55,000,000
EURO	55,000,000	MEDIOBANCA	EURO 55,000,000
EURO	55,000,000	MEDIOBANCA	EURO 55,000,000
<i>Total</i>			165,000,000

These are additional contracts stipulated with banking counterparts hedging interest rate fluctuation risks on outstanding loans as well as on the bond issued by Carraro S.p.A. reserved for Carraro International S.A..

The FRA contract stipulated with Mediobanca maturing on 29 May 2005 was already being executed as of 31 December 2004; the rate differential is included on an accruals basis among prepaid expenses.

Currency options:

CURRENCY	TYPE	AMOUNT HEDGED	COUNTERPART	EQUIVALENT VALUE IN EURO
US dollars	CALL	36,400,000	B.N.P. PARIBAS	EURO 29,233,223
US dollars	CALL	2,378,000	GOLDMAN	EURO 1,982,720
US dollars	CALL	6,000,000	I.S.P.	EURO 5,000,000
US dollars	PUT	18,200,000	B.N.P. PARIBAS	EURO 14,616,611
US dollars	PUT	1,378,000	GOLDMAN	EURO 1,149,382
US dollars	PUT	3,000,000	I.S.P.	EURO 2,500,000
<i>Total</i>				54,481,936

These are put and call options on foreign currency hedging exchange rate risks relating to exports forecast for 2005.

For information only, the current market values as of 31 December 2004 of the hedging transactions outstanding as of that date are indicated below, divided up by category (negative values in brackets):

- | | |
|----------------------------|----------------------|
| - currency options: | Euro 1.64 million; |
| - domestic currency swaps: | Euro 0.42 million; |
| - forward rate agreements | Euro (0.303) million |

A COMPLETE ANALYSIS OF THE INCOME STATEMENT AS OF 31 DECEMBER 2004 IS SHOWN BELOW, WHICH COMPLIES WITH THE MATTERS REQUESTED BY CAPTIONS 10-11-12-13-14-15-16 OF ARTICLE 2427 OF THE ITALIAN CIVIL CODE. THE VARIOUS CAPTIONS OF THE INCOME STATEMENT ARE SHOWN ON A DETAILED BASIS AND ONLY THE SIGNIFICANT CHANGES WILL BE COMMENTED ON.

ANALYSIS OF THE INCOME STATEMENT AS OF 31 DECEMBER 2004

LETTER A – VALUE OF PRODUCTION

	Current year sub- total	Previous year sub-total	Current year	Previous year
1) REVENUES FROM SALES AND SERVICES				
SALE OF PRODUCTS	344,788,801	266,158,573		
RETURNS FROM SALES	-3,560,408	-4,128,296		
OTHER GOODS	11,468,810	11,553,518		
THIRD PARTY PROCESSING	19,876	39,771		
OTHER REVENUES	3,085,629	2,284,664		
CUSTOMER DISCOUNTS	-616	-11,997		
1) REVENUES FROM SALES AND SERVICES	355,802,092	275,896,233	355,802,092	275,896,233
2) CHANGE IN INVENTORIES OF WORK IN PROGRESS, SEMI-FINISHED AND FINISHED PRODUCTS				
CHANGE IN INVENTORIES OF SEMI-FINISHED PRODUCTS	326,760	-357,565		
CHANGE IN INVENTORIES OF WORK IN PROGRESS	1,979,121	-548,005		
CHANGE IN INVENTORIES OF FINISHED PRODUCTS	1,403,806	-1,509,326		
CHANGE IN INVENTORIES OF SPARE PARTS	1,293,820	390,671		
CHANGE IN INVENTORY WRITEDOWN RESERVE	-772,844	44,027		
2) CHANGE IN INVENTORIES OF WORK IN PROGRESS, SEMI-FINISHED AND FINISHED PRODUCTS	4,230,663	-1,980,198	4,230,663	-1,980,198
3) CHANGE IN CONTRACT WORK IN PROGRESS				
4) INCREASE IN INTERNALLY-CONSTRUCTED FIXED ASSETS				
			800,777	481,375
5) OTHER REVENUES AND INCOME				
ROYALTIES RECEIVABLE	633,533	497,793		
EXPORT PREMIUMS	310,270	205,720		
ORDINARY CAPITAL GAINS	622,739	206,923		
ORDINARY OUT-OF-PERIOD INCOME		1,121,414		
OTHER INCOME	1,200,169	822,943		
A) OTHER INCOME	2,766,711	2,854,793		
OTHER OPERATING GRANTS	16,514			
B) OPERATING GRANTS	16,514			
5) OTHER REVENUES AND INCOME			2,783,225	2,854,793
VALUE OF PRODUCTION			363,616,757	277,252,203

ANALYSIS OF THE INCOME STATEMENT AS OF 31 DECEMBER 2004
REVENUES FROM SALES AND SERVICES (LINE 1)

The breakdown of sales by type of product is represented as follows

PRODUCT LINES	Current year (Euro '000s)	Previous year (Euro '000s)
INDUSTRIAL AXLES	130,676	94,340
AGRICULTURAL AXLES	102,352	81,675
AXLES FOR TRUCKS	20,797	15,971
SPEED AXLES	7,461	5,704
GEARBOXES	2,868	2,755
DIFFERENTIAL GEARBOXES	-	-
MISCELLANEOUS AXLES	4,149	5,610
WHEEL AXIS	-	-
GEARS	-	-
FORECARRAIGES	3,020	4,934
FRICITION CLUTCHES	906	1,195
CAM PHASER TRANSFORMERS	3,288	4,690
DRIVING RODS	72	44
ARTICULATED JOINTS	182	259
AGRICULTURAL DRIVELINES	2,944	839
INDUSTRIAL DRIVELINES	29,703	19,643
MISCELLANEOUS AGRICULTURAL DRIVELINES	1,031	-
SPARE PARTS	27,039	20,689
SUNDRY SERVICES	1,924	1,720
SEMI-FINISHED PRODUCTS	4,716	3,902
SUNDRY REVENUES	12,674	11,926
TOTAL SALES REVENUES	355,802	275,896

The breakdown of sales by geographic area is shown in the following table:

GEOGRAPHIC AREA	Current year (Euro '000s)	Previous year (Euro '000s)
ITALY	53,772	52,251
<i>EU AREA ABROAD</i>	<i>146,820</i>	<i>113,127</i>
<i>NORTH AMERICA</i>	<i>114,349</i>	<i>71,345</i>
<i>OTHER FOREIGN COUNTRIES</i>	<i>40,861</i>	<i>39,173</i>
TOTAL ABROAD	302,030	223,645
TOTAL SALES REVENUES	355,802	275,896

ITEM 10 OF THE EXPLANATORY NOTES:

Sales revenues amounting to Euro 355.802 million disclosed an increase of 29% compared with the previous year. The increase is mainly attributable to greater sales volumes disclosed by industrial axles (38.52%), speed axles and those for trucks (30.4%) and industrial drivelines (51.21%).

The increase in sales of spare parts was also significant (30.7%).

The balance of sales has been affected by adjustments for exchange gains amounting to Euro 4.949 million. (gains of Euro 10.090 million in 2003) realized during the year relating to hedging transactions.

Foreign sales revenues amount in total to Euro 302.0 million as against Euro 223.6 million in 2003, disclosing an increase of 35% compared with the previous year and representing 84.9% of the total.

For further details on the performance of sales, reference should be made to the report on operations.

ANALYSIS OF THE INCOME STATEMENT AS OF 31 DECEMBER 2004
LETTER B – PRODUCTION COSTS

	Current year sub-total.	Previous year sub-total	Current year	Previous year
<u>6) RAW, ANCILLARY AND CONSUMABLE MATERIALS AND GOODS FOR RESALE</u>				
PURCHASES OF RAW MATERIALS	246,254,233	176,914,712		
RAW MATERIALS RETURNED	<u>-1,653,904</u>	<u>-1,639,937</u>		
PURCHASES	244,600,329	175,274,775		
VARIOUS CONSUMABLES	286,188	361,468		
CONSUMABLE TOOLING	959,476	1,070,064		
MAINTENANCE MATERIALS	860,403	848,326		
MATERIALS AND SERVICES FOR RESALE	44,902	18,778		
PREMIUMS AND DISCOUNTS - SUPPLIERS	<u>-758,190</u>	<u>-1,171,289</u>		
OTHER PRODUCTION COSTS	1,392,779	1,127,347		
6) RAW, ANCILLARY AND CONSUMABLE MATERIALS AND GOODS FOR RESALE			245,993,108	176,402,122
<u>7) SERVICES</u>				
EXTERNAL PROCESSING	22,675,495	15,308,888		
MAINTENANCE SERVICES	2,053,829	2,279,519		
VARIOUS INDUSTRIAL SERVICES	4,770,953	3,194,000		
TEMPORARY WORKSHOP WORK	2,474,226	799,060		
TRANSPORT AND FREIGHTAGE	2,394,816	1,784,634		
IMPORT CUSTOMS EXPENSES	<u>252,163</u>	<u>250,988</u>		
- EXTERNAL SERVICES FOR PRODUCTION	34,621,482	23,617,089		
WATER	30,628	29,939		
POWER	450,072	518,605		
GAS – METHANE	907,000	879,621		
FUEL FOR AUTO-TRACTION	<u>147,704</u>	<u>119,688</u>		
- SUNDRY SUPPLIES	1,535,404	1,547,853		
TRAVEL EXPENSE REIMBURSEMENT	1,498,124	1,211,564		
STATIONERY	244,104	231,125		
POSTAL AND TELEPHONE CHARGES	440,013	360,013		
VARIOUS EXTERNAL SERVICES	1,987,440	1,826,887		
LONG-TERM CAR HIRE	330,791	287,654		
TEMPORARY OFFICE WORK	289,736	130,900		
CONSULTANCY	1,634,897	1,614,296		
AUDITING	130,866	152,992		
DIRECTORS' EMOLUMENTS	1,870,800	1,335,520		
STATUTORY AUDITORS' EMOLUMENTS	53,550	52,114		
COMPANY INSURANCE POLICIES	916,103	777,210		
TECHNICAL ASSISTANCE CHARGES	1,430,703	1,416,816		
SUNDRY CORPORATE EXPENSES	<u>98,811</u>	<u>73,834</u>		
- GENERAL CORPORATE EXPENSES	10,925,938	9,470,925		
PRESS, TV AND ROAD ADVERTISING	52,277	33,410		
ADVERTISING EXPENSES	22,458	33,148		
TRADE FAIRS	294,311	154,710		

PROMOTIONAL EXPENSES	40,351	26,276		
ENTERTAINING EXPENSES	105,712	123,339		
SUNDRY COMMERCIAL EXPENSES	<u>57,961</u>	<u>16,122</u>		
- COMMERCIAL COSTS	573,070	387,005		
POST-SALES SERVICES	2,294,568	2,542,431		
UTILIZATION OF WARRANTY RESERVE	-2,294,567	-2,542,430		
EXPORT CUSTOMS EXPENSES	185,941	86,009		
TRANSPORT AND FREIGHTAGE OF SALES	5,676,925	2,218,863		
COMMISSION	1,157,902	1,474,498		
PACKAGING	158,977	77,597		
OTHER SALES EXPENSES	<u>146,419</u>	<u>73,367</u>		
- SALES EXPENSES	7,326,165	3,930,335		
7) SERVICES			54,982,059	38,953,207
8) USE OF THIRD PARTY ASSETS				
RENTAL EXPENSE	207,838	114,512		
ROYALTIES	<u>44,849</u>	<u>26,386</u>		
8) USE OF THIRD PARTY ASSETS			252,687	140,898
9) PAYROLL AND RELATED COSTS				
WAGES	11,827,607	11,570,577		
ADDITIONAL MONTH WAGE – BLUE-COLLAR WORKERS	1,800,653	1,410,833		
PROVISION FOR TERMINATION INDEMNITIES ACCRUED BY BLUE-COLLAR WORKERS	1,481	330		
SALARIES	10,615,769	9,543,666		
ADDITIONAL MONTH SALARY – OFFICE WORKERS AND EXECUTIVES	1,188,952	972,235		
PROVISION FOR TERMINATION INDEMNITIES ACCRUED BY OFFICE WORKERS AND EXECUTIVES	<u>1,039</u>	<u>7</u>		
A) WAGES AND SALARIES	25,435,501	23,497,648		
CONTRIBUTIONS ON WAGES	4,923,782	4,688,092		
CONTRIBUTIONS ON SALARIES	3,833,778	3,446,126		
TAX TREATMENT OF WAGES	-112,626	-100,473		
TAX TREATMENT OF SALARIES	<u>-89,903</u>	<u>-89,109</u>		
B) SOCIAL SECURITY CONTRIBUTIONS	8,555,031	7,944,636		
LENGTH OF SERVICE INDEMNITY – BLUE-COLLAR WORKERS	1,090,838	1,057,022		
LENGTH OF SERVICE INDEMNITY – OFFICE WORKERS AND EXECUTIVES	<u>876,963</u>	<u>842,134</u>		
C) EMPLOYEE TERMINATION INDEMNITIES	1,967,801	1,899,156		
D) PENSIONS AND SIMILAR COMMITMENTS				
PERSONNEL COSTS	265,009	152,916		
EMPLOYEE INSURANCE POLICIES	117,081	97,598		
COMPANY CANTEEN	<u>414,232</u>	<u>371,339</u>		
E) OTHER PERSONNEL COSTS	796,322	621,853		
9) PAYROLL AND RELATED COSTS			36,754,655	33,963,293
10) AMORTIZATION, DEPRECIATION AND WRITEDOWNS				
A) AMORTIZATION OF INTANGIBLE FIXED ASSETS	1,563,270	1,580,457		
ORDINARY DEPRECIATION OF BUILDINGS	517,240	510,868		
ORDINARY DEPRECIATION OF PLANT	1,241,280	1,417,502		
ORDINARY DEPRECIATION OF MACHINERY	2,203,811	2,515,365		
ORDINARY DEPRECIATION OF MEANS OF TRANSPORT	115,721	78,373		
ORDINARY DEPRECIATION OF FURNITURE AND FURNISHINGS	118,196	151,852		
ORDINARY DEPRECIATION OF OFFICE MACHINES	564,322	630,043		

ORDINARY DEPRECIATION OF EQUIPMENT AND TOOLS	3,597,330	3,752,410		
B) DEPRECIATION OF TANGIBLE FIXED ASSETS	8,357,900	9,056,413		
C) OTHER AMOUNTS WRITTEN-OFF FIXED ASSETS				
D) WRITEDOWN OF RECEIVABLES HELD AMONG CURRENT ASSETS				
10) AMORTIZATION, DEPRECIATION AND WRITEDOWNS			9,921,170	10,636,870
<u>11) CHANGES IN INVENTORIES OF RAW, ANCILLARY AND CONSUMABLE MATERIALS AND GOODS FOR RESALE</u>				
CHANGES IN INVENTORIES OF RAW MATERIALS	80,437	-354,452		
CHANGES IN INVENTORIES OF PURCHASED FINISHED PRODUCTS	-4,659,090	456,931		
CHANGES IN INVENTORIES OF ANCILLARY MATERIALS	-145,621	-512,445		
CHANGE IN INVENTORY WRITEDOWN RESERVE	257,156	344,028		
11) CHANGES IN INVENTORIES OF RAW, ANCILLARY AND CONSUMABLE MATERIALS			-4,467,118	-65,938
<u>12) PROVISIONS FOR RISKS</u>				
PROVISION FOR TAX RISKS	250,000			
12) PROVISIONS FOR RISKS			250,000	
<u>13) OTHER PROVISIONS</u>				
PROVISION FOR WARRANTIES	2,400,000	2,758,430		
PROVISION FOR PERIODIC MAINTENANCE	115,000			
13) OTHER PROVISIONS			2,515,000	2,758,430
<u>14) OTHER OPERATING EXPENSE</u>				
NON-DEDUCTIBLE EXPENSES	2,316	1,401		
MEMBERSHIP FEES	112,973	104,200		
SUBSCRIPTIONS TO PERIODICALS	37,478	42,332		
LISTED COMPANY DISCLOSURE EXPENSES	130,778	120,270		
INDIRECT TAXATION AND SUNDRY DUES	20,018	16,741		
DEDUCTIBLE TAXES AND LEVIES	34,090	16,644		
NON-DEDUCTIBLE TAXES AND LEVIES	107,641	107,858		
ORDINARY LOSSES ON TANGIBLE FIXED ASSETS	114,525	2,579		
VEHICLE ROAD TAX	28,322	23,390		
DISCOUNTS AND ROUNDING DOWNS	6,017	13,352		
SOCIAL UTILITY CHARGES	38,265	19,399		
OTHER EXPENSE	21,880	35,902		
14) OTHER OPERATING EXPENSE			654,303	504,068
PRODUCTION COSTS			346,855,864	263,292,950

Purchases of raw and ancillary materials and goods for resale rose from Euro 176,40 million to Euro 245.99 million. Also taking into account changes in inventories of raw, ancillary and consumable materials, the total value of consumables rose from Euro 176.3 million to Euro 241.5 million and represented 67.9% of sales as against 63.9% in the previous year; in this connection, mention should be made of the continuous increase in prices of materials which characterized 2004 when compared with last year.

Costs for services passed from Euro 38.95 million to Euro 54.98 million; as a percentage of sales revenues, these figures represented 14.1% and 15.4% respectively. The most significant changes included external industrial services, due to greater recourse to external processing services and temporary work, and transport on sales.

Post-sales services for acknowledgment under warranty incurred during the year amounted to Euro 2.30 million and were fully covered by means of utilization of the pre-established reserve. A product warranty reserve was provided for Euro 2.40 million, for potential warranty risks on products sold up until 31 December 2004.

Payroll and related costs increased in total by Euro 2.792 million when compared with 31 December 2003; both as a result of remuneration and related charges and other costs (training and other related charges).

Depreciation relating to tangible fixed assets passed from Euro 9.056 million in 2003 to Euro 8.358 million in 2004, without disclosing any particularly significant changes.

ITEM 15 OF THE EXPLANATORY NOTES

The number of employees as of 31 December, analyzed by category, was as follows:

	As of 31 Dec. 2004	As of 31 Dec. 2003
Executives	32	29
Office workers	227	224
Blue-collar workers	561	559
	-----	-----
Total employees	820	812
Temporary workers	93	32
Total	913	844

ITEMS 16, 19bis, 20, 21, 22 OF THE EXPLANATORY NOTES

Caption B 7) discloses remuneration due to the directors and the statutory auditors, as required by section 16) of Article 2427 of the Italian Civil Code.

The balance is analyzed as follows:

Remuneration of directors	Euro	1,870,800
Remuneration of statutory auditors:	Euro	53,550

In accordance with Article 78 of the regulations implementing Italian Legislative Decree 58 dated 24 February 1998 (adopted by CONSOB Resolution No. 12475 dated 6 March 2000), the list of remuneration paid as due to the directors, statutory auditors and general managers, for any reason and in any form, by subsidiary companies or otherwise, is attached to this document.

The Company has not received any loans from shareholders.

As required by Article 2447-*septies*, section 3 of the Italian Civil Code, it is hereby stated that the Company has not established assets intended for specific business affairs.

As required by Article 2447-*decies*, section 8 of the Italian Civil Code, it is hereby stated that the Company has no loans intended for specific business affairs.

During the year, no financial lease transactions were entered into.

ANALYSIS OF THE INCOME STATEMENT AS OF 31 DECEMBER 2004
LETTER C – FINANCIAL INCOME AND EXPENSE

	Current year sub-total	Previous year sub-total	Current year	Previous year
15) INCOME FROM EQUITY INVESTMENTS				
DIVIDENDS FROM EQUITY INVESTMENTS	4,000,000	4,884,061		
TAX CREDITS ON DIVIDENDS		2,747,284		
15) INCOME FROM EQUITY INVESTMENTS	4,000,000	7,631,345	4,000,000	7,631,345
16) OTHER FINANCIAL INCOME				
A) FROM RECEIVABLES CLASSIFIED AMONG FIXED ASSETS	11,159	18,307		
B) FROM SECURITIES CLASSIFIED AMONG FIXED ASSETS				
OPENING BALANCE	-73,000	-2,235,117		
SALES		2,162,166		
CLOSING BALANCE	73,000	73,000		
COUPONS	1,971	16,836		
C) FROM SECURITIES CLASSIFIED AMONG CURRENT ASSETS	1,971	16,885		
INTEREST INCOME ON LOANS - SUBSIDIARIES	819,432	1,004,128		
- INTEREST INCOME FROM SUBSIDIARIES	819,432	1,004,128		
INTEREST INCOME ON LOANS - ASSOCIATED COMPANIES	1,683	2,155		
- INTEREST INCOME FROM ASSOCIATED COMPANIES	1,683	2,155		
INTEREST INCOME FROM BANKS	238,585	46,037		
INTEREST INCOME FROM LOANS	31,072	33,655		
INTEREST INCOME ON LOAN TRANSACTIONS	248,041	635,351		
INTEREST INCOME FROM CUSTOMERS	1,625	59,846		
INTEREST INCOME FROM THE TAX AUTHORITIES	218	25,666		
OTHER INTEREST INCOME		249		
HEDGING TRANSACTION DIFFERENTIALS	20,739	133,551		
-OTHER INTEREST AND INCOME	540,280	934,355		
D) INCOME OTHER THAN THE ABOVE	1,361,395	1,940,638		
16) OTHER FINANCIAL INCOME			1,374,525	1,975,830
17) INTEREST AND OTHER FINANCIAL EXPENSE				
OTHER INTEREST EXPENSE FROM SUBSIDIARIES	-2,682,698	-2,831,942		
INTEREST AND OTHER EXPENSE FROM SUBSIDIARY COMPANIES	-2,682,698	-2,831,942		
INTEREST EXPENSE FROM BANKS	-2,162,412	-3,915,858		
INTEREST EXPENSE FROM THIRD PARTIES	-179,042	-303,511		
BANK COMMISSION AND CHARGES	-52,632	-71,378		
- OTHER INTEREST AND EXPENSE	-2,394,086	-4,290,747		
17) INTEREST AND OTHER FINANCIAL EXPENSE			-5,076,784	-7,122,689
17-bis) EXCHANGE GAINS AND LOSSES				
EXCHANGE LOSSES	-2,152,736	-4,082,754		
EXCHANGE GAINS	2,000,726	4,054,350		

17-bis) EXCHANGE GAINS AND LOSSES
INCOME AND EXPENSE

<u>-152,010</u>	<u>-28,404</u>
145,731	2,456,082

ITEM 12 OF THE EXPLANATORY NOTES

The balance of income from equity investments of Euro 4.00 million refers to dividends authorized by Siap S.p.A. during the year.

In total, net financial expense amounts to Euro 3.854 million compared with a balance of Euro 5.175 million in the previous year. If one excludes exchange differences (which during the year presented a negative balance of Euro 0.152 million against a balance of Euro 0.028 million in 2003) and income from equity investments, net financial expense amounts to Euro 3.702 million as against Euro 5.147 million in the previous year.

The incidence on turnover, without considering the exchange differences, came to 1.04% compared with 1.87% in 2003.

Net exchange gains totalled Euro 0.152 million (Euro 0.028 million as of 31 December 2003); the balances includes net exchange losses from an adjustment to the year end exchange rate for a total of Euro 0.226 million.

ANALYSIS OF THE INCOME STATEMENT AS OF 31 DECEMBER 2004
LETTER D - ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS

18) REVALUATIONS

A) OF EQUITY INVESTMENTS

B) OF FINANCIAL FIXED ASSETS

C) OF SECURITIES HELD AS CURRENT ASSETS

18) REVALUATIONS

19) WRITEDOWNS

A) OF EQUITY INVESTMENTS

5,141,623 2,453,113

B) OF FINANCIAL FIXED ASSETS

C) OF SECURITIES HELD AS CURRENT ASSETS

19) WRITEDOWNS**5,141,623 2,453,113****VALUE ADJUSTMENTS TO FINANCIAL ASSETS****5,141,623 2,453,113**

The writedowns of equity investments amounting to Euro 5.142 million, as already commented on, concern the following companies:

- Carraro International S.A. for Euro 2.311 million;
- Agritalia S.p.A. for Euro 2.831 million.

ANALYSIS OF THE INCOME STATEMENT AS OF 31 DECEMBER 2004
LETTER E – EXTRAORDINARY INCOME AND EXPENSE

	Current year sub- total	Previous year sub- total	Current year	Previous year
20) EXTRAORDINARY INCOME AND GAINS ON DISPOSAL				
OUT-OF-PERIOD INCOME	328,614	35,732		
OTHER INCOME	-1,894	73,737		
- OTHER INCOME	326,720	109,469		
- GAINS ON THE EXTRAORDINARY DISPOSAL OF ASSETS	78,815	14,465		
- TAXATION RELATING TO PREVIOUS YEARS	1,211,231			
20) EXTRAORDINARY INCOME AND GAINS ON DISPOSALS			1,616,766	123,934
21) EXTRAORDINARY EXPENSE AND LOSSES ON DISPOSALS				
OUT-OF-PERIOD EXPENSE	-367,264	-196,249		
OTHER EXPENSE	-1,025,811	-31,256		
- OTHER EXPENSE	-1,393,075	-227,505		
- TAXATION RELATING TO PREVIOUS YEARS	-1,198,922	-18,494		
21) EXTRAORDINARY EXPENSE AND LOSSES ON DISPOSALS			-2,591,997	-245,999
EXTRAORDINARY INCOME AND EXPENSE			-975,231	-122,065

ITEM 13 OF THE EXPLANATORY NOTES

The items relating to extraordinary income and expense present a total balance of Euro -0.975 million.

Taxes relating to previous years had been recorded among both income and expense as a result of the resolution of the general shareholders' meeting which, when allocating the net income, opted for the deduction of accelerated depreciation in the income tax declaration for the 2003 tax year.

The balance of the item "other expense" totalling Euro 1.026 million includes the provision relating to the charges to be incurred for the closure and the production reallocation of the Korean factory (Euro 0.700 million)

The other balances refer to amounts acknowledged by suppliers and by customers and other ordinary adjustments of minor significance in relation to the volume of activities.

ITEM 14 OF THE EXPLANATORY NOTES

Current income taxes for the year have been estimated by applying the rates anticipated by tax legislation, specifically Euro 3.523 million for IRES (company earnings' tax) and Euro 2.450 million for IRAP (regional business tax).

ANALYSIS OF THE INCOME STATEMENT AS OF 31 DECEMBER 2004 INCOME TAXES FOR THE YEAR

	Current year sub-total	Previous year sub-total	Current year	Previous year
IRPEG – corporate income tax		1,885,281		
IRES – company earnings' tax	3,523,414			
IRAP – regional business tax	2,449,556	2,193,173		
DEFERRED TAXATION	<u>-1,459,005</u>	<u>1,451,141</u>		
22) INCOME TAXES FOR THE YEAR			4,513,965	5,529,595

The table below contains a description of the timing differences which have led to the recording of deferred tax assets (Euro 3.205 million). No items have been excluded from the calculation.

Description of timing difference	Prepaid tax 31 Dec. 2003			Adjustments for the year			Change for the year			Prepaid tax 31 Dec. 2004		
	Taxable amount	IRES 33.00%	IRAP 4.25%	Taxable amount	IRES 33.00%	IRAP 4.25%	Taxable amount	IRES 33.00%	IRAP 4.25%	Taxable amount	IRES 33.00%	IRAP 4.25%
Deductible differences												
Writedown of equity investments(1)	4,212,787	1,390,220	0				3,224,164	1,063,974	0	7,436,951	2,454,194	0
Directors' emoluments	250,000	82,500	0				687,800	226,974	0	937,800	309,474	0
Inventory writedown reserve	2,900,000	957,000	123,250				1,030,000	339,900	43,775	3,930,000	1,296,900	167,025
Product warranty reserve	3,500,000	1,155,000	148,750				105,433	34,793	4,481	3,605,433	1,189,793	153,231
Restructuring reserve	836,122	275,920	0				703,878	232,280	0	1,540,000	508,200	0
Periodic maintenance reserve	0	0	0				115,000	37,950	4,888	115,000	37,950	4,888
Maintenance costs	239,843	79,148	10,193				-147,087	-48,539	-6,251	92,756	30,609	3,942
Other costs	106,094	35,011	4,509				-9,771	-3,224	-415	96,323	31,787	4,094
Taxable differences												
Allowance for doubtful receivables (Article 109 ITCA)	0	0	0				-532,709	-175,794	0	-532,709	-175,794	0
Amortization/depreciation pursuant to Article 109 of ITCA (2)	-3,548,584	-1,171,033	-150,815	-3,204,990	-1,057,647	-136,212	-794,056	-262,038	-33,747	-7,547,630	-2,490,718	-320,774
Total	8,496,262	2,803,766	135,888	-3,204,990	-1,057,647	-136,212	4,382,652	1,446,275	12,730	9,673,924	3,192,395	12,405

Notes:

- (1) in the writedowns of equity investments, the change of Euro 3.224 million was determined by writedowns (Euro 6.698 million) not considered in the calculation of deferred taxation for the previous year (in 2004 it was considered, having achieved the condition of reasonable certainty regarding their possible recovery in the future) and by the portion of writedowns pertaining to previous years deducted in 2004 (Euro 3.224 million);
- (2) the adjustment of the amortization/depreciation pursuant to Article 109 of the Income Tax Consolidation Act (ITCA) refers to accelerated depreciation deducted for the 2003 tax period, as authorized by the general meeting of the shareholders at the time of the allocation of the net income, which led to the recording of previous year's taxes for Euro 1.194 million).

There are no tax losses for the year or for previous years to be recovered.

RECONCILIATION OF THE ORDINARY TAX RATE AND THE EFFECTIVE TAX RATE:

IRPEG – corporate income tax / IRES – company earnings' tax	Previous year	Current year
Ordinary tax rate applicable	34.00%	33.00%
Effect of the increases (decreases) with respect to the ordinary rate:		
Exempt income	-0.03%	-0.11%
Dividends	0.00%	-11.62%
Non-deductible costs - IRPEG/IRES	1.16%	18.48%
Other permanent differences (1)	-10.13%	-20.50%
DIT concessions	-0.23%	
Effective rate	24.77%	19.25%

(1) other permanent differences include the effect of the portions of writedowns on equity investments (as already described).

IRAP – regional business tax	Previous year	Current year
Ordinary tax rate applicable	4.25%	4.25%
Effect of the increases (decreases) with respect to the ordinary rate:		
Exempt income	-0.62%	-1.03%
Dividends	-2.26%	-1.58%
Non-deductible costs - IRAP	13.03%	17.85%
Non-deductible costs- IRPEG/IRES	0.14%	1.06%
Other permanent differences	0.65%	2.03%
Effective rate	15.19%	22.58%

These financial statements, comprising the balance sheet, the income statement and the explanatory notes, provide a true and fair view of the equity and financial position as well as of the economic results for the year and are consistent with the underlying accounting records.

The Chairman

(Mario Carraro)

CARRARO S.p.A.**STATEMENT OF EQUITY INVESTMENTS GREATER THAN 10% AS OF 31 DECEMBER 2004** (Article 126 Draghi Reg. of the Consob 11971/1999)**1) DIRECTLY HELD INTERESTS**

Company	Registered offices	Share capital		Total number of shares /holdings	Number of shares /holdings held	Total number of voting rights	Number of voting rights held	Shareholders' equity as of 31 Dec. 2004 (Euro equivalent) with ref. to Italian Legislative Decree No. 127/91	Net income (loss) for the year 2004 (Euro equivalent) with ref. to Italian Legislative Decree No. 127/91	Shareholding as of 31 Dec. 2004	Book value of investment (Euro)
		Currency	Amount								
SIAP SPA	MANIAGO, PN (ITALY)	EURO	10,122,616	10,122,616	10,122,616	10,122,616	10,122,616	17,703,304	2,568,336	100.00%	11,747,161
CARRARO DEUTSCHLAND GmbH	HATTINGEN (GERMANY)	EURO	10,507,048	1	1	1	1	8,855,528	(16,114)	100.00%	8,893,090
CARRARO INDIA Ltd.	NEW DELHI (INDIA)	RUPEE	400,000,000	40,000,000	20,400,000	40,000,000	20,400,000	2,645,074	789,066	51.00%	2,833,000
CARRARO ARGENTINA S.A.	HAEDO (ARGENTINA)	ARS	25,809,288	25,809,288	25,783,479	25,809,288	25,783,479	20,448,943	5,120,780	99.90%	20,371,730
CARRARO INTERNATIONAL S.A.	LUXEMBOURG	EURO	9,850,000	9,850	9,849	9,850	9,849	2,961,377	(2,295,424)	99.99%	2,961,100
FON S.A.	RADOMSKO (POLAND)	PLZ	7,058,220	705,822	623,026	901,214	818,418	1,579,370	89,659	88.27%	1,326,844
A.E. S.r.l.	CASTELLO D'ARGILE (BOLOGNA), ITALY	EURO	10,000	10,000	9,000	10,000	9,000	(28,320)	(38,320)	90.00%	9,000
Agritalia S.p.A. (1)	ROVIGO (ITALY)	EURO	6,680,648	12,847,400	4,282,467	12,847,400	4,282,467	(70,545)	(6,016,556)	33.33%	0
Elcon S.r.l.	TRIESTE (ITALY)	EURO	50,000	50,000	12,450	50,000	12,450	63,641	1,461	24.90%	12,450

2) INDIRECTLY HELD INTERESTS

Company	Registered offices	Holding company (direct parent company)	Share capital		Total number of shares /holdings	Number of shares /holding held	Total number of voting rights	Number of voting rights held	Shareholders' equity as of 31 Dec. 2004 (Euro)	Net income (loss) for the year 2004 (Euro equivalent)	Shareholding as of 31 Dec. 2004	Book value of investment (Euro)
			Currency	Amount								
STM S.r.l.	MANIAGO, PN (ITALY)	SIAP S.p.A.	EUR	1,549,080	1,549,080	774,540	1,549,080	774,540	5,532,620	565,826	50.00%	769,263
O&K Antriebstechnik & Co. GmbH KG	HATTINGEN (GERMANY)	CARRARO DEUTSCHLAND GmbH	EUR	2,045,168	1	1	1	1	5,164,864	1,596,433	100.00%	8,040,315
CARRARO KOREA Ltd.	ULSAN (KOREA)	CARRARO INTERNATIONAL S.A.	KRW	3,000,000,000	600,000	600,000	600,000	600,000	0	(637,753)	100.00%	0
CARRARO NORTH AMERICA Inc.	CALHOUN (GA - U.S.A.)	CARRARO INTERNATIONAL S.A.	US\$	100	100	100	100	100	3,246,258	(1,200,850)	100.00%	4,075,530
CARRARO PNH COMPONENTS INDIA Ltd.	MUMBAI (INDIA)	CARRARO INDIA Ltd.	RUP	10,000,200	1,000,020	1,000,000	1,000,020	1,000,000	162,983	-	99.99%	173,665
TURBO GEARS INDIA Ltd.	PUNE (INDIA)	CARRARO INDIA Ltd.	RUP	100,001,000	10,000,100	2,000,000	10,000,100	2,000,000	1,668,898	-	19.99%	347,381
TURBO GEARS INDIA Ltd.	PUNE (INDIA)	CARRARO INTERNATIONAL S.A.	RUP	100,001,000	10,000,100	8,000,800	10,000,100	8,000,080	1,668,898	-	80.00%	1,365,201

NOTE: The shareholders equity and the net result of the foreign companies indicated in the previous tables have been converted using the exchange rate as of 31 December 2004 and the average exchange rate for 2004, respectively.

[*] or in the absence thereof, as emerging from the last set of approved financial statements

(1) shareholders' equity and net result as per the balance sheet and income statement as of 30 November 2004

**FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004
ATTACHMENT TO THE EXPLANATORY NOTES**

**REMUNERATION PAID TO DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS
Italian Legislative Decree No. 58 dated 24 February 1998 - Article 78 of Consob Resolution No. 12475 dated 6 April 2000 -
Attachment 3C – Schedule No. 1**

INDIVIDUAL	DESCRIPTION OF OFFICE			REMUNERATION
	Name and Surname	Company	Office covered	(Euro '000s) Year 2004
Mario Carraro	Carraro S.p.A.	Chairman and Managing Director	Three-year period 2003-2005 (shareholders' meeting dated 14 May 2003)	830,0
	SIAP S.p.A.	Chairman and Managing Director	Three-year period 2003-2005 (shareholders' meeting dated 29 May 2003)	30,0
Gabriele Del Torchio	Carraro S.p.A.	Managing Director	Three-year period 2003-2005 (shareholders' meeting dated 14 May 2003)	672,0
	SIAP S.p.A.	Managing Director	Three-year period 2003-2005 (shareholders' meeting dated 29 May 2003)	60,0
Francesco Carraro	Carraro S.p.A.	Director	Three-year period 2003-2005 (shareholders' meeting dated 14 May 2003)	30,0
Enrico Carraro	Carraro S.p.A.	Director	Three-year period 2003-2005 (shareholders' meeting dated 14 May 2003)	60,0
Tomaso Carraro	Carraro S.p.A.	Director	Three-year period 2003-2005 (shareholders' meeting dated 14 May 2003)	230,0
	SIAP S.p.A.	Directors	Three-year period 2003-2005 (shareholders' meeting dated 14 May 2003)	20,0
Onofrio Tonin	Carraro S.p.A.	Director	Three-year period 2003-2005 (shareholders' meeting dated 14 May 2003)	90,0
Antonio Ceola	Carraro S.p.A.	Director	Three-year period 2003-2005 (shareholders' meeting dated 14 May 2003)	50,0
Giorgio Brunetti	Carraro S.p.A.	Director	Three-year period 2003-2005 (shareholders' meeting dated 14 May 2003)	60,0
Sergio Erede	Carraro S.p.A.	Director	Three-year period 2003-2005 (shareholders' meeting dated 14 May 2003)	40,0
Antonio Cortellazzo	Carraro S.p.A.	Chairman of the Board of Statutory Auditors	Three-year period 2003-2005 (shareholders' meeting dated 14 May 2003)	22,5
Francesco Secchieri	Carraro S.p.A.	Statutory Auditor	Three-year period 2003-2005 (shareholders' meeting dated 14 May 2003)	15,0
	SIAP S.p.A.	Statutory Auditor	Three-year period 2003-2005 (shareholders' meeting dated 29 May 2003)	9,5
Renzo Lotto	Carraro S.p.A.	Statutory Auditor	Three-year period 2003-2005 (shareholders' meeting dated 14 May 2003)	15,0

INFORMATION CONCERNING RELATED PARTIES (in accordance with Consob Communication DEM/2064231 dated 30 September 2002).

During the 2004 accounting period, fees were paid for professional services to the following individuals, associated with the members of the corporate bodies:
(in Euro '000s)

Studio Bonelli, Erede, Pappalardo
Studio Mocellini

67
80