

**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. &

Padua Companies' Register No. 00202040283

R.E.A.(Economic and Administrative Roster) No. 84.033

**QUARTERLY REPORT AS OF 31 MARCH 2004  
(CONSOLIDATED INFORMATION)**

**DIRECTORS' REPORT**

The first quarter of 2004 was characterized by a strong pick-up in demand relating to the leading customers on the main reference markets, in particular in the North American and Asian area, which materialized by means of growth in sales revenues of 12.03% when compared with the first quarter of the previous year.

The positive trend in sales contrasted with several extraordinary cost items (recovery action was launched and will be effective from as early as the second quarter of the year) which caused a drop in the consolidated operating margin, which fell to 4.10 % of sales revenues as against 5.43 % in the previous year.

Together with the unforeseeable and exceptional increases in the cost of cast iron and steel raw materials, which immediately reflected on purchasing costs for semi-finished products, shortages in raw materials occurred which led to the difficulty of certain suppliers in sustaining the rapid rise in our volumes. So as to maintain an adequate level of customer satisfaction, the Company found itself forced to resort to unusual forms of transport, in certain cases via air, which involved greater logistics costs. Suitable countermeasures have already been launched with regards to the clientele targeted at recovering of sales prices and with regards to the suppliers for the sharing of the logistics costs.

The transfer anticipated by the strategic plan, involving moving the spare parts' activities to the new Rovigo logistics centre, led to a temporary delay in the execution of the orders, thereby reducing the anticipated sales revenues when compared with forecasts and consequently profitability.

With reference to the foreign companies, the results of Argentina, Germany and India improved while in Poland mention should be made that the activities for setting

up the new industrial model, whose completion is anticipated for the end of the year, have still not had any effect on the quarter's results which indicate a slightly negative operating margin.

The evolution of the net financial position was positive, disclosing debt of Euro 89.053 million, and continued to improve when compared with both the first quarter of 2003 (Euro 115.886 million) and the end of 2003 (Euro 97.368 million) thanks to a careful control of the working capital and the investments.

### **GENERAL INFORMATION**

Net consolidated **sales revenues** for the first quarter of 2004 amounted to Euro 108.133 million and disclosed an increase of 12.03% when compared with the figure as of 31 March 2003 (Euro 96.522 million). The balance includes A.E. S.r.l. which was included in the scope of consolidation as from 23 December 2003, net of which sales revenues would have amounted to Euro 107.285 million, up 11.15% on the figure as of 31 March 2003.

The breakdown of the sales revenues by sector, their percentage-based incidence and the change with respect to the 1st quarter of 2003, are summarized in the following table:

Balances in thousands of Euro

<i>Sector</i>	<i>Ist Quarter 2004</i>	<i>%</i>	<i>Ist Quarter 2003</i>	<i>%</i>	<i>Δ% I<sup>st</sup> Quarter 2004 I<sup>st</sup> Quarter 2003</i>
<b>Off-Highway:</b>	<b>80,106</b>	<b>74.08</b>	<b>71,283</b>	<b>73.85</b>	<b>+12.38</b>
Agricultural sector	37,899	35.05	33,312	34.51	+13.77
Construction equipment sector	42,207	39.03	37,971	39.34	+11.16
<b>On-Highway:</b>	<b>16,404</b>	<b>15.17</b>	<b>15,146</b>	<b>15.69</b>	<b>+8.31</b>
Material handling	7,074	6.54	5,659	5.86	+25.00
Auto & truck	3,102	2.87	2,845	2.95	+9.03
Gears	6,228	5.76	6,642	6.88	-6.23

<b>Stationary</b> (escalators)	<b>2,910</b>	<b>2.69</b>	<b>1,627</b>	<b>1.69</b>	<b>+78.86</b>
<b>Spare parts</b>	<b>6,831</b>	<b>6.32</b>	<b>6,252</b>	<b>6.48</b>	<b>+9.26</b>
<b>Other</b>	<b>1,882</b>	<b>1.74</b>	<b>2,214</b>	<b>2.29</b>	<b>-15.00</b>
<b>TOTAL</b>	<b>108,133</b>	<b>100.00</b>	<b>96,522</b>	<b>100.00</b>	<b>+12.03</b>

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

Breakdown of sales revenues by geographic area (balances in thousands of EURO)

<i>Geographic area</i>	<i>Ist Quarter 2004</i>	<i>%</i>	<i>Ist Quarter 2003</i>	<i>%</i>	<i>Δ% Ist Quarter 2004 Ist Quarter 2003</i>
North America	29,485	27.27	19,882	20.60	+48.30
Germany	15,614	14.44	14,469	14.99	+7.91
Great Britain	11,059	10.23	9,498	9.84	+16.44
France	10,455	9.67	10,246	10.61	+2.04
Korea	2,238	2.07	955	0.99	+134.35
Poland	2,075	1.92	2,593	2.69	-19.98
South America	7,498	6.93	5,740	5.95	+30.63
India	2,769	2.56	3,847	3.98	-28.02
Other non-EU countries	2,399	2.22	2,558	2.65	-6.22
Other EU countries	6,350	5.87	8,529	8.84	-25.55
<b>Total abroad</b>	<b>89,942</b>	<b>83.18</b>	<b>78,317</b>	<b>81.14</b>	<b>+14.84</b>
Italy	18,191	16.82	18,205	18.86	-0.08
<b>Total</b>	<b>108,133</b>	<b>100.00</b>	<b>96,522</b>	<b>100.00</b>	<b>+12.03</b>

**The operating income** during the first quarter came to Euro 4.431 million and represented 4.10% of sales revenues (Euro 5.243 million in the first quarter of 2003 equating to 5.43% of sales revenues).

**Amortization and depreciation** as of 31 March 2004 amounted to Euro 5.737 million, down slightly when compared with the figure of Euro 5.810 as of 31 March 2003.

**Investments** during the quarter came to Euro 3.101 million, down compared with the balance of Euro 6.913 million in the previous year; they mainly concerned the purchase of assets intended for improving the production efficiency and technological renewal.

**The net financial position**, disclosing debt of Euro 89.053 million, improved with respect to the figure recorded as of 31 December 2003, equating to Euro 97.368 million (Euro 115.886 million as of 31 March 2003).

The gearing (ratio between borrowed capital and shareholders' equity) came to Euro 153.25 as against Euro 174.86 as of 31 December 2003 (Euro 214.08 as of 31 March 2003).

### **OUTLOOK FOR ACTIVITIES DURING THE CURRENT ACCOUNTING PERIOD**

The signs of recovery on the market, which were conspicuous during the first quarter, consolidated and indicate, for the remaining part of the accounting period, a further rise in sales revenues. Our forecasts are confirmed by the preliminary figure for April which highlights an increase of 20% when compared with the same month last year and a progressive rise of 15%. The increase in volumes with the consequent improved absorption of overheads and the sharing of the additional costs for raw materials with customers, will permit us to recover profitability from as early as the next quarter, thereby confirming the results expected for the entire accounting period. The commitment and the determination necessary for the achievement of the results and the implementation of the strategic plan remain constant within the Group, fundamental for attaining the growth objectives.

## ACCOUNTING SCHEDULES

### STATEMENT OF INCOME DATA

Balances in thousands of Euro

CAPTION	<i>Ist Quarter 2004</i>	%	<i>Ist Quarter 2003</i>	%	<i>Δ% Ist Quarter 2004 Ist Quarter 2003</i>
<b>Value of production</b>	<b>112,597</b>		<b>99,736</b>		
Sales revenues	108,133	100.00	96,522	100.00	+12.03
Changes in finished product inventories	3,110	2.88	2,193	2.27	+41.81
Other revenues	1,354	1.25	1,021	1.06	+32.62
<b>Production costs</b>	<b>-108,166</b>	<b>100.03</b>	<b>-94,493</b>	<b>97.90</b>	<b>+14.47</b>
Raw, ancillary and consumable materials	-69,433	64.21	-56,511	58.55	+22.87
Services	-20,767	19.21	-17,227	17.85	+20.55
Use of third party assets	-430	0.40	-325	0.34	+32.31
Payroll and related costs	-16,841	15.57	-15,877	16.45	+6.07
Amortization and depreciation	-5,737	5.31	-5,810	6.02	-1.26
Writedowns	-134	0.12	-114	0.12	+17.54
Changes in inventories of raw, ancillary and consumable materials	5,751	-5.32	2,128	2.20	+170.25
Provisions	-257	0.24	-501	0.52	-48.70
Other operating expense	-318	0.29	-256	0.27	+24.22
<b>OPERATING MARGIN</b>	<b>4,431</b>	<b>4.10</b>	<b>5,243</b>	<b>5.43</b>	<b>-15.49</b>

## NET FINANCIAL POSITION

In thousands of Euro

<i>Description</i>	<i>31 March 2004</i>	<i>31 December 2003</i>	<i>31 March 2003</i>
Amounts due to banks:			
- within 12 months	50,012	69,210	69,801
- beyond 12 months	5,780	6,933	11,627
Amounts due to other providers of finance:			
- leasing due within 12 months	322	388	511
- leasing due beyond 12 months	0	60	315
Bonds:			
- due within 12 months	-	-	-
- due beyond 12 months	81,413	100,000	100,000
Payables represented by credit instruments:			
- due within 12 months	0	0	170
- due beyond 12 months			-
Net financial accruals and deferrals	7,890	6,589	6,436
NET OF:			
Liquid funds	-11,941	-11,912	-9,383
Securities	-42,911	-71,962	-57,849
Loans receivable	-1,504	-1,913	-5,742
Amounts due from factoring companies	-8	-25	-
<b>Consolidated net financial position (debt balance)</b>	<b>89,053</b>	<b>97,368</b>	<b>115,886</b>

## **COMMENTS ON THE ACCOUNTING SCHEDULES**

### **Accounting policies**

The accounting policies adopted for the quarterly report are the same as those utilized for the preparation of the consolidated annual financial statements and the interim report for which reference should be made to the related explanatory notes. Financial statements expressed in foreign currency are converted into Euro using the period end exchange rates for assets and liabilities, the historic exchange rates for the equity accounts and the average rates for the quarter for the statement of income.

The accounting schedules include the financial statements of Carraro S.p.A. and of the companies in which the latter holds, directly or indirectly, the majority of the voting rights at ordinary shareholders' meetings.

The scope of consolidation includes both the Parent Company Carraro S.p.A. and the following companies, consolidated on a line-by-line basis:

<b>Corporate name</b>	<b>Registered offices</b>	<b>Currency</b>	<b>Nominal value of share capital</b>	<b>%</b>
<b>SIAP S.p.A.</b>	Maniago (PN)	Euro	10,122,616	100%
<b>A.E. S.r.l.</b>	Castello D'Argile (BO)	Euro	10,000	90%
<b>Carraro Deutschland GmbH</b>	Hattingen (Germany)	Euro	10,507,048	100%
<b>Carraro Argentina S.A.</b>	Haedo, Buenos Aires (Argentina)	Pesos	25,809,288	93.90%
<b>Carraro India Ltd.</b>	Rajangaon – Pune (India)	Indian Rupee	400,000,000	51%
<b>F.O.N. S.A.</b>	Radomsko (Poland)	Polish Zloty	7,058,220	84.788%
<b>Carraro International S.A.</b>	Luxembourg	Euro	9,850,000	99.99%
<b>Carraro North America Inc.</b>	Calhoun-Georgia (USA)	US\$	100	100%
<b>Carraro Korea Co. Ltd</b>	Ulsan (Korea)	Korean Won	3,000,000,000	100%
<b>O&amp;K Antriebstechnik &amp; Co.</b>	Hattingen (Germany)	Euro	2,045,168	100%

### **Economic data**

The data referring to the first quarter of 2004 and, for comparative purposes, that relating to the first quarter of the previous year, are illustrated, while the related comments are dealt with in the report.

The Chairman  
Mario Carraro