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 DECEMBER 31, 2005

REPORT ON OPERATIONS

Shareholders,
The Parent Company generated sales revenues of Euro 433.099 million, up by 23.4% when compared with the Euro 350.853 million as of December 31 2004 - growth which falls to 7.2% in consistent terms - not considering the sales revenues generated by the new *Vehicles & Powertrains Business Unit*. Contributions to this increase came from the higher volumes of traditional axles (+ 6%) and the greater volumes of drivelines (+ 12%), in both cases in the industrial segment.
Exports weighed in for 86.1% compared with 84.7% as of December 31 2004. The areas were the majority of sales went were: the U.S.A. with 24.6% (28.8% as of December 31 2004) and the European Union (Italy excluded) with 52.2% (46.4% as of December 31 2004).
The same considerations are also valid for the Parent Company with regards to the difficulty in comparing the balances of the two accounting periods, consequent to the initial application of the IAS, and additional amortization/depreciation in 2004 deriving from the revaluation of the fixed assets at the same time.
Therefore, it is necessary to use the following table for commenting on the operating margin, which as of December 31 2005 amounted to Euro 11.174 million, 2.6% of sales revenues, compared with Euro 3.554 million in 2004, 1% of sales revenues:

	2004	%	2005	%
Operating margin	3.554	1%	11.174	2.6%
Additional amortization/depreciation	6.849		0	
Exchange difference on sales revenues	4.949		(1.381)	
Adjusted operating margin	15.352	4.3%	9.793	2.3%
Adjusted sales revenues	355.802		431.718	

Balances in thousands of Euro

Policies applied being equal, the adjusted operating margin was therefore down with respect to the previous year's balance.
This reduction, already commented on during the year, is attributable to the higher purchasing costs, only partly recharged to customers, the diluting effect (0.6 in percentage terms on sales revenues) deriving from the consolidation of the Vehicles & Powertrains Business Unit from April 2005 and the increase in overheads, Euro 2.5 million, in the engineering area, due to the enhancement of the R&D activities.
Financial expense decreased by 20.7% to Euro 2.935 million, 0.7% of sales revenues, compared with Euro 3.702 million in 2004, 1% of sales revenues due to the lower indebtedness and lower cost of money.
The figure as of December 31 2005 also included the revenues totalling Euro 360 thousand relating to the positive fair value of the derivative instruments hedging the rate risk.
Exchange differences as of December 31 2005 presented a loss of Euro 3.855 million, as compared with gain of Euro 4.797 million as of 31 December 2004.
The figures are not comparable as a result of the introduction of the fair value valuation of derivative instruments as from January 1 2005 disciplined by IAS 32 and 39 standards. The valuation of those outstanding as of December 31 2005 and the recovery of the opening equity fair value as of January 1 2005, disclosed a total loss of Euro 2.527 million, recorded in the income statement under exchange differences. Net of this loss, the exchange differences would in any event have disclosed a loss of Euro 1.381 million due to the revaluation of the US dollar. During 2005, the Parent Company generated income due to dividends resolved by the subsidiaries SIAP S.p.A. totalling Euro 2 million and Carraro Argentina amounting to Euro 2.214 million (Euro 4.000 million as of December 31 2004) and took steps to cover the losses of the subsidiary A.E. (Assali Emiliani), by means of the partial waiver of the financial receivable due from the same, for a total of Euro 1.028 million.
After a careful analysis of the benefit involved, in consideration of the limited financial impact and the future prospects, the company decided to realign the book and tax values as permitted by Italian Law No. 266 dated December 23 2005 (2006 Finance Bill). This choice generated an accounting effect of considerable importance due to the difference between the value of the taxes on the revaluations of the fixed assets for IAS purposes, calculated using the tax rate of 37.25%, and recorded in the financial statements as of December 31 2004, and the value of the substitute tax envisaged by the afore-mentioned law equating to 12% calculated on the same revaluation. This difference disclosed a positive balance of Euro 9.071 million and, in accordance with the matters indicated by the IAS standards, was recorded in the 2005 income statement. For a more in-depth analysis, reference should be made to the notes attached to the financial statements.
The 2005 accounting period closed with net income of Euro 12.179 million, 2.8% of sales revenues compared with net income as of December 31 2004 of Euro 1.267 million, 0.4% of sales revenues. Considering the effects net of taxation of the IAS/IFRS adjustments in both accounting periods, the adjusted results would have disclosed net income of Euro 4.217 million as of December 31 2005 and net income of Euro 6.276 million as of December 31, 2004.
Amortization and depreciation totalling Euro 8.444 million, was down with respect to the balance of Euro 16.456 million as of December 31 2004 which had been affected by the afore-mentioned retrospective application of the IAS standards.

This generated a cash-flow of Euro 20.623, as against Euro 17.723 million as of December 31 2004.
Gross investments during 2005 amounted to Euro 8.313 million, compared with Euro 6.063 million as of December 31 2004, and mainly involved models and equipment for the launch of new products and the re-location of the purchases.
The net financial position disclosed debt of Euro 19.011 million, compared with Euro 36.937 million as of June 30 2005 (Euro 43.118 million as of December 31, 2004).
The headcount as of December 31 2005, including temporary staff, totalled 1,038, of which 222 Agritalia, and 1,135 as of June 30 2005 (913 as of 31 December 2004, not including Agritalia).

ANALYSIS BY SECTOR OF ACTIVITIES

Sales

Carraro SpA sales revenues during 2005 saw an increase of 23.4%, generated by the increase in driveline sales – axles and drivelines – in the construction equipment segment, and by the consolidation of the Agritalia division from April which contributed for Euro 57 million.
The increases in sales revenues in the construction equipment segment is much more important because it was achieved in the face of important relocation activities for certain product families in Poland and in Argentina.
Agritalia's contribution is greatly reflected in the geographic distribution of the sales, with an important increase in the German, French and Spanish markets, while the increase in penetration into East European markets made it possible to essentially maintain sales revenues stable in the agriculture segment against a downwards trend affecting the world market.

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

Product line	***Dec. 31, 2005***	***Dec. 31, 2004***	***Δ % Dec. 31, 2005 Dec. 31, 2004***
Traditional axles	243.716	229.859	+6%
Light vehicle axles and undercarriages	27.236	28.063	-2.9%
Tractors	64.713	n.a.	n.a.
AG Drivelines	2.587	2.944	-12.1%
CE Drivelines	32.886	29.365	+12%
Cam phaser transformers	3.228	3.288	-1.8%
Friction clutches	487	906	-46.2%
Spare parts	29.985	26.288	+14.1%
Sundry	28.261	30.140	-6.2%
TOTAL	**433.099**	**350.853**	**+23.4%**

Breakdown of sales by product line (%)

Product line	***Dec. 31, 2005 %***	***Dec. 31, 2004 %***
Traditional axles	56.3%	65.5%
Light vehicle axles and undercarriages	6.3%	8.0%
Tractors	14.9%	n.a.
AG Drivelines	0.8%	1.1%
CE Drivelines	7.6%	8.4%
Cam phaser transformers	0.7%	0.9%
Friction clutches	0.1%	0.3%
Spare parts	6.9%	7.5%
Sundry	6.4%	8.3%

Headcount

Employees in service as of December 31 2005 (short-term contracts and temporary employment contracts) amounted to 1,038 units (distributed among the works and the units: Campodarsego 654, Capriate 3, Gorizia 141 and Rovigo spare parts and Agritalia 240; of these, 699 are represented by blue-collar workers) compared with 913 units (Campodarsego 754, Gorizia 157 and Rovigo only for spare parts 17) as of December 31 2004 (of which 643 blue-collar workers).

Furthermore, during the year, the plan for the detection of the “job profiles” continued, with the aim of detecting the organizational characteristics of the roles, making a comparison between the skills highlighted and those effectively existing, and of adapting the skills to the corporate strategic plan.

Research and Innovation

During 2005, the Group Engineering division, on a consistent basis with the corporate strategic objectives, further implemented the Innovation and Development activities within the Product, Organization and Systems sphere.

The Product Platforms launched important "technological development" and "product portfolio expansion" projects; particularly, the drivelines sector made a significant undertaking with regards to Product Re-development activities, both in the Construction Equipment and Agriculture sectors.

Additional important innovation involved the launch of the introduction of a PLM-“Product Lifecycle Management” platform, which will make it possible to handle the growing complexity of products and processes and will also make it possible to support innovation as the driving element within the product development activities.

The platform will make it possible to handle all the activities and the information linked to the product, from the concept to the phase-out, bringing significant benefits to the consolidation of the know-how, the implementation of the business processes, the improvement of communications and extended collaboration, and the standardization and the traceability of the product information.

Of no less importance was the consolidation and improvement of the strategic activities launched previously.
From this standpoint, the enhancement of the Systems and New Technologies area was completed, considerably increasing the integration between the hydraulic, electronic and mechanical skills; this encouraged the introduction of a systematic approach to the development of the product and led to greater and more widespread use of new integrated and multi-disciplinary solutions.

For the purposes of the tax deduction from the IRAP (regional business tax) basis of the cost of personnel employed in innovation activities (Article 11 of Italian Legislative Decree No. 446/1997), during 2005 studies and trials were carried out, occupying part of the resources involved in both the development and manufacturing phases; in detail, research activities were carried out for the development of the following projects:
- development of applications and instruments for the advanced handling of corporate data and information and for strategic planning;
- development and implementation of instruments for accounting management;
- study, engineering and set-up and new layouts and measures for rendering production efficient;
- set-up and activation of new production units, relocation;
- development and bringing onto stream of advanced instruments for the supply chain management and for rendering logistics efficient;
- product costing (benchmarking);
- manufacturing strategy;
- R&D activities and projects carried out within Carraro and Agritalia.

A total cost for the staff employed in research and development activities amounting to Euro 3.39 million was incurred during 2005 for the specific activities described above, significant for the purposes of the tax deduction from the taxable base for Irap purposes (Article 11 of Italian Legislative Decree No. 446/1997).

SIGNIFICANT EVENTS IN 2005

On March 24, 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 was that of business rental; the salient elements have been fully described in the 2004 report.
The Group’s strategic plan already envisaged the reinforcement of the positioning as leading supplier of the powertrains sub-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 was absorbed within the Group, in a new Business Unit, entitled “Powertrains”, placed under the direct subordination of the CEO.
On June 28, a medium-term loan agreement was entered into for a total of Euro 100 million, granted by leading banks. The transaction, whose purpose is to support the Group’s growth and internationalization strategy, has taken place a year early with respect to the expiry of the Euro 100 million bond, issued in May 2001 by Carraro International S.A., which had already been re-acquired and partially

cancelled in 2004, thereby reducing the balance falling due in May 2006 to Euro 74.4 million.
As of June 30 2005, the Chief Executive Officer's (Gabriele Del Torchio) role within the Carraro Group came to an end and on December 21 2005 (effective as of January 11, 2006) the new Group CEO was appointed, Carlo Borsari.
On December 6 2005, Turbo Gears India Ltd. was opened, a new plant specialized in the production of gears and components for the automotive industry. By means of a total investment which on conclusion of the project will amount to Euro 20 million, the new production unit has sprung up alongside Carraro India, covering a total surface area of 80 thousand sq.m., of which 12 thousand covered, and it has already started operations employing 96 individuals.

SHARE PERFORMANCE

During 2005, Carraro stock reported an official average price of Euro 4.067. During the first few months of the year, the value of the stock disclosed a bullish trend, disclosing a maximum listed price on April 22 2005 of Euro 4.585, after which showed a downwards trend until November 30 2005, the day on which the minimum price for the year was recorded, equating to Euro 3.347. During the first quarter of 2006, stock listings were up and down, disclosing a period maximum of Euro 3.771 on January 6 2006 and a minimum of Euro 3.426 on February 10 2006.

PERFORMANCE AND FORECASTS FOR 2006

By way of concluding the report for the 2005 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 2006.
The market trend at the beginning of 2006 continued in line with the previous second half of the year without showing any particular signs of recovery.
Average capacity construction equipment performances were essentially stable in North America and in Europe, while higher capacity machines disclosed growth.
The agriculture sector also showed stamina in North America, but a drop on the European market. The South American situation was generally weak, contrasting with the favourable trend of China and India.
With regards to the industrial set up, action is currently underway for speeding up the relocation process, aimed at containing costs and a greater balancing of the supply chain.
However, the greatest efforts are being focused on the product, both in terms of standardization of the current portfolio and so as to extend our offer: the latter activities could be achieved by means of alliances or acquisitions.
All this suggests that, despite being faced with a somewhat lacklustre market, our sales revenues will in any event increase further with respect to the past.

MANAGEMENT AND TYPE OF FINANCIAL RISKS

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

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

The main objectives indicated by the policy are as follows:

A) *Exchange rate risks:*

1) hedge all the transactions, both trade and financial, from the fluctuation risk.
2) observe, as far as is possible, a "currency balance" logic when hedging the risk, favouring the off-setting between the foreign currency revenues and costs and the foreign currency receivables and payables, so as to activate the related hedge solely for the excess balance not offset.
3) do not permit the use or holding of derivative and similar instruments solely for trading purposes.
4) permit the use of just instruments traded on organized markets, for hedging transactions.

B) *Interest rate risks:*
1) hedge financial assets and liabilities from the risk of changes in interest rates.
2) observe, when hedging the risk, the general criteria of balance between investments and uses defined for the Group by Carraro S.p.A.'s Board of Directors at the time of approval of the long-term plans and the budget (floating rate and fixed rate portion, short-term and medium/long-term portion).
3) permit the use of just instruments traded on organized markets, for hedging transactions.

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.

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
Antonio Cortellazzo, Director
For a complete analysis of the balance sheet and income statement figures for the

accounting period ended December 31 2005, reference should be made to the explanatory notes accompanying the financial statements.

Shareholders,
The financial statements as of December 31 2005, which we invite you to approve as presented, closed with net income of Euro 12,178,693, which we propose be allocated as follows:

- Euro 608,935, 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 6,319,758, to the extraordinary reserve

The Chairman

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Mario Carraro

Carraro S.p.A.

STATUTORY FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2005

CARRARO SPA

VIA OLMO 37

35011 CAMPODARSEGO (Padua), Italy

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

CORPORATE STRUCTURE AS OF DECEMBER 31, 2005

BOARD OF DIRECTORS In office until approval of 2005 financial statements (Appointments, Shareholders' meeting dated May 14 2003 -Granting of powers, BoD resolution dated May 29 2003)	**MARIO CARRARO**	Chairman and Chief Executive Officer
	CARLO BORSARI	Director
	FRANCESCO CARRARO	Director
	ENRICO CARRARO	Director
	TOMASO CARRARO	Director
	GIORGIO BRUNETTI (1)	Director
	ANTONIO CORTELLAZZO (1) (2)	Director
	SERGIO EREDE (2)	Director
	ONOFRIO TONIN (1) (2)	Director

(1) Members of the Internal Auditing Committee

(2) Members of the Emoluments Committee

BOARD OF STATUTORY AUDITORS In office until approval of the 2005 financial statements (Appointments, Shareholders' meeting dated May 14 2003)	**ROBERTO SACCOMANI**	Chairman
	FRANCESCO SECCHIERI	Acting Auditor
	RENZO LOTTO	Acting Auditor
	FABRIZIO PINATO	Alternate Auditor
	GIUSEPPE ATTARDO PARRINELLO	Alternate Auditor

INDEPENDENT AUDITING FIRM: **Reconta Ernst & Young S.p.A.**
THREE-YEAR PERIOD 2004-2005-2006

PARENT COMPANY: **Finaid Srl**

In accordance with and for the purposes of Consob Communication No. 97001574 dated February 20 1997, shareholders are hereby informed that:

The Chairman Mr. Mario Carraro is vested with the legal representation of the Company and may sign on behalf of the same in dealings with third parties and the legal authorities; he exercises his activities within the sphere of the powers granted him by the Board of Directors during the meeting held on May 29 2003, in observance of the applicable legal restriction, with regards to matters which cannot be delegated by the Board of Directors and the reservations of responsibility in favour of said Board, as well as the principles and limits contemplated by the Company's Code of Self-Governance.

INCOME STATEMENT AS OF DECEMBER 31, 2005

	Note:	Dec. 31, 2005	Dec. 31, 2004
A) REVENUES FROM SALES	**1**		
1) Products		419,848,490	336,279,306
2) Services		3,118,919	1,944,255
3) Other revenues		10,131,539	12,629,444
TOTAL REVENUES FROM SALES		433,098,948	350,853,005
B) OPERATING COSTS	**2**		
1) Purchases of goods and materials		324,034,249	245,993,108
2) Services		57,632,770	55,295,963
3) Use of third-party goods and services		1,599,723	252,687
4) Payroll and related costs		43,917,419	36,922,466
5) Amortization, depreciation and writedowns of assets		8,444,161	16,455,979
5.a) depreciation of tangible fixed assets		*6,969,994*	*15,206,613*
5.b) amortization of intangible fixed assets		*1,474,167*	*1,249,366*
5.c) writedown of fixed assets		*0*	*0*
5.d) writedown of receivables		*0*	*0*
6) Changes in inventories		-17,542,975	-8,697,781
7) Provisions for risks and sundry		5,363,000	2,765,000
8) Other income and expense		-1,225,892	-887,393
9) Internal construction		-297,288	-800,777
TOTAL OPERATING COSTS		421,925,167	347,299,252
OPERATING RESULT (EBIT)		**11,173,781**	**3,553,753**
C) RESULT OF FINANCIAL ACTIVITIES			
10) Income from equity investments		-4,214,463	-4,000,000
11) Other financial income		-1,015,131	-1,374,525
12) Financial costs and expense		3,949,646	5,076,784
13) Exchange gains and losses (net)		3,855,316	-4,797,077
14) Value adjustments to financial assets		1,063,075	5,141,623
TOTAL RESULT OF FINANCIAL ACTIVITIES	**3**	3,638,443	46,805
PRE-TAX RESULTS		**7,535,338**	**3,506,948**
15) Current and deferred taxation	**4**	4,643,355	-1,539,772
NET RESULT FROM OPERATING ACTIVITIES		**12,178,693**	**1,967,176**
NET RESULT OF ACTIVITIES UNDERGOING DISPOSAL	**5**	0	700,000
NET RESULT	**6**	**12,178,693**	**1,267,176**

BALANCE SHEET AS OF DECEMBER 31, 2005

	NOTE	Dec. 31, 2005	Dec. 31, 2004
A) NON-CURRENT ASSETS			
1) Tangible fixed assets	**7**	54,892,101	55,352,602
2) Intangible fixed assets	**8**	3,872,377	4,123,505
3) Real estate property investments	**9**	539,703	539,703
4) Equity investments in subsidiary, associated and parent companies	**10**	48,223,303	48,154,374
5) Financial assets	**11**	275,168	418,321
5.1) Loans and receivables		*189,327*	*332,195*
5.2) Other financial assets		*85,841*	*85,841*
5.3) Prepaid financial expense		*0*	*285*
6) Deferred tax assets	**12**	5,993,719	0
7) Trade and other receivables	**13**	478,194	252,185
7.1) Trade receivables		*0*	*0*
7.2) Other receivables		*478,194*	*252,185*
TOTAL NON-CURRENT ASSETS		114,274,565	108,840,690
B) CURRENT ASSETS			
1) Closing inventories	**14**	60,387,341	42,883,332
2) Trade and other receivables	**13**	114,945,732	118,730,868
2.1) Trade receivables		*99,149,334*	*104,554,770*
2.2) Other receivables		*15,796,398*	*14,176,098*
3) Financial assets	**11**	5,466,008	4,239,468
3.1) Loans and receivables		*5,215,353*	*4,018,094*
3.2) Other financial assets		*73,000*	*73,000*
3.3) Financial accrued income and prepaid expenses		*177,655*	*148,374*
4) Liquid funds	**15**	44,998,127	29,557,967
4.1) Cash		*55,081*	*17,761*
4.2) Bank current and deposit accounts		*44,943,046*	*29,540,206*
4.3) Other liquid funds		*0*	*0*
TOTAL CURRENT ASSETS		225,797,208	195,411,635
TOTAL ASSETS		**340,071,773**	**304,252,325**

BALANCE SHEET AS OF DECEMBER 31, 2005

	NOTE	Dec. 31, 2005	Dec. 31, 2004
A) SHAREHOLDERS' EQUITY	**16**		
1) Share capital		21,840,000	21,840,000
2) Other reserves		20,933,448	24,916,272
3) Retained earnings (accumulated losses)		0	0
4) Reserve for initial application of IAS/IFRS		23,793,040	22,651,656
5) Other IAS/IFRS reserves		0	0
6) Result for the period		12,178,693	1,267,176
TOTAL SHAREHOLDERS' EQUITY		78,745,181	70,675,104
B) NON-CURRENT LIABILITIES			
1) Financial liabilities	**17**	1,071,330	56,272,292
1.1) Bonds		*0*	*55,000,000*
1.2) Loans		*1,071,330*	*1,272,292*
1.3) Deferred financial income		*0*	*0*
1.4) Other		*0*	*0*
2) Trade and other payables	**18**	0	0
2.1) Trade payables		*0*	*0*
2.2) Other payables		*0*	*0*
3) Deferred tax liabilities	**12**	0	7,234,299
4) Employee leaving indemnity/pensions	**20**	12,421,329	10,338,419
4.1) Employee leaving indemnity		*12,421,329*	*10,338,419*
4.2) Pensions and similar		*0*	*0*
5) Provisions for risks and charges	**21**	1,932,146	1,995,433
5.1) Warranty provisions		*1,893,433*	*205,433*
5.2) Provisions for charges on disputes		*0*	*250,000*
5.3) Restructuring and reconversion provisions		*0*	*1,540,000*
5.4) Other provisions		38,713	0
TOTAL NON-CURRENT LIABILITIES		15,424,805	75,840,443
C) CURRENT LIABILITIES			
1) Financial liabilities	**17**	73,717,832	20,643,670
1.1) Bonds (current portions)		*55,000,000*	*0*
1.2) Loans		*16,124,904*	*18,172,710*
1.3) Financial accrued expenses and deferred income		*2,129,886*	*2,470,960*
1.4) Other		*463,042*	*0*
2) Trade and other payables	**18**	163,474,832	131,033,123
2.1) Trade payables		*152,127,710*	*121,635,888*
2.2) Other payables		*11,347,122*	*9,397,235*
3) Liabilities for current taxation	**19**	4,909,123	2,659,985
4) Provisions for risks and charges (current portions)	**21**	3,800,000	3,400,000
4.1) Warranty provisions		*3,800,000*	*3,400,000*
4.2) Provisions for charges on disputes		*0*	*0*
4.3)Restructuring and reconversion provisions		*0*	*0*
4.4) Other provisions		*0*	*0*
TOTAL CURRENT LIABILITIES		245,901,787	157,736,778
TOTAL LIABILITIES		261,326,592	233,577,221
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**340,071,773**	**304,252,325**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Other reserves: capital	earnings	Retained earnings /accumulated losses	Reserve for initial application of IAS/IFRS	Other IAS/IFRS reserves	Result for the period	Total
Balance as of Jan. 1 2004	21,840,000	17,833,456	3,392,254	-	-	-	8,310,562	51,376,272
Effects deriving from initial application of the IFRS (excluding IAS 32 and IAS 39)	-	-	-	-	22,651,656	-	-	22,651,656
Balance as of Jan. 1 2004 adjusted	21,840,000	17,833,456	3,392,254	-	22,651,656	-	8,310,562	74,027,928
Allocation of 2003 net income:								
- to dividends	-	-	-	-	-	-	(4,620,000)	(4,620,000)
- to the legal reserve	-	-	415,528	-	-	-	(415,528)	-
- to retained earnings	-	-	3,275,034				(3,275,034)	-
Net income (loss) for 2004:								
- recorded under shareholders' equity	-	-	-	-	-	-	-	-
- recorded in income statement	-	-	-	-	-	-	1,267,176	1,267,176
Balance as of Jan. 1 2005	21,840,000	17,833,456	7,082,816	-	22,651,656	-	1,267,176	70,675,104
Effects deriving from initial application of IAS 32 and 39	-	-	-	-	1,141,384	-	-	1,141,384
Balance as of Jan. 1 2005 adjusted	21,840,000	17,833,456	7,082,816	-	23,793,040	-	1,267,176	71,816,488
Allocation of 2004 net income:								
- to dividends	-	-	-	-	-	-	(5,250,000)	(5,250,000)
- to the legal reserve	-	-	313,790	-	-	-	(313,790)	-
- to retained earnings	-	-	(4,296,614)	-			4,296,614	-
Net income (loss) for 2005:								
- recorded under shareholders' equity	-	-	-	-	-	-	-	-
- recorded in the income statement	-	-	-	-	-	-	12,178,693	12,178,693
Balance as of Dec. 31 2005	21,840,000	17,833,456	3,099,992	-	23,793,040	-	12,178,693	78,745,181

Cash flow statement	Dec. 31, 2005	Dec. 31, 2004
(BALANCES IN €/000's)		
Group net income/loss for the year	12,179	1,267
Net income/loss for the year pertaining to minority interests		
Taxation for the year	-4,644	1,540
Pre-tax result	**7,535**	**2,807**
Depreciation of tangible fixed assets	6,970	15,207
Amortization of intangible fixed assets	1,474	1,249
Writedown of fixed assets	0	0
Provisions for risks	5,363	2,765
Provisions for employee benefits	2,218	2,136
Net financial income/expense	2,935	3,702
Exchange gains and losses (net)	3,855	-4,797
Income from equity investments	-4,214	-4,000
Value adjustments to financial assets	1,063	5,142
Operating cash flow before changes in working capital	**27,199**	**24,211**
Change in inventories	-17,504	-8,728
Change in trade and other receivables	3,558	-42,844
Change in trade and other payables	32,442	54,444
Change in receivables/payables for deferred taxation	-3.805	1,206
Change in provisions for employee benefits	-136	-2,182
Change in risk provisions	-5,025	-1,710
Dividends received	4,214	4,000
Interest received	985	1,297
Interest paid	-4,291	-7,145
Payment of taxes	-2,530	-3,366
Operating cash flow	**35,107**	**19,183**
Investments in /disposals of tangible fixed assets and property investments	-6,509	-3,028
Investments in /disposals of intangible fixed assets	-1,222	-1,622
Investments in /disposals of equity investments	-1,132	-1,206
Cash flow from investments/disposals	**-8,863**	**-5,856**
Change in current financial assets	-5,052	16,960
Change in non-current financial assets	143	178
Change in current financial liabilities	53,415	-33,228
Change in non-current financial liabilities	-55,201	-2,547
Change in share capital	0	0
Change in reserves	1,141	0
Dividends paid out	-5,250	-4,620
Cash flow from financial activities	**-10,804**	**-23,257**
Total cash flow for period (change in liquid funds)	**15.440**	**-9,930**
Opening liquidity	**29,558**	**39,488**
Closing liquidity	**44,998**	**29,558**

EXPLANATORY NOTES TO THE ACCOUNTING SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2005

1. General introduction

Carraro S.p.A. is a joint-stock company established in Italy at the Padua Companies' Register.

These financial statements are drawn up in Euro since this is the currency in which the majority of the Company's transactions are carried out.
The financial statements are drawn up in amounts rounded off to the unit of Euro.

The main corporate purpose of Carraro S.p.A. is to manufacture and sell drive systems for self propelling vehicles such as agricultural tractors, earth-moving equipment, material handling equipment, light commercial vehicles and cars.

Basis of presentation

The financial statements are drawn up in compliance with the International Financial Reporting Standards (IFRS).

These financial statements have been prepared on the basis of the principle of historic cost, with the exception of derivative financial instruments (as from January 1 2005) which are recorded at fair value.
As indicated in the attachment, some tangible fixed assets and a number of real estate property investments have been valued at the time of initial application of the IFRS (January 1 2004) at their fair value used as the deemed cost. Subsequent to this initial registration, the valuation of the afore-mentioned tangible fixed assets and property investments is made on the basis of the method of historic amortized cost and reduced in the presence of losses in value (as more clearly explained in the section which illustrates the accounting policies and standards applied in detail).

2. Form and content of the financial statements

The Company has applied IAS 32 and 39 as from January 1 2005. In this connection, it is hereby specified that, as permitted by IFRS 1, the Company has availed itself of the faculty of not presenting comparative information relating to the afore-mentioned IAS in relation to the following categories bearing the following fair values (recorded as of January 1 2005 for the purposes of the first set of IFRS financial statements).

(Balances in thousands of Euro)

ASSETS / LIABILITIES	NATURE OF ADJUSTMENT	VALUE
Financial instruments hedging interest rate risk on bond issued by Carraro S.p.A.	difference with respect to fair value	(360)
Financial instruments hedging exchange risk (options)	difference with respect to fair value	1,644
Financial instruments hedging exchange risk (other)	difference with respect to fair value	420
Sub-total		**1,704**
Provision for deferred tax liabilities	Reporting of tax effect on previous adjustments	**(562)**
Total		**1,142**

With reference to the 2004 figures, the standard adopted for the purposes of the financial statements drawn up in accordance with the previous accounting principles, to which reference is made, was maintained. In particular, on the basis of the afore-mentioned principles, steps were not taken to record the afore-mentioned fair value amounts.

2.1 Form of the accounting schedules

With regards to the form of the accounting schedules, the Company has opted to present the following types of accounting formats:

Balance sheet
The balance sheet is presented in contrasting sections with separate indication of the Assets, Liabilities and Shareholders' equity.
In turn, the Assets and the Liabilities are stated in the financial statements on the basis of their classification as current and non-current.

Income statement
The income statement is presented with regards to its classification by nature.

Cash flow statement
The cash flow statement is presented, showing the changes in the liquid funds and equivalents (as shown in the balance sheet format) divided up by areas of formation of the cash flows as indicated by the international accounting standards.

Statement of changes in shareholders' equity
The statement of changes in shareholders' equity is presented as required by the international accounting standards, with separation indication of the result for the year and all revenues, income, expense and charges not recorded in the income statement, but charged directly to shareholders' equity on the basis of specific IAS/IFRS accounting standards.

Accounting standards and policies

The accounting policies and standards for the most significant items are illustrated below.

Tangible fixed assets

Property, plant and machinery
Property, plant and machinery are stated at historic cost, less the related accumulated depreciation and cumulative losses in value. This cost includes the costs for the replacement of parts of machinery and plant at the time they are incurred if compliant with the reporting standards.
Depreciation is calculated on a straight-line basis with reference to the estimated useful life of the asset.
The book value of plant and machinery is subject to assessment so as to detect any losses in value when events or changes indicate that the book value might not be recoverable.

Tangible assets are eliminated from the financial statements at the time of sale or when future economic benefits expected from their use or disposal do not exist. Any losses or gains (calculated as the difference between the net income on the sale and the book value) are included in the income statement during the year of the afore-mentioned elimination.
The residual value of the asset, the useful life and the methods applied are reviewed annually and adjusted, if necessary, at the end of each accounting period.

The depreciation is calculated, on a straight-line basis, on the cost of the assets net of the related residual values, in relation to their estimated useful life applying the following rates to newly acquired assets:

	% rate for 2004	**% rate for 2005**
INDUSTRIAL LAND	0	0
INDUSTRIAL BUILDINGS	3 - 10	2 - 5
PLANT	10 –15.5	4 - 5
MACHINERY	10 –15.5	5.56 – 6.67
EQUIPMENT	25	6.67 - 25
DIES AND MODELS	25	12.50
FURNITURE AND FURNISHINGS	12	6.67
OFFICE MACHINES	10 - 20	12.50 - 20
VEHICLES	20 - 25	6.67 – 12.50

Land is not depreciated.

Assets held in relation to financial lease agreements are depreciated on the basis of their estimated useful life, on a consistent basis with owned assets.

Financial expense
Financial expense is recorded in the income statement at the time it is incurred.

Real estate property investments
Property investments are stated at historic cost, less the related accumulated depreciation and cumulative losses in value.

Intangible fixed assets

Intangible fixed assets are recorded in the accounts only if they are identifiable, can be checked and it is envisaged that they will generate future economic benefits and their cost can be determined reliably.
Intangible fixed assets with a specified duration are stated at purchase or production cost, net of amortization and accumulated losses in value.
The amortization is parameterised to the period of their estimated useful life and starts when the asset is available for use.

Goodwill
Goodwill is represented by the surplus of the purchase cost with respect to the portion pertaining to the purchaser compared with the fair value referring to the identifiable net values of assets and liabilities of the entity acquired.
After initial registration, the goodwill is stated at cost, less any cumulative losses in value.
The goodwill is subject to an impairment test on an annual basis, so as to identify any permanent reductions in value. For the purposes of a correct performance of the adequacy analysis, the goodwill is allocated to each one of the units generating financial flows which will benefit from the effects deriving from the acquisition.

Research and development costs
Research and development costs are charged to the income statement when incurred, as established by IAS 38.
Again in observance of IAS 38, the development costs relating to specific projects are recorded among the assets only if all the following conditions are respected:
- the asset can be identified;
- it is probable that the asset created will generate future economic benefits;
- the costs for developing the asset can be reliably gauged.

These intangible assets are amortized on a straight-line basis over their related useful lives.

Trademarks and licences
Trademarks and licences are stated at cost, net of amortization and accumulated losses in value. The cost is amortized over the contractual duration or their defined useful life, whichever is the shorter.

Software
The costs of software licences, inclusive of related charges, are capitalized and recorded in the financial statements net of amortization and any accumulated losses in value.

Losses in value (“Impairment”)

In the presence of specific signs of a loss in value, tangible and intangible fixed assets are subject to an impairment test, estimating the recoverable value of the assets and comparing it with the related net book value. The recoverable value is the greater between the fair value of an asset net of sales costs and its value in use, and is determined for each individual asset except when said asset does not generate financial flows which are fully independent from those generated by other assets.
If the recoverable value is lower than the book value, the latter is consequently reduced. This reduction represents a loss in value, which is charged to the income statement.
If there is no longer any reason for a writedown made previously to be maintained, the book value is reinstated to the new value deriving from the estimate, with the restriction that this value does not exceed the net book value which the asset would have had, if no writedown had ever been made. The value writeback is also recorded in the income statement.
The impairment test is carried out annually in the event of intangible fixed assets with an unspecified useful life and intangible assets in process of formation.

Equity investments in subsidiary and associated companies

A subsidiary company is an entity in which the Group holds, directly or indirectly via its subsidiary companies, more than half of the voting rights, unless, under exceptional circumstances, it can be clearly demonstrated that such a holding does not represent control over the entity. Control also exists when the Parent Company holds half, or a smaller portion, of the votes which can be exercised during general meetings if it has:
(a) control over more than half of the voting rights by virtue of an agreement with other investors;
(b) the power to determine the financial and operating policies of the entity by virtue of a clause in the Articles of Association or a contract;
(c) the power to appoint or remove the majority of the members of the board of directors or the equivalent corporate management body, and the control over the entity is held by that board or body;
(d) the power to exercise the majority of the voting rights during board meetings or meetings of the equivalent corporate management body, and the control over the entity is held by that board or body.

An associated company is a entity where the Company is able to exercise significant influence, but not control or joint control, via the equity investment, over the financial and operating policies of the investee company.

In compliance with the matters envisaged by IAS 27.37, for the purposes of the statutory financial statements equity investments in subsidiary and associated companies are carried at cost and written down in the presence of losses in value.

Equity investments in other companies and other securities

In accordance with the matters anticipated by standards IAS 39 and 32, equity investments in companies other than subsidiary and associated companies are classified as financial assets available for sale and are valued at fair value, except in cases where it is not possible to determine the market price or the fair value: in such cases, the cost method is adopted.
Gains and losses deriving from the value adjustments are classified in a specific shareholders' equity reserve.
In the presence of permanent losses in value or in the event of sale, the gains and losses recorded up until that moment under shareholders' equity, are recorded in the income statement.

Financial assets

IAS 39 envisages the following types of financial instruments: financial assets at fair value with changes booked to the income statement, loans and receivables, investments held until maturity and assets available for sale. Initially, all the financial assets are recorded at fair value, increased by any related charges in the event of assets other than those at fair value in the income statement. The Company establishes the classification of its financial assets after the initial registration and, where appropriate and permitted, reviews this classification at the end of each accounting period.

All the standardized purchases and sales (regular way) of financial assets are recorded as of the date of transaction, or the date when the Company undertakes the commitment to acquire the asset. By standardized purchases and sales, we mean all the purchase/sale transactions on financial assets which envisage the handing over of the asset in the period generally anticipated by the regulations and by the practices of the market on which it is traded.

Financial assets at fair value with changes booked to the income statement

This category comprises the financial assets held for dealing purposes, or all the assets acquired for the purpose of sale over the short-term. The derivatives are classified as financial instruments held for dealing purposes unless they are designated as effective hedging instruments. Gains and losses on assets held for dealing purposes are recorded in the income statement.

Investments held until maturity

Financial assets which are not derivative instruments and which are characterized by payments or fixed or determinable maturities are classified as "investments held until maturity" when the Company has the intention and the ability to maintain them in the portfolio until maturity. The financial assets which the Company decides to keep in the portfolio for an indefinite period do not fall within this category. Other long-term financial investments which are held until maturity, such as bonds, are subsequently valued using the amortized cost method. This cost is calculated as the value initially recorded less the repayment of the capital instalments, plus or less the amortization accumulated using the effective interest rate method of any difference between the value initially recorded and the amount on maturity. This calculation comprises the commission or points paid between the parties which form an integral part of the effective interest rate, the transaction costs and other premiums or discounts. Gains and losses concerning investments valued at amortized cost are recorded in the income statement at the time the investment is eliminated from the books or on manifestation of a loss in value, as well as by means of the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not listed on an active market. These assets are stated on the basis of amortized cost using the effective discount rate. The gains and losses are recorded in the income statement when the loans and receivables are eliminated from the books or on manifestation of a loss in value, as well as by means of the amortization process.

Financial assets available for sale

Financial assets available for sale are those financial assets, excluding derivative financial instruments, which have been designated as such or which are not classified in any of the other three previous categories. After the initial statement at cost, the financial assets held for sale are valued at fair value and the gains and losses are recorded in a separate shareholders' equity item until the assets have been eliminated from the books or until it is assessed they have undergone a loss in value; the gains and losses accumulated up to that moment under the shareholders' equity are then charged to the income statement.

In the event of securities widely dealt on organized markets, the fair value is determined by making reference to the stockmarket listing struck at the end of trading as of the year end date. In relation to investments which do not have an active market, the fair value is determined by means of valuation techniques based on prices of recent transactions between independent parties; the current market value of an essentially similar instrument; the analysis of the discounted back financial flows; and pricing models of the options.

Inventories

Inventories are valued at the lower of average purchase or production cost for the period and market value. Production cost includes materials, labour, and direct and indirect manufacturing costs. Obsolete or slow-moving inventories are suitably written down.

Trade and other receivables

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

Liquid funds and equivalents

Liquid funds and equivalents comprise cash on hand and demand deposits and investments maturing within three months of the date of acquisition.

Loans and bonds

Loans are initially stated at the cost represented by the fair value of the balance received net of the related loan acquisition costs. After the initial statement, the loans are stated on the basis of amortized cost calculated by means of the application of the effective interest rate. The amortized cost is calculated taking into account the issue costs and any discounts or premiums envisaged at the time of settlement.

Cancellation of financial assets and liabilities

Financial assets

A financial asset (or, if applicable, part of a financial asset or part of a group of similar financial assets) is cancelled from the financial statements when:

- the rights to receive the financial flows from the asset have been discharged;
- the Company maintains the right to receive financial flows from the asset, but has undertaken the contractual commitment to pay them in full and without delay to a third party;

- the Company has transferred the right to receive financial flows from the assets and (a) has essentially transferred all the risks and benefits of the ownership of the financial assets or (b) has not transferred or has essentially withheld all the risks and benefits of the assets, but has transferred control of the same.

In the cases where the Company has transferred the rights to receive financial flows from an asset and has not essentially transferred or withheld all the risks and benefits or has not lost control over the same, the asset is recorded in the Company's financial statements to the extent of its residual involvement in said asset. The residual involvement which takes on the form of a guarantee on the asset transferred, is valued at the lower between the initial book value of the asset and the maximum value of the amount which the Company could be obliged to pay over.

In the cases where the residual involvement takes on the form of an option issued and/or acquired on the asset transferred (including the options settled in cash or similar), the extent of the Company's involvement corresponds with the amount of the asset transferred which the Company could re-acquire; nevertheless, in the case of a put option issued on an asset gauged at fair value (including the options settled in cash or by means of similar provisions), the extent of the Company's residual involvement is limited to the lower between the fair value of the asset transferred and the option exercise price.

Financial liabilities

A financial liability is cancelled from the financial statements when the underlying obligation is discharged, or cancelled or fulfilled.

In the cases where an existing financial liability is replaced by another of the same lender, under essentially different conditions, or the conditions of an existing liability are essentially changed, this change or amendment is treated as a cancellation from the books of the original liability and the recording of a new liability; any differences between the book values are booked to the income statement.

Value loss on financial assets

The Company assesses if a financial asset or group of financial assets has undergone a loss in value at the end of each accounting period.

Assets valued on the basis of amortized cost

If objective indication exists that a loan or receivable recorded at amortized cost has suffered a loss in value, the amount of the loss is gauged as the difference between the book value of the asset and the current value of the estimated future financial flows (excluding future receivable losses not yet incurred) discounted to the original effective interest rate of the financial asset (or rather the effective interest rate calculated as of the initial registration date). The book value of the asset is reduced both directly and via the use of a provision. The amount of the loss will be booked to the income statement.

The Company first of all assesses the existence of objective indications of a loss in value at individual level, for the financial assets which are individually significant, and therefore at individual or collective level for the financial assets which are not. In the absence of objective indications of a loss in value for financial assets valued individually, whether it is significant or otherwise, this asset is included within a group of financial assets with similar credit risk features and this group is subject to assessment for value loss in a collective manner. The assets valued at individual level, in relation to which a loss in value is detected or continues to be detected, will not be included in a collective valuation.

If, in a subsequent accounting period, the entity of the loss in value decreases and this reduction can be objectively traced back to an event which took place after the detection of the loss in value, the previously written down value is reinstated. Any subsequent value writebacks are recorded in the income statement, to the extent that the book value of the asset does not exceed the amortized cost as of the date of writeback.

Assets stated at cost

If objective indication exists of the loss in value of a unlisted instrument representative of capital which is not recorded at fair value because its fair value cannot be gauged reliably, or of a derivative instrument which is linked to this participative instrument and must be settled by means of the consignment of this instrument, the amount of the loss due to reduction in value is gauged by the difference between the book value of the asset and the current value of the future financial flows expected and discounted back to the current market rate of return for a similar financial asset.

Financial assets available for sale

In the event of the loss in value of a financial asset available for sale, a value equating to the difference between its cost (net of the repayment of the capital and the amortization) and its current fair value, net of any losses in value previously recorded in the income statement, is transferred from shareholders' equity to the income statement. The value writebacks relating to instruments participating in capital classified as available for sale, are not recorded in the income statement. Value writebacks relating to debt instruments are recorded in the income statement if the increase in the fair value of the instrument can be objectively traced back to an event which took place after the loss was booked to the income statement.

Allowances and provisions

Provisions for risks and charges
Provisions for risks and charges are made when the Company must meet a current obligation (legal or implicit) deriving from a past event, a sacrifice in terms of resources in order to deal with this obligation is probable and it is possible to make a reliable estimate of its extent. When the Company considers that a provision for risks and charges will be partly or fully reimbursed, for example in the case of risks covered by insurance policies, the indemnity is recorded separately among the assets if, and only if, it is practically certain. In this case, the cost of the possible related provisions, net of the amount recorded for the indemnity, is presented in the income statement. If the effect of discounting back the value of the money is significant, the provisions are discounted back using the pre-tax discount rate which reflects, where appropriate, the specific risks of the liabilities. When the discounting back is carried out, the increase of the provision due to the passage of time is recorded as financial expense.

Employee and similar benefits
Acknowledging the matters envisaged by IAS 19, employee benefits to be paid out subsequent to the termination of the employment relationship and other long-term benefits (including therein the Employee Leaving Indemnity in force in Italy) are subject to actuarial valuations which have to take into account a series of variables (such as mortality, the provision for future salary changes, the anticipated rate of inflation, etc.).
Following this method, the liability recorded in the financial statements emerges as being representative of the current value of the obligation, net of any assets serving the plans, adjusted for any actuarial losses or gains not recorded in the accounts.
The actuarial gains and losses are recorded directly in the income statement, without availing of the corridor approach.

Revenue recognition

Sales of goods are recorded when the goods are shipped and the Company has transferred the significant benefits and risks associated with the ownership of the goods to the purchaser.
Revenues for services are stated with reference to the stage of completion.
Interest income is recorded on an accruals basis, with reference to the amount financed and the effective interest rate applicable, which represents the rate that discounts future collections estimated over the expected life of the financial asset so as to take them back to the book value of said asset.
Revenues from dividends are recorded when the right to collection arises, which normally corresponds with the resolution of the shareholders' meeting authorizing the distribution of the dividends. The dividends distributed are recognized as a payable at the time of the distribution resolution.

Public grants
Public grants are recorded when reasonable certainty exists that they will be received and all the related conditions are satisfied. When the grants are associated with cost elements, they are recorded as revenues, but they are systematically spread over the accounting periods so that they are commensurate to the costs which they intend to offset. In the event that the grant is linked to an asset, the fair value is suspended among the long-term liabilities and the release to the income statement takes place progressively over the expected useful life of the asset concerned on a straight-line basis.

Taxation

Taxation for the year represents the sum total of the current and deferred taxes.

Current taxes
Current income taxes have been provided for on the basis of an estimate of the taxable income for the consolidated companies, in accordance with the provisions issued or essentially issued as of the balance sheet date and taking into account any applicable exemptions.

Deferred taxes
Deferred taxes are determined on the basis of the taxable timing differences existing between the book value of assets and liabilities and their value for tax purposes; they are classified under non-current assets and liabilities.
Deferred tax assets are provided for only to the extent that adequate future taxable amounts will probably exist, against which this asset balance can be used.
The value of the deferred tax assets which can be recorded in the financial statements, is subject to an annual assessment and is written down to the extent that it is no longer probable that sufficient income for tax purposes will be available in the future so as to permit all or part of this credit to be used. Unrecognized deferred tax assets are reviewed annually as of the balance sheet date and are recorded to the extent that it has become probable that income for tax purposes is sufficient for permitting these deferred tax assets to be recovered.
Deferred tax assets and liabilities are determined with reference to tax rates which are expected to be applied in the period in which these deferrals will take place, taking into account the rates in force or those whose subsequent issue is known of.
Income taxes relating to items recorded directly under shareholders' equity, are charged directly against shareholders' equity and not to the income statement.

Deferred tax assets and liabilities are offset, if a legal right exists to offset the assets for current taxes with liabilities for current assets and the deferred taxes refer to the same fiscal entity and the same tax authority.

Value added tax

Revenues, costs and assets are stated net of value added tax, except in the following cases:

- this tax applied to the purchase of goods or services emerges as non-deductible, in which case it is stated as part of the purchase cost of the asset or part of the cost item recorded in the income statement;
- it refers to trade receivables and payables recorded, including the value of the tax.

Earnings per share
The basic earning per share is calculated by dividing the net income for the period attributable to the shareholders holding ordinary shares of the Company by the weighted average number of ordinary shares in circulation during the period.
The diluted earning per share is obtained by means of the adjustment of the weighted average of the shares in circulation, so as to take into account all the potential ordinary shares with a diluting effect.

Translation of foreign currency balances

Reporting currency
The Company's reporting currency is the Euro which represents the currency which the statutory financial statements are drawn up and published in.

Accounting transactions and entries
The transactions carried out in foreign currency are initially recorded using the exchange rate prevailing as of the transaction date.
As of the year end date, the monetary assets and liabilities denominated in foreign currency are re-translated on the basis of the exchange rate in force as of that date.
Non-monetary foreign currency items valued at historic cost, are translated using the exchange rate in force as of the date of the transaction.
Non-monetary items stated at fair value are translated using the exchange rate in force as of the date of determination of the value.

Financial derivative instruments and hedging transactions

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

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

The main objectives indicated by the policy are as follows:
A) *Exchange rate risks:*
1) hedge all the transactions, both trade and financial, from the fluctuation risk.
2) observe, as far as is possible, a "currency balance" logic when hedging the risk, favouring the off-setting between the foreign currency revenues and costs and the foreign currency receivables and payables, so as to activate the related hedge solely for the excess balance not offset.
3) do not permit the use or holding of derivative and similar instruments solely for trading purposes.
4) permit the use of just instruments traded on organized markets, for hedging transactions.

B) *Interest rate risks:*
1) hedge financial assets and liabilities from the risk of changes in interest rates.
2) when hedging the risk, the general criteria of balance between investments and uses defined for the Company by Carraro S.p.A.'s Board of Directors at the time of approval of the long-term plans and the budget (floating rate and fixed rate portion, short-term and medium/long-term portion).
3) permit the use of just instruments traded on organized markets, for hedging transactions.

Derivative financial instruments and hedging transactions

The Company uses derivative financial instruments such as forward currency agreements and swaps on interest rates hedging the risks deriving mainly from fluctuations in interest and exchange rates. These derivative financial instruments are initially stated at fair value as of the date they were stipulated; subsequently, this fair value is periodically re-gauged. They are recorded as assets when the fair value is positive and as liabilities when it is negative.

Any gains or losses emerging from changes in the fair value of derivatives not suitable for hedge accounting, are charged directly to the income statement during the accounting period.

The fair value of the forward currency agreements is determined with reference to the current forward exchange rates for contracts with a similar maturity profile. The fair value of the swap agreements on interest rates is determined with reference to the market value for similar instruments.

For hedge accounting purposes, the hedges are classified as:

- fair value hedges, if they hedge the risk of change in the fair value of an underlying asset or liability;
- cash flow hedges, if they hedge the risk of change in the financial flows deriving from existing assets and liabilities or from future transactions;
- hedges of a net investment in a foreign body (net investment hedge).

A hedging transaction covering the exchange risk relating to an irrevocable commitment is recorded as a hedge of financial flows.

When implementing a hedging transaction, the Company formally fixes and documents the hedging relationship, which it intends to apply the hedge accounting to, its objectives when handling the risk and the strategy pursued. The documentation includes the identification of the hedging instrument, of the element of the transaction subject the hedge, of the nature of the risk and of the methods by means of which the entity intends to assess the efficacy of the hedge in compensating the exposure to the changes in the fair value of the element hedged or of the financial flows attributable to the hedged risk.

It is expected that these hedges are highly effective in compensating the exposure of the element hedged to changes in the fair value or of the financial flows attributable to the hedged risk; the assessment of the fact that these hedges have effectively demonstrated themselves to be highly effective, is carried out on an on-going basis during the accounting periods during which they were designated.

The transactions which satisfy the criteria for hedge accounting are stated as follows:

Fair value hedges

The Company resorts to transactions hedging the fair value against the exposure to changes in the fair value of balance sheet asset and liabilities or of an off-balance sheet irrevocable commitment, as well as an identified part of said asset, liability or irrevocable commitment, attributable to a particular risk, which could have an impact on the income statement. As far as the fair value hedges are concerned, the book value of the element being hedged is adjusted to reflect the gains and losses attributable to the risk subject to hedge, the derivative instrument is re-determined at fair value and the gains and losses of both are booked to the income statement.

With regards to fair value hedges referring to elements recorded on the basis of amortized cost, the adjustment of the book value is amortized in the income statement over the period lacking until maturity. Any adjustments to the book value of a hedged financial instrument which the effective interest rate method is applied to, are amortized in the income statement.

The amortization can start just as soon as an adjustment exists but not beyond the date when the hedged element ceases to be adjusted due to the changes in its fair value attributable to the hedged risk.

When an unrecorded irrevocable commitment is designated as an element subject to hedge, the subsequent cumulative changes in its fair value attributable to the hedged risk are recorded as assets or liabilities and the corresponding gains and losses are booked to the income statement. The changes in the fair value of a hedging instrument are also booked to the income statement.

An instrument is no longer recorded as a fair value hedging contract when it matures or is sold, discharged or exercised, the hedge no longer meets the requirements for hedge accounting purposes, or when the Company revokes the designation. Any adjustments to the book value of a financial instrument subject to hedge for which the effective interest rate method is used, are amortized in the income statement. The amortization can start just as soon as an adjustment is ascertained but not beyond the date when the hedged element ceases to be adjusted due to the changes in its fair value attributable to the hedged risk.

Cash flow hedges

Cash flow hedges are transactions hedging the risk of fluctuations in financial flows attributable to a particular risk, associated with a recorded asset or liability or with a highly probable future transaction which could influence the economic result. The gains and losses deriving from the hedging instrument are booked to shareholders' equity for the efficient part, while the remaining part (not efficient) is booked to the income statement.

The gain or loss booked to shareholders' equity is reclassified in the income statement during the period when the transaction being covered influences the income statement (for example: when the financial income or expense is recorded or when an anticipated sale or purchase takes place). When the element being hedged is the cost of a non-financial asset or liability, the amounts booked to shareholders' equity are transferred to the initial book value of the asset or liability.

If it is believed that the transaction envisaged no longer takes place, the amounts initially booked to the shareholders' equity are transferred to the income statement. If the hedging instrument matures or is sold, cancelled or exercised without being replaced, or if its designation as a hedge is revoked, the amounts previously charged to the shareholders' equity remain recorded therein until the envisaged transaction takes place. If it is believed that this will no longer take place, the amounts are transferred to the income statement.

Hedging of a net investment in a foreign body

The hedges of a net investment in a foreign body, including hedges of a monetary item recorded as part of a net investment, are recorded on a similar basis to the hedges of the financial flows. The gains or losses of the hedging instrument are booked directly to the shareholders' equity for the efficient part, while the remaining part (not efficient) is booked to the income statement. On disposal of the foreign asset, the cumulative value of these gains or losses booked to shareholders' equity is transferred to the income statement.

Transactions with related parties

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

a) transactions with 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.

New standards and Interpretations adopted by the European Union which are not yet applicable

As requested by IAS 8 (Accounting standards, changes in the accounting estimates and errors) indication is made below of the possible impacts of the new standards or the new interpretations on the statutory financial statements with regard to initial application.
The IFRS in force subsequent to December 31 2005 are indicated and briefly illustrated below.

Amendments to IAS 19 – Employee benefits

These amendments, adopted by the European Union in November 2005 (EC Regulation No. 1910-2005), envisage the option of recognizing the actuarial gains and losses immediately in the accounting period in which they manifest, not in the income statement, but directly in a specific shareholders' equity reserve. These amendments are applicable as from January 1 2006.
Up until this moment, the Company has not intended to avail itself of this option.

IFRIC 4 – Determine whether a contractual agreement contains a leasing agreement

This interpretation, adopted by the European Union in November 2005 (EC Regulation No. 1910-2005), envisages that in relation to agreements which do not have a legal form of leasing but which contain a lease, said lease must in any event be classified as a financial lease or operating lease, in accordance with the matters anticipated by IAS 17. This interpretation applies as from January 1 2006.
It is not believed that this interpretation will have any significant effects on the Company's financial statements.

IFRS 7 – Financial instruments: supplementary information

This standard, adopted by the European Union in January 2006 (EC Regulation No. 108/2006) acknowledges the section of the Supplementary Information (disclosures) contained in IAS 32 (Financial instruments: financial statement exposure and supplementary information) also with amendments and integrations; consequently, IAS 32 changes it title to "Financial instruments: financial statement exposure". The Company believes that IFRS 7, applicable as from January 1 2007, will not have repercussions on the financial statements.

3. Information by sector of activities and geographic areas

Carraro S.p.A.'s activities are organized into two business divisions (business units) which follow a policy of aggregation according to the main product types.

The business units are structured as follows:

1) *Drives and Drivelines*, which groups together the business units of Campodarsego (PADUA), Gorizia and Rovigo dedicated to the manufacture and marketing of driveline systems (axles and transmissions).

2) *Vehicles*, comprising the Rovigo works, rented under a business rental format to Carraro S.p.A. by Agritalia S.p.A:, dedicated to the manufacture of agricultural tractors.

3.1 Sectors of activities

The most significant information for 2005, by sector of activities, is shown in the table below, presented on a comparative basis with 2004.

a) Income statement

2005	DRIVES & DRIVELINES	VEHICLES	CARRARO SPA TOTAL
Sales	**370,328**	**68,634**	**438,962**
Sales to third parties	365,298	67,594	432,892
Sales within divisions		-	
Sales between divisions	5,030	1,040	6,070
Operating costs	**358,642**	**69,146**	**427,788**
Direct and indirect materials	255,985	56,370	**312,355**
Services and use of third party assets	53,530	5,702	**59,232**
Headcount	37,504	6,413	**43,917**
Amortization/depreciation	8,425	19	**8,444**
Provisions for risks	4,713	650	**5,363**
Other income and expense	-1,515	-8	**-1,523**
Operating result (EBIT)	**11,686**	**-512**	**11,174**

b) Balance sheet

2005	DRIVES & DRIVELINES	VEHICLES	CARRARO SPA TOTAL
NON-CURRENT ASSETS	113,411	864	**114,275**
CURRENT ASSETS	199,681	26,116	**225,797**
NON-CURRENT LIABILITIES	12,665	2,760	**15,425**
CURRENT LIABILITIES	221,083	24,819	**245,902**

2004	DRIVES & DRIVELINES	VEHICLES	CARRARO SPA TOTAL
NON-CURRENT ASSETS	108,841	-	**108,841**
CURRENT ASSETS	195,412	-	**195,412**

NON-CURRENT LIABILITIES	75,840	-	**75,840**
CURRENT LIABILITIES	157,737	-	**157,737**

c) Other information

2005	**DRIVES & DRIVELINES**	**VEHICLES**	**CARRARO SPA TOTAL**
CAPITAL EXPENDITURE (EURO '000s)	7,249	1,064	8,313
HEADCOUNT	816	222	1,038

2004	**DRIVES & DRIVELINES**	**VEHICLES**	**CARRARO SPA TOTAL**
CAPITAL EXPENDITURE (EURO '000s)	6,063	-	6,063
HEADCOUNT	913	-	913

3.2 Geographic areas

Carraro S.p.A.'s business activities are located in Italy.
Sales are intended for customers located in Europe, Asia and the Americas.
Investments are made in Italy.

The most significant information by geographic area, is presented in the tables below.

a) Sales

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

CARRARO S.P.A. SALES REVENUES	**IAS Dec. 31, 2005 (Euro/1,000s)**	**IAS Dec. 31, 2004 (Euro/1,000s)**
Italy	60,207	53,772
Other EU areas	226,064	162,764
North America	112,050	109,943
South America	10,451	14,523
Asia (*)	6,784	7,477
Other countries	17,543	2,374
TOTAL	**433,099**	**350,853**

(*): Japan, China, Korea, India and Taiwan

4. Detailed explanatory notes

Revenues from sales (note 1)

	Current year	Previous year
1) PRODUCTS		
SALE OF PRODUCTS	425,767,719	339,839,714
RETURNS FROM SALES	-5,919,229	-3,560,408
	419,848,490	**336,279,306**
2) SERVICES		
THIRD PARTY PROCESSING	77,499	19,876
OTHER SERVICES	3,041,420	1,924,379
	3,118,919	**1,944,255**
3) OTHER REVENUES		
OTHER GOODS	9,524,165	11,468,810
OTHER REVENUES	614,751	1,161,250
CUSTOMER DISCOUNTS	-7,377	-616
	10,131,539	**12,629,444**
TOTAL REVENUES FROM SALES	**433,098,948**	**350,853,005**

Operating costs (note 2)

	Current year	Previous year
1) PURCHASES OF GOODS AND MATERIALS		
RAW MATERIAL PURCHASES	321,903,716	246,254,233
RAW MATERIAL RETURNS	-2,193,321	-1,653,904
A) PURCHASES	319,710,395	244,600,329
MISCELLANEOUS CONSUMABLES	510,640	286,188
CONSUMABLE TOOLS	769,910	959,476
MAINTENANCE MATERIALS	804,792	860,403
MATERIALS AND SERVICES FOR RESALE	3,030,172	44,902
REBATES AND DISCOUNTS - SUPPLIERS	-791,660	-758,190
B) OTHER PRODUCTION COSTS	4,323,854	1,392,779
1) TOTAL PURCHASES OF GOODS AND MATERIALS	**324,034,249**	**245,993,108**
2) SERVICES		
A) EXTERNAL SERVICES FOR PRODUCTION	36,161,556	34,935,386
B) SUNDRY SUPPLIERS	2,135,251	1,535,404
B) GENERAL CORPORATE COSTS	12,833,573	10,925,938
C) COMMERCIAL COSTS	650,011	573,070
D) SALES EXPENSES	5,852,379	7,326,165
2) TOTAL SERVICES	**57,632,770**	**55,295,963**
3) USE OF THIRD PARTY GOODS AND SERVICES		
RENTAL EXPENSE	1,551,503	207,838
ROYALTIES	48,220	44,849
3) TOTAL USE OF THIRD PARTY GOODS AND SERVICES	**1,599,723**	**252,687**
4) PAYROLL AND RELATED COSTS		
A) WAGES AND SALARIES	30,283,394	25,435,501
B) SOCIAL SECURITY CONTRIBUTIONS	10,138,190	8,555,031
D) LEAVING BENEFITS AND PENSIONS	2,218,326	2,135,612
E) OTHER COSTS	1,277,509	796,322
4) TOTAL PAYROLL AND RELATED COSTS	**43,917,419**	**36,922,466**
5) AMORTIZATION, DEPRECIATION AND WRITEDOWNS OF ASSETS		
A) DEPRECIATION OF TANGIBLE FIXED ASSETS	6,969,994	15,206,613
A) AMORTIZATION OF INTANGIBLE FIXED ASSETS	1,474,167	1,249,366
C) WRITEDOWN OF FIXED ASSETS	0	0
D) WRITEDOWN OF RECEIVABLES	0	0
5) TOTAL AMORTIZATION, DEPRECIATION AND WRITEDOWNS	**8,444,161**	**16,455,979**
6) CHANGE IN INVENTORIES		
CHANGES IN INVENTORIES OF RAW MATERIALS	-50,393	80,438
CHANGES IN INVENTORIES OF PURCHASED FINISHED PRODUCTS	-5,918,535	-4,659,091
CHANGES IN INVENTORIES OF ANCILLARY MATERIALS	-40,092	-145,620
CHANGE IN INVENTORY WRITEDOWN ALLOWANCE	172,954	257,157
11) CHANGES IN INVENTORIES OF RAW, ANCILLARY AND CONSUMABLE MATERIALS AND GOODS FOR RESALE	**-5,836,066**	**-4,467,116**
CHANGE IN INVENTORIES OF SEMI-FINISHED PRODUCTS	-18,807	-326,760
CHANGE IN INVENTORIES OF WORK IN PROGRESS	204,314	-1,979,122
CHANGE IN INVENTORIES OF FINISHED PRODUCTS	-9,269,410	-1,403,806
CHANGE IN INVENTORIES OF SPARE PARTS	-2,831,706	-1,293,820
CHANGE IN INVENTORIES OF CONTRACTS FOR SALE	-363,330	0

CHANGE IN INVENTORIES OF PURCHASED GOODS FOR RESALE	-25,780	0
CHANGE IN INVENTORY WRITEDOWN ALLOWANCE	597,810	772,843
2) CHANGE IN INVENTORIES OF WORK IN PROGRESS, SEMI-FINISHED AND FINISHED PRODUCTS	**-11,706,909**	**-4,230,665**
6) TOTAL CHANGE IN INVENTORIES	**-17,542,975**	**-8,697,781**

7) PROVISIONS FOR RISKS AND SUNDRY		
A) WARRANTY	5,363,000	2,400,000
B) CHARGES FOR DISPUTES	0	250,000
C) RESTRUCTURING AND RECONVERSION.	0	0
D) OTHER PROVISIONS	0	115,000
7) TOTAL PROVISIONS FOR RISKS AND SUNDRY	**5,363,000**	**2,765,000**
8) OTHER INCOME AND EXPENSE		
A) SUNDRY INCOME	-2,192,799	-2,766,711
B) GRANTS	0	-16,514
C) OTHER OPERATING EXPENSE	1,274,330	1,608,292
OTHER NON-ORDINARY OPERATING EXPENSE	362,545	693,075
OTHER NON-ORDINARY OPERATING INCOME	-669,968	-405,535
D) OTHER NON-ORDINARY OPERATING INCOME/EXPENSE	-307,423	287,540
8) TOTAL OTHER INCOME AND EXPENSE	**-1,225,892**	**-887,393**
9) INTERNAL CONSTRUCTION	**-297,288**	**-800,777**

The performance of the main cost items pertaining to the business activities (purchases, industrial services, payroll and related costs) follows, disclosing increasing figures when compared with 2004, and the rise in production and sales volumes registered in 2005.
A differing situation is disclosed for amortization and depreciation, which during 2004 reported an unusual value due to the effect of the realignment to fair value of the tangible fixed assets, not yet offset by the re-definition of the residual useful lives applied since 2005.

Overheads included the greater incidence of research and development costs.
The provisions for risks reflect an increase in the warranty provision so as to adjust it to the amount to be paid to the customers according to estimates made of the technical assistance services.

Further analysis is provided in the Directors' Report.

Result of financial activities (note 3)

	Current year	Previous year
10) INCOME FROM EQUITY INVESTMENTS	-4,214,463	-4,000,000
11) OTHER FINANCIAL INCOME		
A) FROM FINANCIAL ASSETS	-189,773	-865,318
B) FROM BANK CURRENT AND DEPOSIT ACCOUNTS	-311,322	-238,585
C) FROM OTHER LIQUID FUNDS	-58,188	-248,041
D) INCOME OTHER THAN THE ABOVE	-95,757	-22,581
E) FROM FAIR VALUE CHANGES IN DERIVATIVE TRANSACTIONS ON RATES	-360,091	-
TOTAL OTHER FINANCIAL INCOME	**-1,015,131**	**-1,374,525**
12) FINANCIAL COSTS AND EXPENSES		

A) FROM FINANCIAL LIABILITIES	3,392,495	4,049,968
B) FROM BANK CURRENT AND DEPOSIT ACCOUNTS	49,272	46,948
D) EXPENSE OTHER THAN THE ABOVE	507,879	979,868
D) FROM FAIR VALUE CHANGES IN DERIVATIVE TRANSACTIONS ON RATES	-	-
TOTAL FINANCIAL COSTS AND EXPENSE	**3,949,646**	**5,076,784**

13) EXCHANGE GAINS AND LOSSES

EXCHANGE LOSSES		
FROM DERIVATIVE TRANSACTIONS ON EXCHANGE RATES	1,826,025	0
FROM FAIR VALUE CHANGES IN DERIVATIVE TRANSACTIONS ON EXCHANGE RATES	2,526,691	0
OTHER	1,349,917	2,152,736
	5,702,633	2,152,736
EXCHANGE GAINS		
FROM DERIVATIVE TRANSACTIONS ON EXCHANGE RATES	-389,022	-4,949,087
FROM FAIR VALUE CHANGES IN DERIVATIVE TRANSACTIONS ON EXCHANGE RATES	0	0
OTHER	-1,458,295	-2,000,726
	-1,847,317	-6,949,813
TOTAL EXCHANGE GAINS AND LOSSES	**3,855,316**	**-4,797,077**

D) VALUE ADJUSTMENTS TO FINANCIAL ASSETS

- EQUITY INVESTMENTS	1,063,075	5,141,623
- NON-CURRENT FINANCIAL ASSETS	0	0
- CURRENT FINANCIAL ASSETS	0	0
REVALUATONS	1,063,075	5,141,623
- EQUITY INVESTMENTS	0	0
- NON-CURRENT FINANCIAL ASSETS	0	0
- CURRENT FINANCIAL ASSETS	0	0
WRITEDOWNS	0	0
TOTAL VALUE ADJUSTMENTS TO FINANCIAL ASSETS	**1,063,075**	**5,141,623**

The balance of income from equity investments, totalling Euro 4.21 million, refers to the dividends authorized during the year by the subsidiary companies Siap S.p.A. (Euro 2.00 million) and Carraro Argentina S.A. (Euro 2.21 million).

The value of the net financial income and expense decreased on a parallel with the drop in total net indebtedness (which passed from Euro 43.12 million to Euro 19.01 million); the decrease in the cost of money also contributed to the reduction.

Net exchange gains and losses, presenting a loss of Euro 3.85 million compared with a gain of Euro 4.79 million as of December 31 2004, essentially deteriorated due to the effect of the derivative instruments on exchange rates, which affected the income statement both as a result of the writeback of the positive fair value reported as of January 1 2005 (Euro 2.06 million) and the negative value reported as of December 31 2005 (Euro 0.46 million).

Income taxes (note 4)

	Current year	Previous year
- TAXATION RELATING TO PREVIOUS YEARS	496,408	-12,307
IRES (COMPANY EARNINGS' TAX)	*0*	*3,523,414*

SUBSTITUTE TAX	*3,882,257*	*0*
INCOME AND CHARGES FROM TAX CONSOLIDATION	*2,130,149*	*0*
IRAP (REGIONAL BUSINESS TAX)	*2,638,023*	*2,449,556*
DEFERRED TAXES	*-13,790,192*	*-4,420,891*
TAXATION FOR THE YEAR	-5,139,763	1,552,079
15) CURRENT AND DEFERRED TAXATION	**-4,643,355**	**1,539,772**

The Company has availed of the possibility anticipated by Italian Law No. 266 dated December 23 2005 (2006 Finance Bill) of re-aligning the tax value of the corporate assets to the value established at the time of initial application of the IAS standards.
This decision generated an economic effect determined by the difference between the deferred taxes provided for in the financial statements as of December 31 2004, calculated using the tax rate of 37.25% and those deriving from the application of the substitute tax envisaged by Italian Law No. 266/05.
This difference was positive and, in accordance with the matters indicated by the IAS standards, is transferred to the income statement for 2005.

The effect can be analyzed as follows:

Deferred taxes on difference between value for tax purposes and book value of revalued assets (37.25%)		12,953,185
Substitute tax on assets which can be amortized/depreciated(12%)	-3,591,676	
Substitute tax on assets which cannot be amortized/depreciated (6%)	-290,581	
Total substitute tax		-3,882,257
Total economic effect of re-alignment as per Italian Law No. 266/2005		9,070,928

Shareholders are informed that this realignment was made on fixed assets which are expected to be used on an on-going basis in the business activities and which currently are not planned to be disposed of, subject to normal replacement due to wear and tear.

Taxation relating to previous years

This comprises the cost (Euro 0.49 million) for the verification involving the adherence of Carraro S.p.A. for the closure of the tax assessment of the Regional Inland Revenue Office for the 2001 tax period.

Taxation relating to previous years can be analyzed as follows:

	Dec. 31, 2005
Verification involving adherence PVC Regional Inland Revenue Office – 2001 tax period	-485,038
Other taxation relating to previous years	-11,370
TOTAL	-496,408

Current taxes – IRAP (regional business tax)
Current IRAP for the year is calculated at the rate of 4.25% on the estimated taxable income for the year.

Current taxes – Substitute taxes
The amount refers to the substitute tax due for the realignment permitted by Italian Law No. 266/2005

Current taxes - Income and charges from tax consolidation
During the 2005 accounting period, Carraro S.p.A. exercised the option to comply with the tax consolidation system of the Parent Company Finaid Srl. The charges deriving from the transfer of the IRES tax base, are booked under current taxes.

Carraro S.p.A. has the right to receive “relief” from Finaid S.r.l. equating to 3% of the tax losses of the tax consolidation offset by means of the taxable income transferred by the company.
The charges deriving from the tax consolidation system recorded under current taxes are analyzed below:

Charges deriving from tax consolidation of the tax base transferred (33%)	2,317,883
" Relief" on use of the tax losses of the tax consolidation (3%)	-187,734
TOTAL	2,130,149

Deferred taxes

These are provided on the timing differences between the statutory result and the taxable amount.
The rates used are 33% for IRES (company earnings’ tax) and 4.25% for IRAP (regional business tax).
As indicated previously, deferred taxes expensed following the tax realignment envisaged by Italian Law No. 266/2005 are recorded under deferred taxes.

There are no tax losses for the year or for previous years to be recovered.
(Further information is provided note 12)

National income taxes are calculated at a rate of 33% for Ires (company earnings’ tax) and 4.25% for Irap (regional business tax) on the estimated taxable income for the year (rates unchanged with respect to 2004).
The provision for taxation for the year can be reconciled with the result recorded in the financial statements, as follows:

	Dec. 31, 2005		**Dec. 31, 2004**	
	Euro/1,000s	*%*	*Euro/1,000s*	*%*
Pre-tax result	**7,535**		**3,507**	
Theoretical tax rate 37.25%	**2,807**	**37.25%**	**1,306**	**37.24%**
Tax realignment	-9,071	-120.38%	0	0.00%
Effect of non-deductible costs	3,196	42.42%	3,872	296.48%
Income not taxable	-1,575	-20.90%	-1,428	-109.34%
Tax losses not recorded	0	0.00%	0	0.00%
Other deferred taxes not recorded	0	0.00%	-2,210	-169.22%
Taxation at effective rate	**-4,643**	**-61.62%**	**1,540**	**55.16%**

Net result of activities undergoing disposal (note 5)

The negative balance recorded in the 2004 financial statement for Euro 0.70 million, refers to the closure of the company Carraro Korea due to its winding-up. This value quantifies the liability for the cessation of the industrial activities of the Korean factory, following the suspension of its activities during the first few months of 2004, and comprises the costs incurred for the realization and the liquidation of the residual assets and liabilities.
The balance is question essentially represents the most significant economic impact of the transactions on the income statement of the company.

Research and development costs (which cannot be capitalized)

During 2005, technical-industrial studies and research not giving rise to capitalization were carried out for a total of Euro 11.70 million.

Earnings per share (note 6)

The basic earning per share is calculated by dividing the net income for the year attributable to the shareholders holding ordinary shares of the Company by the weighted average number of ordinary shares in circulation during the year.

	Dec. 31, 2005	Dec. 31, 2004
Income	*Euro/1,000s*	*Euro/1,000s*
Income for the purposes of the calculation of the basic earnings per share	12,179	1,267
Diluting effect deriving from potential ordinary shares	0	0
Income for the purposes of the calculation of the diluted earnings per share	12,179	1,267

	Dec. 31, 2005	Dec. 31, 2004
Number of shares	*No../1,000s*	*No../1,000s*
Weighted average number of ordinary shares for the calculation		
of the basic earnings per share:	42,000	42,000
Diluting effect deriving from potential ordinary shares:	0	0
Weighted average number of ordinary shares for the calculation		
of the diluted earnings per share:	42,000	42,000

	Dec. 31, 2005	Dec. 31, 2004
	Euro	*Euro*
Basic earnings per share:	0.29	0.03
Diluted earnings per share:	0.29	0.03

Dividends

Dividends paid

The dividends paid in relation to the distribution of 2004 net income, (as per the general shareholders' meeting resolution dated May 12 2005) amounted in total to Euro 5.25 million, equating to Euro 0.125 per ordinary share.

The Company has not issued any shares other than the ordinary ones.

In the previous accounting period, the dividends paid (relating to the distribution of 2003 net income) amounted in total to Euro 4.62 million, equating to Euro 0.11 per ordinary share.

Dividends proposed

The dividends proposed for 2006 (relating to the distribution of 2005 net income) amount in total to Euro 5.25 million, equating to Euro 0.125 per ordinary share.

Real estate property, plant and machinery (note 7)

COST OR REVALUED VALUE:	Dec. 31, 2004	Increases	Internal job orders	Decreases	Dec. 31, 2005
INDUSTRIAL LAND	6,959,000	-	-	-	6,959,000
INDUSTRIAL BUILDINGS	10,880,228	144,396	27,710	-	11,052,334
1) LAND AND BUILDINGS	**17,839,228**	**144,396**	**27,710**	**-**	**18,011,334**
PLANT	11,753,903	879,112	424,854	- 359,070	12,698,799
MACHINERY	17,453,033	1,356,028	86,970	- 285,477	18,610,554
2) PLANT AND MACHINERY	**29,206,936**	**2,235,140**	**511,824**	**- 644,547**	**31,309,353**
EQUIPMENT	9,521,674	1,467,117	-	- 6,441	10,982,350
DIES AND MODELS	10,367,640	2,000,263	-	- 17,562	12,350,341
3) INDUSTRIAL EQUIPMENT	**19,889,314**	**3,467,380**	**-**	**- 24,003**	**23,332,691**
FURNITURE AND FURNISHINGS	1,192,176	48,575	-	-	1,240,751
OFFICE MACHINES	1,845,878	429,230	21,348	- 7,066	2,289,390
VEHICLES	630,289	1,308	-	-	631,597
4) OTHER TANGIBLE FIXED ASSETS	**3,668,343**	**479,113**	**21,348**	**- 7,066**	**4,161,738**
5) ASSETS UNDER CONSTRUCTION AND ADVANCE PAYMENTS	**65,095**	**712,819**	**- 560,882**	**-**	**217,032**
TANGIBLE FIXED ASSETS	**70,668,916**	**7,038,848**	**-**	**- 675,616**	**77,032,148**

ACCUMULATED DEPRECIATION	Dec. 31, 2004	Depreciation	Decreases	Dec. 31, 2005
INDUSTRIAL LAND	-	-	-	-
INDUSTRIAL BUILDINGS	- 711,645	- 685,090	-	- 1,396,735
1) LAND AND BUILDINGS	**- 711,645**	**- 685,090**	**-**	**- 1,396,735**
PLANT	- 2,439,054	- 761,959	65,880	- 3,135,133
MACHINERY	- 4,501,619	- 1,994,732	70,661	- 6,425,690
2) PLANT AND MACHINERY	**- 6,940,673**	**- 2,756,691**	**136,541**	**- 9,560,823**
EQUIPMENT	- 2,554,315	- 1,352,099	1,248	- 3,905,167
DIES AND MODELS	- 4,026,090	- 1,413,996	5,018	- 5,435,068
3) INDUSTRIAL EQUIPMENT	**- 6,580,405**	**- 2,766,095**	**6,266**	**- 9,340,235**
TOTAL FURNITURE AND FURNISHINGS	- 270,481	- 128,016	-	- 398,497
TOTAL OFFICE MACHINES	- 649,642	- 530,510	3,454	- 1,176,698
TOTAL VEHICLES	- 163,468	- 103,591	-	- 267,059
4) TOTAL OTHER TANGIBLE FIXED ASSETS	**- 1,083,591**	**- 762,117**	**3,454**	**- 1,842,254**
ORDINARY ACCUMULATED DEPRECIATION	**- 15,316,314**	**- 6,969,994**	**146,261**	**- 22,140,047**

BOOK VALUE	Dec. 31, 2004	Dec. 31, 2005
INDUSTRIAL LAND	6,959,000	6,959,000
INDUSTRIAL BUILDINGS	10,168,583	9,655,599
1) LAND AND BUILDINGS	**17,127,583**	**16,614,599**
PLANT	9,314,849	9,563,666
MACHINERY	12,951,414	12,184,864
2) PLANT AND MACHINERY	**22,266,263**	**21,748,530**
EQUIPMENT	6,967,359	7,077,183

DIES AND MODELS	6,341,550	6,915,272
3) INDUSTRIAL EQUIPMENT	**13,308,909**	**13,992,456**
FURNITURE AND FURNISHINGS	921,695	842,254
OFFICE MACHINES	1,196,236	1,112,692
VEHICLES	466,821	364,538
4) OTHER TANGIBLE FIXED ASSETS	**2,584,752**	**2,319,484**
5) ASSETS UNDER CONSTRUCTION AND ADVANCE PAYMENTS	**65,095**	**217,032**
BOOK VALUE	**55,352,602**	**54,892,101**

The increases, which include purchases and internal costs, amount to Euro 7.04 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.
As of December 31 2005, there were no assets acquired by means of leasing agreements.

Intangible fixed assets (note 8)

Description	Historic cost	Net opening balance	Increases during year	Internal job orders during year	Decreases during year	Other changes	Total as of Dec. 31, 2005
1) GOODWILL	-	-	-	-	-	-	0
2) DEVELOPMENT COSTS	2,310,308	1,243,738	6,783	1,059,787	-583,234	-	1,727,074
3) RIGHTS AND PATENTS	311,016	241,764	69,252	0	-105,194	-	205,822
4) CONCESSIONS, LICENCES AND TRADEMARKS	1,721,185	613,066	537,235	156,223	-785,739	429,309	950,094
5) ASSETS IN PROCESS OF FORMATION AND ADVANCE PAYMENTS	1,585,866	1,585,866	661,130	-1,216,010	-	-41,600	989,387
6) OTHER INTANGIBLE FIXED ASSETS	439,071	439,071	-	-	-	-439,071	-
INTANGIBLE FIXED ASSETS	**6,367,446**	**4,123,505**	**1,274,400**	**-**	**-1,474,167**	**-51,361**	**3,872,377**

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

The main increases were due to the Development costs incurred by the Company concerning the design and planning of new product lines developed in connection with similar projects launched by the customers. Other studies concerning products are still in the design stage and are recorded under assets in process of formation.
Development costs generated internally are capitalized at cost.

Real estate property investments (note 9)

COST OR REVALUED VALUE:	Opening balance	Increases	Decreases	Reclassifications	Total
LAND	-	-	-	-	-
BUILDINGS	539,703	-	-	-	539,703
TOTAL	**539,703**	**-**	**-**	**-**	**539,703**

Property investments refer to non-industrial buildings.
The fair value of these investments does not differ greatly to the recorded cost, taking into account the fact that at the time of initial application of the IFRS, they were recorded at fair value as “deemed cost”.

Equity investments in subsidiary, associated and parent companies (note 10)

Changes in equity investments during 2005:

	Opening balance	Increases	Decreases	Reclassifications	Writedowns/ Revaluations	Closing balance
SIAP SPA	11,747,161	-	-	-	-	11,747,161
A.E. SRL	9,000	1,090,075	-	-	-1,063,075	36,000
CARRARO DEUTSCHLAND GMBH	8,893,090	-	-	-	-	8,893,090
CARRARO INDIA PRIVATE LTD	2,833,000	-	-	-	-	2,833,000
CARRARO ARGENTINA S.A.	20,371,730	-	-	-	-	20,371,730
CARRARO INTERNATIONAL S.A.	2,961,100	-	-	-	-	2,961,100
F.O.N. S.A.	1,326,844	41,929	-	-	-	1,368,773
1) SUBSIDIARY COMPANIES	48,141,925	1,132,004	-	-	-1,063,075	48,210,854
ELCON SRL	12,450	-	-	-	-	12,450
2) ASSOCIATED COMPANIES	12,450	-	-	-	-	12,450
3) PARENT COMPANIES	-	-	-	-	-	-
TOTAL B.4) EQUITY INVESTMENTS	48,154,374	1,132,004	-	-	-1,063,075	48,223,303

The changes during the year reflect the following:

F.O.N. S.A. the equity investment was increased from 88.270% to 90.667% by virtue of additional purchases of shares from third parties;

A.E. S.r.l.

- the extraordinary meeting of the shareholders' held on April 29 2005 resolved the coverage of the loss reported in 2004 (Euro 38,320) by means of the writing off of the share capital and the payment by the shareholders in order to cover the residual loss and re-establish the share capital for a total of Euro 40,000. The overall payment made by Carraro S.p.A: amounted to Euro 61,488;
- as of December 31 2005 Carraro S.p.A. waived part of the loan granted for a total of Euro 1,028,587 to cover future losses;
- as of December 31 2005, the equity investment was written down for Euro 1.06 million so as to adjust the value to the Company's shareholders' equity.

The table below shows the purchase/subscription costs of the equity investments and the writedowns made in previous years:

	Purchase or subscription cost	Write-downs	Revaluations	Book value as of Dec. 31, 2005
Subsidiary companies:				
Siap Spa	11,747,161	0	0	11,747,161
A.E. SRL	1,099,075	-1,063,075	0	36,000
Carraro Deutschland GmbH	21,041,025	-12,147,935	0	8,893,090
Carraro India Ltd.	4,512,703	-1,679,703	0	2,833,000
Carraro Argentina SA	53,577,509	-33,205,779	0	20,371,730
Carraro International SA	9,850,000	-6,888,900	0	2,961,100
F.O.N. SA	1,880,277	-511,504	0	1,368,773
Associated companies:				
Elcon Srl	32,212	-19,762	0	12,450

Financial assets (note 11)

	Opening balance	Initial adoption of IAS 32/39	Change	Closing balance
NON-CURRENT FINANCIAL ASSETS				
LOANS AND RECEIVABLES				
due from third parties	332,195	-	-142,868	189,327
	332,195	-	-142,868	189,327
OTHER FINANCIAL ASSETS				
at current value	-	-	-	-
held until maturity	-	-	-	-
available for sale	85,841	-	-	85,841
cash flow hedge derivatives	-	-	-	-
	85,841	-	-	85,841
FINANCIAL ACCRUALS AND DEFERRALS				
third parties	285	-	-285	-
	285	-	-285	0
CURRENT FINANCIAL ASSETS				
LOANS AND RECEIVABLES				
due from subsidiary companies	2,901,240	-	2,230,173	5,131,413
due from associated companies	83,940	-	-	83,940
due from related parties	1,032,914	-	-1,032,914	-
due from third parties	-	-	-	-
	4,018,094	-	1,197,259	5,215,353
OTHER FINANCIAL ASSETS				
at current value	-	2,063,649	-2,063,649	-
held until maturity	-	-	-	-
available for sale	73,000	-	-	73,000
cash flow hedge derivatives	-	-	-	-
	73,000	2,063,649	-2,063,649	73,000
FINANCIAL ACCRUALS AND DEFERRALS				
third parties	148,374	-	29,281	177,655
	148,374	-	29,281	177,655

Non-current loans and receivables:

- due from third parties (Euro 0.19 million): these are represented by the Irpef advance on employee leaving indemnities.

Current loans and receivables:

- due from subsidiary companies (Euro 5.13 million) these are represented by the loan granted to A.E. S.r.l.;
- due from associated companies (Euro 0.09 million): these are represented by the loan granted to Elcon S.r.l.;
- due from related parties: this item decreased due to the repayment of the loan granted to Fonderie del Montello S.p.A..

Other non-current financial assets

- Available for sale (Euro 0.09 million): these comprise minority interests and therefore they do not have a pre-established payment date; they are analyzed as follows:

Company	Registered offices	Currency	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

Other current financial assets

- At current value: this comprises the positive *fair value* relating to derivative contracts on foreign currency (*options* totalling Euro 1.64 million and *domestic currency swaps* totalling Euro 0.42 million) reported as of January 1 2005 in accordance with the standards IAS/IFRS 32 and 39 and recorded in the income statement during 2005;
- Available for sale (Euro 0.07 million): these comprise Treasury Credit Certificates (CCT);

Financial accruals and deferrals: these mainly refer to portions of interest accrued on loans.

Trade and other receivables (note 13)

	Opening balance	Change	Closing balance
NON-CURRENT TRADE AND OTHER RECEIVABLES			
TRADE RECEIVABLES	-	-	-
OTHER RECEIVABLES			
due from related parties	1,549	-	1,549
due from third parties	250,636	226,009	476,645
	252,185	226,009	478,194
CURRENT TRADE AND OTHER RECEIVABLES			
TRADE RECEIVABLES			
due from subsidiary companies	16,590,381	1,109,003	17,699,384
due from associated companies	3,481,728	-3,441,513	40,215
due from related parties	430,037	-64,877	365,160
due from third parties	84,052,624	-3,008,049	81,044,575
	104,554,770	-5,405,436	99,149,334
OTHER RECEIVABLES			
due from subsidiary companies	6,266,628	-6,058,761	207,867
due from third parties	7,909,470	7,679,061	15,588,531
	14,176,098	1,620,300	15,796,398

Other receivables due from third parties are analyzed as follows:

	Opening balance	Change	Closing balance
VAT credits	5,315,391	502,561	5,817,952
VAT credit due for rebate	634,350	2,245,671	2,880,021
Other amounts due from the tax authorities	698,619	-59,408	639,211
Credits for current taxes	239,934	182,213	422,147
Amounts due from factoring companies	0	4,500,000	4,500,000
Amounts due from employees	6,125	-714	5,410
Amounts due from social security and welfare institutions	86,738	7,599	94,337
Accrued income and prepaid expenses	261,757	534,661	796,418
Other receivables	666,556	-233,521	433,035
	7,909,470	7,679,061	15,588,531

Other non-current receivables (Euro 0.48 million) comprise guarantee deposits (Euro 0.05 million) and medium/long-term prepaid expenses (Euro 0.43 million).

Trade receivables are non-interest bearing and generally have a maturity of between 80 and 90 days.

Other current receivables due from third parties include VAT credits for a total of Euro 8.62 million and amounts due from factoring companies for the transfer of VAT credits amounting to Euro 4.50 million.

Analysis of the gross and net value of the receivables is as follows:

	Opening balance	Closing balance
Trade receivables due from third parties	86,039,638	83,031,589
Allowance for doubtful receivables	-1,987,014	-1,987,014
Net balance	84,052,624	81,044,575

	Opening balance	Closing balance
Other receivables due from subsidiary companies	6,266,628	1,499,493

Allowance for doubtful receivables	0	-1,291,626
	6,266,628	207,867

Amounts due from subsidiary companies subject to writedown, are those concerning Carraro Korea Ltd.

Inventories (note 14)

	Opening balance	Change	Closing balance
1) Raw, ancillary and consumable materials	22,771,089	5,836,066	28,607,155
2) Work in progress and semi-finished products.	10,032,690	205,499	10,238,189
3) Contract work in progress	0	0	0
4) Finished products and goods for resale	9,975,381	11,501,409	21,476,790
5) Advance payments	0	0	0
6) Goods in transit	104,172	-38,965	65,207
INVENTORIES	42,883,332	17,504,009	60,387,341

Inventories present a balance of Euro 60.39 million, as against Euro 42.88 million in 2004.

The inventory writedown reserve, recorded in order to align the value of obsolete and slow-moving inventories to estimated realizable value, comes to Euro 4.70 million and is made up as follows:

- raw, ancillary and consumable materials for Euro 1.67 million;
- semi-finished products for Euro 0.17 million;
- finished products for Euro 2.86 million.

The total provision made during the year to the allowance amounts to Euro 1.60 million. During the period, Euro 0.83 million was utilized for divestments and the scrapping of assets no longer usable.

Liquid funds (note 15)

	Opening balance	Change	Closing balance
1) Cash	17,761	37,320	55,081
2) Current accounts and bank deposits	29,540,206	15,402,840	44,943,046
3) Other liquid funds or equivalent assets	0	0	0
TOTAL	29,557,967	15,440,160	44,998,127

Short-term bank deposits are remunerated at floating rates.

Shareholders' equity (note 16)

Share capital

Authorized shares:	Dec. 31, 2005 Euro/1,000s	Dec. 31, 2004 Euro/1,000s
42 million ordinary shares with a par value of Euro 0.52 each:	21,840	21,840
Shares issued and fully paid-in:		
At the start of the year:	21,840	21,840
Share capital increases	0	0
At the end of the year	21,840	21,840

The Company has issued a sole category of ordinary shares which do not assign a fixed dividend.

No other financial instruments have been issued which assign equity and investment rights.
No share capital increases were carried out during the year.

Other reserves:

Capital reserves:

	Share premium reserve
As of January 1, 2005	17,833,456
Share capital increase	0
Other changes during the year	0
As of December 31, 2005	17,833,456

There were no changes in the Share premium reserve during the year.

Net income reserves:

	Legal reserve	Other reserves of earnings (*)	Total other reserves
Reserve as of January 1, 2005	3,535,616	3,547,200	7,082,816
Allocation of 2004 result (resolution of shareholders' meeting dated May 12, 2005)	313,790	-4,296,614	-3,982,824
Reserve as of December 31, 2005	3,849,406	-749,414	3,099,992

(*) in the financial statements as of December 31, 2004 in accordance with the previous accounting principles, it corresponds to the Extraordinary reserve.

Reserve for initial application of the IAS/IFRS:

Reserve for initial application of the IAS/IFRS:	Sub-total	Total
Revaluation of tangible assets	35,379,111	
Provision for deferred tax liabilities	-13,178,719	
		22,200,392
Adjustment of employee leaving indemnities	673,528	
Provision for deferred tax liabilities	-222,264	
		451,264
Reserve as of January 1, 2004		22,651,656
Adoption of IAS/IFRS 32 and 39	1,703,558	
Provision for deferred tax liabilities	-562,174	
		1,141,384
Reserve as of January 1, 2005		23,793,040

During 2005, the Reserve for initial application of the IAS/IFRS was increased due to the adoption of the accounting standards IAS/IFRS 32 and 39. There were no other changes.

The table below shows the balance of the shareholders' equity items analytically indicated by origin, possibility of utilization and distribution.

Nature/Description	Amount	Possibility of utilization	Available portion	
Share capital	21,840,000	---	---	
Capital reserves:				
Share premium reserve	17,833,456	A, B, C	17,833,456	(1)
Reserve for initial adoption of IAS/IFRS:				
Writeback of value of assets which cannot be amortized/depreciated	5,210		5,210	(2)
Adjustment of value of tangible assets	22,195,182	A	---	(3)
Adjustment of employee leaving indemnities	451,264	A-B	---	(4)
Valuation of financial instruments	1,141,384	A, B, C	1,141,384	(5)
Net income reserves:				
Legal reserve	3,849,406	B	---	
Retained earnings	-749,414	---	-749,414	
Period result:	12,178,693	A, B, C	11,569,758	
Total	**78,745,181**		**29,800,394**	
Portion not distributable			19,578,687	(6)
Residual distributable portion			**10,221,707**	

Key:

A: for share capital increase

B: for coverage of losses

C: for distribution to shareholders

(1) in accordance with Article 2431.l 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) available in accordance with Article 7.4 of Italian Legislative Decree No. 38 dated December 28 2005
(3) not available in accordance with Article 7.6 of Italian Legislative Decree No. 38 dated December 28 2005
(4) not available in accordance with Article 7.7 of Italian Legislative Decree No. 38 dated December 28 2005
(5) available in accordance with Article 7.2 of Italian Legislative Decree No. 38 dated December 28 2005
(6) Portion not distributable: this represents the total of the portion which is not distributable as a result of the part intended to cover deferred costs not yet amortized (Article 2426.5 of the Italian Civil Code), the share premium reserve not yet distributable and the reserve for unrealized exchange gains (Article 2426.8 bis of the Italian Civil Code).

Financial liabilities (note 17)

	Opening balance	Initial adoption of IAS 32/39	Reclassifications	Change	Closing balance
NON-CURRENT FINANCIAL LIABILITIES					
BONDS	55,000,000		-55,000,000	-	-
LOANS					
from third parties	1,272,292	-	-1,272,292	1,071,330	1,071,330
	1,272,292	-	-1,272,292	1,071,330	1,071,330
FINANCIAL ACCRUALS	-	-	-	-	-
OTHER FINANCIAL LIABILITIES	-	-	-	-	-
CURRENT FINANCIAL LIABILITIES					
BONDS	-	-	55,000,000	-	55,000,000
LOANS					
from third parties	18,172,710	-	1,272,292	-3,320,098	16,124,904
	18,172,710	-	1,272,292	-3,320,098	16,124,904
FINANCIAL ACCRUALS AND DEFERRALS					
subsidiary companies	2,381,869	-	-	-388,953	1,992,916
third parties	89,091	-	-	47,879	136,970
	2,470,960	-	-	-341,074	2,129,886
OTHER FINANCIAL LIABILITIES					
fair value derivatives on interest rates	-	360,091	-	-360,091	0
fair value derivatives on exchange rates	-	-	-	463,042	463,042
	-	360,091	-	102,951	463,042

The non-current loan of Euro 1.071 million was obtained against a technological innovation project relating to a new type of product (Italian Law No. 46/82). Granted in June 2002 by means of the decree of the Ministry for Production Activities, it was subsequently disbursed in 2004 and in 2005 by San Paolo IMI; it has a duration of 5 years and a soft fixed interest rate of 1.01%.

The balance of the item bonds amounting to Euro 55.0 million represents the non-convertible bond issued on July 31 2001 and maturing on May 29 2006, at a floating rate, subsequently hedged with a fixed rate, and reserved for the subsidiary Carraro International S.A.. The rate relating to the last period, falling due on May 29 2006, equates to 4.49%. The reimbursement will be made using liquid funds, the use of short-term credit facilities and where necessary a loan grantable by the company Carraro International.

Current loans (Euro 16.125 million) comprise:

- advances and current accounts overdrafts totalling Euro 14.85 million against revocable lines of credit for Euro 120.00 million which can be used on a mixed basis for current account overdrafts and short-term loans with a revolving formula of 12 months. The interest rate conditions are the Euribor + 0.40%;
- the current portion of a loan granted by Mediocredito (Euro 1.27 million) at a soft fixed rate of 1.2% in accordance with Italian Law No. 100/'90 against an investment programme 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.

Other financial liabilities include the negative *fair value* totalling Euro 0.36 million registered as of 1 January 2005 (date of initial application of IAS 32 and 39) relating to two Forward Rate Agreements referring to the

bond of Euro 55.00 million; this fair value was reabsorbed in the income statement during the year against the natural discharge of the underlying financial instruments.
These agreements originally stipulated with the aim of minimizing the effects deriving from the fluctuation in the interest rate of said loan have been classified among those to be recorded at *fair value*.

The balance of Euro 0.463 million refers to the recording of the fair value relating to the derivative financial instruments hedging the fluctuation in exchange rates (Domestic Currency Swaps) outstanding as of December 31 2005.

Financial accruals and deferrals include Euro 1.992 million in interest accrued on the afore-mentioned bond, and Euro 0.136 million in interest accrued on other outstanding loans.

Trade and other payables (note 18)

	Opening balance	Change	Closing balance
CURRENT TRADE AND OTHER PAYABLES			
TRADE PAYABLES			
due to parent companies	8,003	-5,131	2,872
due to subsidiary companies	17,839,587	11,963,463	29,803,050
due to associated companies	291,056	-86,298	204,758
due to related parties	9,016,425	7,371,699	16,388,124
due to third parties	94,480,817	11,248,089	105,728,906
	121,635,888	30,491,822	152,127,710
OTHER PAYABLES			
due to parent companies	-	630,838	630,838
due to third parties	9,397,235	1,319,049	10,716,284
	9,397,235	1,949,887	11,347,122

Trade payables are non-interest bearing and settled on average within 120 days.

Other payables due to parent companies are represented by payables due to Finaid S.r.l. for tax consolidation charges.

Other payables due to third parties are analyzed as follows:

	Opening balance	Change	Closing balance
Amounts due to social security and welfare institutions	1,706,981	348,878	2,055,859
Amounts due to employees	4,334,242	835,204	5,169,446
Accrued amounts due to employees	529,739	190,479	720,218
Irpef (personal income tax) due pertaining to employees and freelancers	1,308,488	109,789	1,418,277
Due to Board of Directors	999,129	-553,495	445,634
Other payables	518,656	388,194	906,850
	9,397,235	1,319,049	10,716,284

Deferred tax assets and liabilities (note 12)

The table below illustrates the composition of deferred taxation by nature of the timing differences which produce it. The change corresponds with the effect of the deferred taxation on the income statements

Description of differences	Deferred tax liabilities Dec. 31, 2004	FTA - IAS 32/39	Deferred tax liabilities Jan. 1, 2005	Change	Deferred tax assets Dec. 31, 2005
Writedown of equity investments	2,454,194	0	2,454,194	-1,146,379	1,307,815
Provisions for risks	3,357,987	0	3,357,987	983,602	4,341,589
Writedown of receivables	-175,794	0	-175,794	-136,950	-312,744
Adjustment of employee leaving indemnities	-166,887	0	-166,887	-60,051	-226,938
Derivative financial instruments	0	-562,174	-562,174	562,174	0
Depreciation of tangible assets	-13,083,704	0	-13,083,704	13,644,118	560,414
Other	379,907	0	379,907	-56,324	323,583
TOTAL	-7,234,297	-562,174	-7,796,471	13,790,190	5,993,719

Amounts due for current taxes (note 19)

	Opening balance	Change	Closing balance
Amounts due for current taxes	2,659,985	2,249,138	4,909,123

The balance of amounts due for current taxes includes Euro 0.81 million for taxes due following the transaction with the Inland Revenue for the 2001 tax assessment, Euro 3.88 million for substitute tax on the tax realignment of the value of tangible fixed assets (Italian Law No. 266 dated December 23 2005) and Euro 0.21 million for IRAP (regional business tax) for the year (net of advances paid out during the year).

Employee leaving indemnity/pensions (employee benefits) (note 20)

	Opening balance	Change	Closing balance
Blue-collar workers	6,064,603	1,243,232	7,307,835
Office workers and executives	4,273,816	839,678	5,113,494
TOTAL LEAVING INDEMNITIES	10,338,419	2,082,910	12,421,329

Changes in the employee leaving indemnity/pension fund

OPENING BALANCE	INCREASE	DECREASE	CLOSING BALANCE
10,338,419	2,402,686	-319,776	12,421,329

The employee leaving indemnity, calculated in accordance with the current provisions of the law, is treated in the accounts as a defined benefit and as such re-calculated at the end of each period on an actuarial-statistical basis which also takes into account the effects of the financial discounting back.

The employee leaving indemnity refers to the employee benefits disciplined by current legislation in Italy.
Said liability have been calculated in accordance with the actuarial method of the "projected unit credit method" with the support of the data issued by Istat (the central institute of statistics), Inps (national institute of social insurance) and Ania (national association of insurance companies).

The parameters used are as follows:
- annual interest rate: 4% - 4.25%

- annual rate of effective increase in remuneration: 3% - 3.5%
- annual inflation index: 1.5%
- pension adaptation index: 1.5%

The accounting treatment of employee benefits recorded in the financial statements follows that envisaged by standard IAS 19 for fixed benefit plans; the change in the liability noted between the end of the period and the previous one is booked in full to the income statement and classified under payroll and related costs.

Headcount

The number of employees shown below relates solely to the companies consolidated on a line-by-line basis and is broken down by category:

Category	Dec. 31, 2004	Change	Dec. 31, 2005
Executives	32	-	32
Office workers	227	72	299
Blue-collar workers	561	138	699
Temporary workers	93	-85	8
Total	**913**	**125**	**1.038**

Provisions for risks and charges (note 21)

This item comprises:

	Opening balance	Increases	Decreases	Closing balance
PROVISIONS FOR RISKS AND CHARGES				
NON-CURRENT PORTION				
1) Warranty	205,433	1,688,000	-	1,893,433
2) Charges pertaining to disputes	250,000	-	-250,000	-
3) Restructuring and reconversion	1,540,000	-	-1,540,000	-
agents' leaving indemnities	-	*38,713*	-	*38,713*
4) Other provisions	-	38,713	-	38,713
TOTAL	1,995,433	1,726,713	-1,790,000	1,932,146

	Opening balance	Increases	Decreases	Closing balance
PROVISIONS FOR RISKS AND CHARGES				
CURRENT PORTION				
1) Warranty	3,400,000	3,675,000	-3,275,000	3,800,000
2) Charges pertaining to disputes	-	-	-	-
3) Restructuring and reconversion	-	-	-	-
4) Other provisions	-	-	-	-
TOTAL	3,400,000	3,675,000	-3,275,000	3,800,000

The product warranty provision was utilized for Euro 3.27 million for measures carried out for customers and was increased by Euro 5.36 million in relation to the anticipated warranty costs to be incurred in relation to sales made.

The item Charges pertaining to disputes was used for the settlement of the assessment made by the Regional Inland Revenue Office.

The provision for restructuring underwent the following change:
- it was reclassified for a total of Euro 1.29 million under the Allowance for doubtful receivables against the losses on receivables which will emerge on conclusion of the winding-up of Carraro Korea Ltd.
- the remaining amount (Euro 0.25 million) was transferred to the income statement, since it was considered to be in excess.

As far as the other aspects are concerned regarding disputes, with reference to Carraro S.p.A., the following can be stated:
Shareholders are informed that the dispute outstanding with I.N.P.S., the social security institution, started in 1996 for the alleged omission to pay contributions, was closed on October 5 1999 by the Padua lower court magistrate in favour of the Company. INPS have appealed against this decision. As of December 9 2004, the Supreme Court upheld the appeal presented by Carraro S.p.A. and referred the case 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.

5. Commitments and risks

	Current year	Previous year
Risks	-	-
- sureties given on behalf of third parties	22,448,060	18,784,321
Commitments for operating leases:	4,275,000	0
Other commitments:	103,291	103,291

The sureties given on behalf of third parties are analyzed as follows:

ISSUE DATE	*IN FAVOUR OF*	*ON BEHALF OF*	MATURITY	ORIGINAL AMOUNT	RESIDUAL AMOUNT
30/11/2005	BANK PEKAO	FON	11/30/2006	1,775,000	1,775,000
30/11/2005	BANK PEKAO	FON	11/30/2006	3,500,000	3,500,000
30/11/2005	BANK PEKAO	FON	05/31/2011	3,937,824	3,937,824
30/11/2005	BANK PEKAO	FON	11/30/2006	259,067	259,067
02/08/2004	SAN PAOLO IMI SPA	FON	ON REVOCATION	450,000	1,500,000
21/10/2005	FACTORIT SPA	FON	ON REVOCATION	1,000,000	1,000,000
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	2,300,000
21/10/2005	FACTORIT SPA	CARRARO ARGENTINA S.A.	ON REVOCATION	1,000,000	1,000,000
22/02/2005	BNP PARIBAS	CARRARO INTERNATIONAL	ON REVOCATION	500,000	500,000
12/09/2005	BANCA POP. DI VERONA	CARRARO INTERNATIONAL	ON REVOCATION	1,000,000	1,000,000
28/07/2005	BNP PARIBAS	CARRARO INTERNATIONAL	ON REVOCATION	4,913,206	4,890,169
		TOTAL			22,448,060

Other commitments are analyzed as follows:

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

Operating lease instalments:
These refer to the rental contract for the business segment stipulated on March 24 2005, with a duration of three years subsequently extendable year by year. The lessor is Agritalia S.p.A. (related party) and the annual fee (Euro 1.90 million) has been determined on the basis of an independent appraisal. The contract also envisages the possibility of exercising an option for the purchase of the company at a price which can be determined. Taking into account the provisions of IAS 17, it is not believed that the contract has the nature of a financial lease. The commitments for instalments still to be paid as of December 31

2005, have maturity dates within 12 months for a total of Euro 1.90 million and beyond 12 months but within 5 years for a total of Euro 2.375 million.

6. Events subsequent to the year end date

There were no significant subsequent events worthy of mention, which would have had any effects on the financial statements or on the disclosure.

7. Transactions with related parties

Carraro S.p.A. is directly controlled by Finaid S.r.l., which as of December 31 2005 held 50.001% of the shares in circulation.

The details of the transactions between Carraro S.p.A. and other related parties are indicated below.

During the accounting period, Carraro Spa exercised the option to comply with the tax consolidation system of the Parent Company Finaid Srl. The income and charges deriving from the transfer of the taxable base for IRES purposes, are recorded under current taxes. Within the sphere of the regulations of the Tax Consolidation System, Carraro Spa has the right to "relief" on the use of the tax losses of the subsidiary companies by Finaid. This "relief" equates to 3% of the tax loss offset with the taxable amounts of Carraro Spa.

8. Fair value

When an essential coincidence between the book value and the fair value of the financial assets and liabilities does not exist, steps are taken to include a comparison between the various values.
At the end of the 2005 accounting period, it was not possible to detect significant differences between the book value and the fair value for the financial assets and liabilities which had not already been recorded at fair value in accordance with the standards indicated previously.

9. DERIVATIVE FINANCIAL INSTRUMENTS

9.1 Derivative financial instruments on currency

The tables indicate the notional and the fair values referring to the various types of derivative contracts on foreign currency outstanding as of December 31 2005, pertaining to the various Group companies.

a) notional values

(Balances in Euro)

CONTRACT	**Carraro SpA**
Swaps (DCS)	**9,754,654**

b) reference currencies and contract maturities

CONTRACT		Carraro SpA
Swaps (DCS)	Reference currency	EURO/US$
	maturity (from..to)	Feb.-Apr. 2006

c) fair value

(Balances in Euro)

CONTRACT	Carraro SpA
Swaps (DCS)	**(463,042)**

(1) instruments activated to hedge sales budget in foreign currency
The fair values as of December 31 2005 of the financial instruments on exchange rates are calculated by a leading financial appraisal firm with the aid of the following financial models:
- *Swaps*: Black-Scholes-Merton formula

The source for the foreign currency exchange rates is provided by the ECB for all the exchange rates with the Euro and by the EMTA for the ARS/US$ exchange rate.
The counterparts with whom the contracts are stipulated are leading national and international banking institutions.

The financial instruments on currency are used, on a consistent basis with the financial risk management policy adopted by the Company, to hedge the risks deriving from exchange rate fluctuations and concern the sales volumes compared with the budget exchange rate and the collections and payments of short and medium-term receivables and payables with respect to the historic value.

Given the operating method adopted, according to which the contracts are usually activated with a timescale which ranges between 2 and 12 months and what is more for amounts which hedge a multitude of individual transactions, these instruments, without prejudice to the essential hedging objectives of the Group, are handled solely for accounting purposes and in accordance with the IAS/IFRS as speculative, with registration of the changes in their fair value in the income statement.

9.2 Derivative financial instruments on interest rates

There were no derivative contracts on interest rates as of December 31 2005.

10. Information on related parties

The following statements present information relating to transactions with related parties in accordance with the IAS 24 standard.

REMUNERATION PAID TO THE ADMINISTRATION, MANAGEMENT AND AUDITING BODIES.

INDIVIDUAL	DESCRIPTION OF OFFICE			REMUNERATION (Euro '000s)
Name and surname	Company	Office covered	Length of office	Year 2005
Mario Carraro	Carraro S.p.A.	Chairman and Chief Executive Officer	Three-year period 2003-2005 (shareholders' meeting dated May 14 2003)	765.0
	SIAP S.p.A.	Chairman and Chief Executive Officer	Three-year period 2003-2005 (shareholders' meeting dated 05.29.03)	30.0
Gabriele Del Torchio	Carraro S.p.A.	Chief Executive Officer	Three-year period 2003-2005 (shareholders' meeting dated May 14 2003) in office until November 8 2005	directors' fee 87.7 employment remuneration 165.0
	SIAP S.p.A.	Chief Executive Officer	Three-year period 2003-2005 (shareholders' meeting dated 05.29.03) in office until July 1 2005	36.5
Carlo Borsari	Carraro S.p.A.	Director Chief Executive Officer	as per BoD dated December 21 2005 until approval of financial statements as of December 31 2005 In office since January 11 2006 until approval of financial statements as of December 31 2005	1.5
Francesco Carraro	Carraro S.p.A.	Director	Three-year period 2003-2005 (shareholders' meeting dated May 14 2003)	40.0
Enrico Carraro	Carraro S.p.A.	Director	Three-year period 2003-2005 (shareholders' meeting dated May 14 2003)	60.0
Tomaso Carraro	Carraro S.p.A.	Director	Three-year period 2003-2005 (shareholders' meeting dated May 14 2003)	230.0
	SIAP S.p.A.	Director	Three-year period 2003-2005 (shareholders' meeting dated May 14 2003)	20.0
Onofrio Tonin	Carraro S.p.A.	Director	Three-year period 2003-2005 (shareholders' meeting dated May 14 2003)	90.0
Giorgio Brunetti	Carraro S.p.A.	Director	Three-year period 2003-2005 (shareholders' meeting dated May 14 2003)	60.0
Sergio Erede	Carraro S.p.A.	Director	Three-year period 2003-2005 (shareholders' meeting dated May 14 2003)	50.0
Antonio Cortellazzo	Carraro S.p.A.	Chairman of the Board of Statutory Auditors Director	Three-year period 2003-2005 (shareholders' meeting dated May 14 2003) in office until May 12 2005 In office since May 12 2005 (shareholders' meeting dated May 12 2005) until approval of the financial statements as of December 31 2005	7.8 40.0
Roberto Saccomani	Carraro S.p.A.	Chairman of the Board of Statutory Auditors	In office since May 12 2005 (shareholders' meeting dated May 12 2005) until approval of the financial statements as of December 31 2005	15.6
Francesco Secchieri	Carraro S.p.A.	Statutory Auditor	Three-year period 2003-2005 (shareholders' meeting dated May 14 2003)	15.6
	SIAP S.p.A.	Statutory Auditor	Three-year period 2003-2005 (shareholders' meeting dated May 29 2003)	9.5

Renzo Lotto	Carraro S.p.A.	Statutory Auditor	Three-year period 2003-2005 (shareholders' meeting dated May 14 2003)	15.6

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

During the 2005 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	195
Studio Mocellini	140

CARRARO S.p.A.
FINANCIAL STATEMENTS AS OF DECEMBER 31, 2005

EQUITY INVESTMENTS HELD BY DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS AND THEIR IMMEDIATE FAMILIES

Name and surname	Investee company Carraro S.p.A.	No. of shares held as of Dec. 31, 2004	No. of shares purchased	No. of shares sold	No. of shares held as of Dec. 31, 2005
Mario Carraro	Directly held	1,679,650	-	-	1,679,650
	Held via Finaid S.r.l.	21,000,005	-	-	21,000,005
Francesco Carraro	Directly held	1,182,395	-	-	1,182,395
Chiara Alessandri	Directly held	20,000	-	-	20,000
Onofrio Tonin	Directly held	2,500	-	-	2,500

TRANSACTIONS OF THE PARENT COMPANY CARRARO S.p.A. WITH RELATED PARTIES as of December 31, 2005

(EURO '000s)

	Financial and equity 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 AND DIVIDENDS	INCOME FROM TAX CONSOLIDATION	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 PAYABLES	INTEREST EXPENSE
Parent company																
Finaid S.r.l				634						188				26		
Subsidiary companies																
SIAP S.p.A.			147	17,778	13		295		2,005		1	44,027	60	33		
Carraro Deutschland GmbH																
Carraro India Ltd.			6,747	2,665	8	5	1,503	690				10,122		8		
Turbo Gears India Ltd.			6				6									
Carraro Argentina S.A.			4,702	2,031	2,692		4,034		2,214			6,206		3		
Carraro International S.A.		55,000	8				7									2,685
F.O.N. S.A.			2,654	2,134	1,115		865				6	9,137	32	15		
O&K Antriebstechnik GmbH			1,605	299			152					246		1		
Carraro North America Inc.			1,278	273	4		2				11	1	4		1,429	
Carraro Qingdao Inc.			71				6									
A.E. S.r.l.	5,131		596	4,584	826		353		158		581	6,726	5	1		
Associated companies																
Stm S.r.l.			40	99			39					245				
Elcon Elettronica S.r.l.	84			105					2			277	4	47		
Other related parties																
Agritalia S.p.A.			297	13,967	3,272	1	112				12	27,481	672	1,553		
Maus S.p.A.			60	117			61				161	41	15			
Meccanica del Piave S.p.A.			4	2,304	481	29	23				80	3,923	12			
European Power System S.r.l.			7				3									

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.

Income from the tax consolidation system refers to the "relief" benefiting Carraro S.p.A. on the use of the tax losses deriving from compliance with the tax consolidation system of Finaid S.r.l..

CARRARO S.p.A.

STATEMENT OF EQUITY INVESTMENTS GREATER THAN 10% AS OF DECEMBER 31, 2005 (Article 126 Draghi Reg. of the Consob 11971/1999)

1) DIRECTLY HELD INTERESTS

Company name	Registered offices	Share capital		Total number of shares /holdings	Number of shares /holding held	Total number of voting rights	Number of voting rights held	Net income/(Loss) as of Dec. 31, 2005 (Euro equivalent)	Shareholders' equity as of Dec. 31, 2005 (Euro equivalent)	Shareholding as of Dec. 31, 2005	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	6,706,768	31,664,777	100.00%	11,747,161
CARRARO DEUTSCHLAND GmbH	HATTINGEN (GERMANY)	EURO	10,507,048	1	1	1	1	144,990	9,000,518	100.00%	8,893,090
CARRARO INDIA Ltd.	PUNE (INDIA)	RUPEE	400,000,000	40,000,000	20,400,000	40,000,000	20,400,000	2,085,316	5,087,624	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	2,204,264	29,686,287	99.90%	20,371,730
CARRARO INTERNATIONAL S.A.	LUXEMBOURG	EURO	9,850,000	9,850	9,849	9,850	9,849	1,908,209	4,855,699	99.99%	2,961,100
FON S.A.	RADOMSKO (POLAND)	PLZ	7,058,220	705,822	639,946	901,214	835,338	(493,120)	2,330,342	90.667%	1,368,773
A.E. S.r.l.	CASTELLO D'ARGILE (BOLOGNA), ITALY	EURO	40,000	40,000	36,000	40,000	36,000	(934,991)	162,119	90.00%	36,000
Elcon S.r.l.	TRIESTE (ITALY)	EURO	50,000	50,000	12,450	50,000	12,450	3,498	67,472	24.90%	12,450

2) INDIRECTLY HELD INTERESTS

Company name	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	Net income/(Loss) as of Dec. 31, 2005 (Euro equivalent)	Shareholders' equity as of Dec. 31, 2005 (Euro)	Shareholding as of Dec. 31, 2005	Book value of investment (Euro)
			Currency	Amount								
STM S.r.l.	MANIAGO, PN (ITALY)	SIAP S.p.A.	EURO	1,549,080	1,549,080	774,540	1,549,080	774,540	700,303	6,032,554	50.00%	769,263
O&K Antriebstechnik & Co. GmbH KG	HATTINGEN (GERMANY)	CARRARO DEUTSCHLAND GmbH	EURO	2,045,168	1	1	1	1	1,548,698	6,426,185	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	-	17,584	100.00%	0
CARRARO NORTH AMERICA Inc.	CALHOUN (GA - U.S.A.)	CARRARO INTERNATIONAL S.A.	US$	100	100	100	100	100	549,560	4,327,736	100.00%	4,075,530
CARRARO PNH COMPONENTS INDIA Lt.d.	MUMBAI (INDIA)	CARRARO INDIA Ltd.	RUPEE	10,000,200	1,000,020	1,000,000	1,000,020	1,000,000	-	182,387	99.99%	188,083
TURBO GEARS INDIA Ltd.	PUNE (INDIA)	CARRARO INDIA Ltd.	RUPEE	300,000,000	30,000,000	6,000,000	30,000,000	6,000,000	(746,853)	4,865,614	20.00%	1,128,500
TURBO GEARS INDIA Ltd.	PUNE (INDIA)	CARRARO INTERNATIONAL S.A.	RUPEE	300,000,000	30,000,000	24,000,000	30,000,000	24,000,000	(746,853)	4,865,614	80.00%	4,339,769
CARRARO QINGDAO DRIVE SYSTEMS CO Ltd	QINGDAO E.T.D.A. (CHINA)	CARRARO INTERNATIONAL S.A.	EURO	1,050,000	1	1	1	1	(192,602)	906,391	100.00%	1,050,000
CARRARO QINGDAO TRADING CO Ltd.	QINGDAO E.T.D.A. (CHINA)	CARRARO INTERNATIONAL S.A.	EURO	170,000	1	1	1	1	-	170,220	100.00%	170,000

NOTE: The shareholders' equity and net income for the year of the foreign companies listed in the tables above have been converted into EURO using the same criteria adopted for the preparation of the consolidated financial statements.

Attachment to the explanatory notes accompanying the financial statements as of December 31 2005 – Carraro S.p.A.

Information relating to company assets subject to revaluation for tax purposes.

In accordance with the matters laid down by Article 10 of Italian Law No. 72/1993, the tables below indicate the categories of assets outstanding as of December 31 2005, for which, in the past, revaluations have been made, together with their amount.

REVALUATION LAW No. 576/1975

	REVALUATIONS - HISTORIC COST		REVALUATIONS - ACCUMULATED DEPRECIATION		NET BALANCE OF REVALUATIONS	
Description	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	105,751	105,751	11,693	11,693	94,058	94,058
GENERAL PLANT	24,107	24,107	6,477	6,477	17,630	17,630
SPECIFIC PLANT	566	566	130	130	436	436
** TOTAL PLANT	24,673	24,673	6,607	6,607	18,066	18,066
AUTOMATIC MACHINERY	795	795	119	119	676	676
GENERAL MACHINERY	7,253	7,253	2,585	2,585	4,668	4,668
**TOTAL MACHINERY	8,048	8,048	2,704	2,704	5,344	5,344
2) TOTAL PLANT AND MACHINERY	32,721	32,721	9,311	9,311	23,410	23,410
TEST WORKSHOP EQUIPMENT AND INSTRUMENTS	174	174	116	116	58	58
MISCELLANEOUS EQUIPMENT	232	232	97	97	135	135
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	2,624	2,624	786	786	1,838	1,838
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	3,831	3,831	2,154	2,154	1,677	1,677
ORDINARY OFFICE MACHINES	159	159	87	87	72	72
ELECTRONIC OFFICE MACHINES	2,833	2,833	1,740	1,740	1,093	1,093
**TOTAL OFFICE MACHINES	2,992	2,992	1,827	1,827	1,165	1,165
TOTAL OTHER TANGIBLE ASSETS	6,823	6,823	3,981	3,981	2,842	2,842
TOTAL BII	147,919	147,919	25,771	25,771	122,148	122,148

REVALUATION LAW No. 72/1983

Description	REVALUATIONS - HISTORIC 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	463,398	463,398	89,004	89,004	374,394	374,394
GENERAL PLANT	106,418	106,418	59,105	59,105	47,313	47,313
SPECIFIC PLANT	22,069	22,069	5,875	5,875	16,194	16,194
TREATMENT FURNACES	773	773	167	167	606	606
PURIFICATION PLANT	7	7	1	1	6	6
** TOTAL PLANT	129,267	129,267	65,148	65,148	64,119	64,119
AUTOMATIC MACHINERY	85,191	85,191	29,301	29,301	55,890	55,890
GENERAL MACHINERY	42,924	42,924	20,662	20,662	22,262	22,262
**TOTAL MACHINERY	128,115	128,115	49,963	49,963	78,152	78,152
2) TOTAL PLANT AND MACHINERY	257,382	257,382	115,111	115,111	142,271	142,271
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
TEST WORKSHOP EQUIPMENT AND INSTRUMENTS	28,541	28,541	10,334	10,334	18,207	18,205
MISCELLANEOUS EQUIPMENT	26,113	26,113	12,639	12,639	13,474	13,474
CANTEEN EQUIPMENT	3,204	3,204	1,483	1,483	1,721	1,721
TRANSPORT, WAREHOUSE AND OTHER EQUIPMENT	57,079	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 FOUNDING	119,566	119,566	59,164	59,164	60,402	60,402
3) TOTAL INDUSTRIAL AND COMMERCIAL EQUIPMENT	560,808	560,808	306,098	306,098	254,710	254,710
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	24,681	24,681	13,598	13,598	11,083	11,083
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	32,024	32,024	14,994	14,994	17,030	17,030
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	6,515	6,515	2,686	2,686	3,829	3,829
TOTAL OTHER TANGIBLE ASSETS	63,220	63,220	31,278	31,278	31,942	31,942
TOTAL BII	1,344,808	1,344,808	541,491	541,491	803,317	803,317

REVALUATION LAW No. 413/1991

Description	REVALUATIONS - HISTORIC COST		REVALUATIONS - ACCUMULATED DEPRECIATION		NET BALANCE OF REVALUATIONS	
	Opening balance	Closing balance	Opening balance	Closing balance	Closing balance	Closing balance
INDUSTRIAL LAND	537,164	537,164			537,164	537,164
INDUSTRIAL BUILDINGS	1,826,924	1,783,926			1,826,924	1,783,926
EQUIPMENT LAND AND YARDS	25,237	66,113			25,237	66,113
TEMPORARY CONSTRUCTION	3,616	5,738			3,616	5,738
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 Italian Law No. 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 Italian Law No. 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 Italian Law No. 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 May 31 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.

REALIGNMENT PURSUANT TO ITALIAN LAW No. 266 dated December 23, 2005

As of December 31 2005, Carraro S.p.A. availed itself of the faculty offered by Italian Law No. 266 dated December 23 2005 for realigning the book values of the company assets. The table below shows the values of the assets subject to realignment.

DESCRIPTION	VALUES FOR TAX PURPOSES Dec. 31, 2004			BOOK VALUES Dec. 31, 2004			REALIGNMENT
	Historic cost	Accumulated depreciation	Net value for tax purposes	Historic cost	Accumulated depreciation	Net value for tax purposes	
Land	2,133,425	-8,302	2,125,123	6,959,000	-	6,959,000	4,833,877
Industrial buildings	15,177,755	-7,149,006	8,028,749	10,880,228	-711,645	10,168,583	2,139,834
Non-industrial buildings	556,971	-26,411	530,560	539,703	-	539,703	9,143
Plant	18,676,952	-16,351,286	2,325,666	11,394,833	-2,258,173	9,136,660	6,810,994
Machinery	30,031,198	-26,561,449	3,469,749	17,167,556	-4,430,958	12,736,598	9,266,849
Equipment	27,987,359	-26,856,910	1,130,449	9,515,233	-2,553,067	6,962,166	5,831,717
Models and dies	24,436,472	-22,504,232	1,932,240	10,350,077	-4,021,072	6,329,005	4,396,765
Furniture and fixtures	2,545,058	-2,303,861	241,197	1,192,176	-270,481	921,695	680,498
Office machines	11,006,890	-10,361,595	645,295	1,838,813	-646,188	1,192,625	547,330
Means of transport	1,176,458	-863,513	312,945	630,289	-163,468	466,821	153,876
TOTAL	133,728,538	-112,986,565	20,741,973	70,467,908	-15,055,052	55,412,856	34,670,883

CARRARO S.p.A.
ATTACHMENT TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31 2005
EFFECTS OF THE CHANGEOVER TO THE IAS/IFRS ADOPTED BY THE EUROPEAN UNION.

In accordance with the matters envisaged by the IFRS 1 standard, figures and information relating to the initial application of the International Accounting Standards (IAS/IFRS), as approved by EC Regulation No 1606/2002, are presented below.

a) Reconciliation of the balance sheet as of December 31 2004 drawn up in accordance with the previous accounting policies and the IAS/IFRS accounting standards

	ITALIAN PRINCIPLES Dec. 31, 2004	ADJUSTMENTS Jan. 1, 2004	ADJUSTMENTS 2004	IAS/IFRS Dec. 31, 2004	
A) NON-CURRENT ASSETS					
1) Tangible fixed assets	27,934,996	35,220,308	-7,802,702	55,352,602	**(1)**
2) Intangible fixed assets	4,123,505	0	0	4,123,505	
3) Real estate property investments	380,900	158,803		539,703	**(1)**
4) Equity investments in subsidiary/associated companies	48,154,374	0	0	48,154,374	
5) Other financial assets	418,321	0	0	418,321	
5.1) Receivables and loans	*332,195*	*0*	*0*	*332,195*	
5.2) Other financial assets	*85,841*	*0*	*0*	*85,841*	
5.3) Prepaid financial expenses	*285*	*0*	*0*	*285*	
6) Deferred tax assets	0	0		0	
7) Trade and other receivables	252,185	0	0	252,185	
7.1) Trade receivables	*0*	*0*	*0*	*0*	
7.2) Other receivables	*252,185*	*0*	*0*	*252,185*	
TOTAL NON-CURRENT ASSETS	**81,264,281**	**35,379,111**	**-7,802,702**	**108,840,690**	
B) CURRENT ASSETS					
1) Closing inventories	42,883,332	0		42,883,332	
2) Trade and other receivables	118,730,868	0	0	118,730,868	
2.1) Trade receivables	*104,554,770*	*0*	*0*	*104,554,770*	
2.2) Other receivables	*14,176,098*	*0*	*0*	*14,176,098*	
3) Financial assets	4,239,468	0	0	4,239,468	
3.1) Receivables and loans	*4,018,094*	*0*	*0*	*4,018,094*	
3.2) Other financial assets	*73,000*	*0*	*0*	*73,000*	
3.3) Financial accrued income and prepaid expenses	*148,374*	*0*	*0*	*148,374*	
4) Liquid funds	29,557,967	0	0	29,557,967	
4.1) Cash	*17,761*	*0*		*17,761*	
4.2) Bank current and deposit accounts	*29,540,206*	*0*		*29,540,206*	
4.3) Other assets	*0*	*0*		*0*	
TOTAL CURRENT ASSETS	**195,411,635**	**0**	**0**	**195,411,635**	
TOTAL ASSETS	**276,675,916**	**35,379,111**	**-7,802,702**	**304,252,325**	

	ITALIAN PRINCIPLES Dec. 31, 2004	ADJUSTMENTS Jan. 1, 2004	ADJUSTMENTS 2004	IAS/IFRS Dec. 31, 2004	
A) SHAREHOLDERS' EQUITY					
1) Share capital	21,840,000	0		21,840,000	
2) Other reserves	24,916,272	0	0	24,916,272	
3) Retained earnings/accumulated losses	0	0		0	
4) Reserve for initial application of IAS/IFRS	0	22,651,656		22,651,656	
5) Other IAS/IFRS reserves	0	0		0	
6) Result for period	6,275,805	0	-5,008,629	1,267,176	
TOTAL SHAREHOLDERS' EQUITY	**53,032,077**	**22,651,656**	**-5,008,629**	**70,675,104**	
B) NON-CURRENT LIABILITIES					
1) Financial liabilities	56,272,292	0	0	56,272,292	
1.1) Bonds	*55,000,000*	*0*		*55,000,000*	
1.2) Loans	*1,272,292*	*0*	*0*	*1,272,292*	
1.3) Financial deferred income	*0*	*0*	*0*	*0*	
1.4) Other	*0*	*0*		*0*	
2) Trade and other payables	0	0	0	0	
2.1) Trade payables	*0*	*0*	*0*	*0*	
2.2) Other payables	*0*	*0*	*0*	*0*	
3) Deferred tax liabilities	-3,204,800	13,400,983	-2,961,884	7,234,299	**(2)**
4) Employee leaving indemnities, pensions and similar	10,844,136	-673,528	167,811	10,338,419	**(3)**
4.1) Employee leaving indemnities	*10,844,136*	*-673,528*	*167,811*	*10,338,419*	
4.2) Pensions and similar	*0*	*0*		*0*	
B) Provisions for risks and charges	1,995,433	0	0	1,995,433	
5.1) Warranty provisions	*3,605,433*	*0*	*-3,400,000*	*205,433*	
5.2) Provisions for charges on disputes	*250,000*	*0*		*250,000*	
5.3) Restructuring and reconversion provisions	*1,540,000*	*0*		*1,540,000*	
5.4) Other	*0*	*0*		*0*	
TOTAL NON-CURRENT LIABILITIES	**69,307,061**	**12,727,455**	**-6,194,073**	**75,840,443**	
C) CURRENT LIABILITIES					
1) Financial liabilities	20,643,670	0	0	20,643,670	
1.1) Bonds (current portion)	*0*	*0*		*0*	
1.2) Loans	*18,172,710*	*0*	*0*	*18,172,710*	
1.3) Financial accrued exp. and deferred income	*2,470,960*	*0*	*0*	*2,470,960*	
1.4) Other	*0*	*0*		*0*	
2) Trade and other payables	131,033,123	0	0	131,033,123	
2.1) Trade payables	*121,635,888*	*0*	*0*	*121,635,888*	
2.2) Other payables	*9,397,235*	*0*	*0*	*9,397,235*	
3) Liabilities for current taxes	2,659,985	0		2,659,985	
4) Provisions for risks and charges	0	0	3,400,000	3,400,000	
4.1) Warranty provisions	*0*	*0*	*3,400,000*	*3,400,000*	
4.2) Provisions for charges on disputes	*0*	*0*		*0*	
4.3) Restructuring and reconversion provisions	*0*	*0*		*0*	
4.4) Other provisions	*0*	*0*		*0*	
TOTAL CURRENT LIABILITIES	**154,336,778**	**0**	**3,400,000**	**157,736,778**	
TOTAL LIABILITIES	**223,643,839**	**12,727,455**	**-2,794,073**	**233,577,221**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**276,675,916**	**35,379,111**	**-7,802,702**	**304,252,325**	

c) Reconciliation of the income statement as of December 31 2004 drawn up in accordance with the previous accounting policies and the IAS/IFRS accounting standards

	ITALIAN PRINCIPLES Dec. 31, 2004	ADJUSTMENTS	IAS/IFRS Dec. 31, 2004	
A) REVENUES FROM SALES				
1) products	336,279,306		336,279,306	
2) services	1,944,255		1,944,255	
3) other revenues	12,629,444		12,629,444	
TOTAL REVENUES	350,853,005	0	350,853,005	
B) OPERATING COSTS				
1) Purchases of goods and materials	245,993,108		245,993,108	
2) Services	55,295,963	0	55,295,963	
3) Use of third-party goods and services	252,687		252,687	
4) Payroll and related costs	36,754,655	167,811	36,922,466	**(4)**
5) Amortization, depreciation and writedowns of assets	9,607,266	6,848,713	16,455,979	
a) depreciation of tangible fixed assets	*8,357,900*	*6,848,713*	*15,206,613*	**(5)**
b) amortization of intangible fixed assets	*1,249,366*	*0*	*1,249,366*	
c) writedown of fixed assets	*0*		*0*	
d) writedown of receivables	*0*		*0*	
6) Change in inventories	-8,697,781		-8,697,781	
7) Provisions for risks and sundry	2,765,000		2,765,000	
8) Other income and expense	-1,841,382	953,989	-887,393	**(6)**
9) Internal construction	-800,777		-800,777	
TOTAL OPERATING COSTS	339,328,739	7,970,513	347,299,252	
OPERATING RESULT (EBIT)	**11,524,266**	**-7,970,513**	**3,553,753**	
C) RESULT OF FINANCIAL ACTIVITIES				
10) Income from equity investments	-4,000,000		-4,000,000	
11) Other financial income	-1,374,525		-1,374,525	
12) Financial costs and expense	5,076,784		5,076,784	
13) Exchange gains and losses (net)	-4,797,077		-4,797,077	
D) Value adjustments to financial assets	5,141,623		5,141,623	
TOTAL RESULT OF FINANCIAL ACTIVITIES	**46,805**	**0**	**46,805**	
Extraordinary income and (expense)	700,000	-700,000	0	
PRE-TAX RESULTS	**10,777,461**	**-7,270,513**	**3,506,948**	
15) Current and deferred taxation	4,501,656	-2,961,884	1,539,772	**(7)**
RESULT FROM OPERATING ACTIVITIES	6,275,805	-4,308,629	1,967,176	
NET RESULT OF ACTIVITIES UNDERGOING DISPOSAL	0	700,000	700,000	
NET RESULT	**6,275,805**	**-5,008,629**	**1,267,176**	

Notes on the balances shown in the previous tables:

(1) Tangible fixed assets: The introduction of the IAS/IFRS made it possible to update, as from the date of initial application of the IAS/IFRS, the book values of the fixed assets so as to render them more consistent with the current values, as well as to review the residual useful lives.

(2) Deferred tax liabilities: the tax effects have been considered on all the adjustments for which it is possible to foresee a realignment of the book and tax values.

(3) Employee leaving indemnity: this has been recalculated on an actuarial basis taking into account the effects of the discounting back. This recalculation generated an adjustment assimilated as from 1 January 2004 with effect on the shareholders' equity, and adjusted in subsequent periods with effect on the income statement.

(4) Payroll and related costs: the adjustment refers to the adjustment of the recalculation of the employee leaving indemnity provisions in accordance with the actuarial criteria and taking into account the effects of the discounting back.

(5) Depreciation of tangible fixed assets: the balance of Euro 6.85 million refers to the additional depreciation calculated with respect to that recorded in accordance with the Italian accounting principles on tangible assets.

(6) Other income and expense: the balance of Euro 0.95 million refers to the effects of the updating of the values of the fixed assets, with consequences on the capital losses from disposals.

(7) Current and deferred taxation: the tax effects have been considered on the adjustments for which it is possible to envisage a realignment of the book and tax values using the current rates (Ires – company earnings' tax 33% and Irap – regional business tax 4.25%).

The composition of the reserve for initial application of the IAS/IFS as of January 1 2004 is analyzed below:

DESCRIPTION	Ref. NOTE:	BALANCE
Tangible fixed assets (redefinition of book value)	**(1)**	35,379,111
Employee leaving indemnities (recalculation according to IAS)	**(3)**	673,528
Tax effects on the previous adjustments	**(2)**	-13,400,983
TOTAL		**22,651,656**

The analysis of the adjustments relating to the result for 2005 is as follows:

DESCRIPTION	Ref. NOTE:	BALANCE
Adjustment of the depreciation of tangible fixed assets	**(5)**	-6,848,713
Adjustment of the economic impact of the employee leaving indemnities	**(4)**	-167,811
Change in capital gains/losses on disposals of fixed assets	**(6)**	-953,989
Tax effects on previous adjustments	**(7)**	2,961,884
TOTAL		**-5,008,629**

The composition of the reserve for initial application of IAS 32 and 39 as of January 1 2005 refers to the treatment of financial instruments and is as follows:

ASSETS/LIABILITIES	NATURE OF ADJUSTMENT	BALANCE
Financial instruments hedging exchange rate risk	difference with respect to fair value	2,063,649
Financial instruments hedging interest rate risk on bond	difference with respect to fair value	-360,091
Tax effects on previous adjustments		-562,174
TOTAL		**1,141,384**

Other information and comments

Tangible fixed assets

The introduction of the IAS/IFRS made it possible to update, as from the date of initial application of the IAS/IFRS, the book values of the fixed assets so as to render them more consistent with the current values, as well as to review the residual useful lives.
The analysis of this update for the various categories is presented in the table below.

CARRARO

(Balances in thousands of Euro)	Net book value (Italian principles) Jan. 1, 2004	Adjustment to current values Jan. 1, 2004	Value for IAS/IFRS purposes Jan. 1, 2004	Adjustment of depreciation 2004	Other changes (capital gains/losses and exchange effect)	Net book value (Italian principles) Dec. 31, 2004	Value for IAS/IFRS purposes Dec. 31, 2004
Land and buildings	11,725	5,882	17,607	197	-182	11,240	17,639
Plant and machinery	12,326	10,669	22,995	3,935	-538	9,410	24,031
Equipment	6,820	2,208	9,028	2,518	-213	6,191	12,020
Other tangible fixed assets	1,772	-74	1,698	199	-21	1,526	2,252
Total	**32,643**	**18,685**	**51,328**	**6,849**	**-954**	**28,367**	**55,942**

Financial flows

With regards to the Company’s financial flows, no significant effects have emerged from the introduction of the international accounting standards; given the nature of the main adjustments – adjustment of the value of the tangible fixed assets, adjustment to market value of the financial instruments and discounting back of the employee leaving indemnities and pension provisions – the financial assets and liabilities have not undergone any significant changes, nor have any financial liabilities emerged not recorded previously or which are latent.

The Chairman

Mario Carraro