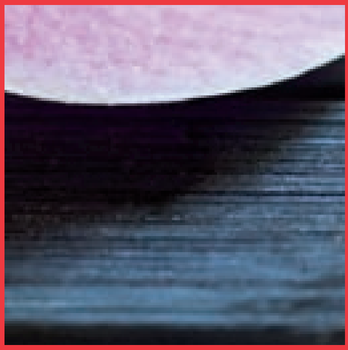
Annual Report 2006






brembo

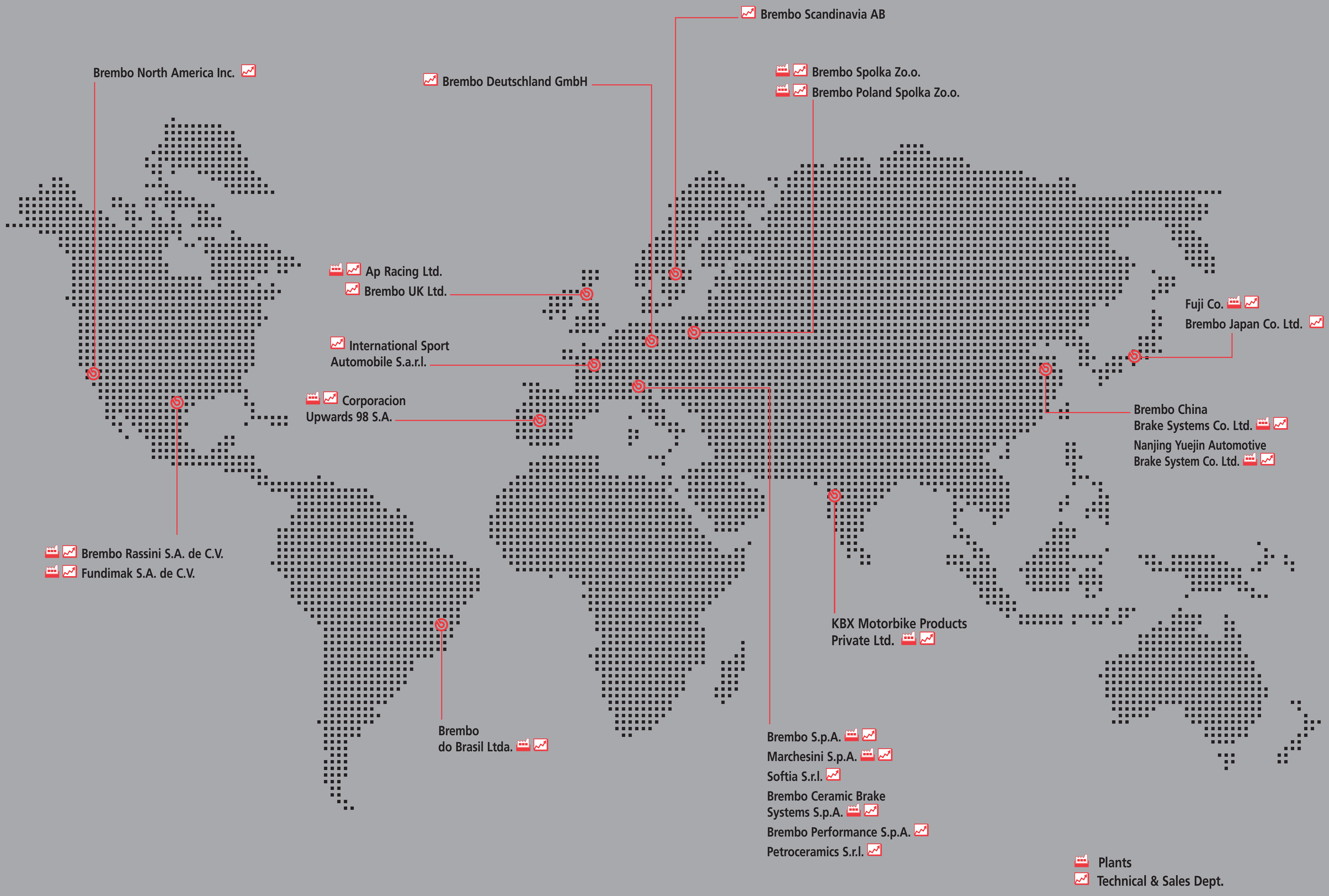
What comfort means to Brembo.

Comfort is reassuring. It is associated with ease and convenience. It is not a passive sensation; it is also an active condition that mobilises all the senses in terms of production. It is both physical and mental wellbeing. You cannot improvise: it is the result of an intensive industrial endeavour involving workers, technicians, engineers, creative minds, machines, technologies, laboratories, assistance services, customers, suppliers, the business network, and local communities, working together for a shared result. It is the collaboration between all of these individuals and structures that generates the comfort assured by Brembo products.

Comfort as a result and prerequisite for our business. For employees, comfort means the working conditions and environment, making the most of their talents. For investors, comfort means growth of profits and the company's worth; for our customers, the car makers, comfort means product reliability; for suppliers, comfort means respecting the agreements made; for end customers, comfort means the safety assured by a product that reflects their desire for peace of mind; for the local communities in which Brembo is based, comfort means respect for the local area through the use of sustainable technologies.

At Brembo, comfort is one of the primary elements of our identity, and can be felt in everything we do.

BREMBO IN THE WORLD



Annual Report 2006

Call to Shareholders' Meeting

The shareholders are convened to the Ordinary and Extraordinary General Meetings to be held at company headquarters on **27 April 2007 at 11:00 am CET** (first call) or on 4 May 2007, at the same place and time (second call), to resolve on the following

Agenda

Ordinary General Meeting

1. Presentation of the Financial Statements of Brembo S.p.A. for the year ended 31 December 2006, with the Directors' Report on Operations, the Report of the Board of Statutory Auditors and the Report of the Independent Auditors; ensuing resolutions.
2. Presentation of the Consolidated Financial Statements of the Brembo Group for the year ended 31 December 2006, with the Directors' Report on Operations, the Report of the Board of Statutory Auditors and the Report of the Independent Auditors.
3. Resolutions regarding the purchase and sale of own shares; ensuing resolutions.
4. Approval of the extension of PricewaterhouseCoopers S.p.A.'s appointment as independent auditors to include the audit of Brembo S.p.A.'s Financial Statements and the Group's Consolidated Financial Statements for 2006 following the application of IAS/IFRS to Brembo S.p.A.'s Financial Statements; ensuing resolutions.
5. Extension of the term of PricewaterhouseCoopers S.p.A.'s appointment as independent auditors of Brembo S.p.A.'s Financial Statements and the Group's Consolidated Financial Statements to include the years 2007 – 2008 – 2009 – 2010 – 2011 – 2012, and of the related Half-Yearly Reports, pursuant to Article 159 of Legislative Decree No. 58 of 24 February 1998 as modified by Legislative Decree No. 303 of 29 December 2006 and Legislative Decree No. 262 of 28 December 2005, and the determination of the related remuneration of the Audit Firm; ensuing resolutions.

Extraordinary Meeting

1. Adoption of a new text for the Company By-laws, also to adapt the Company By-laws currently in force to Legislative Decree No. 262 of 28 December 2005, through:

   the amendment and/or integration of the following articles of the By-laws:

   2 (Registered Office) – 5 (Share Capital) – 9 (Ordinary and Extraordinary Shareholders' Meeting) – 10 (Calling) – 11 (Participation in and Representation at General Shareholders' Meetings) – 13 (Quora and Resolutions of the general Shareholders' Meeting) – 15 (Composition of the Board of Directors) – 16 (Powers of the Board of Directors) – 17 (Chairman and Delegated Bodies) – 18 (Board Meetings) – 20 (Company Representation) – 22 (Appointment of the Board of Auditors) – 23 (Tasks and Composition);

   as well as the addition to the By-laws of the following new articles:

   7-bis (Bonds) – 15-bis (Appointment of the Members of the Board of Directors) – 15-ter (Voting Procedures) – 23-bis (Audits) – 27-bis (Executive in Charge of Preparing the Company's Accounting Documents);

2. Resolutions pursuant to and connected with those indicated in Point 1.

Shareholders who present the appropriate certification, which must be requested from authorised intermediaries as per CONSOB Resolution No. 11768 of 23 December 1998, may attend the Shareholders' Meeting.

On behalf of the Board of Directors
The Chairman
Alberto Bombassei

The documentation concerning the items on the agenda will be filed at the registered office and at Borsa Italiana S.p.A.. It will be published on the Corporate website, within the terms and according to the procedures provided for by current regulations. Shareholders have the right to request a copy.

Contents

Shareholders,

despite the continuing international geopolitical instability, the global economy is probably experiencing the best period of growth of the past thirty years. In 2006, the world grew at an average of over 5%, and the forecasts for 2007 are only slightly below this figure. The buoyancy of the international economic recovery has been led by emerging Asian countries, primarily China and India, which have recently been joined by Japan, but with a less significant contribution from the United States. For its part, Euroland has witnessed a recovery, mainly thanks to the increased production generated by technological innovation, both in the industrialised nations such as Germany and France, and in the younger, more dynamic countries like Spain. However, the situation in Europe is not all rosy: doubts remain as to the state of health of Italy and France, and the stronger Euro, while restraining price dynamics on the one hand, on the other it creates issues for companies' competitiveness, slowing down growth in exports.

Against this background, the car industry – Brembo's primary market, which generates about two-thirds of our turnover – has also shown signs of recovery, with sales of motor vehicles rising by 3.4%, surpassing the increase recorded for the previous year by 0.7%. Growth peaked in China (+28%), followed by South America (+13.3%) and Eastern Europe (+8%), while in Western Europe, new vehicle registrations largely remained substantially stable, and have even fallen in the United States, down by 2.6%. After the United States, China is now the world's second largest market for cars, having overtaken Japan in terms of sales volumes in 2006. For commercial vehicles and motorcycles – other important target sectors for our production – the consolidation and growth of sales is now an established global trend, which has a positive impact on the Group's business.

In 2006, Brembo's revenues were €806 million, an increase of 13.3% on the previous year, with net income of €42.9 million, a rise of 6% after investments of approximately €75 million. These results confirm the compatibility of the strategies implemented in recent years, consistent with the directions of the Strategic Plan 2004-2006, which led to: an increase in production capacity, thanks to the new cast iron foundry inaugurated in February 2006 in Dabrowa, Poland, close to the existing brake disc production site; the concentration of European disc production in Italy, Spain and Poland; the development of new production lines in India and China, in addition to those set up some time ago in China, Japan, Mexico and Brazil.

In particular, 2006 saw the operational start-up of the Indian joint venture KBX Motorbike Products Private Ltd., owned jointly by Brembo and a subsidiary of the Bosch Group: the new company is dedicated to the production and sale of motorbike braking systems for the Indian and Far Eastern markets. It will also supply the Asian plants of European manufacturers. Near Beijing in China,

operations were launched for Brembo China Brake Systems Co. Ltd., a company incorporated in 2005. It is 60% owned by Brembo and 40% by Simest and Venture Capital Fund for China, engaged in the production and sale of brake discs for the original equipment market.

In support of the strategy to obtain market coverage and win customers, Brembo now has 13 production sites in 9 countries on 3 continents – Europe, America and Asia – while its direct commercial presence is distributed over 11 countries worldwide, including Russia, where in 2006 a new site was opened in Moscow and where Brembo already holds a 30% share of the aftermarket.

A side effect of the company's commitment towards consolidating and developing its international manufacturing and commercial presence has been an equal commitment to research and technological innovation, factors on which Brembo has built its success over the years and which represent a solid guarantee for a successful future. Our technicians are constantly investigating new ideas and new concepts. New patents are registered every year to protect our inventions. The Brembo name is now becoming increasingly recognised worldwide, as a symbol of excellence in its industry: keeping ahead of our competitors has always been one of our objectives, and it is one that we intend to continue pursuing, with the tenacity, creativity and capability for innovation that distinguish this company and every member of its workforce.

Early in 2007, our Group's headquarters will be transferred to the "Kilometro Rosso" Science and Technology Park in Stezzano, near Bergamo. Our Research and Development Centre relocated to this site in 2006. This is also the home of Brembo Ceramic Brake Systems S.p.A., the joint venture formed in 2004 between Brembo S.p.A. and DaimlerChrysler AG to produce the state of the art ceramic brake discs fitted to the most exclusive sports cars. Brembo has achieved another of its goals by relocating its offices to such a dynamic context, in which the presence of other companies' research centres will further boost the "contagion" of ideas. It is also a new starting point, from which we can face a future of further growth and expansion with confidence.

The Chairman
Alberto Bombassei

Company Officers

Board of Directors

Chairman	Alberto Bombassei [1]
Managing Director	Stefano Monetini [2]
Directors	Paolo Biancardi [3]
	Cristina Bombassei [4]
	Giovanni Cavallini [3]
	Giancarlo Dallera [3]
	Giovanna Dossena [3]
	Andrea Gibellini [3]
	Umberto Nicodano [5]
	Giuseppe Roma [3]
	Matteo Tiraboschi [4]

Board of Statutory Auditors

Chairman	Sergio Mazzoleni
Auditors	Enrico Cervellera
	Andrea Puppo
Alternate Auditors	Mario Tagliaferri
	Giuseppe Marangi

Independent Auditors

PricewaterhouseCoopers S.p.A.

Committees

Audit Committee

Chairman	Giuseppe Roma
	Giovanna Dossena
	Andrea Gibellini

Remuneration Committee

Chairman	Umberto Nicodano
	Paolo Biancardi
	Giancarlo Dallera

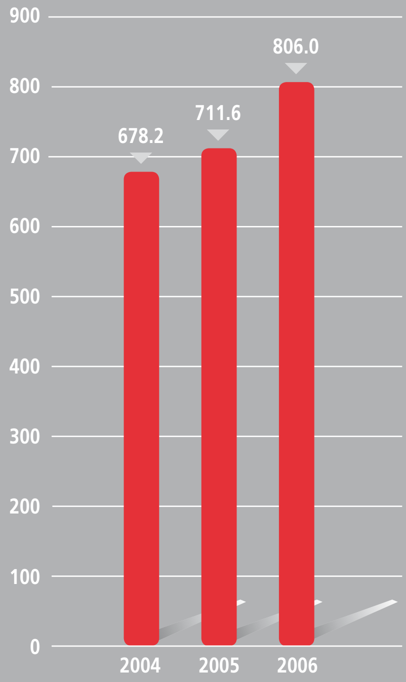
Supervisory Committee

Chairman	Giovanna Dossena
	Giuseppe Roma
	Umberto Simonelli

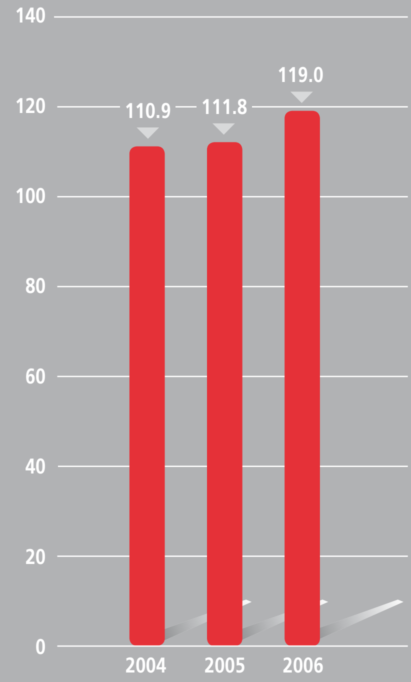
(1) The Chairman has powers of ordinary and special management, within the limits of the law and the By-laws. He also holds the position of Deputy Chairman in one of the Group companies.
(2) This Director has certain powers of ordinary management in Brembo S.p.A. He also holds the position of Director in one of the Group companies.
(3) Corporate Governance – Independent and non-executive Directors – as per Borsa Italiana Regulations for STAR segment – Art. 2.2.3 paragraph 3 letters e) and f). They also comply with independence requirements set out by Brembo S.p.A. Corporate Governance Manual.
(4) This Director also holds offices in some Group companies.
(5) Non-executive Directors.

BREMBO: SUMMARY OF GROUP RESULTS

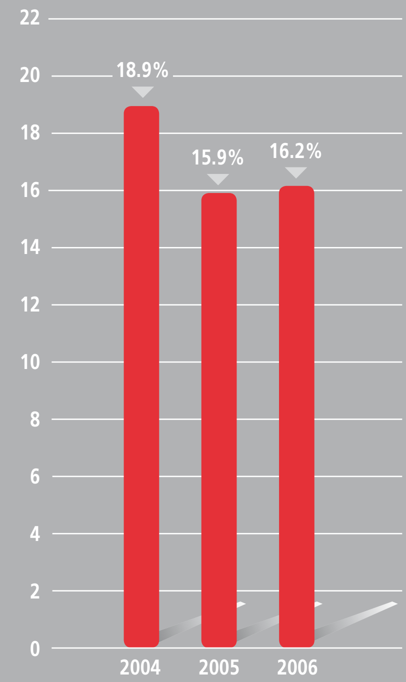
SALES OF GOODS AND SERVICES *(euro million)*



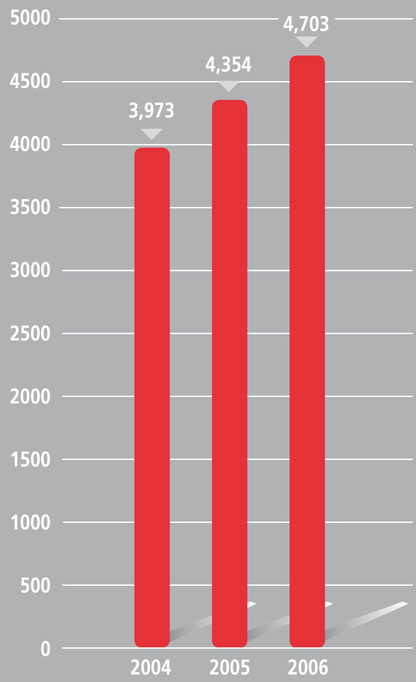
GROSS OPERATING INCOME
(euro million)



ROI
(euro million)



PERSONNEL AT END OF PERIOD
(No.)



Both the Consolidated Financial Statements at 31 December 2006 and Brembo S.p.A.'s separate Financial Statements were prepared in accordance with the International Accounting Standards (IAS/IFRS), as established by EC Regulation No. 1606/2002. The Consolidated Financial Statements were prepared in accordance with these standards starting in 2005. Brembo S.p.A.'s separate Financial Statements were prepared in accordance with Italian GAAP until 31 December 2005.

ECONOMIC RESULTS

(euro thousand)	***31.12.2004***	***31.12.2005***	***31.12.2006***	***% 2006/2005***
Sales of goods and services	678,180	711,615	805,986	*13.3%*
Gross operating income	110,893	111,782	118,969	*6.4%*
% on sales	*16.4%*	*15.7%*	*14.8%*	
Net operating income	70,001	73,375	79,543	*8.4%*
% on sales	*10.3%*	*10.3%*	*9.9%*	
Income before taxes	64,895	66,741	70,409	*5.5%*
% on sales	*9.6%*	*9.4%*	*8.7%*	
Net income	39,554	40,511	42,945	*6.0%*
% on sales	*5.8%*	*5.7%*	*5.3%*	

FINANCIAL RESULTS

(euro thousand)				
Net invested capital [1]	369,616	462,289	492,517	*6.5%*
Equity	202,122	242,063	270,564	*11.8%*
Net financial indebtedness [1]	142,804	193,075	193,290	*0.1%*

PERSONNEL AND INVESTMENTS

Personnel at end of period *(No.)*	3,973	4,354	4,703	*8.0%*
Turnover per employee *(euro thousand)*	170.7	163.4	171.4	*4.9%*
Investments *(euro thousand)*	92,255	95,821	84,147	*–12.2%*

MAIN RATIOS

Net operating income/Sales	*10.3%*	*10.3%*	*9.9%*	
Income before taxes/Sales	*9.6%*	*9.4%*	*8.7%*	
Investments/Sales	*13.6%*	*13.5%*	*10.4%*	
Net Financial indebtedness/Equity	*70.7%*	*79.8%*	*71.4%*	
Financial charges/Sales	*0.6%*	*0.9%*	*1.2%*	
Financial charges/Net operating income	*6.3%*	*8.6%*	*11.8%*	
ROI	*18.9%*	*15.9%*	*16.2%*	
ROE	*20.1%*	*17.3%*	*16.3%*	

[1] A breakdown of these items is provided in the reclassified Balance Sheet on page 33.

Brembo brakes offer many advantages.

A quiet braking, first of all.

Directors' Report on Operations

MACROECONOMIC CONTEXT AND CURRENCY MARKETS

An overview of the global macroeconomic scenario and a summary of the trends in the markets in which Brembo operates will help evaluate the Group's performance in 2006.

The world economy continued to grow at a faster rate than expected during the year, though it slowed compared to the cyclical peak reached in 2005. The slowdown was less intense than originally predicted, mainly due to unanticipated growth in Europe, Japan and Asia. Growth rates in China and India continued to increase rapidly, thus steering the development of some of the area's smaller economies. The year 2006 was therefore characterised more by a rebalancing of growth than an actual slowdown.

The relative weight of the United States in the global economy appears to have slightly decreased, and following an impressive start in 2006, the country's GDP fell up to the fourth quarter of the year. Nonetheless, the US economy closed the year at a growth rate of 3.3%.

Japan, where the GDP grew 2.2% in 2006, continued its expansionary trend, putting an end to the country's deflationary period.

In Italy, 2006 ended with the highest growth rate of the last five years, with GDP increasing 2.0%. Although the result was positive, it was still below the euro area average (2.7%), which caused a further widening of the gap between the growth trends in Italy and in our European neighbours.

The oil shock that started three years ago began to stabilise in the fall, and, in the last quarter, crude oil prices remained high but stable at around USD 60 a barrel.

In 2006, the dollar reached multi-year lows compared to the euro and British pound. Euro-dollar exchange rates in the fourth quarter confirmed the appreciation of the European currency throughout the entire year, reaching 1.32% (+9.1% compared to the exchange rate at year-start). The rise of the rate above the 1.30 mark rekindled fears that an excessive appreciation of the euro might have a negative impact on growth in the Old Continent; however, stronger domestic demand indicated an improvement of the euro area's economy.

As for the currencies of the main markets in which Brembo operates on an industrial and commercial level, the Polish zloty returned to start-of-year levels, closing at 3.85. The Brazilian real remained mostly stable, as did the British pound, which, despite some fluctuations, remained at start-of-year levels. As for the yen, start-of-year forecasts did not prove to be accurate, as the Japanese currency depreciated constantly against the euro (–11.5%).

After remaining relatively stable the first months of the year, the Indian rupee weakened gradually compared to the euro, closing at –8.8%. The Mexican peso performed similarly, closing at –12%.

The Chinese renminbi tracked the slight fluctuations of the US dollar.

BREMBO ACTIVITIES AND REFERENCE MARKET

Brembo operates in twelve countries around the world, with the contribution of over 4700 employees. The Group's operations are conducted from six industrial-commercial facilities in Italy and 13 in other countries. Manufacturing plants are located in Italy and in Spain (Zaragoza), Poland (Czestochowa and Dabrowa), Great Britain (Coventry), Mexico (Puebla), Brazil (Betim), and China (Nanjing and Beijing) and India (Pune), while other companies in Great Britain (London), Sweden (Göteborg), the United States (Costa Mesa, California) and Japan (Tokyo) carry out distribution and sales activities.

Ongoing commitment in terms of technological and process development have always been fundamental to Brembo's philosophy. These factors have further strengthened Group's leadership in the research, design and production of high-performance disc braking systems for a wide range of vehicles.

Brembo operates on both the original-equipment market, focusing on the supply of high-performance braking systems, and in the aftermarket. Its consumers include the most important manufacturers of cars, motorbikes, commercial vehicles, and racing cars and motorbikes.

Brembo's range of products for the car application and the commercial vehicle application includes brake discs, brake callipers, the side-wheel module and increasingly often the complete braking system, including integrated engineering services. All of these back the development of new models produced by vehicle manufacturers.
Manufacturers of motorbikes are also offered brake discs, brake callipers, brake pumps, light-alloy wheels and complete braking systems.
In the car aftermarket, Brembo mainly focuses on brake discs: over 1300 product codes allow the company to meet the needs of nearly all European vehicles.

In 2006, Brembo continued its growth trend in terms of net consolidated revenues, which amounted to €805,986 thousand, up 13.3% compared to €711,615 thousand for the previous year.
The separate applications and their related markets are discussed briefly in the following paragraphs.

Car Applications

Compared to 2005, financial year 2006 closed with a 3.4% increase in vehicle sales volumes. This growth was mainly due to growing demand in emerging markets.
In the United States, car registrations contracted 2.6% compared to 2005; sales in the Large Pick-up segment decreased most (–10%).
Car sales in Western Europe remained mostly stable (+0.7%) compared to the previous year. Among the main markets, Italy (+4%) and Germany (+3.7%) increased, whereas French (–3.3%) and the UK (–4.1%) recorded a downtrend.
Eastern Europe continued the positive trend seen in the past few years, with an 8% increase in registrations.
Sales in South America increased by 13.3%, also a continuation of the positive results recorded in 2004 and 2005.
In the Far East, China overtook Japan (where there was a 2.5% decrease compared to 2005) in the ranking of the world's

main automobile markets, reporting a 28% jump in vehicle sales in 2006 and nearing 6 million vehicles; China thus became the world's second largest car market in terms of sales volumes, after the USA. The Korean market also grew 3.2%.

In 2006, sales of car applications (braking systems and brake discs) reached €534,703 thousand, accounting for 65.2% of Brembo's total consolidated sales and increasing 14% over 2005.

Commercial and Light Commercial Vehicle Applications

Data on road transport indicated no signs of a slowdown. In 2006 the European commercial vehicles market recorded a further increase, thus consolidating the positive trend seen over the past few years.
For vehicles up to 3.5 tonnes, the overall percentage growth was 5.6%, with over 2 million registrations and satisfactory results for all of the main markets in which Brembo operates. The growth in new registrations was mainly concentrated in the last quarter of the year, when a 10% increase was recorded.
Registrations of vehicles over 3.5 tonnes overall also recorded a positive trend, increasing 3.1% in Europe. Specifically, the number of new registrations increased in Germany (+10.2%) and Spain (+2.3%), whereas it decreased in France (–4.2%) and the United Kingdom (–5.6%). In Italy, the market remained stable compared to 2005. Buses above 3.5 tonnes also remained stable in Europe.

In the commercial and industrial vehicles business area, Brembo increased its sales by 16% compared to 2005, with consolidated revenues reaching €124,612 thousand.

Motorbike Applications

Europe, the United States and Japan have been the three most important markets for Brembo in the motorbike sector for several years, now.
In Europe, motorbike and scooter registrations overall increased approximately 9% compared to 2005. In the motorbike category, increases were mainly recorded for both the naked segment and the 500-750cc range.
In Italy – an increasingly important market in Europe, accounting for about one third of the total – registrations in 2006 were 447 thousand, up 5.8% over the previous year. In terms of registration type, scooters remained virtually stable, while motorbikes achieved a new record, with 164 thousand registrations during the year (+9.1%).
In the United States, despite a slight downturn in the last quarter compared to the upward trend of the first nine months, registrations of motorbikes over 650cc recorded an overall 4.9% increase compared to 2005.
The Japanese market, on the other hand, remained stable overall, with registrations increasing 7.2% for high-powered motorbikes (over 250cc) and decreasing 6.7% for motorbikes under 250cc.

Brembo's results for 2006 were 5.8% higher than in 2005, with revenues amounting to €90,338 thousand and an 11% ratio to total revenues.

Racing Applications

The major racing teams in the various championships are today becoming increasingly complex organisations capable of managing their own in-house research and development projects. They are in fact full-fledged businesses, quite capable of handling all aspects of races, so much so that they have now become consultants and suppliers to smaller teams.
Brembo is present in the racing sector with three leading brands: Brembo Racing, with braking systems for race cars and motorbikes; AP Racing, with braking systems and clutches for race cars; Marchesini, with magnesium and aluminium wheels for racing motorbikes.
In this sector, Brembo reported €60,724 thousand in gross consolidated revenues for 2006, with an 18% increase compared to the previous year's result.

Sales Breakdown by Application and Geographical Area

The two following tables respectively list gross sales broken down by application and by geographical area of destination [1].

Gross Sales Breakdown by Application

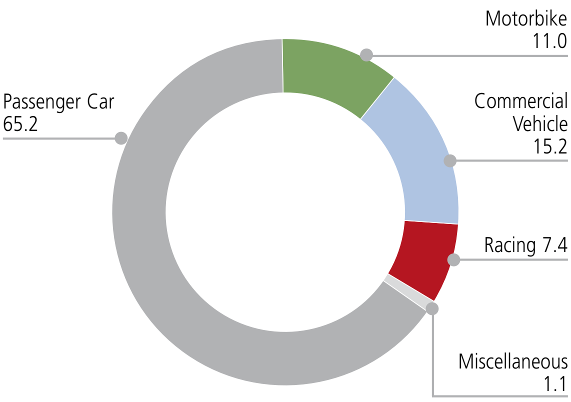
(euro thousand)	***31.12.2006***	**%**	***31.12.2005***	**%**	***2006/2005***	**%**
Passenger Car	534,703	65.2%	469,243	65.0%	65,460	14.0%
Motorbike	90,338	11.0%	85,397	11.8%	4,941	5.8%
Commercial Vehicle	124,612	15.2%	107,434	14.9%	17,178	16.0%
Racing	60,724	7.4%	51,470	7.1%	9,254	18.0%
Miscellaneous	9,283	1.2%	8,860	1.2%	423	4.8%
Total	**819,660**	**100.0%**	**722,404**	**100.0%**	**97,256**	**13.5%**

Gross Sales Breakdown by Geographical Area

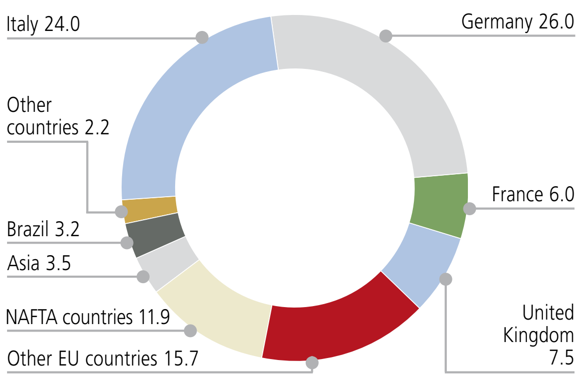
(euro thousand)	***31.12.2006***	**%**	***31.12.2005***	**%**	***2006/2005***	**%**
Italy	196,581	24.0%	175,371	24.3%	21,210	12.1%
Germany	213,272	26.0%	177,305	24.5%	35,967	20.3%
France	49,110	6.0%	48,743	6.7%	367	0.8%
United Kingdom	61,612	7.5%	57,343	7.9%	4,269	7.4%
Other EU countries	128,895	15.7%	109,161	15.1%	19,734	18.1%
NAFTA countries	97,421	11.9%	85,976	11.9%	11,445	13.3%
Asia	28,760	3.5%	30,694	4.3%	(1,934)	–6.3%
Brazil	26,230	3.2%	19,143	2.7%	7,087	37.0%
Other countries	17,779	2.2%	18,668	2.6%	(889)	–4.8%
Total	**819,660**	**100.0%**	**722,404**	**100.0%**	**97,256**	**13.5%**

[1] In line with CONSOB notice No. 980804143 of 27 October 1998 and as required by IAS 14, segment reporting is provided in the Notes to the Consolidated Financial Statements, in accordance with IAS 14.

Gross Sales Breakdown by Application
(percentage)



Gross Sales Breakdown by Geographical Area
(percentage)



Research and Development

With a view to restructuring the organisation, as early as 2005, Brembo's R&D operations were separated into disc and systems divisions. Disc operations were all assigned to the new Disc Technology Unit, currently working on 10 strategic projects regarding product and process innovations.

During 2006, customers were presented with a new concept in brake discs, which reduces weight by around 20% and whose thermal performance is significantly higher than the best product currently available. Five applications are currently being developed with customers who have shown great interest in this new concept.
During the year, structured research operations were also launched on new alloys for cast iron discs with a damping effect that helps improve acoustic comfort of the braking system.
As planned, the Advanced R&D department continued to develop the mechatronics projects licensed in early 2006.
All the projects had successfully been presented to customers by the end of the year. Two of them relate to electromechanical braking systems with an electric button control managed by a control unit that converts the driver's request into a braking force applied to the brakes.
The Commercial Vehicle braking system (electric cable puller for combined calliper and/or DIH) was developed in collaboration with an Austrian partner.
The Car braking system (fixed calliper with integrated electronic braking via motor on calliper) will be developed with electronics partners to be confirmed during the early part of 2007.
Both projects are being implemented with the collaboration of a development partner, and, in the coming years, will result in an evolution of Brembo's R&D structure; this will allow Brembo to present itself to vehicle manufacturers as a producer of electromechanically operated braking systems.
During 2006, a new mechatronic system for the adjustment of the brake pump lever was also delivered to our customer Honda HRC (Moto GP). This is a complete mechatronic system (control unit/electromechanical actuator/driver control). The mechanical part was designed and developed by Brembo, while the control unit was produced by a specialised electronics company. Assembly and final testing was carried out at Brembo's specialised R&D testing facility.
This project is the first mechatronic product sold by Brembo, and it will be tested on track, during racing, in collaboration with HRC, in the early part of 2007.

Along with the development and testing of new mechatronic braking systems, during 2006 work also continued with universities and a specialised research centre, on the research and development of materials with the aim of finding new solutions for discs and callipers.

The table below presents a summary of the costs of the activities relating to the main Research and Development projects currently underway.

ACTIVITIES CARRIED OUT DURING THE YEAR 2006:	***Industrial research***	***Basic research***	***Pre-competitive/ Pre-racing development***	***Total***
(Euro)				
Research project: *"Ultra-compact urban vehicle for sustainable efficient transport of people and goods"* – Design idea MD 25266, Strategic Programme No. 10, M D No. 1621/Ric 18/7/2005 Design ideas N R P 2005-2007 *(programme values)*	258,000			258,000
Research project: *"Advanced high performance friction materials for high energy systems"* – Design idea M D 25204, Strategic Programme No. 7, M D No. 1621/Ric 18/7/2005 Design ideas N R P 2005-2007 *(programme values)*	800,000	1,060,000		1,860,000
OVERALL TOTAL	**1,058,000**	**1,060,000**		**2,118,000**

The results achieved in relation to the operations conducted are confirmed by the reports sent to the supervisory bodies for each provision and they are in line with the envisaged objectives. The research and innovation projects will be applied during the upcoming financial periods, in accordance with the Company's development plans.

Thanks to the structural changes introduced with the 2005 Financial Law and the high costs borne in 2006 for personnel working on Research and Development (€12,943 thousand), the parent company Brembo S.p.A. benefited from €550 thousand reduction on IRAP tax (Regional Business Tax).

Development Activities

As indicated in the Notes to the Financial Statements, the development costs of projects involving the production of braking systems are recognised as assets only if they meet the criteria set forth in IAS 38 (Intangible Assets), which are as follows:

- the technical feasibility of the product can be demonstrated;
- the Group intends to complete the development project;
- the costs incurred for the project can be determined reliably;
- the costs recognised can be recovered through the future economic benefits expected from the development project.

INVESTMENTS

Investments in shareholdings during 2006, which totalled €7,164 thousand, mainly referred to the €6,664 thousand share capital contribution that took the company's ownership in the Indian company KBX Motorbike Products Pvt. Ltd. to 50%. The company was established as a joint venture between Brembo and Bosch Chassis Systems India Ltd. to manufacture and sell braking systems for motorbikes. The products are currently sold on the Indian market, with plans to evaluate the potential for exportation at a later date.
Furthermore, in November 2006 the Brembo S.p.A. subscribed a €500 thousand capital increase in Petroceramics S.r.l., thereby acquiring a 20% stake. The company is engaged in the research and development of innovative technologies for the production of technical and advanced ceramic materials.

Other investments in 2005 involved some consolidated companies that guaranteed revenue growth. The sum of €84,147 thousand was committed to all the operating units, of which €69,732 thousand in property, plant and equipment and €14,415 thousand in intangible assets.

Investments in property, plant and equipment amounted to €41,495 thousand. They were related to the Parent Company Brembo S.p.A. mainly for the construction of a new industrial shed at the Mapello (Bergamo) site, to which certain disc manufacturing operations will be relocated. Brembo signed an agreement with Intesa Leasing S.p.A. for the construction and subsequent leasing of these properties. Other investments were allocated to the purchase of machinery and the development of equipment to increase production levels for the car sector and, more in general, to increase the capacity of manufacturing plants.

Further significant investments were made by the subsidiary Brembo Poland Sp. Zo.o.. The subsidiary completed construction on the new cast-iron foundry in Dabrowa Gòrnicza for the manufacture of discs for both the aftermarket and original equipment market, and it upgraded the mechanical disc processing plants. The foundry become fully operational in July 2006. Again in Poland, investments in the Czestochowa plant were allocated to increasing production capacity.

Moreover, based on the agreement reached in December 2005 to build and subsequently lease the real estate in Stezzano (Bergamo) – site to the Company's new technologic centre – where Brembo S.p.A. carried out works on behalf of the owner, the costs incurred were charged back and collected at the end of December 2006.
With reference to investments in intangible assets, in accordance with IAS 38, the Group capitalised €11,344 thousand in development costs associated with projects underway.

Financial Instruments and Risk Management

In conducting its business, the Brembo Group is exposed to various financial risks, including, in particular, the main components of market risk: interest rate fluctuations, fluctuations in the foreign currencies in which the company operates and the price of commodities.
Financial risk management is the responsibility of the central Treasury Department, which, together with administration, evaluates the company's main financial operations and the related risk management policies.

Interest Rate Risk Management

Since most of the company's financial debt is subject to variable interest rates, Brembo is exposed to the risk of interest-rate fluctuations. To reduce this risk, Brembo has entered into hedging contracts with counterparties considered to be financially reliable.
Specifically, Interest Rate Swap agreements are used to hedge approximately 26% of the Group's debt. Under these agreements, the Group receives a variable interest rate from the financial intermediary while paying a fixed rate.
The objective is to eliminate the variability of the borrowing costs associated with a portion of debt and benefit from fixed rates set through hedging contracts. The company therefore achieved a high correlation between the hedged item and the hedging instrument, and guaranteed the effectiveness of the hedge in accordance with International Accounting Principles.
Lastly, it should be noted that, even for the portion of debt that is not specifically covered by hedging contracts, indicators such as the ratio of financial charges to revenues or net operating income show that the impact of adverse changes in interest rates would be tolerable from a profitability standpoint.

Exchange Rate Risk Management

As Brembo operates in international markets, it is exposed to exchange rate risks. To mitigate this risk, the company uses natural hedging (offsetting receivables and payables) and hedges only net positions in foreign currency, using mostly short-term financing denominated in the currency to be hedged to compensate for imbalances.
Other hedging instruments used by the company include forward contracts, which are also used to offset differences between receivables and payables. With this choice, there is no guarantee that receivables will be collected by the time the forward contracts mature, a condition that must be met to qualify for hedge accounting. Since this condition is not met, Brembo charges changes in fair value to the Income Statement, though it feels that the instruments described above are sufficient to manage its exchange rate risk.

Commodities Risk Management

The main commodities used by Brembo are cast-iron, aluminium and energy.
As there is no official quotation for cast-iron, the company does not use hedging instruments and remains exposed to the risk of price fluctuations.
Aluminium is not exposed, as sale prices guarantee the recovery of purchase prices.

As for energy, the company is impacted by price trends, although, in this case, the ratio to sales is not material (about 1.5% of sales).

Further information on other types of financial risks is reported below:

- **Credit risk,** i.e. the risk that one of the parties to a financial instrument will fail to perform an obligation, resulting in a financial loss to the other party: Brembo attempts to limit its risk by choosing only counterparties that are considered to be financially reliable by the market and, therefore, have a good credit standing; Brembo constantly monitors the health of the financial intermediaries with which it interacts.
- **Liquidity risk,** i.e. the risk that the company will have difficulty meeting commitments associated with financial instruments. To meet these commitments, Brembo mainly depends on its cash flow from operations and, if necessary, short-term credit lines obtained through the financial intermediaries with which it interacts. Moreover, with respect to this type of risk, in establishing the composition of its net financial indebtedness, Brembo always tries to finance its investments with medium- to long-term debt (in addition to equity), while the current expenditure is financed through short-term credit lines.

Human Resources and Organisation

To continue the training and human resource development programmes implemented in the previous year, 2006 was characterised by initiatives designed to make the most of individual talents and define training plans aimed at improving the participants' technical, professional, managerial and operational capabilities. The company also focused on developing and implementing specific applications with the aim of simplifying coordination of periodic management processes and the exchange of information between various areas of the company, and also to facilitate the gathering of information directly from the labour market. In tandem, based on the training requirements noted, a large part of the workforce attended in-house training courses on broad-ranging operational issues. These courses were supported by targeted initiatives for high-level individual training, particularly on Research and Development, Innovation, Quality, Safety and the Environment. In an effort to constantly improve its ability to meet the needs of the market and its main stakeholders, Brembo also continued its language training programmes for all administrative staff, using various learning methods both for central staff members and those closer to the business. With regard to management and top management, the training offer launched in recent years has been completed. It is characterised by multiple initiatives aimed at strengthening and developing managerial skills, with an added focus on the issue of intercultural communications and integration between business areas (departments, business units, geographical areas).

On the innovation front, within the broader context of the "ERP" project, a new management system designed to streamline collaboration and integration between the various organisations involved, a strategic yet innovative project for the Group. The second half of the year saw the launch of training on a new application that will ensure more efficient systemisation of accounting processes. This marks the first step in the renewal process mentioned above. With the dual aim of boosting the culture of ongoing training, and guaranteeing a top position in the business-university network, partnerships were sealed between Brembo and the Executive Master's in Industrial Maintenance Management at the University of Bergamo and the Milan Polytechnic, as well as the Master's in Innovation Management at the Sant'Anna high school, Pisa, and the Tlaxcala Polytechnic in Mexico.

During the year, the integrated "Brembo Production Academy" training offers were completed. These courses were designed to develop specific expertise for individuals with various production responsibilities. The *"Design to Cost"* course was also completed, involving specialists and managers from different business areas, all directly interested in the processes of Research and Development.

In the field of Safety and the Environment, work continued on numerous meetings relating to safety issues, particularly on priority matters for factory workers. These meetings were complemented by other specific sessions on responsibility and safety regarding employers and departmental managers.

In compliance with the European Market Abuse Directive, enacted in Italy, training was given to Directors and Managers with the aim of providing instructions, tools and directions in order to prevent the abuse of privileged information and market manipulation.

More than 248 training initiatives were implemented in 2006 for a total of 458 courses, 20,016 training hours and approximately 3,960 participants. A constant emphasis was placed on creating, developing and spreading know-how, as well as encouraging a large number of employees to attend training courses.

During the year, the workforce grew from 4,354 (as of 31 December 2005) to 4,703 (as of 31 December 2006), of whom 2,723 work at Brembo S.p.A., consolidating the growth trend in new hires of recent years.

Year 2006 marked a turning point for the company's management system. Brembo's size and complexity now requires the positions of Chairman and Managing Director to be separated, in order to reinforce the company's executive structure.

Within this new organisational pattern, the Chairman maintains the legal powers of representation, together with wider powers regarding strategic direction, coordination and control. He also defines internal development guidelines, and policies regarding finance, M&As and organisation. The Administration, Finance and Control, Communications and Public Affairs, Property Development, Legal and Corporate Departments will continue to report to the Chairman under this new power structure. They will be joined by the Human Resources and Organisation Department, formed from the merger of the Human Resources Department (previously reporting to the General Manager) and the Organisation Department (which already reported to the Chairman). During the second half of 2006, this Department further defined its internal structure, in order to provide an increasingly effective response to the organisational and business requirements. The Human Resources and Organisation and Administration, Finance and Control Departments will liaise and cooperate fully with the Managing Director.

The second half of 2006 also saw the creation of the new Market & Innovation Department. Reporting directly to the Chairman, its mission is to support strategic activities related to these decision-making areas, and to assist the business units by helping them develop specific initiatives.

Under the new structure of powers, the Managing Director has taken responsibility for implementing and managing the guidelines drawn up by the Chairman with regard to the business units and central organisations involved, as well as all the companies and staff divisions that support operations. In collaboration with the Chairman, the Managing Director plays a role in planning, validating and controlling strategic decisions. He is also directly responsible for the Business Development, Purchasing, Quality & Environment, ICT, Technologies and Systems divisions. These have been joined by the Marketing Department (which previously reported to the Chairman), Foreign Companies (which has been converted from a Staff to a Central Department) and Advanced R&D. This last department is the result of the transformation, during the first half of 2006, of the existing Technical and R&D Systems division. Given that one of Brembo's priorities is the field of research and development, the aim of this transformation is to focus central R&D on advanced innovation and transfer planning, industrialisation, testing, application development and innovation to the business units.

The Managing Director will continue to be responsible for the following business units: Car, Motorcycle, Commercial Vehicle, Performance Group, After Market and Industrial Division. During the second half of the year, preparations began with regard to redefining the business units' macro structure, with effect from 1 January 2007. The areas involved will be the object of further organisational studies during 2007, with the aim of consolidating a structure that will be better able to meet the new challenges posed by the market, and to optimise a dual focus on discs and systems.

The organisational developments described above represent the most recent phase in the Group's optimisation process, paving the way for new ideas with the aim of bringing Brembo into line with the processes of globalisation (with particular reference to China and India), product and market diversification.

During 2006, Brembo involved not only its own workforce on the themes of safety and the environment, but also everyone who works on behalf of the company, an objective that will certainly improve efficiency in the internal management system. To share business management procedures with contractors and raise their awareness of these issues, various initiatives were undertaken: they were given an explanation of Brembo's Safety and Environment operational procedures, specific training was offered to them, and finally, audits were performed to check that everything had been properly understood and applied.

The large number of training programmes for Brembo workers, as part of the annual Training Plan, also continued. During 2006, there was a particular focus on spreading greater awareness among the company's middle management. Their role is essential in order to diffuse the correct "culture" of safety and environment throughout the company. Their day-to-day contact with personnel in each department allows middle managers to provide an effective contribution to spreading the company's guidelines. A specific course was developed, to illustrate both the responsibilities of supervisors with regard to legal requirements and also the managerial initiatives taken by Brembo in order to meet these requirements effectively.

The result of Brembo's constant focus on safety and environment yielded further concrete results during 2006, in particular:

- **index of severity of injuries:** the trend in this index, which records the company's accident rate, has steadily fallen: between 2005 and 2006, the number of injuries fell by 26% and is now very low, not only in absolute terms but also in relation to the sector average. This confirms the fact that Brembo has handled this area appropriately and has kept the situation under control;
- **sustainable development:** on this front, an important energy recovery project involved the cast iron foundry and brake disc plant at Mapello (Bergamo); on this site, the heat produced from the furnace used to melt the scrap iron is now used to heat all the premises used for machining, avoiding the use of gas from the mains. Considering the large quantities of gas that were previously used, this has generated considerable environmental benefits both in terms of cutting the consumption of non-renewable resources, and improving the smelting plant's energy performance;
- **healthcare service:** work has begun to improve the company's healthcare service, to provide the nursing service to all the company's personnel on a continuous basis, optimising coordination and management of the company's First Aid Service and Health Surveillance unit.

The process of streamlining, consolidating, and developing the Brembo structure continued in 2006. The various actions taken during the year are illustrated below:

- on 9 January 2006, the procedure began to liquidate the company Brembo Participations B.V., with the aim of simplifying and streamlining the Group's structure. The shares in this company were transferred to its parent company Brembo International S.A.;
- on 4 February 2006, the Company subscribed its shareholding in KBX Motorbike Products Private Ltd., headquartered in Pune (India) and established as a joint venture between Brembo and Bosch Chassis Systems India Ltd., (formerly Kalyani Brakes Ltd.), a subsidiary of the Bosch Group; Brembo S.p.A. subscribed 50% of the share capital, paying a total of INR 357 million (approximately €6.7 million).
- on 20 February 2006, a new cast-iron foundry was built in Dabrowa, Poland, near the existing disc production facilities. The plant became fully operational in July 2006.
- on 28 April 2006, the Board of Directors approved the Proposal for the Merger by incorporation of the company FOMM S.p.A., which casts unfinished brake discs, into Brembo S.p.A., which already held a 100% interest in the company. The merger aims at streamlining the corporate structure and achieve management economies. On 4 July 2006, the merger was finalised through the enrolment in the company register of the Bergamo Chamber of Commerce.
- on 17 August 2006, the liquidation procedure of Brembo GmbH ended with its cancellation from the Munich Register of Companies;
- on 26 October 2006, Brembo Performance S.p.A. was incorporated. The company, which is 100% held by Brembo S.p.A., is still in the start-up phase. It designs, manufactures, and sells components and accessories for cars and both road and racing vehicles; subscribed share capital amounts to €120 thousand;
- on 21 November 2006, Brembo S.p.A. subscribed the €500 thousand increase in the share capital of Petroceramics S.r.l., thereby acquiring 20% of the share capital in the company engaged in the research and development of innovative technologies for the production of technical and advanced ceramic materials;
- on 23 November 2006, 100% of the stake in Brembo Deutschland GmbH was acquired. The company will purchase and sell vehicles in order to carry out tests. It was enrolled in the Stuttgart Register of Companies on 23 January 2007 and will start operations in 2007; subscribed share capital amounts to €25 thousand;
- on 22 December 2006, as part of the strategic plan for Italian production sites especially for the disc sector, an industrial building no longer used for production was sold.

BREMBO S.P.A.
CURNO - ITALY

- 100% AP RACING LTD. — COVENTRY - UK
- 100% BREMBO DEUTSCHLAND GMBH — LEINFELDEN-ECHTERDINGEN - GERMANY
- 60% BREMBO CHINA BRAKE SYSTEMS CO. LTD. — BEIJING - CHINA
- 50% KBX MOTORBIKE PRODUCTS PRIVATE LTD. — PUNE - INDIA
- 27.75% NANJING YUEJIN AUTOMOTIVE BRAKE SYSTEM CO. LTD. — NANJING -CHINA
- 100% MARCHESINI S.P.A. — JERAGO CON ORAGO - ITALY
- 100% BREMBO PERFORMANCE S.P.A. — CURNO - ITALY
- 50% BREMBO CERAMIC BRAKE SYSTEMS S.P.A. — STEZZANO - ITALY
- 40% SOFTIA S.R.L. — ERBUSCO - ITALY
- 20% PETROCERAMICS S.R.L. — MILAN - ITALY
- 100% BREMBO INTERNATIONAL S.A. — LUXEMBOURG - LUXEMBOURG

EUROPE

- 100% BREMBO SPOLKA ZO.O. — CZESTOCHOWA - POLAND
- 100% BREMBO POLAND SPOLKA ZO.O. — DABROWA G. - POLAND
- 100% BREMBO SCANDINAVIA AB — GÖTEBORG - SWEDEN
- 100% BREMBO UK LTD. — LONDON - UK
- 100% BREMBO PARTICIPATIONS B.V. — AMSTERDAM - THE NEDERLANDS
- 68% CORPORACION UPWARDS 98 S.A. — ZARAGOZA - SPAIN
- 10% INTERNATIONAL SPORT AUTOMOBILE S.A.R.L. — LEVALLOIS PERRET - FRANCE

AMERICA

- 100% BREMBO NORTH AMERICA INC. — COSTA MESA - USA
- 99.99% BREMBO DO BRASIL LTDA. — BETIM - BRAZIL
- 76% BREMBO RASSINI S.A. DE C.V. — PUEBLA - MEXICO
- 5.80% FUNDIMAK S.A. DE C.V. — MEXICO CITY - MEXICO

ASIA

- 100% BREMBO JAPAN CO. LTD. — TOKYO - JAPAN
- 1.20% FUJI CO. — TOKYO - JAPAN

This table complies with Art. 125 of Consob Resolution No. 11971 dated 14 May 1999.

The main indicators of Brembo's consolidated balance sheet, income statement and cash flow statement are listed below.

Operating results

(euro thousand)	***31.12.2006***	***31.12.2005***	***Change***	***%***
Sales of goods and services	**805,986**	**711,615**	**94,371**	**13.3%**
Cost of sales, operating costs and other net charges/income [(1)]	(530,410)	(459,449)	(70,961)	15.4%
Personnel expenses	(156,607)	(140,384)	(16,223)	11.6%
GROSS OPERATING INCOME	**118,969**	**111,782**	**7,187**	**6.4%**
% of sales	*14.8%*	*15.7%*		
Depreciation, amortisation and other write-downs	(39,426)	(38,407)	(1,019)	2.7%
NET OPERATING INCOME	**79,543**	**73,375**	**6,168**	**8.4%**
% of sales	*9.9%*	*10.3%*		
Net financial income (charges)	(9,360)	(6,325)	(3,035)	48.0%
Net financial income (charges) from investments	226	(309)	535	−173.1%
INCOME BEFORE TAXES	**70,409**	**66,741**	**3,668**	**5.5%**
% of sales	*8.7%*	*9.4%*		
Taxes	(26,210)	(24,852)	(1,358)	5.5%
INCOME BEFORE MINORITY INTERESTS	**44,199**	**41,889**	**2,310**	**5.5%**
% of sales	*5.5%*	*5.9%*		
Minority interests	(1,254)	(1,378)	124	−9.0%
NET INCOME (LOSS) FOR THE PERIOD	**42,945**	**40,511**	**2,434**	**6.0%**
% of sales	*5.3%*	*5.7%*		
Net earnings per share *(euro)*	0.64	0.61		

[(1)] This item derives from the sum of the following items carried in the income statement in accordance with the IAS layout: "Other revenues and income", "Costs for capitalised internal works", "Raw materials, consumables and goods" and "Other operating costs".

Net sales for 2006 amounted to €805,986 thousand, up 13.3% compared to 2005. The figures are consistent in the two years, since the changes of the consolidation area have had no impact on revenues.

The sectors that most contributed to the growth in sales with their respective applications were commercial vehicles and car applications. The motorbike and racing business areas also recorded positive results. Development was concentrated mainly in Europe, especially in Germany and Italy, and in the NAFTA countries.

Consolidated sales generated abroad accounted for 76% of total sales, with Germany and Italy representing 50% of total revenues. Development continued in Brazil (+37%), while the Asian area recorded a contraction, with a slight recovery in the last quarter, thanks to the positive performance of applications for automobiles supplied to Japanese customers and the launching of operations in China. Revenues in the NAFTA area also increased.

The cost of goods sold and other operating costs totalled €530,410 thousand, with a 65.8% ratio to sales, against 64.6% of the previous year. The higher incidence was due to different factors: a penalising sales mix compared to 2005; a drop in production in the Polish foundry, now overcome; other exceptional costs related to the closure of Italian facilities and the launching of operations in China. A €2,882 gain on the sale of an industrial building in Italy was also recognised.

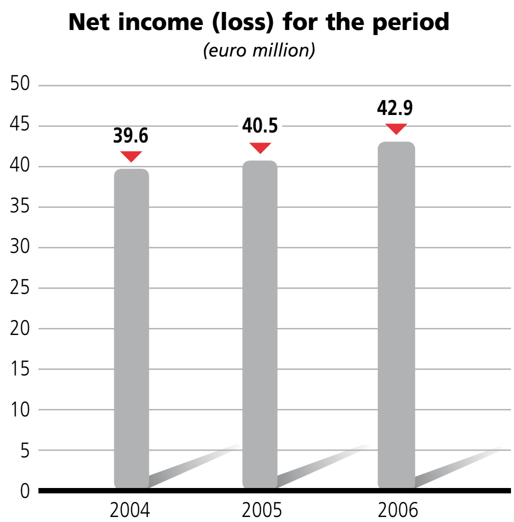
Development costs capitalised as intangible assets amounted to €11,344 thousand compared to €10,625 thousand in 2005.

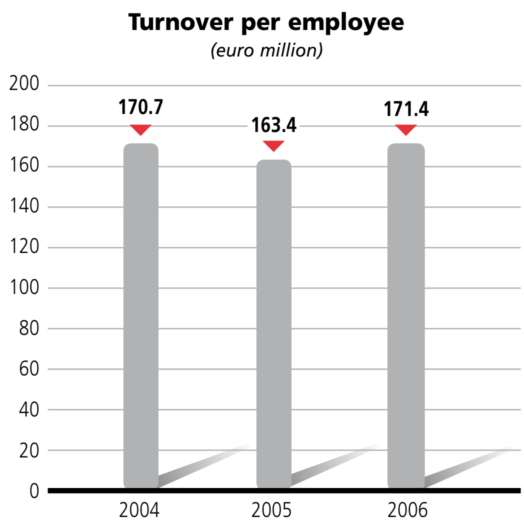
Personnel costs amounted to €156,607 thousand, with a 19.4% ratio to revenues, slightly lower than the previous year. The positive impact of the efficiency improvement plans implemented by Brembo resulted in increased production and sales volumes on the part of the Group companies.

At 31 December 2006, Brembo employed 4,703 staff (4,354 at 31 December 2005); over 40% of the workforce worked at offices and companies abroad.

Gross operating income was €118,969 thousand (14.8% of sales) compared to €111,782 thousand in 2005 (15.7% of sales).

Net operating income amounted to €79,543 thousand, compared to €73,375 thousand reported for 2005, after depreciation, amortisation and impairment losses of property, plant, equipment and intangible assets amounting to €39,426, compared to depreciation and amortisation amounting €38,407 thousand in 2005. Offsetting the decrease in depreciation and amortisation of several multi-year expenses, amortisation of capitalised development costs, as well as depreciation on plant and machinery increased.





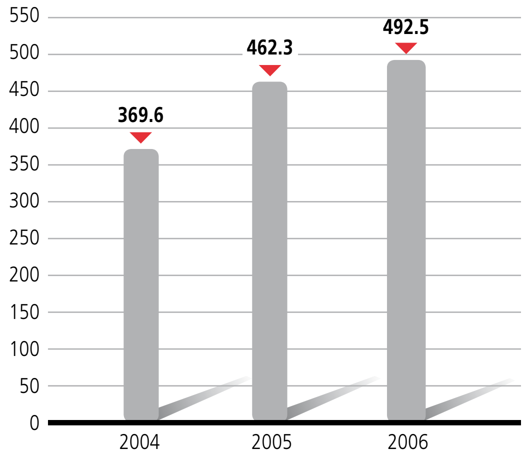
Net financial charges amounted to €9,360 thousand (€6,325 thousand in 2005). The increase compared to 2005 was due to the rise in both average debt and interest rates. The settlement of a derivative held for trading generated a gain of €886 thousand, whereas net exchange loss amounted to €721 thousand.

Financial income and charges from shareholdings included Brembo's share of the income for the period of the companies accounted for using the equity method, amounting to €224 thousand: the Chinese joint venture Nanjing Yuejin Automotive Brake System Co. Ltd. (27.75%), the joint venture Brembo Ceramic Brake Systems S.p.A. (50%), Softia S.r.l. (40%), the Indian joint venture KBX Motorbike Products Private Ltd. (50%) and Petroceramics S.r.l. (20%).

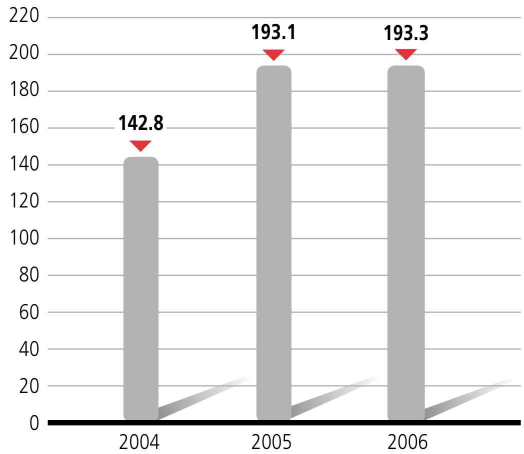
Income before taxes amounted to €70,409 thousand, with a ratio to sales of 8.7%, compared to €66,741 thousand in 2005 (9.4% ratio to sales).
Based on tax rates applicable for the year under current fiscal regulations, estimated taxes amount to €26,210 thousand (€24,852 thousand in 2005). Including deferred tax assets and liabilities, the ratio to income is 37.2%, in line with that for 2005.

Total net income amounted to €42,945 thousand, net of minority interests amounting to €1,254 thousand, or 5.3% of net sales. Compared to 2005, net income increased 6% for the above-mentioned reasons.

Net invested capital
(euro million)



Net financial indebtedness
(euro million)



Capital and Financial Position

(euro thousand)	A 31.12.2006	B 31.12.2005	A-B Change
Property, plant and equipment	295,142	274,503	20,639
Intangible assets	47,230	39,157	8,073
Financial assets	19,245	20,299	(1,054)
(a) Total intangible assets, property, plant and equipment	**361,617**	**333,959**	**27,658** ***8.3%***
Inventories	146,618	142,818	3,800
Trade receivables	182,647	153,083	29,564
Other receivables and current assets	32,116	39,557	(7,441)
Current liabilities	205,383	187,931	17,452
Provisions for contingencies and charges and deferred taxes	25,098	19,197	5,901
(b) Net working capital	**130,900**	**128,330**	**2,570** ***2.0%***
(c) NET INVESTED CAPITAL (a)+(b)	**492,517**	**462,289**	**30,228** ***6.5%***
(d) Equity	**270,564**	**242,063**	**28,501**
(e) Employees' leaving entitlement and other funds for personnel	**28,663**	**27,151**	**1,512**
Medium/long-term net financial indebtedness	103,026	109,310	(6,284)
Short-term net financial indebtedness	90,264	83,765	6,499
(f) Net financial indebtedness	**193,290**	**193,075**	**215** ***0.1%***
(g) COVERAGE (d)+(e)+(f)	**492,517**	**462,289**	**30,228** ***6.5%***

The Group's balance sheet reflects reclassifications required under IAS Accounting Statements, as described in the following pages.

In detail:

- property, plant and equipment also include "Non-current assets held for sale and discontinued operations";
- financial assets include the following items: "Shareholdings valued using the equity method", "Other financial assets", (less derivatives amounting to €1,107 thousand and reclassified in medium- and long-term financial debt), "Receivables and other non-current assets", "Deferred tax assets", "Financial current assets and derivatives" (less derivatives amounting to €415 thousand, which were reclassified under short-term financial debt), and "Other non-current liabilities";
- current liabilities are made up of "Trade payables", "Tax payables" and "Other current liabilities";
- net financial debt includes current and non-current payables to banks and other financial liabilities, net of cash and cash equivalents and derivative assets and liabilities.

Net invested capital at the end of the year amounted to €492,517 thousand, compared to € 462,289 thousand at 31 December 2005.

Compared to the previous year, this item showed an €30,228 thousand increase.
The Group mainly invested in Italy, to adjust production capacity to demand, and in Polish subsidiaries, as reported in the "Investments" section.
During the year, the third and fourth (the last one) tranches of the investment in the recently Brembo China Brake Systems Co. Ltd. were settled.

Net debt remained substantially unaltered, going from €193,075 thousand at 31 December 2005 to €193,290 thousand at 31 December 2006, despite the high investments made during the year. The increase in debt due to investments made in the year was in fact offset by the sale of an industrial building in December, and the repayment made by Pioneer Investment Management S.g.r.p.A. of costs connected to the construction of the new technological centre in Stezzano.

The Notes to the Consolidated Financial Statements provide detailed information on the financial position – regarding its asset and liability items – as well as any loans disbursed to Group companies during the year.

Cash Flow Statement

(euro thousand)	***31.12.2006***	***31.12.2005***
Cash and cash equivalents at beginning of year	**(55,087)**	**(50,145)**
Net working capital generated by operations	**115,945**	**109,974**
Paid current taxes	(16,447)	(20,092)
Uses of long-term provisions for employee benefits	(4,962)	(2,672)
(Increase) reduction in current assets	(19,868)	(51,882)
Increase (reduction) in current liabilities	12,552	15,018
Translation differences on current assets	(2,164)	5,545
Cash flow from (for) operating activities	**85,056**	**55,891**
Investments in:		
Intangible assets	(14,415)	(13,796)
Property, plant and equipment	(69,732)	(82,025)
Financial fixed assets - shareholding	(7,164)	0
Cost price for disposal, or reimbursement value of fixed assets	16,875	3,811
Cash flow from (for) investments	**(74,436)**	**(92,010)**
Dividends paid in the year	(14,025)	(12,021)
Liberation of reserve for substitution tax	0	(540)
Other variations	0	24
Change in equity of minority interests	0	(44)
Loans and financing granted by banks and other financial institutions in the year	9,239	71,559
Repayment of long-term loans	(22,535)	(27,801)
Cash flow from (for) financing activities	**(27,321)**	**31,177**
Total cash flow	**(16,701)**	**(4,942)**
Cash and cash equivalents at end of year	**(71,788)**	**(55,087)**

The following figures were taken from the financial statements prepared by the companies in accordance with IAS/IFRS; accordingly, the figures at 31 December 2005 have also been restated in accordance with these standards.

BREMBO S.p.A.
CURNO (ITALY)

Activities: analysis, design, development, application, production, assembly and sale of braking systems, light alloy casting for various sectors, including the car and motorbike industries.

Financial year 2006 closed with sales of goods and services amounting to €571,357 thousand, up 13% compared to €505,429 thousand in 2005.
In comparing the figures with the previous year, it is important to consider that in July 2006, the subsidiary Fomm S.p.A. was merged into Brembo S.p.A. The said subsidiary, specialising in the manufacture and sale of wrought iron products, generated net revenues of €37,173 thousand, with a net income of €798 thousand, in 2005.
A breakdown of gross revenues indicates an increase in sales in the car, motorbike and racing segments and a corresponding modest decline in the commercial vehicles segment, in part due to the start-up of new production and sales operations at the Polish production facilities.
Gross operating income increased from €61,525 thousand in 2005 to €71,323 thousand in 2006, up 16%. Net operating income, after depreciation and amortisation of €24,132 thousand, was substantially in line with 2005, totalling €47,191 thousand, compared to €37,153 thousand in the previous year.
Financial activities closed with net charges of €6,485 thousand as against €5,781 thousand in 2005, especially as a result of the higher indebtedness arising from the large investments made during the year.
The sum of €20,458 thousand was allocated for income tax, for the expected amounts for IRES (Corporate Income Tax) and IRAP (Regional Business Tax), and a ratio of 50.3% to pre-tax income. This can be compared to the allocation in 2005 of €15,853 thousand, with a ratio of 50.5%.
Net income amounted to €20,248 thousand, a 30.5% increase from €15,519 thousand in 2005.
At 31 December 2006, the workforce numbered 2,723, up 7.2% compared to 2,540 at 31 December 2005. This number includes 108 employees of former Fomm S.p.A., a company merged in Brembo.

Companies Consolidated on a Line-by-Line Basis

BREMBO SCANDINAVIA A.B.
GÖTEBORG (SWEDEN)

Activities: sale of brake discs.

Brembo Scandinavia A.B., headquartered in Göteborg (Sweden), sells brake discs for the car industry, only for the aftermarket. Net sales for 2006 amounted to SEK 4,700 thousand (€508 thousand), compared to SEK 5,475 thousand (€590 thousand) in 2004, down 14.2%. Net income decreased to SEK 951 thousand (€103 thousand) from SEK 1,706 thousand (€184 thousand) in 2005.
There was 1 employee on the payroll at 31 December 2006, unchanged from the same period in 2005.

BREMBO NORTH AMERICA INC.
COSTA MESA (USA)

Activities: sale of brake discs for the aftermarket and of braking systems for the racing sector.

Headquartered in Costa Mesa (California), Brembo North America Inc. operates in the US. It sells brake discs for the car aftermarket, particularly high-performance braking systems for car and motorbike racing and high-performance kits for car applications devoted to clients requiring greater safety and higher performance. The company is backed by technical staff from Brembo S.p.A. and the Detroit offices, both of which develop and supply new solutions in terms of materials and design.
Net sales for 2006 amounted to USD 35,653 thousand (€28,394 thousand), an increase of 0.8% compared to the previous year when revenues reached USD 35,364 thousand (€28,411 thousand).
Net loss at 31 December 2006 was USD 559 thousand (€445 thousand), down compared to net income of USD 284 thousand (€228 thousand) in 2005. The result reflects costs incurred for restructuring the logistics system.
The workforce numbered 56 at period-end, 6 less than at December 2005.

BREMBO UK LTD.
LONDON (UNITED KINGDOM)

Activities: sale of brake discs.

In 2006, the company net sales decreased (–13.9%), from GBP 2,033 thousand (€2,973 thousand) at 31 December 2005 to GBP 1,750 thousand (€2,567 thousand) at 31 December 2006. In 2006, the company recorded a loss of GBP 42 thousand (€62 thousand), compared to a net income of GBP 56 thousand (€82 thousand) in 2005.
The workforce numbered 2 people at 31 December 2006, unchanged compared to 31 December 2005.

BREMBO JAPAN CO. LTD.
TOKYO (JAPAN)

Activities: sale of braking systems for the racing and motorbike sectors and original equipment for cars.

Brembo Japan Co. Ltd. is Brembo's commercial company that handles the entire Asian market, as well as the specific market of Japan. Through the Tokyo office, it also provides first technical support to the customers in the area. At 31 December 2006, the workforce numbered 15, three employees more compared to 31 December 2005.
Net sales for 2006 amounted to JPY 695,913 thousand (€4,765 thousand), up about 22% compared to 2005, equivalent to JPY 571,324 thousand (€4,174 thousand), thanks to the good performance of products for races and high performance kits. Net income increased from JPY 11,568 thousand (€85 thousand) in 2005 to JPY 23,802 thousand (€163 thousand) in 2006.

BREMBO SPOLKA ZO.O.
CZESTOCHOWA (POLAND)

Activities: production and sale of braking systems for commercial vehicles.

The plant is located in Czestochowa, and produces brake discs and braking systems for the original equipment of commercial vehicles.
The company reported net revenues 2006 of PLN 306,071 thousand (€78,578 thousand) compared to PLN 270,028 thousand (€67,128 thousand) in 2005.
In 2006, the company continued to invest in order to expand production capacity to handle the increased demand for commercial vehicle systems.
Net income for 2006 was PLN 44,867 thousand (€ 11,519 thousand), down compared to PLN 48,705 thousand (€12,108 thousand) in 2005.
At the end of the year, the company workforce increased to 409 compared to 306 at 31 December 2005.

BREMBO POLAND SPOLKA ZO.O.
DABROWA GÓRNIZCA (POLAND)

Activities: production and sale of brake discs.

In the first months of the year, the company built a new foundry for the production of cast-iron discs to be processed in the existing production plant. Full operations started in July 2006. During the year, investments made for this plant were PLN 26,000 thousand (€6,682 thousand).
Net sales for 2006 amounted to PLN 306,013 thousand (€78,563 thousand), compared to PLN 190,639 thousand (€47,392 thousand) in 2005. The more than 60% growth was due to increases in the production and sale of discs for the original equipment market.

Net income increased to PLN 24,204 thousand (€6,214 thousand) from PLN 14,120 thousand (€3,510 thousand) in 2005.
There were 676 employees at end of year, compared to 519 at 31 December 2005.

MARCHESINI S.P.A.
JERAGO CON ORAGO (ITALY)

Activities: design and sale of light-alloy wheels for motorbikes.

The company has an important position in the design, manufacturing, and marketing of light-alloy wheels for road and racing motorbikes.
Net sales for 2006 were €4,737 thousand, compared to €4,840 thousand in 2005. Net income was €74 thousand in 2006 and €258 thousand in 2005. At 31 December 2006, the workforce numbered 14, unchanged from the prior year.

BREMBO DO BRASIL LTDA.
BETIM (BRAZIL)

Activities: manufacturing and sale of brake discs for original equipment and the aftermarket.

The company is headquartered in Betim, Minas Gerais, and aims at promoting the presence of Brembo in the South American original-equipment market for brake discs and callipers, and the aftermarket.
Net sales for 2006 amounted to BRL 79,406 thousand (€29,066 thousand) and net income to BRL 4,096 thousand (€1,499 thousand). In 2005, sales amounted to BRL 69,135 thousand (€22,739 thousand) and net income was BRL 3,654 thousand (€1,202 thousand).
The workforce at 31 December 2006 numbered 202 (21 more than at the end of the prior year).

AP RACING LTD.
COVENTRY (UNITED KINGDOM)

Activities: production and sale of braking systems and clutch systems for cars and motorbikes, both for road and racing vehicles.

AP Racing Ltd. closed 2006 with improved results compared to 2005. Net sales increased from GBP 25,652 thousand (€37,509 thousand) to GBP 28,115 thousand (€41,236 thousand) and net income went from GBP 2,883 thousand (€4,216 thousand) to GBP 3,425 thousand (€5,023 thousand).
At 31 December 2006, the workforce numbered 126, four more than at the end of December 2005.

BREMBO RASSINI S.A. DE C.V.
PUEBLA (MEXICO)

Activities: production and sale of brake discs.

The company, held by Brembo (76%) and the Mexican Group Sanluis (24%), manufactures and distributes brake discs for original equipment and the aftermarket. The original-equipment customers are European and Japanese carmakers with plants in the United States; aftermarket products are largely distributed in the local market and, through Brembo North America Inc., for use in imported cars and Sports Utility Vehicles (SUVs) on the US market.
Sales for 2006 amounted to MXN 587,510 thousand (€42,900 thousand), with an increase compared to MXN 529,482 thousand (€39,012 thousand) in 2005.
Net income at 31 December 2006 was MXN 46,715 thousand (€3,411 thousand), up from MXN 30,545 thousand (€2,251 thousand) in 2005.
At 31 December 2006, the staff numbered 287 persons, compared to 297 a year earlier.

CORPORACIÓN UPWARDS 98 S.A.
ZARAGOZA (SPAIN)

Activities: manufacturing and sale of brake discs and drums.

Net sales for 2006 amounted to €34,297 thousand, compared to €34,316 thousand in 2005. Net income was €1,449 thousand, compared to €2,624 thousand in 2005, which benefited from the capital gain earned on the sale of two industrial sheds that were no longer used for production following the concentration of all activities at the Zaragoza site.
There workforce was 154 at 31 December 2006, compared to 188 at 31 December 2005.

BREMBO CHINA BRAKE SYSTEMS CO. LTD.
BEIJING (CHINA)

Activities: production and sale of brake discs.

The company was formed in 2005 and is owned 60% by Brembo S.p.A. and 40% by Simest and the Venture Capital Fund for China (15% and 25%, respectively). It started operations towards the end of 2006, recording net sales of CNY 4,749 thousand (€474 thousand) and a net loss for the year of CNY 26,635 thousand (€2,661 thousand).
At 31 December 2006, workforce numbered 37.

BREMBO PARTICIPATIONS B.V.
AMSTERDAM (THE NETHERLANDS)

Activities: the company, which was a financial holding, is currently being liquidated.

Wholly-owned by Brembo International S.A., Brembo Participations B.V. ended 2006 with net loss of €1,036 thousand. The result was negatively impacted by provisions for risks. As part of the activities involving the streamlining of the Group's corporate structure, liquidation procedures were initiated for the company in January 2006.

BREMBO INTERNATIONAL S.A.
LUXEMBOURG (LUXEMBOURG)

Activities: the company operates as a development holding aimed at fostering financial activity and trademark diffusion. It holds a majority stake in Brembo's foreign companies.

A fully-owned subsidiary of Brembo S.p.A., in 2006, the company generated a net income of €604 thousand, mainly as a result of dividends received from the Scandinavian company and the winding-up of Brembo GmbH.

BREMBO PERFORMANCE S.P.A.
CURNO (ITALY)

Activities: design, manufacturing, and sale of components and accessories for both road and racing cars and vehicles.

Wholly-held by Brembo S.p.A., the company was incorporated on 26 October 2006 and is currently in its start-up phase.

BREMBO DEUTSCHLAND GMBH
LEINFELDEN – ECHTERDINGEN (GERMANY)

Activities: Purchase and resale of vehicles.

A wholly-owned subsidiary of Brembo S.p.A., the company was registered with the Stuttgart Register of Companies on 23 January 2007, and commenced operations in the same year, focusing primarily on the buying and reselling cars for test purposes.

Companies Valued Using the Equity Method

SOFTIA S.R.L.
ERBUSCO (ITALY)

Activities: Internet-oriented information technology management.

The company is 40%-owned by Brembo, and operates in the sector of Internet-oriented management software and technology. It develops software products for effective communication between the management software and the Internet.
In 2006, net income amounted to €106 thousand compared to €53 thousand in 2005.

NANJING YUEJIN AUTOMOTIVE BRAKE SYSTEM CO. LTD.
NANJING (CHINA)

Activities: Production and sale of braking systems.

The company, resulting from the joint-venture between Brembo and the Chinese Group Yuejin, was incorporated in 2001.
Net sales at 31 December 2006 amounted to CNY 99,942 thousand (€9,985 thousand in 2005), compared to a loss of CNY 3,079 thousand (€308 thousand), mainly due to the restructuring carried out at the company in the past few years.
In 2005, net sales amounted to CNY 77,125 thousand (€7,558 thousand), with a loss of CNY 4,296 thousand (€421 thousand).

BREMBO CERAMIC BRAKE SYSTEMS S.P.A.
STEZZANO (ITALY)

Activities: design, production and sale of braking systems in general, and specifically ceramic carbon brake discs for cars and industrial vehicles; research and development of new materials and applications; study and design of new production systems.

The company was formed as a joint-venture held in equal stakes by Brembo and the German DaimlerChrysler AG company, in January 2004.
Net sales at 31 December 2006 amounted to €12,562 thousand, and net income was €290 thousand. In 2005, sales were €10,975 thousand, with a net loss of €349 thousand.
The workforce at 31 December 2006 numbered 59, down compared to 65 at 31 December 2005.

KBX MOTORBIKE PRODUCTS PVT. LTD.
PUNE (INDIA)

Activities: Production and sale of braking systems for motorbikes.

This joint-venture equally held by Brembo and the Indian company Bosch Chassis Systems India Ltd. is based in Pune (India) and manufactures and sells braking systems for motorcycles. Brembo subscribed 50% of the company's share capital in February 2006.
The company generated net sales of INR 484,282 thousand (€8,512 thousand), with a net profit for the period of INR 157 thousand (€3 thousand). The company had one employee at the end of the year, since it is still in its start-up phase. As a matter of fact, the company has entered into a service agreement with Bosch Chassis Systems India Ltd.

PETROCERAMICS S.R.L.
MILAN (ITALY)

Activities: research and development of innovative technologies for the production of technical and advanced ceramic materials, geomaterial treatment and characterisation of rock masses.

Brembo S.p.A. acquired 20% of this company by subscribing a capital increase in November 2006.
Financial year 2006 closed with sales of €746 thousand and net income of €67 thousand.
The company had one employee at the end of the year.

Other Group Companies

FUNDIMAK S.A. DE C.V.
PUEBLA (MEXICO)

Activities: production and sale of brake discs.

Brembo International S.A. holds 5.8% of Fundimak S.A. de C.V., a subsidiary of the Mexican Group Sanluis.
Fundimak S.A. de C.V., through the subsidiary Rassini Frenos, has a cast-iron foundry in Puebla that supplies unfinished discs to Brembo Rassini S.A. de C.V.

INTERNATIONAL SPORT AUTOMOBILE S.A.R.L.
LEVALLOIS PERRET (FRANCE)

Activities: sale of products for racing cars and motorbikes.

International Sport Automobile S.a.r.l. is 10% held by Brembo International S.A. Its business targets the distribution of products for cars and motorbikes in the racing sector on the French market.

Relations with Related Parties

Detailed information on the company's relations with related parties is provided in a special section of the Explanatory Notes to the Consolidated Financial Statements **(Note 31)**. During the year under review no atypical or unusual transactions were carried out with related parties. Furthermore, the total amount of the commercial transactions with related parties other than the Group companies, which were carried out at fair market conditions was immaterial.

- Year 2006 saw the launching of a three-year project for the gradual implementation of the new ERP computer system within the Group, with a view to improving the internal control system (especially within foreign subsidiaries), as well as the quality, speed and comparability of the data transmitted from various entities through integrated systems, thus facilitating certification operations.
- During the year, the Group also launched a project aimed at meeting the requirements of Law 262 of 28 December 2005 "Provisions for the protection of savings and the regulation of financial markets", in respect of the appointment of an executive in charge of preparing the company's accounting documents.

BUY-BACK PLAN FOR BREMBO S.P.A. SHARES

No own shares were purchased in financial year 2006. The company does not own treasury shares.

THREE-YEAR INCENTIVE PLAN

On 24 March 2006, the Board of Directors approved the 2006-2007-2008 three-year Incentive Plan for the Executive Directors and top management of Brembo S.p.A. and its subsidiaries. The goal of the plan is to promote and encourage the attainment of increasingly ambitious performance objectives – even over and above forecasted results.
The plan is targeted at more or less 38 persons, who are best placed to impact the Group's performance. Results obtained in each of the financial years (2006, 2007 and 2008) covered under the plan will be evaluated during the period of reference (1 January 2006 - 31 December 2008), culminating with an assessment of performance throughout the period as a whole. Procedures for benefiting from the incentive are set forth in the Plan Rules.
The performance indicators identified are sales and operating free cash flow.
Brembo's overall financial commitment under the three-year plan is estimated at about €7,000 thousand in the case where the most ambitious targets are met.
On 28 April 2006, the General Shareholders' Meeting approved the incentive plan, but only for the part that applies to the Chairman of Brembo S.p.A.

RECONCILIATION STATEMENT OF EQUITY AND NET INCOME

The reconciliation of equity and net income for the year, as listed in the Parent Company's financial statements, and the equity and net income for the year, recognised in the Consolidated Financial Statements, reveals that the Group equity at 31 December 2006 was €83,865 thousand higher than the figure given in the Brembo S.p.A. Financial Statements. Consolidated income for the period, amounting to €42,945 thousand, is €22,697 thousand higher than that of Brembo S.p.A (IAS compliant).

(euro thousand)	*Net income for 2006*	*Equity at 31.12.2006*	*Net income for 2005*	*Equity at 31.12.2005*
BREMBO S.P.A.	**20,248**	**174,280**	**15,519**	**161,328**
Consolidation adjustments:				
Elimination of the book value of consolidated companies	25,484	290,316	27,228	274,789
Variation in translation reserve		(2,113)	0	10,657
Elimination of intra-Group dividends	(281)	0	0	0
Book value of consolidated shareholdings	0	(182,337)	243	(195,332)
Valuation of shareholdings in associate companies using the equity method	224	(2,142)	(311)	(2,575)
Variation in translation reserve		(723)		209
Elimination of intra-Group income	(1,178)	(7,255)	(822)	(6,023)
Variation in translation reserve		12		(157)
Other consolidation adjustments	(298)	526	32	(833)
Equity and net income attributable to minority interests	(1,254)	(13,084)	(1,378)	(10,924)
Variation in translation reserve pertaining to minority interests		665		(902)
Total consolidation adjustments	**22,697**	**83,865**	**24,992**	**68,909**
GROUP CONSOLIDATED	**42,945**	**258,145**	**40,511**	**230,237**

Significant Events After 31 December 2006

There were no significant events between 31 December 2006 and 23 March 2007.

Foreseeable Evolution

Performance is expected to improve in 2007, in terms of both sales and results.

PRINCIPLES, SOURCES AND COMPANY MACROSTRUCTURE

Principles

Brembo's System of Corporate Governance was implemented also in financial year 2006, fully complying with the provisions of the "Corporate Governance of Listed Companies" and the new requirements for companies listed on the STAR segment.
Brembo bases its conduct on rigorous principles, ethics, compliance to rules, responsibility and transparency. This provides a basis for the company's intangible capital, which consists of its brand, its reputation and the set of values shared by employees and collaborators that guides the actions of a socially responsible company.
With this objective, Brembo has implemented and significantly improved its Corporate Governance model, bringing the same in line with the Corporate Governance Manual of Borsa Italiana S.p.A. (March 2006 edition), highlighting ethical aspects and voluntarily adopting the principles of Corporate Social Responsibility.

The Corporate Governance Report, which has been published in Brembo's website (www.brembo.com, in the Investor Relations & Financial Info section), was submitted to Borsa Italiana (the Italian Stock Exchange) within the terms established by law.

Sources (updated 23 March 2007)

1) **Corporate Governance Manual** (which acknowledges the Code of Corporate Governance of Borsa Italiana S.p.A., March 2006 Edition, and integrates Brembo's Corporate Governance Code, derived from the Preda Code) approved in its fourth edition by the Board of Directors on 23 March 2007 (the document is available for consultation on the website: www.brembo.com - Investor Relations & Financial Info section - Corporate Governance)

   The following documents are an integral part of Brembo's Corporate Governance Manual:

   a) the current version of the **Corporate By-laws,** approved by the Extraordinary Shareholders' Meeting of 28 April 2006;

   b) **instructions Governing the Board of Directors of Brembo S.p.A.,** drawn up by the Legal & Corporate Affairs Department on 23 March 2005;

   c) **rules for the Remuneration Committee,** approved by the Remuneration Committee on 24 March 2006;

   d) **rules for the Audit Committee** updated 23 March 2007;

   e) **instructions for the Management of Significant Transactions and Transactions in Conflict of Interest,** approved by the Board of Directors on 14 October 2002, in their first edition, as instructions for the management of transactions with related parties; first extension by resolution of the Board of Directors of 31 July 2006; second extension by resolution of the Board of Directors of 23 March 2007;

   f) **instructions Governing the Shareholders' Meeting of Brembo S.p.A.,** drawn up by the Legal & Corporate Affairs Department on 28 February 2005;

- **g) regulations of the Shareholders' Meetings,** approved by the General Shareholders' Meeting held on 3 May 2000;
- **h) appointment of the Investor Relator,** resolution passed by the Board of Directors on 12 November 2004;
- **i) handling of Price-Sensitive Information and Disclosure of Documents and Information,** approved by the Board of Directors on 17 March 2005;
- **j) instructions Governing the Board of Statutory Auditors of Brembo S.p.A.**, drawn up by the Administration and Finance Department on 28 February 2005.

2) Delegation of Powers of Brembo S.p.A. approved by the Board of Directors on 14 November 2005, as amended on 14 November 2006.

3) Code of Conduct Regarding Internal Dealing, approved by the Board of Directors on 19 December 2002 and subsequently amended with the resolution passed by the Board of Directors on 13 February 2004.

4) Code of Ethics of Brembo S.p.A., approved by the Board of Directors on 11 November 2002 and distributed to all Company employees.

5) Guidelines for Information to the Market, acknowledged by the Board of Directors on 11 November 2002.

6) Regulations for the Implementation of Legislative Decree No. 58 of 24 February 1998, on regulations for issuers, adopted by CONSOB, as amended with resolution No. 15232 of 29 November 2005.

7) Legislative Decree No. 303 of 29 December 2006, amending Legislative Decree No. 262/2005 on "Provisions for the protection of savings and the regulation of financial markets".

8) Law 62/2005 acknowledging EC directives on Market Abuse.

9) Organisational, Management and Control Model approved by the Board of Directors of 11 February 2005, supplemented by the resolution passed by the Board of Directors on 29 July 2005 and 23 March 2007 (available on the website at www.brembo.com - Investor Relations & Financial Info - Corporate Governance section).

10) Procedures for Setting Up and Updating the Register of Insiders, dated 24 March 2006.

The above-mentioned documents are available at Brembo Legal & Corporate Department and on the corporate website at www.brembo.com in the new Corporate Governance section. Any additional information can be requested from the Company's Investor Relations Office **(ir@brembo.it).**

Corporate Macrostructure

The Brembo macrostructure is outlined in the By-laws in the version approved by the Extraordinary Shareholders' Meeting of 26 April 2004, acknowledging the changes deriving from the reform of corporate law and opting to maintain the so-called Traditional Model. In detail, on 28 April 2006, the Extraordinary Shareholders' Meeting amended the corporate purpose clause of the By-laws, with a view to enable the company to provide and/or acquire financing within the Group.

The Extraordinary Shareholders' Meeting called for 27 April 2007 for the approval of the Financial Statements for the year ended 31 December 2006, is expected to bring the By-laws in line with the provisions introduced pursuant to Legislative Decree 303 of 29 December 2006, amending Legislative Decree 262 of 28 December 2005, with specific reference to the adoption of:

- a list-based mechanism for the appointment of the Board of Directors, in order to ensure the appointment of one Board member from minority lists;
- the procedures for the appointment of the Executive in charge of preparing the Company's accounting documents;
- a list-based mechanism for the appointment of one member of the Board of Auditors, in order to ensure the appointment of one member of the said Board from minority lists, such member being also appointed as Chairman of the Board of Auditors, under the regulatory framework of reference.

In addition:

- at 31 December 2006, the company issued 66,784,450 ordinary shares, each with voting rights. The company Nuova FourB S.r.l. (with registered offices in Bergamo) holds 37,744,753 shares, corresponding to 56.52% of total Share Capital. However, pursuant to Art. 2497-bis of the Italian Civil Code, this company plays no role in the management and coordination of Brembo S.p.A.;
- it is specified that Brembo S.p.A. directs, coordinates, and controls its subsidiaries, as listed in the 2006 Report on Operations, either directly or through Brembo International S.A.;
- the company complies with the requirements pursuant to Art. 2497-bis of the Italian Civil Code;
- there are no syndicate agreements or other Shareholder agreements;
- the Board of Directors holds exclusive responsibility for the extraordinary and ordinary operations of the Company, with the exception of the responsibilities that are reserved for the Shareholders' Meeting, in accordance with Italian laws and the Company By-laws;
- on 23 March 2007, Brembo S.p.A.'s Corporate Governance Manual was amended. The Manual entrenches the provisions of the Corporate Governance Code of Borsa Italiana S.p.A. (edition of 26 March 2006). For the time being, the adoption of the recommendation contained in Borsa Italiana's Code to apply to members of the Board of Auditors, not only the requirements of independence established under law, but also those applied under the said Code to Directors has been postponed. This decision was made in order to provide to time to await the finalisation of related rules and regulations as well as in light of the fact that the term of the current Board of Auditors is due to expire on the date of the Ordinary Shareholders' Meeting that approves the Financial Statements for the year ending on 31 December 2007;
- measures were implemented to ensure the proper setting up and smooth functioning of Corporate Organs, the Audit Committee and the Remuneration Committee, always in compliance with the recommendations of the Corporate Governance Code of Borsa Italiana S.p.A. (edition of 26 March 2006). On 23 March 2007, the Board of Directors appointed the Executive Director in charge of overseeing the functioning of the Internal Control System and the "Lead Independent Director". Instead, no Nominations Committee was established, due to the fact that candidates for the office of Company Director are nominated by the Shareholders' Meeting, pursuant to Italian law. The Supervisory Committee (pursuant to Legislative Decree 231/01) was set up on 30 July 2004.

IMPLEMENTATION OF CORPORATE GOVERNANCE

General Shareholders' Meeting and Relations with Shareholders and Institutional Investors

The Shareholders' Meeting held on 28 April 2006 approved the Annual Financial Statements of Brembo S.p.A. for the year ended 31 December 2005, which include the Directors' Report on Operations, the Statutory Auditors' Report and the Independent Auditors' Report.
The Shareholders' Meeting also: took note of the Consolidated Financial Statements; appointed a Board member and re-determined the overall remuneration due to Directors; passed resolutions regarding the plan for the buy-back and sale of own shares; increased the remuneration due to the independent auditors following the implementation of IAS/IFRS; and ratified the three-year incentive plan for Directors and top mangers.

Investor relations and the disclosure of price-sensitive information are governed by a special section of Brembo's Corporate Governance Manual, which incorporates the main contents of the Guidelines for Information to the Market published by Borsa Italiana.
More in detail, in compliance with the procedure for handling reserved and price-sensitive information, the company is committed to prepare a report for the financial community. This report will be characterised by timeliness, continuity and consistency, and will comply with the principles of correctness, transparency, and equal access to information.

All information of an economic or financial nature is promptly disclosed, also on the company's website (www.brembo.com, Investor Relations & Financial Info section).
In 2006, the company held more than 150 meetings with its institutional investors and financial analysts by participating in ten roadshows in foreign markets, including London, Paris, Frankfurt, Zurich, Geneva and Copenhagen.

Particular attention is also placed on private shareholders, who are mailed a quarterly newsletter containing the latest results and updates on the company's performance.

In the beginning of 2003, Brembo established a Code of Conduct on Internal Dealing that governs all purchase and sale transactions involving Brembo's financial instruments made by persons who, as insiders and by virtue of their role, have regular access to inside information. In compliance with this Code, eight reports were prepared by relevant persons during the course of 2006. The reports are available on the company's website.

The person responsible for Investor Relations is Corrado Orsi (Tel. +39 035 605 884; e-mail address: ir@brembo.it), Chief Financial Officer of Brembo S.p.A., working closely with the Chairman.

Board of Directors

The Board of Directors of Brembo S.p.A., appointed by the Shareholders' Meeting held on 29 April 2005 and in office until the Shareholders' Meeting approving the 2007 Financial Statements, is composed of 11 Directors. In compliance with the new Corporate Governance Manual, approved by the Board of Directors on 23 March 2007, the Board of Directors is composed four executive Directors (Alberto Bombassei, Cristina Bombassei, Stefano Monetini, Matteo Tiraboschi), three non-executive and independent Directors (Giancarlo Dallera, Giovanni Cavallini and Giuseppe Roma) and four non-executive Directors (Paolo Biancardi, Giovanna Dossena, Andrea Gibellini, Umberto Nicodano). All non-executive Directors and Directors who qualify as independent comply with independence requirements set out by Brembo S.p.A. Corporate Governance Manual and by Art. 148, paragraph 3 of Legislative Decree 58/98.
Bruno Saita is Secretary to the Board of Directors.
All the Directors meet the requirements of personal integrity, professionalism and respectability imposed by Italian laws and the Rules.

In 2006, the Board of Directors met eight times at the Company's registered offices and the Directors were informed at least five days before the Board Meeting, as envisaged by the By-laws.

The tables below indicate the posts held by individual Directors, the dates of Board meetings, the number of directorships in other companies, and the attendance rate of Board members.

Status of Directors

Name	*Non-executive*	*Independent*	*Executive*	*Other offices*
Bombassei Alberto *Chairman*			x	8
Biancardi Paolo	x			5
Bombassei Cristina			x	3
Cavallini Giovanni	x	x		3
Dallera Giancarlo	x	x		3
Dossena Giovanna	x			3
Gibellini Andrea	x			1
Monetini Stefano			x	1
Nicodano Umberto	x			8
Roma Giuseppe	x	x		3
Tiraboschi Matteo			x	7

Meetings of the Board of Directors - 2006	
Date of meeting	***% of attendance***
13.02.2006	91%
24.03.2006	100%
28.04.2006	91%
15.05.2006	73%
31.07.2006	91%
21.09.2006	91%
03.10.2006	100%
14.11.2006	82%

Each company Director is informed at least five days before the Board Meeting, as envisaged by the By-laws, about all items on the agenda through a detailed analytical report outlining the necessary elements (in descriptive and numerical terms) and allows Directors to make resolutions with full knowledge of the facts.
In addition to the functions attributed to it by law and by the Company By-laws, the Board of Directors is also responsible for the functions envisaged by the Brembo Corporate Governance Manual approved on 23 March 2007. Thus, it is specifically responsible for analysing and sharing annual budgets and strategic plans.
During the year, the Directors' remuneration was changed in accordance with a resolution passed at the Shareholders' Meeting of 28 April 2006.

Chairman of the Board of Directors and Managing Director

On 28 April 2006, the Board of Directors confirmed the appointment of Alberto Bombassei as Chairman of Brembo S.p.A. through to the end of the term of the entire Board. The Chairman is the company's legal representative.
On 28 April 2006, the Board of Directors also appointed Stefano Monetini as Managing Director of the company through to the end of the term of the entire Board.
Both the Chairman and the Managing Director have properly carried out their tasks and functions. Delegated organs and persons report to the Board of Directors on their activities, on a quarterly basis.

Delegation of Powers

On 28 April 2006, the Board of Directors granted the Chairman and Managing Director the specific powers listed below:

The Board invested the Chairman, Alberto Bombassei, with broad powers in respect of strategic orientation, the proposal and drawing up of guidelines for international expansion, and the Group's financial and restructuring policies. The Chairman is also invested with certain powers of extraordinary administration, including powers for the purchase and sale of real estate, representing the company before trade unions, contracting loans and financing repayable in no more than 36 months, and the granting and registration of mortgages.

In accordance with guidelines issued by the Chairman, the Managing Director, Stefano Monetini, who, from an organisational standpoint also retains his post as General Manager, is invested with responsibilities for the implementation and management of corporate policy in respect of Business Units, the Industrial Division, all group companies and the management of the human resources supporting operations.

Therefore, the Board retains the power to decide, among other issues, on the purchase and sale of shareholdings in other companies (M&As), the issuance of guarantees to third parties by Brembo S.p.A., and responsibilities regarding annual budgets and strategic plans.

The General Manager, the Business Unit Directors and other Central Directors are granted limited powers for ordinary administration in relation to the performance of their respective offices, regularly enrolled with the Company Register of Bergamo.

Information regarding the exercise of powers was submitted during the Board Meetings held on 13 February 2006, 15 May 2006, 31 July 2006, and 14 November 2006.

Transactions with Related Parties

On 23 March 2007, the Board of Directors approved the Corporate Governance Manual of Brembo S.p.A. that acknowledges the recommendations of the Corporate Governance Code of Borsa Italiana S.p.A. (edition of 26 March 2006). The Corporate Governance Manual contains amendments to the instructions for the management of transactions with related parties effected by the company, with a view to bringing the same in line with the provisions of Article 150 of Legislative Decree No. 58/98. It further sets forth procedures for the Board of Directors to make written and oral reports to the Board of Auditors in respect of all inter-company transactions and transactions with parties other than related parties, that are significant or entail a potential conflict of interests.
Reports on related party transactions were made at the Board meetings of 13 February 2006, 24 March 2006 and 31 July 2006. Due to their purpose and nature, such transactions were not considered outside of the company's normal course of business; furthermore, they did not present any critical issues and were within the range of market values for similar transactions and were not deemed material.

Audit Committee and Internal Control System

The work of the Audit Committee continued in 2006. The Committee was established with the resolution passed by the Board of Directors on 21 February 2001 and was confirmed by the Board of Directors' Meeting of 29 April 2005. It is composed of non-executive Independent Directors – Giuseppe Roma (Chairman), Andrea Gibellini and Giovanna Dossena – whose role is to submit proposals and provide consultancy.

The Audit Committee held four meetings (on 7 March 2006, 12 May 2006, 18 July 2006, 20 October 2006). During these meetings, the Internal Audit activities were analysed and the correctness of procedures, the efficiency of corporate transactions, the reliability of financial information, observance of the law and regulations, and protection of corporate assets were widely monitored.
The Chairman of the Board of Statutory Auditors, Sergio Mazzoleni, participated in these meetings, either directly or through a representative.

The Managing Director and the Board of Directors were duly informed of the results of the activities of the Audit Committee through the reports submitted by the Committee Chairman, Giuseppe Roma, and by the Chairman of the Supervisory Committee, Giovanna Dossena, during the Board of Directors' Meetings of 24 March 2006, 3 October 2006, and 23 March 2007.

Internal Audits continued to be performed both in Italian and foreign companies to ensure observance of the rules of conduct established by the Code of Conduct and of risk-prevention regulations.
As prescribed in the Internal Audit Procedure, audits have a two-fold objective: risk prevention, and direct action to detect and eliminate irregularities.
Five operating audits were planned and carried out in the risk prevention area, of which two at a foreign office.

Within the framework of these targeted audits and based on the specific reports received, several ethical audits approved by the Chairman and the Managing Director were conducted. Furthermore, to pursue the goal of protecting physical assets, on-site inspections were carried out at the Italian facilities, with special emphasis on sites under relocation. All the problems found were dealt with, resolved or are currently under study by staff directly in charge of the same.

These actions detected no noticeable irregularities or direct responsibility on the part of employees in the execution of their tasks. The results were included in a detailed report to the Chairman and Managing Director.

In addition, in concert with the Human Resources Department, the Internal Audit Department promoted the drawing up of a Charter of Values that involved all Brembo's executives in identifying the key values on which they base their behaviour within the company. The Charter of Values is scheduled to be published in 2007, at a specific inaugural event.

In early 2007, Brembo's Internal Control System adopted all the novelties of the Corporate Governance Code. In particular, on 23 March 2007, the Board of Directors:

- appointed the Board member Cristina Bombassei as Director in charge of overseeing the Internal Control System, who is to liaise with the Internal Auditor and the Board of Directors;

- appointed, at the motion of the Director in charge of overseeing the Internal Control System and the Audit Committee, Alessandra Ramorino, as Internal Control Manager, as well as Internal Auditor, reporting directly to the Chairman;
- found the accounting and auditing expertise of the following two members of the Audit Committee, to be adequate: Giovanna Dossena and Giuseppe Roma, both of them being enrolled in the Professional Rolls of Certified Auditors;
- as per the new recommendations of the Corporate Governance Code, appointed Giovanni Cavallini as member of the Audit Committee;
- replaced, as from 23 March 2007, Board member Giuseppe Roma and Umberto Simonelli, both members of the Supervisory Committee, respectively with Board member Andrea Gibellini and Alessandra Ramorino.

Legislative Decrees 231/01 and 61/02

Pursuant to Article 6 of Legislative Decree 231/2001 and in compliance with the Confindustria's Guidelines of 24 May 2004, in 2006, efforts continued at full regime to endow Brembo with an effective Organisational, Management and Control system aimed at protecting Brembo from liability for the offences mentioned in the said Legislative Decree 231/2001 as well as in Legislative Decree 61/2002.
Training sessions were organised by conference calls with foreign associates, with a view to share Internal Audit activities and set up an institutional communications channel with individual companies which have each appointed a referee for control operations. The General Managers accepted to act as referees for the initial phase of implementation of the guidelines.
The referees were provided information regarding the matters regulated under the Organisational, Management and Control Model (mentioned in Legislative Decrees 231/01 and 61/02), their duties to make periodic reports to the Supervisory Committee of the Parent Company and the principles enshrined in the Code of Ethics.
Employees were informed that they could report any irregularities and/or violations of the Organisational, Management and Control Model and the Code of Ethics by sending an email to a specific address; all such emails will be forwarded to the Supervisory Committee and the Audit Committee.

All specific activities falling under the responsibility of the Supervisory Committee were conducted in compliance with the provisions of law. In detail:

- communication channels were established for reports; as of today, no reports have been made;
- procedures were defined for disciplinary or punitive measures;
- supplements and amendments were made to the reference model of the Supervisory Committee, on 23 March 2007, with the aim of reflecting the company's current situation as accurately as possible and fulfilling internal audit as well as its own control requirements, also with regard to completing the tasks required by the relevant regulations, within the period under review.

During the year, no violations of laws subject to the penalties provided for in Legislative Decree 231/2001 were reported.

Appropriateness of the Internal Control and Risk Management System

In his reports of 5 October 2006 and 23 March 2007, the Chairman of the Audit Committee found Brembo's Internal Control System to be appropriate, especially in light of the assessment by the Internal Control Manager, and taking into account the findings, in terms of coverage, of the Supervisory Committee in respect of the appropriateness of the Organisational, Management and Control Model of Brembo S.p.A. and group companies, and compliance with the Corporate Governance Code (edition of 26 March 2006) and the Law on Savings 262/05 as further amended.

Remuneration Committee

The Remuneration Committee, reappointed with the resolution passed by the Board of Directors on 29 April 2005, until 23 March 2007 was composed of non-executive and independent Directors Paolo Biancardi and Giancarlo Dallera, and non-executive Director Umberto Nicodano; as of 23 March 2007, it has been composed by non-executive and independent directors Giancarlo Dallera and Giovanni Cavallini and non-executive Director Umberto Nicodano (Chairman).
The Remuneration Committee held 2 meetings during the year, on 24 March 2006 and 28 April 2006, respectively.

Board of Statutory Auditors

The Board of Statutory Auditors was appointed by the Shareholders' Meeting of 29 April 2005; it consists of the following members: Sergio Mazzoleni (Chairman), Enrico Cervellera (Statutory Auditor), Andrea Puppo (Statutory Auditor), Giuseppe Marangi (Alternate Auditor), Mario Tagliaferri (Alternate Auditor). All of them comply with statutory and regulating requirements.
In 2006, the Board of Auditors held four meetings and participated in all meetings of the Board of Directors.

Privacy

In accordance with the "Personal Data Protection Code", as per Legislative Decree 196 of 30 June 2003, Brembo S.p.A. has drafted and updated the prescribed "Security Planning Document" and has implemented all the measures prescribed therein. These measures were extended also to its subsidiaries with registered offices in Italy.
More in detail, the company planned and carried out the necessary initiatives at the organisational, technical, and training levels.

In compliance with CONSOB Resolution No. 11971 of 14 May 1999, data on share movements by Directors, Statutory Auditors and General Managers during 2006 are given below:

	Shares at 31.12.2005	***Shares purchased***	***Shares sold***	***Shares at 31.12.2006***	***Ownership position***	***Ownership method***
Alberto Bombassei	0	0	0	0	N/a	N/a
Alberto Bombassei (Nuova FourB)	39,026,796	0	(1,282,043)	37,744,753	F	I
Paolo Biancardi	0	0	0	0	N/a	N/a
Cristina Bombassei	56,640	0	(51,320)	5,320	F	D
Giovanni Cavallini	0	0	0	0	N/a	N/a
Giancarlo Dallera	0	8,000	0	8,000	F	D
Giovanna Dossena	0	0	0	0	N/a	N/a
Andrea Gibellini	0	0	0	0	N/a	N/a
Stefano Monetini [(1)]	0	0	0	0	N/a	N/a
Umberto Nicodano	0	0	0	0	N/a	N/a
Giuseppe Roma	6,000	0	(6,000)	0	N/a	N/a
Matteo Tiraboschi	0	0	0	0	N/a	N/a
Board of Statutory Auditors						
Sergio Mazzoleni	0	0	0	0	N/a	N/a
Enrico Cervellera	0	0	0	0	N/a	N/a
Andrea Puppo	0	0	0	0	N/a	N/a

Legend: D = direct control
I = indirect control (through third parties, subsidiaries or trustees)
F = full ownership
N/a = not applicable

[(1)] He also holds the position of General Manager in Brembo S.p.A.

Information About the Brembo S.p.A. Dividend Proposal

To conclude the separate Financial Statements of Brembo S.p.A. for the year ended 31 December 2006, based also on the examination of our Report and the Notes to the Financial Statements, in which we outlined the guidelines and operations, we submit for your approval our proposal for distributing the entire net income amounting to €20,247,788, as follows:

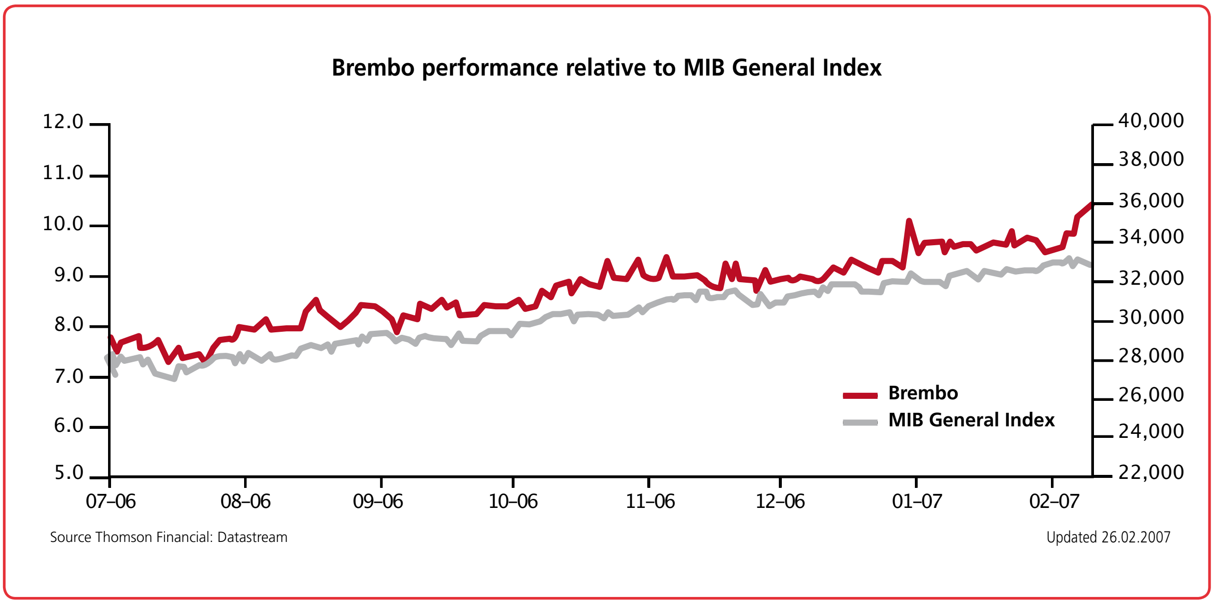
- to the extraordinary reserve €3,129,848;
- to the unavailable reserve pursuant to Art. 6, paragraph 2 of Legislative Decree 38/2005 €1,089,672;
- to the Shareholders, a gross dividend of €0,24 per ordinary share outstanding at the date of payment for a total dividend payout of €16,028,268.

It is also proposed that dividends should be paid as of 10 May 2007.

Curno, 23 March 2007

BOARD OF DIRECTORS

Alberto Bombassei	*Chairman*
Paolo Biancardi	*Director*
Cristina Bombassei	*Director*
Giovanni Cavallini	*Director*
Giancarlo Dallera	*Director*
Giovanna Dossena	*Director*
Andrea Gibellini	*Director*
Stefano Monetini	*Director*
Umberto Nicodano	*Director*
Giuseppe Roma	*Director*
Matteo Tiraboschi	*Director*



The performance of Brembo's stock over the course of 2006 can be broken down in two distinct phases. During a first phase, from the beginning of the year through mid-May, both the stock and the Bloomberg Europe Auto Parts & Equipment Index rose by 30%, outperforming the general Italian Mibtel index which rose by 12% in the same period. During the downward correction on world markets from mid-May to mid-June, Brembo's stock stood at about 5% over its price at the beginning of the year, whilst the Mibtel index (in mid-June) as well as the Bloomberg Europe Auto Parts & Equipment Index (in mid-July) fell back to the levels shown at the beginning of the year.

During a second phase, from mid-June onwards, Brembo's stock started outperforming both the Mibtel index and the Bloomberg Europe Auto Parts & Equipment Index, ending the year up by 45% as against the 35% rise recorded at 31 December by the Bloomberg Europe Auto Parts & Equipment Index and the even blander 19% increase in the Mibtel index.

An overview of stock performance of Brembo S.p.A. is given below and compared with that of the previous year.

	31.12.2006	***31.12.2005*** (**)
Share capital *(euro)*	34,727,914	34,727,914
No. of ordinary shares	66,784,450	66,784,450
Equity (excluding income for the year) *(euro)*	154,032,648	145,808,984
Net income for the year *(euro)*	20,247,788	15,518,820
Net Earnings per Share *(euro)*	0.303	0.232
Trading price *(euro)*		
Minimum	6.12	5.74
Maximum	9.27	6.70
Year end	9.25	6.40
Stock Exchange capitalisation *(euro million)*		
Minimum	407	383
Maximum	626	447
Year end	617	427
Gross dividend per share	0.24 (*)	0.21

(*) To be approved by the Shareholders' Meeting convened on 27 April 2007

(**) The figures for financial year 2005 refer to Brembo S.p.A.'s separate financial statements prepared in accordance with IAS/IFRS.

The four main shareholders of Brembo S.p.A. at 16 March 2007 were:

	% ownership
Nuova FourB S.r.l.	56.52%
Threadneedle Asset Management HLD Limited	2.06%
Powe Capital Management LLP	2.05%
JP Morgan Asset Management UK Limited	2.01%

In light of the new concept of direction and coordination arising from the Corporate Law Reforms, it should be noted that, pursuant to Article 2497 of the Italian Civil Code, Brembo S.p.A. is not subject to direction and control by companies or entities (such as the majority shareholder Nuova FourB S.r.l.).

Further information and updates regarding stock performance and recent corporate information are provided on Brembo's website at: *www.brembo.com, section: Investor Relations & Financial Info*

Investor Relator: Corrado Orsi

On behalf of the Board of Directors
The Chairman
Alberto Bombassei

Comfort is one of the basic values of Brembo's identity.

Brembo: Consolidated Financial Statements at 31 December 2006

Brembo: Consolidated Financial Statements at 31 December 2006

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2006

(euro thousand)	***Notes***	***31.12.2006***	***31.12.2005***	***Change***
ASSETS				
Non-current assets				
Property, plant, equipment and other equipment	1	294,748	274,503	20,245
Development costs	2	25,288	18,336	6,952
Goodwill and other undefined useful life assets	2	15,458	15,146	312
Other intangible assets	2	6,484	5,675	809
Shareholdings valued using the Equity method	3	15,200	8,534	6,666
Other financial assets (investments in other companies and derivatives)	4	5,646	4,638	1,008
Receivables and other non-current assets	5	1,318	2,166	(848)
Deferred tax assets	6	7,194	2,711	4,483
Total non-current assets		**371,336**	**331,709**	**39,627**
Current assets				
Inventories	7	146,618	142,818	3,800
Trade receivables	8	182,647	153,083	29,564
Other receivables and current assets	9	32,116	39,557	(7,441)
Financial current assets and derivatives	10	491	11,059	(10,568)
Cash and cash equivalents	11	40,708	32,200	8,508
Total current assets		**402,580**	**378,717**	**23,863**
Non-current assets held for sale and/or discontinued groups and/or operations	1	**394**	**0**	**394**
TOTAL ASSETS		**774,310**	**710,426**	**63,884**

(euro thousand)	Notes	31.12.2006	31.12.2005	Change
EQUITY AND LIABILITIES				
Group Equity				
Share capital	12	34,728	34,728	0
Other reserves	12	107,612	115,168	(7,556)
Retained earnings (losses)	12	72,860	39,830	33,030
Profit / (loss) for the year	12	42,945	40,511	2,434
Total Group Equity		**258,145**	**230,237**	**27,908**
Minority Interests		**12,419**	**11,826**	**593**
TOTAL EQUITY		**270,564**	**242,063**	**28,501**
Non-current liabilities				
Non-current payables to banks	13	30,919	37,716	(6,797)
Other non-current financial payables and derivatives	13	73,215	71,594	1,621
Other non-current liabilities	14	9,081	8,656	425
Reserves for non-current contingencies and charges	15	5,033	3,025	2,008
Provisions for employee benefits	16	28,663	27,151	1,512
Deferred tax liabilities	6	20,065	16,172	3,893
Total non-current liabilities		**166,976**	**164,314**	**2,662**
Current liabilities				
Current payables to banks	13	127,070	112,892	14,178
Other current financial payables and derivatives	13	4,317	3,226	1,091
Trade payables	17	161,052	150,978	10,074
Tax payables	18	7,450	2,088	5,362
Other current payables	19	36,881	34,865	2,016
Total current liabilities		**336,770**	**304,049**	**32,721**
TOTAL EQUITY AND LIABILITIES		**774,310**	**710,426**	**63,884**

Brembo: Consolidated Financial Statements at 31 December 2006

CONSOLIDATED OPERATING RESULTS AT 31 DECEMBER 2006

(euro thousand)	***Notes***	***31.12.2006***	***31.12.2005***	***Change***
Sales of goods and services	20	**805,986**	**711,615**	**94,371**
Other revenues and income	21	10,835	9,334	1,501
Costs for capitalised internal works	22	11,344	10,625	719
Raw materials, consumables and goods	23	(396,831)	(337,124)	(59,707)
Other operating costs	24	(155,758)	(142,284)	(13,474)
Personnel expenses	25	(156,607)	(140,384)	(16,223)
Gross operating income		**118,969**	**111,782**	**7,187**
Depreciation, amortisation and impairment losses	26	(39,426)	(38,407)	(1,019)
Net operating income		**79,543**	**73,375**	**6,168**
Net financial income (charges)	27	(9,360)	(6,325)	(3,035)
Net financial income (charges) from investments	28	226	(309)	535
Income before taxes		**70,409**	**66,741**	**3,668**
Taxes	29	(26,210)	(24,852)	(1,358)
Income before minority interests		**44,199**	**41,889**	**2,310**
Minority interests		**(1,254)**	**(1,378)**	**124**
Group income for the year		**42,945**	**40,511**	**2,434**
BASIC/DILUTED EARNINGS PER SHARE	30	**0.64**	**0.61**	

CONSOLIDATED CASH-FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

(euro thousand)	*31.12.2006*	*31.12.2005*
Cash and cash equivalents at beginning of year	**(55,087)**	**(50,145)**
Consolidated net income for the year before taxes	**70,409**	**66,741**
Depreciation, amortisation/Impairment losses	39,426	38,513
Gains/Losses from disposal of fixed assets	(3,081)	(2,431)
Write-ups/Write-downs of shareholdings	(224)	311
Financial portion of provisions for payables for personnel	749	880
Long-term provisions for employee benefits	5,628	4,103
Other provisions net of utilisations	3,038	1,857
Net working capital generated by operations	**115,945**	**109,974**
Paid current taxes	(16,447)	(20,092)
Uses of long-term provisions for employee benefits	(4,962)	(2,672)
(Increase)/reduction in current assets:		
inventories	(4,592)	(25,989)
financial assets	11,066	(9,949)
trade receivables and receivables from other Group companies	(28,909)	(3,720)
receivables from others and other assets	2,567	(12,224)
Increase/(reduction) in current liabilities:		
trade payables and payables to other Group companies	10,258	12,905
payables to others and other liabilities	2,294	2,113
Translation differences on current assets	(2,164)	5,545
Net cash flow from / (for) operating activities	**85,056**	**55,891**
Investments in:		
intangible assets	(14,415)	(13,796)
property, plant and equipment	(69,732)	(82,025)
financial fixed assets (shareholdings)	(7,164)	0
Cost price for disposal, or reimbursement value of fixed assets	16,875	3,811
Cash flows from / (for) investing activities	**(74,436)**	**(92,010)**
Dividends paid in the year	(14,025)	(12,021)
Substitute tax paid	0	(540)
Other variations	0	24
Change in Equity of minority interests	0	(44)
Loans and financing granted by banks and other financial institutions in the year	9,239	71,559
Repayment of long-term loans	(22,535)	(27,801)
Cash flow from / (for) financing activities	**(27,321)**	**31,177**
Total cash flow	**(16,701)**	**(4,942)**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**(71,788)**	**(55,087)**

Brembo: Consolidated Financial Statements at 31 December 2006

STATEMENT OF MOVEMENTS IN CONSOLIDATED EQUITY

(euro thousand)	*Share capital*	*Other reserves*	*Retained earnings*	*Hedging reserve*
Balance at 1 January 2005	**36,317**	**85,433**	**31,253**	**(25)**
Allocation of profit for the previous year		18,879	8,654	
Payment of dividends				
Liberation of revaluation reserve Re. Law 331/04		(540)		
Decrease in share capital	(1,589)	1,589		
Variations in reserves of consolidated companies			(76)	24
Change in translation adjustment reserve		9,807		
Change in consolidation area and other changes				
Net income (loss) for the year				
Balance at 31 December 2005	**34,728**	**115,168**	**39,831**	**(1)**
Allocation of profit for the previous year		188	32,092	
Payment of dividends		(5,794)		
Change in reserves from application of IAS 39				1,153
Change in translation adjustment reserve		(2,159)		
Merger of FOMM S.p.A.		208	(208)	
Rounding off		1	(7)	
Net income (loss) for the year				
BALANCE AT 31 DECEMBER 2006	**34,728**	**107,612**	**71,708**	**1,152**

Hedging reserves are net of the related tax effect

Profit for the year	Group equity	Profit of Minority interests	Share capital and reserves of Minority interests	Equity of Minority Interests	Equity
39,554	**192,532**	**1,072**	**8,518**	**9,590**	**202,122**
(27,533)	0	(1,072)	1,072	0	**0**
(12,021)	(12,021)			0	**(12,021)**
	(540)			0	**(540)**
	0			0	**0**
	(52)			0	**(52)**
	9,807		902	902	**10,709**
	0		(44)	(44)	**(44)**
40,511	40,511	1,378		1,378	**41,889**
40,511	**230,237**	**1,378**	**10,448**	**11,826**	**242,063**
(32,280)	0	(1,378)	1,378	0	**0**
(8,231)	(14,025)			0	**(14,025)**
	1,153		4	4	**1,157**
	(2,159)		(665)	(665)	**(2,824)**
	0			0	**0**
	(6)			0	**(6)**
42,945	42,945	1,254		1,254	**44,199**
42,945	**258,145**	**1,254**	**11,165**	**12,419**	**270,564**

Explanatory Notes to the Consolidated Financial Statements at 31 December 2006

Brembo's Activities

In the vehicle industry components sector, the Brembo Group is active in the research, design, production and sale of disc braking systems, wheels and light alloy and metal casting for various sectors such as the car industry, motorbikes and industrial applications, in addition to mechanical processes in general.

The extensive product range consists of high-performance brake callipers, brake discs, wheel-side modules, complete braking systems and integrated engineering services. All of these complement the development of new models placed on the market by vehicle manufacturers. Brembo's products and services are used in the automotive industry, for light commercial and heavy industrial vehicles, motorbikes and racing competitions.

Production currently takes place in Italy, Spain, Poland, the United Kingdom, Mexico, Brazil, China and India. Products are also marketed through companies located in Japan, Sweden, the United States and the United Kingdom.

Form and Content of the Consolidated Financial Statements

Introduction

The Consolidated Financial Statements of the Brembo Group for the year ended 31 December 2006 have been drafted in compliance with the provisions of European Regulation No. 1606/2002 and the IFRS effective at 31 December 2006, issued by the International Accounting Standard Board (IASB) and adopted by EC Regulations. IFRS means all international accounting standards and all interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC).

The Financial Statements comprise the Balance Sheet, the Income Statement, the Statement of Changes in Equity, the Cash Flow Statement and these Notes, which include a list of the main accounting standards adopted and other explanatory notes, in accordance with the requirements of IFRS. The Consolidated Financial Statements includes the Financial Statements of the Parent Company, Brembo S.p.A., at 31 December 2006, and the Financial Statements of the companies controlled by Brembo S.p.A. pursuant to IFRS (IAS 27).

Basis of Preparation and Presentation

The Group Consolidated Financial Statements are prepared on the basis of financial statements for the year ended 31 December 2006, drafted by the Boards of Directors or, when available, of financial statements approved at the Shareholders' Meetings of the relevant consolidated companies, appropriately adjusted to align them with Group classification criteria and accounting principles.

The Consolidated accounts have been prepared in accordance with the general principle of providing a true and fair presentation of the Group's assets and liabilities, financial position, results and cash flow, based on the following general assumptions: going concern, accrual accounting, consistency of presentation, materiality and aggregation, prohibition of offsetting, and comparative information.

Preparing financial statements in compliance with the applicable accounting standards requires management to make estimates that may have a significant effect on the items reported in the accounts. Estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the current circumstances and given the information available at the reporting date. Actual results may differ from these estimates. Estimates and associated assumptions are reviewed on an ongoing basis. Revisions of estimates are recognised in the period in which such estimates are revised. Decisions made by company management that have a significant impact on the financial statements and estimates, with a significant risk of material adjustments to the book value of assets and liabilities in the next accounting period, are discussed in the notes to the individual financial statement entries. Estimates are mainly used in reporting provisions contingencies, inventory obsolescence, depreciation and amortisation, write-downs of receivables, employee benefits, taxes and other provisions and in determining the fair value of derivative instruments and the useful life of certain fixed assets.
The fair value of financial instruments traded in active markets is based on price quotations at the reporting date. The fair value of financial instruments that are not traded in active markets (such as derivative contracts) is determined using specific valuation techniques. Specifically, as indicated below, the fair value of Interest Rate Swaps (IRS) is determined using the discounted cash flow technique, and the fair value of forward foreign exchange contracts is determined by reference to projected forward exchange rate curves applicable to such financial instruments.

The Group made the following choices in relation to the presentation of the financial statements:

- for the Balance Sheet, there is separate disclosure of current and non-current assets, assets held for sale and current and non-current liabilities. Current assets, which include cash and cash equivalents, are those assets which will be realised, sold or consumed within the Group's normal operating cycle; current liabilities are obligations that will be liquidated within the Group's normal operating cycle or within twelve months of the close of the accounting period;
- in the Income Statement, expense and income items are stated based on their nature;
- for the Cash Flow Statement, the indirect method was used, as indicated in IAS 7.

The administrative period and the closing date for preparing the Consolidated Financial Statements correspond to the ones for the financial statements of the Parent Company and all the consolidated subsidiaries.

The Consolidated Financial Statements are presented in euros, which are the functional currency of the Parent Company, Brembo S.p.A., and all amounts are rounded to the nearest thousand unless otherwise indicated.

The financial statements presented herein comply with CONSOB resolution No. 15519 of 27 July 2006.

Changes in Accounting Standards

The IASB and IFRIC approved several amendments to the IAS/IFRS, applicable for the first time as of 1 January 2006. The main amendments concern:

- Amendments to IAS 19 – Employee Benefits (alternative treatment of actuarial gains and losses); the Group, which uses the corridor method, decided to retain the treatment of actuarial gains and losses compared used last year.

- Amendments to IAS 39 – Fair Value Option, i.e. the option to choose fair value accounting to recognize financial assets and liabilities through the Income Statement; there was no impact on the measurement of Brembo financial instruments.
- Amendments to IAS 21 – The Effects of Changes in Foreign Exchange Rates; several paragraphs on investment in a foreign operation were amended; there were no effects for the Group.
- Amendments to IAS 39 – Designation of Forecast Intragroup Transactions: the amendment to IAS 39 allows forecast intragroup transactions denominated in foreign currency to be designated as hedged items in consolidated Financial Statements under certain circumstances. This change does not affect the Brembo Group, as there are currently no intragroup transactions that qualify as hedged transactions, and there are no related hedging instruments currently in place.
- Amendments to IAS 39 and IFRS 4 – Changes to the Accounting Treatment of Guarantees Issued: the changes mainly affect the accounting treatment of financial guarantee contracts that are not identified as insurance contracts. The above amendments have no impact on the Consolidated Financial Statements.
- Amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards: these amendments do not seem to apply to the Brembo Group.
- IFRS 6 – Exploration for and Evaluation of Mineral Resources: the standard does not seem to apply to the Brembo Group.
- IFRIC 4 – Determining Whether an Arrangement Contains a Lease: the interpretation of this standard establishes the guidelines for determining if an agreement qualifies as a lease and therefore must be accounted for in accordance with IAS 17. This interpretation has no significant impact on the Consolidated Financial Statements.
- IFRIC 5 – Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds: the interpretation does not seem to apply to the Brembo Group.
- IFRIC 6 – Waste Electrical and Electronic Equipment: the interpretation has no impact on the Consolidated Financial Statements of the Brembo Group.

In addition to the above, the following amendments to standards and interpretations were issued. However, these are not effective for 2006 and the Group opted not to early adopt them:

- IFRS 7 – Financial Instruments: Disclosures and related amendments to IAS 1 – Presentation of Financial Statements: Capital Disclosures, effective as of 1 January 2007: IFRS 7 introduces additional disclosures required on financial instruments; it replaces IAS 30 – Disclosures on the Financial Statements of Banks and Similar Financial Institutions and certain requirements of IAS 32 – Financial Instruments: Presentation in Financial Statements and Supplementary Information.
  The Group is evaluating the impacts of IFRS 7 and IAS 1. Based on preliminary evaluations, these impacts should be discussed in the supplementary report with regard to their connection to financial risk management, information about hedging instruments and the capital disclosures required by the amendments to IAS 1.

- IFRIC 7 – Applying the Restatement Approach under IAS 29, effective for financial statements for financial periods beginning on or after 1 March 2006: it defines standards for companies operating in hyperinflation economies; it does not currently apply to the Group.
- IFRIC 8 – Scope of IFRS 2, effective for financial statements for periods starting on or after 1 May 2006; the interpretation specifies the accounting treatment of particular situations, such as share based payment; it does not currently apply to the Group.
- IFRIC 9 – Restatement of Embedded Derivatives, effective for financial statements for years starting on or after 1 June 2006; it does not currently affect the Group, but possible impact will be evaluated.

Consolidation Criteria

Subsidiary companies

Subsidiaries are companies in which the Group has the power to govern, either directly or indirectly, the administrative and operating decisions and obtain the related benefits. Generally, the Group is presumed to have control when it acquires, directly or indirectly, more than 50% of a company's voting rights, also considering potential rights that are immediately exercisable or convertible.
Controlled entities are consolidated on a line-by-line basis in the consolidated accounts from the date control begins until the date control is transferred outside the Group. The carrying value of subsidiaries is eliminated against the Group's share of Equity in those companies, less income for the period. Minority interests in Equity and income for the year are classified under "Minority Interests" in the Balance Sheet and in the Income Statement.

Associated companies

Associated companies are entities in which the Group exercises a significant influence on the administrative and operating decisions but does not have the power to control. Generally, the Group is presumed to have a considerable influence when it acquires, directly or indirectly, from 20% to 50% of the company's voting rights.
Equity investments in associated companies are accounted for using the Equity method. Based on this method, equity investments are initially stated at cost and then adjusted to reflect changes in the Group's share of Equity in the associated company. The Group's share of associated companies' income is recorded separately in the Income Statement from the date significant influence commences until the date significant influence ceases.

Joint ventures

Joint ventures are entities in which the Group exercises joint control over the economic activities based on a contractual agreement. Joint control exists when the strategic, financial and operating decisions of an entity require the unanimous consent of the parties exercising control.
Investments in joint ventures are accounted for using the Equity method and are included in the consolidated accounts from the date joint control begins until joint control ceases.

Business Combinations

Business combinations (established after the date of transition to IFRS) are accounted for using the purchase accounting method described in IFRS 3.

The value of the entity included in the aggregation is the sum of the fair value of the assets acquired and liabilities assumed, including potential liabilities, plus any costs directly attributable to the acquisition.

The cost of a business combination is therefore determined by measuring the fair value of the identifiable assets, liabilities and potential liabilities at the date of acquisition. Any excess of cost of the acquisition over the Group's share of the fair value of the identifiable assets, liabilities and potential liabilities at acquisition are recognised as goodwill. Any negative differences are charged directly to the Income Statement. If the initial cost of a business combination can only be determined on a provisional basis, adjustments to the provisional values must be made within twelve months of the acquisition date.

Minority interests are recognised on the basis of the fair value of the net assets acquired.

If a business combination is completed in multiple phases with subsequent purchases of shares, each transaction is treated separately using the cost of the transaction and fair value information on the assets, liabilities and potential liabilities at the date of each transaction to determine the amount of any differences.

When control of an entity is obtained through a subsequent acquisition, the previously held share is revalued based on the fair value of the identifiable assets, liabilities and potential liabilities determined at the date of the subsequent acquisition; the entry associated with such revaluation is recorded under the Group's Equity.

Intragroup Transactions

All balances and transactions among consolidated companies, including unrealised income, are eliminated. Unrealised losses on intragroup transactions are eliminated unless they indicate an impairment of the asset transferred.

Unrealised gains and losses on transactions with associated companies or joint ventures are eliminated in proportion to the Group's interest in such entities.

Conversion of the Financial Statements of Foreign Companies

The financial statements of the Group Companies included in the Consolidated Financial Statements are denominated in the currency used in the primary market in which they operate (functional currency). The Group Consolidated Financial Statements are denominated in euro, which is the functional currency of the Parent Company Brembo S.p.A.

At year end, the assets and liabilities of subsidiaries, associated companies and joint ventures whose functional currency is not the euro are translated into the currency used to prepare the consolidated Group accounts at the exchange rate prevailing at that date. Income Statement items are translated at the average exchange rate for the period (as it is considered to represent the average of the exchange rates prevailing on the dates of the separate transactions). The differences arising from the translation of initial Equity at end-of-period exchange rates, and the differences arising as a result of the different method used for translating the result for the period are recognised under a specific heading of

Equity. If consolidated foreign companies are subsequently sold, accumulated conversion differences (at the transition date) are reported on the Income Statement.
Goodwill and adjustments to fair value from the acquisition of a foreign operation are treated as assets and liabilities of the acquired company.

The following table shows the exchange rates used in the translation of financial statements denominated in currencies other than the functional one (euro).

	31.12.2006	*Average 2006*	*31.12.2005*	*Average 2005*
Euro against other currencies				
US Dollar	0.759301	0.796391	0.847673	0.803375
Japanese Yen	0.006372	0.006847	0.007199	0.007306
Swedish Krona	0.110615	0.108069	0.106513	0.107757
Polish Zloty	0.261028	0.256731	0.259067	0.248598
Mexican Peso	0.069961	0.073021	0.079522	0.073676
Pound Sterling	1.489203	1.466685	1.459215	1.462206
Brazil Real	0.355451	0.366044	0.364538	0.328910
Indian Rupee	0.017153	0.017577	0.018808	0.018238
Chinese Renminbi	0.097283	0.099912	0.105038	0.097994

Consolidation Area

The list of consolidated subsidiaries and associated companies and joint ventures that are accounted for using the Equity method, along with information regarding their registered offices and the percentage of capital held, is included in Attachments 3 and 4. The consolidation area changed compared to 31 December 2005 as a result of the following events:

- on 17 August 2006, the liquidation of Brembo GmbH was completed and the company was cancelled from the Munich Company Register;
- on 26 October 2006, Brembo Performance S.p.A., a wholly-owned subsidiary of Brembo S.p.A., was formed;
- on 23 November 2006, Brembo acquired 100% of Brembo Deutschland GmbH;
- moreover, on 28 April 2006, the Board of Directors of Brembo S.p.A. approved the planned Merger by incorporation of the company FOMM S.p.A., which produces cast-iron brake discs, into Brembo S.p.A., which already held a 100% interest in the company, with the goal of streamlining the corporate structure and achieve management economies. On 4 July 2006, the merger was finalised through the enrolment in the company register of the Bergamo Chamber of Commerce. However, this change did not have any effect on the consolidated Financial Statements, as FOMM S.p.A. was 100% held by Brembo S.p.A. and was already consolidated using the line-by-line method.

Further information on the above-mentioned companies is provided in the Report on Operations.

Moreover, the following events had an impact on the item Shareholdings valued using the Equity method:

- on 4 February 2006, the Company subscribed its shareholding in KBX Motorbike Products Private Ltd., headquartered in Pune (India) and established as a joint venture between Brembo S.p.A. and Bosch Chassis Systems India Ltd., (formerly Kalyani Brakes Ltd.), a subsidiary of the Bosch Group; Brembo S.p.A. subscribed 50% of the share capital, paying a total of INR 357 million (approximately €6.7 million);
- on 21 November 2006, Brembo S.p.A. underwrote the capital increase in Petroceramics S.r.l. for €500 thousand, acquiring a 20% stake in the company.

Accounting Principles and Valuation Criteria

Transactions in Currencies Other than the Functional Currency

Transactions in currencies other than the functional currency are initially converted into the functional currency using the exchange rate prevailing at the date of the transaction. At the closing date of the accounting period, monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the exchange rate prevailing at that date. Exchange differences arising from such translation are recognised in the Income Statement.

Non-monetary assets and liabilities denominated in currencies other than the functional currency that are carried at cost are translated using the exchange rate prevailing at the transaction date, while those carried at fair value are converted using the exchange rate prevailing on the date the fair value is determined.

Property, Plant, Equipment and Other Equipment

Recognition and measurement

Property, plant, equipment and other equipment are carried at cost, net of the related accumulated depreciation and any impairment in value. The cost includes the purchase or production price and direct costs incurred for bringing the asset to the location and condition necessary for it to be capable of being operated, with the exception of financial charges and exchange differences.

Subsequent to initial recognition, the asset continues to be carried at cost and depreciated based on its remaining useful life net of any impairment in value, taking into account any residual value.

Land, including land linked to buildings, is recorded separately and is not depreciated since it is regarded as having an indefinite useful life.

Subsequent costs

Costs for improvements and transformations that increase the value of assets (i.e., they result in probable future economic benefits that can be reliably measured) are recognised in the assets section of the balance sheet as increases to the assets in question or as separate assets. Costs are written off in the year in which they are incurred, where they relate to maintenance or repair and do not lead to any significant and measurable increase in productive capacity or in the useful life of the relevant asset.

Depreciation

Depreciation represents the economic and technical loss of value of the asset and is charged from when the asset is available for use; it is calculated using the straight-line method using the rate considered representative of the useful life of the asset.
The range of expected useful lives of property plant and equipment used for calculating depreciation is reported below:

Category	*Useful life*
Land	Indefinite
Buildings	10 – 35 years
Plant and machinery	5 – 10 years
Industrial and commercial equipment	2.5 – 10 years
Other assets	4 – 10 years

The residual value of the assets and their expected useful lives are reviewed periodically.

Leases

Assets held under finance leases (where the company assumes substantially all the risks and rewards of ownership) are recognised and recorded at the inception of the lease under property, plant and equipment at the fair value of the leased asset or, if lower, the present value of the lease payments. The corresponding liability to the lessor is recorded under financial debt. The methods used to calculate depreciation and the subsequent valuation of the asset are consistent with those used for directly owned assets.
Finance leases where the lessor retains substantially all the risks and rewards incident to ownership are classified as operating leases. Lease payments are recognised in the Income Statement on a straight-line basis over the lease term.

Leasehold improvements

Improvements to third-party assets that can be considered assets are capitalised to the appropriate asset category and depreciated over the shorter of their useful life or the lease term.

Development Costs, Goodwill and Other Intangible Assets

The Group recognises intangible assets when the following conditions are met:
- the asset is identifiable, or separable, or can be separated or removed from the entity;
- the asset is controlled by the Group, meaning that the Group has the power to obtain future economic benefits from the asset;
- it is probable that the Group will enjoy future benefits attributable to the asset.

Intangible assets are initially measured at cost; subsequent to initial recognition, they are carried at cost less amortisation, which is calculated using the straight-line method (beginning on the date the assets are available for use) over their useful life, and any impairment losses, taking into account any residual value. The useful life of assets is reviewed periodically.

Development costs – An intangible asset, generated in the development phase of an internal project, which satisfies the definition of development indicated in IAS 38, is recorded as an asset if it is probable that the Group will enjoy expected future benefits attributable to the asset developed and if the cost of the asset can be accurately measured. Development costs are charged to the Income Statement. Similarly, in the case of externally acquired intangibles that qualify as research and development costs, only the costs attributable to the development phase are recognised as assets, given that the above requirements are met. Such costs are capitalised under "Development costs underway" and amortised when the development phase is concluded and the asset developed generates economic benefits. In the period in which internal development costs that can be capitalised are incurred, these costs are excluded from the Income Statement item Increase on internal works capitalised and shown in the item "Costs for capitalised internal works". Amortisation of development costs is 5 years, based on the mean useful life/duration of the benefits linked to the developed product.

Goodwill and trademarks – Goodwill arising from business combinations is initially recorded at cost. It represents the excess of purchase cost compared to the acquired share of net fair value attributed to the identifiable assets and liabilities, at the purchase date. After the acquisition date, goodwill is no longer amortised; instead, it is allocated to the cash-generating units that are expected to benefit from the synergies deriving from the acquisition. Each cash-generating unit is tested for impairment at least once a year, or more frequently if there are indications of impairment. If the recoverable value (as defined hereinafter) is less than the book value, the goodwill is written down to impaired value. If goodwill is allocated to a cash-generating unit that is partially transferred or discontinued, the goodwill associated with the transferred or discontinued unit is considered for the purpose of determining any gain/loss arising from the transaction.
Brand names with a definite useful life are amortised using the straight-line method over their estimated useful lives, based on strategic plans for their expected use.

Impairment of Assets

Goodwill, intangible assets with an indefinite life and development costs underway are systematically tested for impairment at least once a year, if there are any indications of impairment.
Property, plant and equipment as well as intangible assets that are subject to depreciation and amortisation are tested for impairment whenever indications of impairment arise.
Write-downs correspond to the difference between the carrying value and recoverable value of the assets in question. The recoverable value is the greater of the fair value of an asset or cash-generating unit less the costs of disposal and the value in use, i.e., the present value of estimated future cash flows. The value in use is defined as the cash flows expected to arise from the use of an asset, or the sum of the cash flows in the case of a cash-generating unit. The expected future cash flows of each group of assets is discounted to the present value using the WACC method (weighted average cost of capital).
If the recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount, and, as a general rule, the impairment loss is recorded in the Income Statement. When the impairment loss of an asset

(except for goodwill) is subsequently reversed, the carrying value of the asset (or cash-generating unit) is increased to the new estimate of recoverable value, without exceeding the value prior to write down.

Inventories

Inventories of raw materials and finished products are stated at the lower of cost or market value and the corresponding net market value estimated from market trends.
Raw materials, ancillaries and consumables are measured at purchase cost, including the costs incurred to bring each asset to the place it is stored.
Manufacturing costs of finished products and semi-finished goods include direct costs and a portion of indirect costs that can be reasonably attributed to the products based on normal system operation; financial costs are excluded. Work in progress is valued at production costs for the year, based on the progress report.
The cost of inventories of raw materials, finished goods, goods for resale and work-in-progress is calculated using the weighted mean cost method.
For raw materials, ancillaries and consumables, the presumable realisable value corresponds to the replacement cost. For finished products and semi-finished goods, the presumable realisable value corresponds to the estimated sales price in the ordinary course of business, less the estimated costs of completion and sales expenses.
Goods that are obsolete or goods characterised by a long turnover period are written down on the basis of their possible useful life or sale value by creating a special inventory adjustment fund.

Cash and cash equivalents

Cash and cash equivalents include cash balances, unrestricted deposits and other treasury investments with original maturities of up to three months. A treasury investment is considered as availability, when it is instantly convertible to cash with minimal risk of any fluctuation in value and, further, it is intended to meet short-term cash requirements and is not held as an investment.
For purposes of the consolidated Cash Flow Statement, cash balances are stated net of bank overdrafts at the end of the period.

Provision for Contingencies and Charges

Provisions for contingencies and charges include certain or probable costs of a specific nature, the amount or settlement date of which could not be determined at year end. Allocations to the provisions are made when the following conditions arise:

- there is a current obligation (legal or contractual) as a result of a past event;
- it is probable that resources will be needed to settle the obligation;
- a reasonable estimate can be made of the amount of the obligation.

Provisions are stated at the present value of the expected expenditure required to settle the obligation in question.
Provisions are periodically updated to reflect changes in cost estimates, timing and present value if any; revisions to estimates are recorded under the same heading of the Income Statement under which the original provision was stated and in the Income Statement of the period in which the change is made. When provisions are discounted, the change resulting from the passage of time or interest rate fluctuations is recorded under "Financial income and charges".
Provisions for restructuring costs are recognised when the company involved has approved a formal detailed plan and communicated it to affected parties.

Employee Benefits

The Group uses defined-contribution plans, wholly unfunded defined-benefit plans, wholly or partly funded defined-benefit plans and other forms of long-term benefits.

Defined-contribution plans

Defined-contribution plans are benefit plans under which the company pays contributions to an insurance company or pension fund and has no legal or implicit obligation to pay additional contributions if, when work relationship ends, the fund does not have sufficient assets to pay all benefits corresponding to employee service during the year or in prior years.
These contributions, which are paid for the services rendered by employees, are recognised in the same accounting period in which the services are rendered.

Defined-benefit plans and other long-term benefits

Defined-benefit plans are retirement benefit programmes that entail a future obligation for the company. The company assumes actuarial and investment risks in relation to the plan.
To determine the present value of its obligations relating to such plans and the cost of the services, the Brembo Group uses the "Projected Unit Credit Method".
This actuarial calculation must use unbiased and compatible actuarial assumptions about demographic variables (mortality rate and employee turnover rate) and financial variables (discount rates and future increases in salary and benefits). When a defined-benefit plan is wholly or partly funded by contributions paid either into a fund that is legally separate from the company or to an insurance company, the assets held by the plan are measured at fair value. The obligation is therefore stated net of the fair value of the plan assets that will be used to directly meet such obligation.

Actuarial gains and losses are recognised according to the corridor rule; therefore, actuarial gains or losses arising from changes in actuarial assumptions that exceed the greater of 10% of the value of the plan assets or 10% of the present value of the plan obligations are recognised in the Income Statement based on the expected average remaining working life of participating employees.
Other long-term benefits refer to employee benefits other than those provided after the end of the work relationship. They are accounted for in the same manner as defined-benefit plans.

Government Grants

Government grants are recognised at fair value, when there is reasonable assurance that all necessary conditions attached to them have been satisfied and the grants will be received.
Contributions received for specific costs are recorded as liabilities and credited to the Income Statement on a systematic basis over the periods necessary to match the grant income with the related expenditure.
Grants received for defined assets that are recorded as fixed assets are recognised as non-current liabilities and credited to the Income Statement in relation to the period in which depreciation is charged for the relevant assets.

Financial Assets and Liabilities

Equity investments in other entities are measured at fair value; when the fair value cannot be reliably determined, equity investments are measured at cost adjusted for impairment.
All other financial assets are initially recorded at cost, which corresponds to fair value plus incidental expenses.
The Group classifies its financial assets as follows: financial assets recognised at fair value in the Income Statement, financial and trade receivables and other receivables and financial assets available for sale. Financial receivables and assets that Brembo does not hold for trading, including trade receivables, are initially measured at fair value and then at amortised cost. Trade receivables are subject to an impairment test based on assumptions on their collectability. When a trade receivable is deemed no longer collectable, it is completely written off.
Financial assets available for sale are measured at fair value and changes are recognised in the income statement.
Financial assets are cancelled from the balance sheet when the right to receive cash ceases or is transferred and the Group has transferred basically all risks and rewards associated with ownership.
Long-term receivables for which no interest rate is specified are accounted for by discounting future cash flows at current market rates. This increase is recognised in the Income Statement under "Financial income and charges".
Loans, payables and other financial and/or trade liabilities with a fixed or determinable maturity are disclosed in this category. Long-term debts are initially recognised at fair value, net of the transaction costs incurred. After initial recognition, these payables are evaluated using the criterion of discounted cost at the effective interest rate.
Long-term payables for which an interest rate is not specified are recorded by discounting future cash flows at market rate, if the payable value increases through the passage of time. This increase is recognised in the Income Statement under "Net financial income and charges".

Derivative instruments and risk management

Derivative instruments are initially recorded at fair value and adjusted for subsequent changes in fair value. The method used for measuring changes in fair value depends on the designation of the instrument as a hedging instrument and, if such is the case, the indication of the nature of the hedged transaction.
The Group uses derivative instruments in order to hedge the risk of movements in interest rates and exchange rates. In accordance with its defined strategy, the Group does not undertake transactions in derivatives on a speculative basis. Nevertheless, in the event that such transactions are not qualified as hedging operations in accounting terms, they are

accounted for as trading transactions. For derivatives designated as hedging instruments, at inception of the hedge, the Group formally documents the relationship between the hedging instruments and the hedged items. The Group also documents, both at inception of the hedge and subsequently, the hedging relationship and the effectiveness of the hedging instrument. In light of the foregoing, the following accounting methods are used:

1 fair value hedge: changes in fair value of hedging instruments are recognised in the Income Statement together with the changes in fair value of the hedged transactions;

2 cash flow hedge: "effective" changes in fair value of the derivative instrument are recognised under Equity and subsequently recognised in the Income Statement in the periods in which the hedged transactions affect the Income Statement.
"Ineffective" changes in fair value are recognised directly in the Income Statement.
When a hedging instrument expires or no longer meets the hedge accounting criteria, any residual change in fair value remains in Equity and is recognised when the hedged transaction is recorded in the Income Statement;

3 derivative instruments that do not qualify as hedges: changes in fair value are recognised in the Income Statement.

In conducting its business, the Brembo Group is exposed to various market risks, including fluctuations in interest rates, in the foreign currencies in which the company operates and in the prices of commodities.

Interest rate risk management

Since most of the Brembo Group's financial debt is subject to variable interest rates, the Group is exposed to the risk of fluctuations in interest rates.
To reduce this risk, the Brembo Group has entered into hedging contracts with counterparties considered to be financially reliable to hedge a portion of its financial debt that is exposed to fluctuations in interest rates.
Specifically, Interest Rate Swap agreements are used to hedge approximately 26% of the Group's debt; under these agreements, the Brembo Group receives a variable interest rate from the financial intermediary while paying a fixed rate.
The objective of the Brembo Group is to eliminate the variability of the borrowing costs associated with a portion of debt and ensure sustainable fixed rates on its hedges.
The Brembo Group has arranged such transactions with the goal of achieving a correlation between the hedged item and the hedging instrument, so as to guarantee the effectiveness of the hedge, as required by International Accounting Standards. Lastly, it should be noted that, even for the portion of debt that is not covered by hedging contracts, indicators such as the ratio of borrowing costs to revenues or net operating income show that the impact of adverse changes in interest rates would be tolerable from a profitability standpoint.

Exchange rate risk management

As the Brembo Group operates in international markets, it is exposed to exchange rate risks.
The Brembo Group uses natural hedging (offsetting receivables and payables) to mitigate this risk, and hedges only net positions in foreign currency, using mostly short-term financing denominated in the currency to be hedged to compensate for imbalances.

The Brembo Group has also used forward contracts to minimise exchange rate risks (forward purchases and sales). In this case as well, only net positions are hedged. Clearly, with this choice, there is no guarantee that receivables will be collected by the time forward contracts mature, a condition that must be met to qualify as a cash flow hedge under IAS 39. If the conditions of a cash-flow hedge under IAS 39 are not met, Brembo measures the derivatives at fair value and records any changes to the Income Statement, while still considering such instruments as exchange-risk hedge from a financial standpoint.

Commodities risk management

The main commodities used by Brembo are cast-iron, aluminium and energy.
As there is no official quotation for cast-iron, Brembo cannot use hedging instruments and, as such, remains exposed to the risk of price fluctuations.
The Brembo Group manages aluminium price risk through its commercial policy.
As for energy, Brembo is impacted by price trends, although, in this case, the ratio to sales is immaterial (about 1.5% of sales).

An analysis of other types of financial risk indicates the following:

- ***Credit risk,*** i.e. the risk that one of the parties to a financial instrument will fail to perform an obligation, resulting in a financial loss to the other party. The Group manages this risk by choosing only counterparties that are considered to be financially reliable by the market and, accordingly, have a good credit standing. Furthermore, Brembo constantly monitors the health of the financial intermediaries with which it interacts.
- ***Liquidity risk,*** i.e. the risk that the company will have difficulty meeting commitments associated with maturing financial instruments. To meet these commitments, Brembo mainly depends on its cash flow from operations and, if necessary, short-term credit lines obtained through the financial intermediaries with which it interacts.
  It should be added that, with respect to this type of risk, in establishing the composition of its net financial debt, Brembo always tries to finance its investments with medium- to long-term debt (in addition to equity), while the current expenditure is financed through short-term lines of credit.

Revenues, Other Revenues and Income

Revenues are recorded in the Income Statement on an accrual basis and recognised to the extent that it is probable that the economic benefits associated with the sale of goods or provision of services will flow to the Group and the revenue can be reliably measured.
Revenues are reported net of sales returns, discounts, allowances and taxes that are directly associated with the sale of the product or provision of the service.

Sales of goods and services are recognised at the fair value of the consideration received when the following conditions are met:

- the risks and reward associated with ownership of the good are substantially transferred;

- the revenue amount can be measured reliably;
- it is probable that the economic benefits arising from the sale will flow to the company;
- the costs incurred or that will be incurred can be measured reliably.

Financial Income and Charges

Interest income/expense is recognised as financial income/charges after being measured on an accrual basis using the effective interest rate method.

Income Taxes

A provision is made for current taxes in compliance with the laws in force in the various countries in which the Group operates. Current taxes payable are recorded in the Balance Sheet net of any advance payments.
Deferred tax assets and liabilities are recorded in order to reflect the temporary differences at the reporting date, between the value attributed to an asset/liability for tax purposes and that attributed based on the accounting standards applied. They are measured using the tax rates that are expected to apply in the year when the assets will be realised or the liabilities will be settled, based on prevailing tax rates or those already enacted or substantially enacted at the reporting date.
Deferred tax liabilities are recorded for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences or unused tax losses or tax credits to the extent that it is probable that future income will be available against which such differences, losses or credits can be utilised.

Only in the cases listed below, deferred tax assets or liabilities do not have to be recognised for taxable or deductible temporary differences:
- taxable temporary differences arising from the initial recognition of goodwill;
- taxable or deductible temporary differences arising from the initial recognition of an asset or liability, in a transaction other than a business combination that, at the time of the transaction, does not influence accounting or taxable income;
- for equity interests in subsidiaries, associated companies and joint ventures, when the Group is able to control the timing of the reversal of the taxable temporary differences and it is probable that such differences will not be reversed in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of every period and is reduced to the extent that it is no longer probable that sufficient taxable income will be available in the future to allow the partial or full use of such assets.
Tax balances (current and deferred) attributable to amounts recognised directly in Equity are also recognised directly in Equity.

Current and deferred tax assets and liabilities are offset only when the legal right of offset exists; such amounts are recognised as receivables or payables in the Balance Sheet.

Dividends

Dividends are recognised when the shareholders' right to receive payment is established under local law.

Segment Reporting

A segment is a distinctly identifiable part of the business subject to different risks and rewards from those of the other segments.
The primary information for the Brembo Group is by activity segment, the "Automotive components" sector being that in which the company operates exclusively. Accordingly, in compliance with IAS 14, the company's primary segment reporting format is based on geographical segments. These business segments are subject to different risks and rewards depending on the specific elements that characterise them.
Geographical segment reporting is based on the geographical location of the assets.
The geographical areas in which the Brembo Group operates that have a distinct risk-reward profile are: Europe, America and Asia.
All income, cash flow and balance sheet figures for the secondary segment as defined by IAS 14 (which, for the Brembo Group, is the "Automotive components" segment) can been taken from the Consolidated Financial Statements.

Analysis of Each Item

BALANCE SHEET

1 Property, plant, equipment and other equipment

The changes in property, plant and equipment are shown in the table below and described in this section.

(euro thousand)	*Land*	*Buildings*	*Plant and machinery*	*Industrial and commercial equipment*	*Other assets*	*Assets in course of const. and payments on account*	*Total*
Historical cost	25,722	88,596	248,099	82,620	17,921	11,373	474,332
Accumulated amortisation	0	(17,389)	(157,352)	(65,322)	(12,231)	0	(252,295)
Balance at 31.12.2004	**25,722**	**71,207**	**90,747**	**17,298**	**5,690**	**11,373**	**222,037**
Changes:							
Translation differences	84	959	4,843	360	97	647	6,990
Reclassifications	21	(6,051)	3,996	13	(87)	(366)	(2,474)
Acquisitions	1,068	5,505	22,548	6,987	1,723	44,195	82,025
Transfers	0	(728)	(197)	(349)	(105)	0	(1,378)
Other	0	(104)	0	0	(3)	0	(106)
Depreciation	0	(2,899)	(20,337)	(7,787)	(1,566)	0	(32,589)
Impairment losses	0	0	0	(2)	0	0	(2)
Total changes	**1,173**	**(3,317)**	**10,853**	**(779)**	**60**	**44,476**	**52,466**
Historical cost	26,895	87,630	280,914	89,301	18,272	55,849	558,861
Accumulated depreciation	0	(19,740)	(179,314)	(72,782)	(12,522)	0	(284,358)
Balance at 31.12.2005	**26,895**	**67,890**	**101,600**	**16,519**	**5,750**	**55,849**	**274,503**
Changes:							
Translation differences	(67)	30	(2,024)	(180)	(112)	324	(2,029)
Reclassification/contingent liabilities	(363)	17,284	27,546	633	190	(45,837)	(547)
Available for sale assets (IFRS 5)	0	(394)	0	0	0	0	(394)
Acquisitions	0	3,945	41,158	7,303	2,672	14,654	69,732
Transfers	(2,673)	(8,413)	(2,417)	(270)	(21)	0	(13,794)
Depreciation	0	(3,325)	(21,018)	(6,904)	(1,430)	0	(32,677)
Impairment losses	0	(46)	0	0	0	0	(46)
Total changes	**(3,103)**	**9,081**	**43,245**	**582**	**1,299**	**(30,859)**	**20,245**
Historical cost	23,792	99,654	340,852	96,358	20,326	24,990	605,972
Accumulated depreciation	0	(22,683)	(196,007)	(79,257)	(13,277)	0	(311,224)
Balance at 31.12.2006	**23,792**	**76,971**	**144,845**	**17,101**	**7,049**	**24,990**	**294,748**

In 2006, property, plant and equipment for a total of €69,732 thousand were purchased.
The parent company Brembo S.p.A. invested €41.495 million in property, plant and equipment, mostly relating to the construction of a new industrial shed in Mapello (Bergamo) where several disc manufacturing operations will be relocated. Brembo signed an agreement with Intesa Leasing S.p.A. for the construction and subsequent leasing of these properties. Other investments were allocated to the purchase of machinery and the development of equipment to increase production levels for the car sector and, more in general, to increase the capacity of manufacturing plants.
Further major investments were made by the subsidiary Brembo Poland Sp. Zo.o. The subsidiary completed construction on the new cast-iron foundry in Dabrowa Gòrnicza for the manufacture of discs for both the aftermarket and original equipment market, and it upgraded the mechanical disc processing plants. The foundry became fully operational in 2006. Again in Poland, investments in the Czestochowa plants were allocated to increasing production capacity.

Total depreciation charges for 2006 amounted to €32,677 thousand.
Net decreases from disposals amounted to €13,794 thousand, mainly attributable to the sale of an industrial building in Italy no longer used for production purposes. As illustrated below, this sale generated a €2,882 thousand in capital gain. An office building, which was leased from 31 December 2005 and redeemed in 2006, was sold in the first quarter 2007. It was duly reclassified at 31 December 2006 among assets held for sale, suspending the relevant depreciation as its sale value was higher than recognised value.

It should be noted that some of the Parent Company's buildings are subject to liens as collateral for loans, for a nominal value of €5,681 thousand (€5,681 thousand at 31 December 2005).

At 31 December 2006, the net book value of assets held under finance leases totalled €40,032 thousand. A breakdown by asset category is provided below:

	31.12.2006		***31.12.2005***	
(euro thousand)	***Leased***	***Not leased***	***Leased***	***Not leased***
Land	1,812	21,980	1,812	25,083
Buildings	11,781	65,190	12,703	55,187
Plant and machinery	7,530	137,315	3,481	98,119
Industrial and commercial equipment	0	17,101	0	16,519
Other assets	118	6,931	135	5,615
Assets in course of construction and payments on account	18,791	6,199	9,747	46,102
Total	**40,032**	**254,716**	**27,878**	**246,625**

Note 13 provides more information on the Group's financial commitment with respect to assets purchased under finance leases.

2 Intangible Assets (Development Costs, Goodwill and Other Intangible Assets)

Movements in intangible assets are shown in the table below and described in this section.

(euro thousand)	***Development costs***	***Goodwill***	***Industrial patents and trademarks A***	***Other intangible assets B***	***Total intangible assets A + B***	***Total***
Historical cost	12,498	21,002	22,248	26,540	48,788	82,288
Accumulated amortisation	(2,981)	(6,189)	(20,329)	(22,034)	(42,363)	(51,533)
Balance at 31.12.2004	**9,516**	**14,813**	**1,920**	**4,506**	**6,426**	**30,755**
Changes:						
Translation differences	0	423	(1)	5	4	427
Reclassification	0	(90)	108	(20)	88	(2)
Acquisitions	10,625	0	1,088	2,083	3,171	13,796
Transfers	0	0	0	(2)	(2)	(2)
Amortisation	(1,350)	0	(888)	(3,124)	(4,011)	(5,362)
Impairment losses	(455)	0	0	0	0	(455)
Total changes	**8,820**	**333**	**307**	**(1,058)**	**(751)**	**8,402**
Historical cost	23,123	21,662	25,109	28,642	53,751	98,536
Accumulated amortisation	(4,787)	(6,516)	(22,882)	(25,194)	(48,076)	(59,379)
Balance at 31.12.2005	**18,336**	**15,146**	**2,227**	**3,448**	**5,675**	**39,157**
Changes:						
Translation differences	0	312	0	(26)	(26)	286
Reclassification	0	0	0	77	77	77
Acquisitions	11,344	0	573	2,498	3,071	14,415
Transfers	0	0	(1)	0	(1)	(1)
Amortisation	(2,962)	0	(768)	(1,544)	(2,312)	(5,274)
Impairment losses	(1,430)	0	0	0	0	(1,430)
Total changes	**6,952**	**312**	**(196)**	**1,005**	**809**	**8,073**
Historical cost	34,207	22,284	24,642	29,774	54,416	110,907
Accumulated amortisation	(8,919)	(6,826)	(22,611)	(25,321)	(47,932)	(63,677)
Balance at 31.12.2006	**25,288**	**15,458**	**2,031**	**4,453**	**6,484**	**47,230**

Development costs

The item "Development costs" includes costs for development, internal and external, for an original amount of €34,207 thousand. During 2006, this item changed due to higher costs incurred for jobs begun during the year and jobs begun in previous years for which additional development costs were incurred; amortisation was recorded for development costs associated with products that entered into mass production.

The gross amount includes development activities for projects underway totalling €11,922 thousand.

The total amount of costs for capitalized internal works charged to the Income Statement during the year amounted to €11,344 thousand.

Impairment losses totalled €1,430 thousand and are included in the Income Statement under "Depreciation, amortisation and impairment losses". Impairment losses refer to development costs incurred by the Parent Company, Brembo S.p.A. in relation to projects that, consistent with the desire of the customer or Brembo, were not completed or underwent changes in terms of their end destination. All impairment losses recognised in the Income Statement are attributable to the primary geographical segment Europe.

The amortisation of capitalised development costs is recognised under the appropriate heading in the Income Statement.

Goodwill

At 31 December 2006, the item "Goodwill" (totalling a net amount of €15,458 thousand) referred to the subsidiary AP Racing Ltd. (Europe geographical segment), which has been specified as a cash-generating unit. The unit's recoverable amount was calculated as its value in use.

The main assumptions used to determine the value in use of the cash-generating unit relate to the discount rate and growth rate. Specifically, calculations used cash-flow projections for the five-year period covered by the corporate business plan. Cash flows beyond the five-year period were extrapolated using a steady 0% medium- to long-term growth rate. The discount rate used was 7.5%, which reflected the current market assessments of the time value of money and the risks specific to the asset in question. The change in this item was entirely due to the performance of the pound with respect to the euro.

Other intangible assets

The item "Industrial patents and trademarks" includes costs for a total of €573 thousand for the registering of new patents or the filing of existing patents in other countries.

In 2006, Brembo began a three-year project for the gradual adoption of a new group-wide ERP information system. At 31 December 2006, the cost for the project and the adaptation of existing software amounted to €947 thousand.

3 SHAREHOLDINGS VALUED USING THE EQUITY METHOD (ASSOCIATED COMPANIES AND JOINT VENTURES)

This item includes Brembo's share of Equity in companies that are accounted for using the Equity method. The following table shows movements in the "Shareholdings" item:

(euro thousand)	***31.12.2005***	***Acquisitions and subscriptions***	***Exchange rates***	***Write-ups/ Write-downs***	***31.12.2006***
Brembo Ceramic Brake Systems S.p.A.	5,919	0	0	145	6,064
Nanjing Yuejin Automotive Brake System Co. Ltd.	2,447	0	(182)	85	2,350
KBX Motorbike Products Pvt. Ltd.	0	6,664	(540)	(15)	6,109
Petroceramics S.r.l.	0	500	0	2	502
Softia S.r.l.	168	0	0	7	175
Total	**8,534**	**7,164**	**(722)**	**224**	**15,200**

The key figures in these financial statements drafted in accordance to IFRS are listed below.

Companies under common control

		31.12.2006		***31.12.2005***
		Brembo Ceramic Brake Systems S.p.A.	***KBX Motorbike Products Pvt.Ltd.***	***Brembo Ceramic Brake Systems S.p.A.***
	COUNTRY	***ITALY***	***INDIA***	***ITALY***
(euro thousand)	***% OWNERSHIP***	***50%***	***50%***	***50%***
Non-current assets		8,455	6,634	9,648
Current assets		7,453	3,526	5,531
Non-current liabilities		(196)	0	(132)
Current liabilities		(3,586)	(2,832)	(3,211)
Equity		(12,126)	(7,328)	(11,836)
Sales of goods and services		12,738	8,512	11,102
Costs		(12,142)	(8,336)	(11,485)

Associated companies

		31.12.2006			31.12.2005	
		Softia S.r.l.	Nanjing Yuejin Automotive Brake System Co. Ltd.	Petroceramics S.r.l.	Softia S.r.l.	Nanjing Yuejin Automotive Brake System Co. Ltd.
	COUNTRY	ITALY	CHINA	ITALY	ITALY	CHINA
(euro thousand)	% OWNERSHIP	40%	27.75%	20%	40%	27.75%
Assets		1,332	10,838	1,452	965	12,227
Liabilities		(892)	(2,370)	(665)	(631)	(3,407)
Equity		(440)	(8,468)	(787)	(334)	(8,820)
Sales of goods and services		(2,174)	(10,108)	(1,042)	(1,527)	(7,624)
Net income (loss) for the year		106	308	67	53	(421)

On 4 February 2006, the Company subscribed its shareholding in KBX Motorbike Products Private Ltd., headquartered in Pune (India) and established as a joint venture between Brembo S.p.A. and Bosch Chassis Systems India Ltd., (formerly Kalyani Brakes Ltd.), a subsidiary of the Bosch Group; Brembo S.p.A. subscribed 50% of the share capital, paying a total of INR 357 million (approximately €6,664 thousand). This investment includes €2,462 thousand in goodwill.

On 21 November 2006 Brembo S.p.A. subscribed the €500 thousand increase in the share capital of Petroceramics S.r.l., thus acquiring 20% of the share capital in the company engaged in the research and development of innovative technologies for the production of technical and advanced ceramic materials. A preliminary assessment of the acquired assets and liabilities was made and a definitive measurement is still ongoing. Based on preliminary assessment, the investment includes €345 thousand in goodwill.

Under the Joint Venture agreement with the DaimlerChrysler Group (Brembo Ceramic Brake Systems S.p.A.), Brembo's partner has a put option allowing it to sell its share (50%) of Brembo Ceramic Brake Systems S.p.A. to Brembo S.p.A.; the option is exercisable in 2007. If such option is exercised for less than 50%, Brembo S.p.A. may exercise a call option to purchase the entire interest. The minimum price of the 50% share will be €2,000 thousand; the maximum price will be calculated using the discounted cash flow method.

4 Other Financial Assets (Investments in Other Companies and Derivatives)

This item is broken down as follows:

(euro thousand)	***31.12.2006***	***31.12.2005***
Shareholdings in other companies	4,477	4,476
Derivatives	1,107	0
Other	62	162
Total	**5,646**	**4,638**

The item "Shareholdings in other companies" comprises mainly the equity investment in Fundimak S.A. de C.V., which amounts to €4,383 thousand. Shareholdings in other companies are accounted for using the cost method and adjusted for impairment losses.
"Other" includes interest-free security deposits for utilities and automobile rental agreements.
Further information on the amount pertaining to derivatives are provided in **Note 13.**

5 Receivables and Other Non-current Assets

This item is broken down as follows:

(euro thousand)	***31.12.2006***	***31.12.2005***
Trade receivables	1,103	1,963
Income tax receivables	181	169
Non-income tax receivables	34	34
Total	**1,318**	**2,166**

The item "Trade receivables" mainly comprises the outstanding amount due beyond 12 months for the sale of a painting system by Brembo Rassini S.A. de C.V. (consolidated company) to Rassini Frenos S.A. de C.V. (minority shareholder in Brembo Rassini S.A. de C.V.).
Tax receivables mostly refer to applications for tax reimbursements.

6 Deferred Tax Assets and Liabilities

The net balance of deferred tax assets and liabilities at 31 December 2006 is broken down as follows:

(euro thousand)	***31.12.2006***	***31.12.2005***
Deferred tax assets	7,194	2,711
Deferred tax liabilities	(20,065)	(16,172)
Total	**(12,871)**	**(13,461)**

Deferred tax assets and liabilities were generated mainly due to temporary differences for accelerated depreciation and amortization, capital gains with deferred taxation, other income items subject to future deductions or taxation and other consolidation adjustments.
Provision movements for the year are shown below:

(euro thousand)	***31.12.2006***	***31.12.2005***
Balance at beginning of year	(13,461)	(7,973)
Allocation for deferred tax liabilities	(3,575)	(7,426)
Allocation for deferred tax assets	5,404	4,107
Use of deferred tax assets and liabilities	(1,403)	(1,441)
Translation fluctuations	220	(347)
Tax rate changes	298	0
Reclassification	(4)	(381)
Hedging reserve	(350)	0
Balance at end of year	**(12,871)**	**(13,461)**

The temporary differences that generated deferred tax assets and liabilities are detailed below:

	Assets		***Equity and liabilities***		***Net***	
(euro thousand)	***31.12.2006***	***31.12.2005***	***31.12.2006***	***31.12.2005***	***31.12.2006***	***31.12.2005***
Property, plant, equipment and other equipment	1,984	766	17,970	13,799	(15,986)	(13,033)
Development costs	0	0	4,888	6,127	(4,888)	(6,127)
Other intangible assets	35	13	94	665	(59)	(652)
Other financial assets (investments in other companies)	26	0	343	0	(317)	0
Trade receivables	156	1,285	514	0	(358)	1,285
Inventories	2,950	1,738	615	0	2,335	1,738
Other receivables and current assets	38	79	0	0	38	79
Cash and cash equivalents	4	15	0	0	4	15
Financial liabilities	0	0	0	133	0	(133)
Other financial liabilities	967	0	188	40	779	(40)
Other liabilities	764	1,588	68	0	696	1,588
Provisions for contingencies and charges	735	350	0	0	735	350
Provisions for employee benefits	1,328	1,445	715	685	613	760
Trade payables	1,191	1,317	0	0	1,191	1,317
Other	2,512	0	166	608	2,346	(608)
Compensation balance between deferred tax assets and liabilities	(5,496)	(5,885)	(5,496)	(5,885)	0	0
Total	**7,194**	**2,711**	**20,065**	**16,172**	**(12,871)**	**(13,461)**

The item "Compensation balance between deferred tax assets and liabilities" refers to the offsetting by individual companies between deferred tax assets and liabilities, to provide a correct presentation of this item in the financial statements.

Deferred taxes were not recognised on subsidiaries' retained earnings, as the Group is able to control the timing of the distribution of such reserve and it is probable that it will not be distributed in the foreseeable future.
Deferred tax assets were recognised by Group companies only if a critical assessment determined that the conditions had been met for the future recoverability of such assets on the basis of current strategic plans; specifically the subsidiary Brembo Poland Spolka Zo.o., which is located in a special economic zone, has the right to subtract 50% of its investments from current taxes. This benefit can be used until 2016. The company recognised a deferred tax asset amounting to €2,152 thousand at 31 December 2006 in connection with the benefit the Company expects to achieve for 2007, based on its plans. The fact that Poland will join the European Union makes it uncertain whether the country will maintain its economic and fiscal policy over the next ten years.
The potential future benefit assessed at 31 December 2006 amounts to PLN 96 million (approximately €25 million).

7 Inventories

A breakdown of net inventory, which is stated in the balance sheet net of the inventory write-down provision, is shown below:

(euro thousand)	***31.12.2006***	***31.12.2005***
Raw materials	60,309	56,008
Work in progress	28,916	25,580
Finished products	53,540	55,960
Goods in transit	3,853	5,270
Total	**146,618**	**142,818**

An analysis of the movements of the inventory write-down provision, which at 31 December 2006 totalled €6,894 thousand, is shown below:

(euro thousand)	***Balance at 31.12.2005***	***Provisions***	***Use***	***Exchange rate fluctuation***	***Other***	***Balance at 31.12.2006***
Inventory write-down provision	6,102	3,639	(2,952)	(13)	118	6,894

8 Trade receivables

At 31 December 2006, the balance of trade receivables compared to the previous year was as follows:

(euro thousand)	***31.12.2006***	***31.12.2005***
Trade receivables	181,291	152,606
Receivables from associated companies	1,356	477
Total	**182,647**	**153,083**

The amount of trade receivables at 31 December 2006 rose by €28,685 thousand compared to 31 December 2005, in relation to higher volumes of sales compared with the last few months of the previous financial year.
Receivables from associated companies include €648 thousand in trade receivables from Brembo Ceramic Brake Systems S.p.A., €300 thousand from KBX Motorbike Products Private Ltd. and €408 thousand from Petroceramics S.r.l.
Trade receivables are stated net of the provision for bad debts, which amounted to €2,880 thousand. Movements in the provision for bad debts are shown below:

(euro thousand)	***Balance at 31.12.2005***	***Fluctuation***	***Exchange rate Provisions***	***Use***	***Other movements***	***Balance at at 31.12.2006***
Provision for bad debts	2,406	731	1	(550)	19	2,607
Taxed provision for bad debts	281	0	0	(8)	0	273
Total	**2,687**	**731**	**1**	**(558)**	**19**	**2,880**

The bad-debt risk is not concentrated in any one area, as the Group has a large number of customers spread across the various geographical areas in which it operates.

9 Other Receivables and Current Assets

This item is broken down as follows:

(euro thousand)	***31.12.2006***	***31.12.2005***
Receivables from others	2,332	11,264
Tax receivables	1,363	5,743
Non-income tax receivables	27,100	20,937
Other receivables	1,321	1,614
Total	**32,116**	**39,557**

Receivables from other sharply decreased due to the invoicing and collection at the end of the year of costs borne for the construction of the new technological centre in Stezzano following the agreement reached between Brembo S.p.A. and Pioneer Investment Management S.g.r.p.A. The amount receivable at 31 December 2005 was €9,432 thousand.
Non-income tax receivables mainly included VAT receivables.

10 Financial Current Assets and Derivatives

This item is broken down as follows:

(euro thousand)	***31.12.2006***	***31.12.2005***
Other securities	0	1,033
Derivatives	415	153
Other	76	9,873
Total	**491**	**11,059**

In January 2006, €1,033 thousand in BNL bonds at maturity were repaid.
In 31 December 2005, the item "Other" included a short-term €7,487 thousand guarantee deposit to cover an interest-bearing collateral transaction in Australian dollars. The deposit was paid back in November 2006. The remaining €2,386 thousand outstanding at 31 December 2005 mostly includes receivables of Brembo China Brake Systems Co. Ltd. (consolidated company) from partners Simest S.p.A. and Venture Capital Fund for China for the €2,381 thousand in share capital still to be paid in, entirely settled in 2006.
Further information on the company's derivatives is provided in **Note 13**.

11 Cash and Cash Equivalents

Cash and cash equivalents include:

(euro thousand)	***31.12.2006***	***31.12.2005***
Bank and postal accounts	40,656	32,130
Cash-in-hand and cash equivalents	53	70
Total cash and cash equivalents	**40,709**	**32,200**
Payables to banks: ordinary current accounts and foreign currency advances	(112,496)	(87,285)
Cash and cash equivalents from Cash Flow Statement	**(71,787)**	**(55,085)**

The values shown can be readily converted into cash and are subject to an immaterial risk of change in value. At the reporting date, it is deemed that the book value of cash and cash equivalents approximates their fair value.

12 Equity

Consolidated Equity at 31 December 2006 increased by €27,908 thousand compared to 31 December 2005, mainly due to net income for the year amounting to €42,945 thousand, which was offset by negative exchange rate fluctuations for the translation of the subsidiaries' financial statements denominated in currencies other than the euro, amounting to €2,159 thousand, and the dividend payout of €14,025 thousand.

The hedging reserve increased by €1,153 thousand, due to fair value accounting of hedging derivatives.

Share capital

The subscribed and paid up share capital amounted to €34,728 thousand at 31 December 2006. It is divided into 66,784,450 shares with a nominal value of €0.52 each.
The table below shows the composition of the share capital and a reconciliation of the number of shares outstanding at 31 December 2005 and at 31 December 2006:

(No. of shares)	***31.12.2006***	***31.12.2005***
Ordinary shares issued	66,784,450	66,784,450
Total shares outstanding	**66,784,450**	**66,784,450**

Other reserves

In accordance with the resolution passed at the Shareholders' Meeting of 28 April 2006, the Parent Company allocated net income for 2005 to the legal reserve in the amount of €188 thousand. A resolution was also passed entailing the distribution of dividends to the shareholders in the amount of €14,025 thousand (€0.21 per outstanding share).

Own shares

Also at the Shareholders' Meeting of 28 April 2006, the plan for the purchase of own shares was renewed. According to the plan, the company may purchase and sell, one or more times during the 18-month term of the plan itself, a maximum of 1,800,000 shares for a price ranging from €0.52 to €10.00 per share.

13 Financial Debt and Derivatives

This item is broken down as follows:

	31.12.2006			***31.12.2005***		
(euro thousand)	***Due within one year***	***Due after one year***	***Total***	***Due within one year***	***Due after one year***	***Total***
Payables to banks:						
– *ordinary current accounts and advances*	112,496	0	112,496	87,285	0	87,285
– *loans*	14,574	30,919	45,493	25,607	37,716	63,323
Total	**127,070**	**30,919**	**157,989**	**112,892**	**37,716**	**150,608**
Payables to other financial institutions	4,317	73,205	77,522	3,157	71,548	74,705
Derivatives	0	10	10	69	46	115
Total	**4,317**	**73,215**	**77,532**	**3,226**	**71,594**	**74,820**

The following table provides details on loans and amounts due to other financial institutions:

(euro thousand)	*Original amount*	*Amount at 31.12.2005*	*Amount at 31.12.2006*	*Portion due within one year*	*Portion due between 1 and 5 years*	*Portion due after 5 years*
Payables to banks:						
San Paolo I.M.I. loan Law 346/88 (reinforced aluminium project)	3,091	2,950	2,845	604	2,241	0
Banca Intesa financing	1,678	1,289	0	0	0	0
Banca Intesa credit line	4,298	3,390	3,037	3,037	0	0
Banco Santander Central Hispano loan	6,837	269	0	0	0	0
Unicredito credit line	14,000	11,923	9,110	2,800	6,310	0
EIB loan	20,000	19,946	20,057	2,557	13,333	4,167
Loan 241/01 Banco Santander Central Hispano	1,042	200	0	0	0	0
B.B.V.A. loans	4,000	1,437	781	566	215	0
B.N.D.E.S. loan	2,384	407	0	0	0	0
San Paolo I.M.I. loan	26,000	6,500	0	0	0	0
Banca Intesa loan	50,000	15,000	5,000	5,000	0	0
DaimlerChrysler Services	14	12	10	10	0	0
San Paolo I.M.I. loan (China project)	4,653	0	4,653	0	2,326	2,327
Total payables to banks	**137,997**	**63,323**	**45,493**	**14,574**	**24,425**	**6,494**
Payables to other financial institutions:						
Loan from Ministry of Productive Activities Law 46/82 (CCM project)	1,445	1,900	2,392	262	800	1,330
MICA Law 46 loan (electrical car)	221	164	146	24	96	26
Simest loan Law 394/USA	2,065	1,360	1,079	333	746	0
Payables to other financial institutions/ financial leases	27,369	16,706	19,445	3,265	12,723	3,457
Banca Intesa bond	50,000	50,226	50,349	349	50,000	0
Simest S.p.A.	4,062	4,349	4,111	84	0	4,027
Total payables to other financial institutions	**85,162**	**74,705**	**77,522**	**4,317**	**64,365**	**8,840**
TOTAL	**223,159**	**138,028**	**123,015**	**18,891**	**88,790**	**15,334**

The following table provides details on the composition of the Group's debt from financial leases. Instalments are broken down by principal and interest due.

	31.12.2006			31.12.2005		
(euro thousand)	***Instalment***	***Share of interest***	***Share of principal***	***Instalment***	***Share of interest***	***Share of principal***
Within one year	3,839	574	3,265	3,090	417	2,673
Between 1 and 5 years	14,015	1,292	12,723	11,388	960	10,428
After 5 years	3,475	18	3,457	3,682	77	3,605
Total	**21,329**	**1,884**	**19,445**	**18,160**	**1,454**	**16,706**

The table below shows the debt structure broken down by annual interest rate and currency at 31 December 2006:

(euro thousand)	***Fixed rate***	***Variable rate***	***Total***
Euro	14,569	105,409	119,978
US Dollar	0	3,037	3,037
Total	**14,569**	**108,446**	**123,015**

Lastly, it should be noted that, at 31 December 2006, financial debts backed by collateral amounted to €2,845 thousand (€3,353 thousand at 31 December 2005).
For as long as the €20 million EIB loan is outstanding, Brembo Poland Spolka Zo.o. is committed to not forming liens, mortgages, or privileges on assets and revenues in guarantee of other forms of debt.
The same restriction is in place for the €50 million bond issued by Brembo S.p.A. and Brembo International S.A.

At 31 December 2006, there were no significant covenants and for those outstanding compliance with provisions was verified.

At 31 December 2006, the following financial derivatives were accounted for at fair value:

	31.12.2006		31.12.2005	
(euro thousand)	***Positive fair value***	***Negative fair value***	***Positive fair value***	***Negative fair value***
Cash flow hedge	1,523	(10)	12	(3)
Derivatives held for trading	0	0	141	(112)
Total	**1,523**	**(10)**	**153**	**(115)**

The fair value of financial derivatives was determined considering market values at the date of the financial statements and using the following criteria: the fair value of Interest Rate Swaps was determined by discounting estimated future cash flows, based on the forward rates curve.

The following table shows the notional value of the financial derivatives in existence at 31 December 2006:

(euro thousand)	***31.12.2006***	***31.12.2005***
Interest rate risk management	52,000	52,000
Other derivatives	0	13,746
Total	**52,000**	**65,746**

In detail, derivatives in existence include: Interest Rate Swaps established to manage interest rate risk arising as a result of financial debt that is subject to interest rate fluctuations:

- IRS entered into by Brembo S.p.A. to hedge the bond that was privately placed by Brembo International S.A., nominal value €50 million. The notional value of the IRS is €30 million, meaning that only a portion of the debt has been hedged.
  Fair value at 31 December 2006 was €1,040 thousand, of which €801 thousand were recognised in "Other non-current financial assets" and €239 thousand in "Current financial assets and derivatives". In this case, hedge accounting (cash flow hedge) was applied, and the full effectiveness of the hedge was demonstrated; thus, the change in fair value was recorded under Equity.

- IRS entered into by Brembo Poland Spolka Zo.o. in order to hedge a loan granted by European Investment Bank, nominal value €20 million. The notional value of the IRS is €20 million, meaning that the loan is fully hedged, but the IRS matures before the loan (the hedge expires on 15 March 2010 and the loan expires on 15 June 2010).
  Fair value at 31 December 2006 was €482 thousand, of which €306 thousand were recognised in "Other non-current financial assets" and €176 thousand in "Current financial assets and derivatives". In this case, hedge accounting (cash flow hedge) applies, covering 94.36% of this amount. Therefore 94.36% of the change in fair value was recognised in Equity and the remaining 5.64% in the Income Statement.

- IRS entered into by Corporacion Upwards '98 S.A. with a notional value of €2 million in order to hedge a portion of its financial debt.
  The fair value, which was –€10 thousand at 31 December 2006, has been recorded under "Other non-current financial payables and derivatives". As the conditions for hedge accounting were not met in this case (specifically, the company's financial debt does not comprise loans that have the same characteristics as the IRS), the entire changes in fair value were recognised in the Income Statement.

Net financial position

The following table shows the reconciliation of the net financial position at 31 December 2006 (€193,290 thousand), and at 31 December 2005, amounting to €193,075 thousand based on the layout prescribed by CONSOB Communication No. 6064293 of 28 July 2006.

(euro thousand)		***31.12.2006***	***31.12.2005***
A	Cash	53	70
B	Other cash equivalents:	40,656	32,130
	Bank and postal accounts	*40,656*	*32,130*
C	Securities held for trading and financial instruments	1,523	153
D	**LIQUIDITY (A+B+C)**	**42,232**	**32,353**
E	Current financial receivables	0	0
F	Current payables to banks	112,496	87,285
G	Current portion of non-current debt	14,574	25,607
H	Other current financial debts	4,317	3,226
I	**CURRENT FINANCIAL INDEBTEDNESS (F+G+H)**	**131,387**	**116,118**
J	**NET CURRENT FINANCIAL INDEBTEDNESS (I–E–D)**	**89,155**	**83,765**
K	Non-current payables to banks	30,919	37,716
L	Bonds issued	50,000	50,000
M	Other non-current financial debts	23,216	21,594
N	**NON-CURRENT FINANCIAL INDEBTEDNESS (K+L+M)**	**104,135**	**109,310**
O	**NET FINANCIAL INDEBTEDNESS (J+N)**	**193,290**	**193,075**

14 Other Non-current Liabilities

This item is broken down as follows:

(euro thousand)	***31.12.2006***	***31.12.2005***
Trade payables	0	4
Other payables	9,081	8,652
Total	**9,081**	**8,656**

The item "Other payables" includes €6,397 thousand in outstanding payables due after one year for the acquisition in connection with the bankruptcy of the company Bradi S.p.A.

15 Provision for Contingencies and Charges

This item is broken down as follows:

(euro thousand)	Balance at 31.12.2005	Provisions	Use	Exchange rate fluctuations	Other	Balance at 31.12.2006
Other provisions for contingencies and charges	1,019	999	(180)	5	315	2,158
Provision for reorganisation	506	0	(131)	0	0	375
Provision for taxation	1,500	1,000	0	0	0	2,500
Total	**3,025**	**1,999**	**(311)**	**5**	**315**	**5,033**

Other provisions for contingencies and charges totalled €2,158 thousand, including product guarantees, supplemental customer indemnities in connection with the Italian agency contract. The remaining amount is attributable to probable future contingencies or litigation. The provision for reorganisation relates to agreements with employees in connection with implementation of the strategic plan.
The €1,000 thousand provision to taxes covers probable tax litigation.

16 Provisions for Employee Benefits

Group companies provide post-employment benefits through defined-contribution plans or defined-benefit plans.
In the case of defined-contribution plans, the Group companies pay contributions to public or private insurance institutes based on legal or contractual obligations or on a voluntary basis. Once such contributions have been paid, the companies have no further payment obligations.
The employees of the United Kingdom subsidiary AP Racing Ltd have the benefit of a corporate pension plan (AP Racing Pension Scheme), which is made up of two sections: the first is a defined contribution for employees hired after 1 April 2001 and the second is a defined benefit, for those already in service at 1 April 2001 (and previously covered by the AP Group Pension Fund). The defined-benefit plan is funded by employer and employee contributions made to a trustee that is legally separate from the enterprise providing benefits to its employees.
Unfunded defined-benefit plans refer to the "Employees' leaving entitlement" provided by the Group's Italian companies. These funds are calculated on an actuarial basis using the "Projected Unit Credit Method".
"Other employee provisions" refers to other employee benefits.

The balances at 31 December 2006 are shown below:

(euro thousand)	Balance at 31.12.2005	Provisions	Use	Financial charges	Other	Exchange rate fluctuations	Balance at 31.12.2006
Employees' leaving entitlement	22,360	4,962	(3,519)	973	0	0	24,776
Other	4,791	666	(1,443)	(224)	(4)	101	3,887
Total	**27,151**	**5,628**	**(4,962)**	**749**	**(4)**	**101**	**28,663**

As of 1 January 2007, the Italian Budget Law and its implementing decrees introduced significant changes to the employees' leaving entitlement (TFR), including giving employees the option to chose how their own leaving entitlement should be allocated. In detail, new employees' leaving entitlement flows may be allocated to the employee in the form of a chosen pension or kept with the company in which case the company pays the related contributions to a treasury account with INPS. Currently there is uncertainty over the interpretation of the recently issued law. The possible different interpretations over quantification of the maturing employees' leaving indemnities in accordance with IAS 19, the changes to the actuarial calculations of matured leaving entitlement as a result, and the fact that it is impossible to estimate employees' decisions on how to allocate maturing leaving indemnities (the decision deadline is 30 June 2007). Consequently, any assumption on actuarial changes in the calculation of employees' leaving entitlement maturing at 31 December 2006 would be premature.

The table below shows the main defined-benefit plans and a reconciliation of the liabilities recognised in the Balance Sheet, the costs recognised in the Income Statement and the main actuarial assumptions used:

(euro thousand)	***Unfunded plan (Employees' leaving entitlement)***		***Funded plan (Ap Racing plan)***	
End of financial year	***31.12.2006***	***31.12.2005***	***31.12.2006***	***31.12.2005***
A. Reconciliation of defined-benefit obligations				
Present value of defined-benefit obligation at beginning of year	24,931	21,138	19,028	15,609
Current social security cost	3,411	3,379	656	598
Interest charges	969	914	901	835
Employees' contributions	0	0	254	246
Plan changes	0	0	0	0
Net actuarial (gains) losses	(2,603)	1,299	855	1,369
Benefits paid by the plan or company	(1,962)	(1,799)	(751)	(72)
Expenses	0	0	0	0
Taxes	0	0	0	0
Insurance premiums	0	0	0	0
Net transfers (including the effect of mergers and demergers)	0	0	0	0
Decreases	0	0	0	0
Eliminations	0	0	0	0
Exchange rate fluctuations	0	0	97	444
Present value of defined-benefit obligation at year end	24,746	24,931	21,040	19,028

	Unfunded plan (Employees' leaving entitlement)		Funded plan (Ap Racing plan)	
End of financial year	*31.12.2006*	*31.12.2005*	*31.12.2006*	*31.12.2005*
B. Reconciliation of plan assets				
Fair value of plan assets at beginning of year	0	0	14,763	10,825
Expected return on plan assets	0	0	1,122	869
Net actuarial gains (losses)	0	0	965	1,839
Employer's contributions	1,962	0	1,424	752
Employees' contributions	0	0	254	246
Benefits paid	(1,962)	1,799	(751)	(72)
Expenses	0	(1,799)	0	0
Taxes	0	0	0	0
Insurance premiums	0	0	0	0
Eliminations	0	0	0	0
Business combinations	0	0	0	0
Exchange rate fluctuations	0	0	75	305
Fair value of plan assets at year end	0	0	17,852	14,763
C. Reconciliation of assets or liabilities recognised in the Balance Sheet				
Unfunded plans/Partially or fully funded plans				
Present value of funded defined-benefit obligation	0	0	21,040	19,028
Fair value of plan assets	0	0	(17,852)	(14,763)
Funded plan deficit (surplus)	0	0	3,188	4,265
Present value of unfunded defined-benefit obligation	24,746	24,931	0	0
Unrealised net actuarial gains (losses)	35	(2,571)	587	476
Net recognised actuarial gains (losses)	(5)	0	0	0
Social security (cost) for past unrecognised service	0	0	0	0
Amount not recognised among assets (as explained in paragraph 58b)	0	0	0	0
Net liabilities / (assets) at reporting date	**24,776**	**22,360**	**3,775**	**4,741**
Amounts recognised in the Balance Sheet:				
Liabilities	24,776	22,360	3,775	4,741
Assets	0	0	0	0
Net liabilities / (assets)	**24,776**	**22,360**	**3,775**	**4,741**

	Unfunded plan (Employees' leaving entitlement)		Funded plan (Ap Racing plan)	
End of financial year	*31.12.2006*	*31.12.2005*	*31.12.2006*	*31.12.2005*
D. Costs recognised in the Income Statement				
Amounts recognised in the Income Statement:				
Current social security (cost)	3,410	3,379	656	598
Interest payable	969	914	901	835
Expected return on plan assets	0	0	(1,122)	(869)
Expected return on reimbursement rights recognised as assets (paragraph 104A)	0	0	0	0
Amortisation of past social security costs	0	0	0	0
Net amortisation of actuarial (net income) loss	5	0	0	0
Effect of the limit explained in Paragraph 58b	0	0	0	0
Effect of plan reductions – recognised (income)/loss	0	0	0	0
Effect of plan cancellation – recognised (income)/loss	0	0	0	0
Total cost recognised in the Income Statement	**4,384**	**4,293**	**435**	**564**
E. Main actuarial assumptions				
Weighted average of the assumptions used for determining defined benefit-obligations				
Discount rates	4.50%	4.00%	5.10%	4.80%
Salary increases	3.50-5.00%	3.50%	4.05%	3.75%
Inflation rate	2.00%	2.00%	2.80%	2.50%
Increase in pensions	–	–	2.70%	2.50%
Weighted average of the assumptions used for determining contributions				
Discount rates	4.00%	4.50%	4.80%	5.20%
Expected rate of return on plan assets	0.00%	0.00%	7.47%	7.47%
Expected rate of salary increases	3.50%	3.50%	3.75%	4.05%
Inflation rate	2.00%	2.00%	2.50%	2.80%

	Unfunded Plan (Employees' leaving entitlement)		Funded plan (Ap Racing plan)	
	Percentage of assets	Expected return on assets	Percentage of assets	Expected return on assets
F. Plan assets				
Asset categories				
Shares	0.00%	0.00%	94.00%	7.80%
Bonds	0.00%	0.00%	0.00%	0.00%
Property	0.00%	0.00%	0.00%	0.00%
Other	0.00%	0.00%	6.00%	4.80%
Total	**0.00%**	**0.00%**	**100.00%**	**7.62%**
Amounts invested in financial instruments of the Company				
Assets allocated for the plan, invested in shares issued by the Company				
Assets allocated for the plan, invested in property used by the Company				

	Unfunded Plan (Employees' leaving entitlement)		Funded plan (Ap Racing plan)	
End of financial year	*31.12.2006*	*31.12.2005*	*31.12.2006*	*31.12.2005*
G. Past experience of actuarial gains and losses				
Difference between expected and actual returns on plan assets				
a. Amount	–	–	(965)	(1,839)
b. Percentage of assets at reporting date	0%	0%	–5%	–12%
Experience (gains) losses on liabilities				
a. Amount	(613)	1,300	855	1,369
b. Percentage of plan liabilities at reporting date	–2%	5%	4%	7%

17 Trade Payables

The following trade payables were recorded at 31 December 2006:

(euro thousand)	*31.12.2006*	*31.12.2005*
Trade payables and payments on account	159,284	150,458
Payables to subsidiaries and associated companies	1,768	520
Total	**161,052**	**150,978**

Payables to associated companies includes €1,181 thousand due to Brembo Ceramic Brake Systems S.p.A., €414 thousand to KBX Motorbike Products Private Ltd., and €173 thousand to Petroceramics S.r.l.

18 Tax Payables

This item reflects the net amount due for the current taxes of the Group's companies.

(euro thousand)	***31.12.2006***	***31.12.2005***
Tax payables	7,450	2,088

The changes for the year include taxes receivable amounting to €5,743 thousand at 31 December 2005 and €1,363 thousand at 31 December 2006 recognised in the item "Other current receivables and assets" (**note 9**). The overall change for the year is detailed as follows.

(euro thousand)	***31.12.2006***
Balance at beginning of year	**3,655**
Allocation for current taxes	(26,932)
Payments	16,447
Other movements	641
Translation fluctuations	102
Balance at end of year	**(6,087)**

19 Other Current Payables

Other current payables at 31 December 2006 are shown below:

(euro thousand)	***31.12.2006***	***31.12.2005***
Tax payables other than current taxes	4,220	3,608
Social security charges	7,188	7,971
Amounts due to employees	14,691	16,014
Other payables	10,782	7,272
Total	**36,881**	**34,865**

Amounts payable to employees include December wages paid in January.

The item "Other payables" includes the portion payable within twelve months of the remaining amount due for the acquisition of the bankruptcy procedure for the company Bradi S.p.A., amounting to €2,490 thousand.

It also includes €2,656 thousand due to for work to be completed for the technological centre in Stezzano.

INCOME STATEMENT

20 Sales of Goods and Services

Breakdown of sales of goods and services:

(euro thousand)	***31.12.2006***	***31.12.2005***
Italy	259,342	246,430
Abroad	672,625	597,093
Aggregate total	**931,967**	**843,522**
Intra-Group adjustments	(112,307)	(121,118)
Consolidated total	**819,660**	**722,404**
Allowances, discounts and returns	(14,434)	(11,800)
Intra-Group adjustments	760	1,011
Total	**805,986**	**711,615**

Group sales broken down by geographical area of destination and by application are shown in the Report on Operations. A breakdown by geographical area of production is provided in **note 32** "Segment Report".

21 Other Revenues and Income

These are made up of:

(euro thousand)	***31.12.2006***	***31.12.2005***
Miscellaneous recharges	3,564	3,182
Gains on disposal of assets	3,312	2,507
Miscellaneous grants	162	352
Other revenue	3,797	3,293
Total	**10,835**	**9,334**

Realised gains include €2,882 thousand from the sale of the Levate Industrial building, in December 2006.

22 Costs for Capitalised Internal Works

This item refers to the suspension of development costs incurred during the year, amounting to €11,344 thousand.

23 Raw Materials, Consumables, Goods and Changes in Inventories

The item is broken down as follows:

(euro thousand)	***31.12.2006***	***31.12.2005***
Change in inventories and inventory write-downs	(3,394)	(17,056)
Purchase of raw materials	386,713	340,287
Purchase of consumables	16,459	17,306
Allowances	(2,947)	(3,413)
Total	**396,831**	**337,124**

24 Other Operating Costs

These costs are broken down as follows:

(euro thousand)	***31.12.2006***	***31.12.2005***
Transports	25,064	23,404
Maintenance, repairs and utilities	31,396	25,833
Contracted work	42,952	39,865
Rent	8,824	8,908
Other operating costs	47,522	44,273
Total	**155,758**	**142,284**

25 Personnel Expenses

Breakdown of personnel expenses is as follows:

(euro thousand)	***31.12.2006***	***31.12.2005***
Wages and salaries	113,525	100,159
Social security contributions	31,705	29,708
Employees' leaving entitlement and other personnel provisions	5,633	5,434
Other costs	5,744	5,083
Total	**156,607**	**140,384**

The increase in personnel expenses is mostly attributable to the increase in the number of employees.
The Group continued to invest in human resources with the aim of enhancing professionalism and workplace safety.

Note 16 provides additional information on the costs incurred for defined-benefit plans in 2006.

The average number and the year-end number of Group employees by category compared with the previous year were as follows:

	Executives	***White-collar***	***Blue-collar***	***Total***
Year 2006 average	117	1,272	3,168	4,557
Year 2005 average	103	1,215	2,990	4,308
Changes	**14**	**57**	**178**	**249**
Total at 31.12.2006	122	1,284	3,297	4,703
Total at 31.12.2005	108	1,222	3,024	4,354
Changes	**14**	**62**	**273**	**349**

26 Depreciation, Amortisation and Impairment Losses

The item is broken down as follows:

(euro thousand)	*31.12.2006*	*31.12.2005*
Amortisation of intangible assets:		
Development costs	2,962	1,351
Industrial patents and similar rights for original work	651	722
Licences, trademarks and similar rights	117	165
Other intangible assets	1,544	3,124
Total	**5,274**	**5,362**
Depreciation of property, plant and equipment:		
Buildings	2,797	2,365
Leased buildings	528	533
Plant and machinery	20,355	19,679
Leased plant and machinery	663	658
Industrial and commercial equipment	6,902	7,787
Other property, plant and equipment	1,411	1,551
Other leased property, plant and equipment	20	15
Total	**32,676**	**32,588**
Impairment losses:		
Property, plant and equipment	46	2
Intangible assets	1,430	455
Total	**1,476**	**457**
TOTAL AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES	**39,426**	**38,407**

27 Net financial income (charges)

This item comprises:

(euro thousand)	31.12.2006	31.12.2005
Net exchange rate differences	(721)	1,141
Income (charges) from employees' leaving entitlement and other personnel provisions	(749)	(880)
Financial income (charges)	(7,949)	(6,662)
Other	59	76
Total	**(9,360)**	**(6,325)**

Net financial charges amounted to €9,360 thousand.

Interest on the debt increased compared to 2005, due to the increase in both average debt and interest rates. The sale of a derivative instrument held for trading generated a €886 thousand capital gain.

28 Net Financial Income (Charges) from Shareholdings

This item comprises:

(euro thousand)	31.12.2006	31.12.2005
Write-ups of shareholdings valued using the Equity method	274	21
Write-downs of shareholdings valued using the Equity method	(50)	(332)
Other income	2	2
Total	**226**	**(309)**

29 Taxes

The item is broken down as follows:

(euro thousand)	31.12.2006	31.12.2005
Current taxes	26,932	20,092
Deferred taxes	(722)	4,760
Total	**26,210**	**24,852**

At 31 December 2006, the total amount of deferred taxes relating to items that were posted to Equity was €342 thousand.

The ratio of taxes on income before taxes was 37.2% including deferred taxes, in line with the previous year.

30 Earnings per Share

Basic earnings per share at 31 December 2006 of €0.64 (2005: €0.61) was calculated by dividing the net income or losses for the year attributable to the holders of ordinary capital instrument of the Parent Company, by the weighted average number of ordinary shares outstanding during the year ended 31 December 2006, amounting to 66,784,450 (2005: 66,784,450). The weighted average did not change since the company did not issue any Equity instruments and there are not instruments issued, or about to be issued, that are convertible into shares.

31 Related Parties

Parties related to the Group include parent companies, subsidiaries, associated companies, joint ventures (for a list, see Attachments 1 and 2), directors and managers with strategic responsibilities. The Parent Company Brembo S.p.A. is a subsidiary of Nuova FourB S.p.A., which holds 56.52% of its share capital.

The table below summarised the impact of transactions with related parties on the Consolidated Financial Statements.

(euro thousand)	***31.12.2006***				
a) Impact of transactions with related parties on Balance Sheet items	***Book value***	***Related parties Total***	***Third parties***	***Intercompany***	***%***
Trade receivables	182,647	1,494	138	1,356	*0.8%*
Trade payables	(161,052)	(2,396)	(628)	(1,768)	*1.5%*
Other current payables	(36,881)	(127)	0	(127)	*0.3%*
b) Impact of transactions with related parties on Income Statement items	***Book value***	***Related parties Total***	***Third parties***	***Intercompany***	***%***
Sales of goods and services	805,986	2,605	2,252	353	*0.3%*
Other revenues and income	10,835	1,862	63	1,799	*17.2%*
Raw materials. consumables and goods	(396,831)	(11,128)	(9)	(11,119)	*2.8%*
Other operating costs	(155,758)	(2,281)	(2,237)	(44)	*1.5%*
Personnel expenses	(156,607)	(1,281)	(1,281)	0	*0.8%*
Net financial income (charges)	(9,360)	(1,346)	(1,349)	3	*14.4%*

Listed below is information pertaining the fees paid to Directors, Auditors and General Manager of Brembo S.p.A. and of other Group companies and additional information required:

Subject	***Office***		***Fees***			
Name and surname	***Office held***	***Term of office (per year)***	***Compensation for the office held***	***Non-monetary benefits***	***Bonuses and other incentives***	***Other compensation***
(euro thousand)						
Alberto Bombassei	Chairman of the BoD	2005-2006	1,000		305	
Stefano Monetini	Managing Director	2005-2007	25			
Paolo Biancardi	Member of BoD	2005-2007	25			
Cristina Bombassei	Member of BoD	2005-2007	25		19 (1)	77 (1)
Giancarlo Dellera	Member of BoD	2005-2007	25			
Giovanna Dossena	Member of BoD	2005-2007	25			
Andrea Gibellini	Member of BoD	2005-2007	25			
Umberto Nicodano	Member of BoD	2005-2007	25			137 (3)
Giuseppe Roma	Member of BoD	2005-2007	25			
Giovanni Cavallini	Member of BoD	2005-2007	25			
Matteo Tiraboschi	Member of BoD	2005-2007	25		108 (1)	173 (1)
Sergio Mazzoleni	Chairman of the Board of Statutory Auditors	2005-2007	37.5			
Enrico Cervellera	Auditor	2005-2007	25			
Andrea Puppo	Auditor	2005-2007	41 (2)			
Stefano Monetini	General Manager	indefinite term	435 (1)		437 (1)	

(1) compensation paid as employee salary

(2) compensation relates to Brembo S.p.A. and other Group companies

(3) compensation relates to professional services provided by the association Bonelli Erede Pappalardo and are stated on a cash basis.

32 Segment Report

The geographical areas (in terms of the location of operations) in which the Group operates and that are included in the primary segment are: Europe, America and Asia. The Group's geographical segments are determined based on the fixed assets of the individual entities located and operating in these areas; sales are mainly to the local market and primarily in the areas where the fixed assets are located.

Transfer prices applied to transactions between segments for the exchange of goods and services are settled according to usual market conditions.

Primary segment

The following table shows segment information on sales of goods and services and results at 31 December 2006 and 31 December 2005:

	Europe		*America*		*Asia*		*Inter-segment*		*Consolidated*	
(euro thousand)	***31.12.06***	***31.12.05***	***31.12.06***	***31.12.05***	***31.12.06***	***31.12.05***	***31.12.06***	***31.12.05***	***31.12.06***	***31.12.05***
Sales of goods and services	748,939	662,608	96,891	85,091	5,244	4,200	(22,909)	(20,326)	828,165	731,574
Costs	(637,396)	(561,086)	(87,079)	(75,268)	(6,905)	(4,411)	22,184	20,974	(709,196)	(619,792)
Gross operating income	**111,543**	**101,523**	**9,812**	**9,823**	**(1,661)**	**(211)**	**(725)**	**647**	**118,969**	**111,782**
Amortisation and depreciation	(35,952)	(35,238)	(3,290)	(3,155)	(194)	(13)	10	0	(39,426)	(38,407)
Net operating income	**75,591**	**66,284**	**6,522**	**6,668**	**(1,855)**	**(225)**	**(715)**	**647**	**79,543**	**73,375**
Financial income (charges)									(9,360)	(6,325)
Net financial income (charges) from investments	156	(193)			70	(117)			226	(309)
Income before taxes									**70,409**	**66,741**
Taxes									(26,210)	(24,852)
Income before minority interests									**44,199**	**41,889**
Minority interests									(1,254)	(1,378)
Group income for the year									**42,945**	**40,511**

The breakdown of Group sales by geographical area of destination and by application is provided in the Directors' Report on Operations.

The following table shows other segment information at 31 December 2006 and 31 December 2005:

	Europe		*America*		*Asia*		*Inter-segment*		*Consolidated*	
(euro thousand)	***31.12.06***	***31.12.05***	***31.12.06***	***31.12.05***	***31.12.06***	***31.12.05***	***31.12.06***	***31.12.05***	***31.12.06***	***31.12.05***
ASSETS										
Property, plant and equipment	269,951	246,208	23,617	27,176	1,703	1,119	(523)	0	294,748	274,503
Intangible assets	44,162	36,033	2,755	2,869	61	2	252	252	47,230	39,157
Shareholdings	44,941	37,623	0	0	0	0	(29,741)	(29,089)	15,200	8,534
Inventories	125,628	121,382	19,606	20,578	1,126	503	258	356	146,618	142,818
Trade receivables	182,970	154,512	19,963	19,186	976	411	(21,262)	(21,027)	182,647	153,083
Other non-current and current receivables and assets	29,076	38,209	3,716	3,417	642	97	0	0	33,434	41,723
Non-current assets held for sale	394								394	
Unallocable assets										
Non-current, current financial assets									6,137	15,697
Tax receivables									7,194	2,711
Cash and cash equivalents									40,708	32,200
TOTAL ASSETS									**774,310**	**710,426**
LIABILITIES										
Trade payables	151,838	145,019	27,393	29,125	3,084	1,040	(21,263)	(24,206)	161,052	150,978
Other current and non-current liabilities	43,707	41,641	1,827	1,725	428	155	0	0	45,962	43,521
Provisions for contingencies and charges	5,033	3,025	0	0	0	0	0	0	5,033	3,025
Provisions for employee benefits	28,609	27,101	0	0	54	50	0	0	28,663	27,151
Unallocable liabilities										
Financial debt and other										
Financial liabilities									235,521	225,428
Tax payables									27,515	18,260
TOTAL LIABILITIES									**503,746**	**468,363**
INVESTMENTS										
Property, plant and equipment	66,587	77,438	2,722	3,483	1,233	1,105	(810)	0	69,732	82,025
Intangible assets	14,347	13,412	0	381	68	3	0	0	14,415	13,796
TOTAL INVESTMENTS	**80,934**	**90,850**	**2,722**	**3,864**	**1,301**	**1,108**	**(810)**	**0**	**84,147**	**95,821**

All income, cash flow and balance sheet figures for the secondary segment (which for the Brembo Group is the Automotive components segment), as defined in “Accounting Principles and Valuation Criteria Segment Reporting” and by IAS 14, can been taken from the Consolidated Financial Statements.

33 Significant Events after 31 December 2006

There were no significant events between 31 December 2006 and 23 March 2007.

Curno, 23 *March* 2007

On behalf of the Board of Directors
The Chairman
Alberto Bombassei

(euro thousand)

PURCHASING COMPANY	*Brembo S.p.A.*	*Brembo Spolka Zo.o.*	*Brembo Scandinavia A.B.*	*Corporacion Upwards 98 S.A.*	*Brembo North America Inc.*	*Brembo Japan Co. Ltd.*	*Brembo Rassini S.A. DE C.V.*	*Brembo UK Ltd.*	*Marchesini S.p.A.*
SELLING COMPANY									
Brembo S.p.A.		7,026 [1]	4	4,345	9,641	1,942	2,228 [2]	1,962	1,061
Brembo Spolka Zo.o.	17,061 [5]								
Brembo Scandinavia A.B.	508								
Corporacion Upwards 98 S.A.	5,177							363	
Brembo North America Inc.	1,930					813	69		
Brembo Japan Co. Ltd.	571								
Brembo Rassini S.A. DE C.V.	710				4,291				
Brembo UK Ltd.	735								
Marchesini S.p.A.	1,105 [6]				66				
Brembo Do Brasil Ltda.	2,840						(7)		
Brembo International S.A.	1,672								
Brembo Participations B.V.									
Brembo Poland Spolka Zo.o.	31,811	11 [7]		2,252			93		
Ap Racing Ltd.	89								
Brembo China Brake Systems Co. Ltd.	192								
TOTAL CONSOLIDATED COMPANIES	**64,401**	**7,037**	**4**	**6,597**	**13,998**	**2,755**	**2,383**	**2,325**	**1,061**
Brembo Ceramic Brake Systems S.p.A.	10,524								
KBX Motorbike Products Pvt. Ltd.	780								
Petroceramics S.r.l.	70								
TOTAL	**75,775**	**7,037**	**4**	**6,597**	**13,998**	**2,755**	**2,383**	**2,325**	**1,061**

[1] : Of which €996 thousand for sales of property, plant and equipment
[2] : Of which €179 thousand for sales of property, plant and equipment
[3] : Of which €1,760 thousand for sales of property, plant and equipment
[4] : Of which €617 thousand for sales of property, plant and equipment
[5] : Of which €265 thousand for sales of property, plant and equipment
[6] : Of which €337 thousand for sales of property, plant and equipment
[7] : Of which €9 thousand for sales of property, plant and equipment

(SALES/PURCHASES)

Brembo Do Brasil Ltda.	Brembo International S.A.	Brembo Participations B.V.	Brembo Poland Spolka Zo.o.	Ap Racing Ltd.	Brembo China Brake Systems Co. Ltd.	CONSOLIDATED COMPANIES	Brembo Ceramic Brake Systems SpA	KBX Motorbike Products Pvt. Ltd.	Petroceramics S.r.l.	TOTAL
556			23,014 [3]	252	1,414 [4]	53,445	1,653	413	90	55,601
			389			17,450				17,450
						508				508
			24			5,564				5,564
						2,812				2,812
						571				571
83						5,084				5,084
						735				735
						1,171				1,171
			65			2,898				2,898
			59			1,731				1,731
	4		32			36				36
259						34,426				34,426
						89				89
						192				192
898	**4**	**0**	**23,583**	**252**	**1,414**	**126,712**	**1,653**	**413**	**90**	**128,868**
						10,524				10,524
						780				780
						70	30			100
898	**4**	**0**	**23,583**	**252**	**1,414**	**138,086**	**1,683**	**413**	**90**	**140,272**

(euro thousand)

PURCHASING COMPANY	*Brembo S.p.A.*	*Brembo Spolka Zo.o.*	*Brembo Scandinavia A.B.*	*Corporacion Upwards 98 S.A.*	*Brembo North America Inc.*	*Brembo Japan Co. Ltd.*	*Brembo Rassini S.A. DE C.V.*	*Brembo UK Ltd.*	*Marchesini S.p.A.*
SELLING COMPANY									
Brembo S.p.A.		4,127		2,084	10,923	706	4,034	1,035	2,553 [a]
Brembo Spolka Zo.o.	3,619								
Brembo Scandinavia A.B.	98								
Corporacion Upwards 98 S.A.	966							119	
Brembo North America Inc.	284					163	11		
Brembo Japan Co. Ltd.									
Brembo Rassini S.A. DE C.V.	1,385				1,372				
Brembo UK Ltd.	444								
Marchesini S.p.A.	70				19				
Brembo Do Brasil Ltda.	1,497	65							
Brembo International S.A.	50,360 [c]								
Brembo Participations B.V.									
Brembo Poland Spolka Zo.o.	9,590	(2)		1,264			88		
Ap Racing Ltd.	90								
Brembo China Brake Systems Co. Ltd.	192								
TOTAL CONSOLIDATED COMPANIES	**68,595**	**4,190**	**0**	**3,348**	**12,314**	**869**	**4,133**	**1,154**	**2,553**
Brembo Ceramic Brake Systems S.p.A.	1,307								
KBX Motorbike Products Pvt. Ltd.	414								
Petroceramics S.r.l.	173								
TOTAL	**70,489**	**4,190**	**0**	**3,348**	**12,314**	**869**	**4,133**	**1,154**	**2,553**

[a] : Of which €1,925 thousand intercompany loan
[b] : Of which €15,000 thousand intercompany loan
[c] : Intercompany loan
[d] : Intercompany loan
[e] : Debt arising on the sale of shares from Brembo Participations B.V. to Brembo International S.A.

(RECEIVABLES/PAYABLES)

Brembo Do Brasil Ltda.	Brembo International S.A.	Brembo Participations B.V.	Brembo Poland Spolka Zo.o.	Ap Racing Ltd.	Brembo China Brake Systems Co. Ltd.	CONSOLIDATED COMPANIES	Brembo Ceramic Brake Systems SpA	KBX Motorbike Products Pvt. Ltd.	Petroceramics S.r.l.	TOTAL
568			28,439 [b]	236	1,235	55,940	648	300	408	57,296
104			290			4,013				4,013
						98				98
			8			1,093				1,093
						458				458
						0				0
52						2,809				2,809
						444				444
						89				89
						1,562				1,562
			2,518 [d]			52,878				52,878
	51,251 [e]					51,251				51,251
						10,940				10,940
						90				90
						192				192
724	**51,251**	**0**	**31,255**	**236**	**1,235**	**181,857**	**648**	**300**	**408**	**183,213**
						1,307				1,307
						414				414
						173	42			215
724	**51,251**	**0**	**31,255**	**236**	**1,235**	**183,751**	**690**	**300**	**408**	**185,149**

List of Companies Consolidates on a Line-by-line Basis

COMPANY	HEADQUARTERS	
Brembo S.p.A.	Curno (BG)	Italy
Brembo International S.A.	Luxembourg	Luxembourg
Marchesini S.p.A.	Jerago con Orago (VA)	Italy
Brembo Performance S.p.A.	Curno (BG)	Italy
AP Racing Ltd.	Coventry	United Kingdom
Brembo Deutschland GmbH	Leinfelden-Echterdingen	Germany
Brembo China Brake Systems Co. Ltd.	Beijing	China
Brembo Participations B.V.	Amsterdam	The Netherlands
Brembo Scandinavia A.B.	Göteborg	Sweden
Brembo North America Inc.	Costa Mesa	United States
Brembo Spolka Zo.o.	Czestochowa	Poland
Brembo Japan Co. Ltd.	Tokyo	Japan
Brembo UK Ltd.	London	United Kingdom
Brembo Poland Spolka Zo.o.	Dabrowa Gornizca	Poland
Brembo do Brasil Ltda.	Betim	Brazil
Brembo Rassini S.A. de C.V.	Puebla	Mexico
Corporacion Upwards 98 S.A.	Zaragoza	Spain

		STAKE HELD BY GROUP COMPANIES			
SHARE CAPITAL		directly	indirectly		
euro	34,727,914				
euro	49,872,000	100%		Brembo S.p.A.	
euro	500,000	100%		Brembo S.p.A.	
euro	120,000	100%		Brembo S.p.A.	
Gbp	221,000	100%		Brembo S.p.A.	
euro	25,000	100%		Brembo S.p.A.	
Cny	103,500,000	60%		Brembo S.p.A.	
euro	49,722,000		100%	Brembo International S.A.	
Sek	4,500,000		100%	Brembo International S.A.	
US$	133,200		100%	Brembo International S.A.	
Zloty	15,279,546		100%	Brembo International S.A.	
Jpy	11,000,000		100%	Brembo International S.A.	
Gbp	600,000		100%	Brembo International S.A.	
Zloty	53,600,000		100%	Brembo International S.A.	
Brl	17,803,201		99.99%	Brembo International S.A.	
Mxn	110,849,230		76%	Brembo International S.A.	
euro	498,043		68%	Brembo International S.A.	

List of Companies Valued Using the Equity Method

COMPANY	HEADQUARTERS	
Brembo Ceramic Brake Systems S.p.A.	Stezzano (BG)	Italy
KBX Motorbike Products Ptv. Ltd.	Pune	India
Softia S.r.l.	Erbusco (BS)	Italy
Nanjing Yuejin Automotive Brake System Co. Ltd.	Nanjing	China
Petroceramics S.r.l.	Milano	Italy

		STAKE HELD BY GROUP COMPANIES	
SHARE CAPITAL		directly	indirectly
euro	2,000,000	50%	Brembo S.p.A.
Inr	140,000,000	50%	Brembo S.p.A.
euro	100,000	40%	Brembo S.p.A.
Cny	115,768,679	27.75%	Brembo S.p.A.
euro	123,750	20.00%	Brembo S.p.A.

Report of the Board of Statutory Auditors on the Consolidated Financial Statements for the Year Ended 31 December 2006

Shareholders of the Parent Company Brembo S.p.A.

This Report concerns the Consolidated Financial Statements of companies of the Brembo Group.
This Report acknowledges the responsibilities assigned to the Board of Statutory Auditors by Legislative Decree No.58 of 24 February 1998 and in this regard, it refers to the Report on Operations for the Financial Statements at 31 December 2006 of Parent Company Brembo S.p.A.

Based on these assumptions, the Board of Statutory Auditors notes as follows:

- it has obtained information and monitored, within the limits of its competence, whether the organisational structure of the company complies with the principles of proper administration. It has obtained information by direct observation, from executives involved in administrative duties, and from meetings with the Independent Auditors PricewaterhouseCoopers S.p.A., focused on a mutual exchange of relevant data and information;
- it has received from the Board of Directors, within the terms established by the law, the Financial Statements 2006 and the Report on Operations of Brembo S.p.A. and the Consolidated Financial Statements and Report on Operations;
- it has acknowledged that the Consolidated Financial Statements and the Report on Operations have been prepared in compliance with relevant regulations;
- it has acknowledged the certification of the Independent Auditors, which does not present any points of issue;
- the Financial Statements of the main subsidiary companies were reviewed by the respective Boards of Statutory Auditors, by an Auditor or by Independent Auditors.

During the monitoring activity, no significant facts have emerged that need be mentioned in this Report.

The Consolidated Financial Statements of Brembo for the year ended 31 December 2006 was drawn up in compliance with the provisions of European Regulation No. 1606/2002 and the IFRS effective at 31 December 2006, issued by the International Accounting Standard Boards (IASB) and adopted by EC Regulations.

The comparative figures at 31 December 2005 have been restated according to the same principles as those used at 31 December 2006.

The Consolidated Financial Statements submitted to the Shareholders' Meeting for their approval include the following summary, expressed in thousand of euro:

Balance Sheet

Assets	
Non-current assets	371,336
Current assets	402,580
Non-current assets held for sale and/or discontinued groups and/or operations	394
Total assets	**774,310**
Equity and liabilities	
Equity	270,564
Non-current liabilities	166,976
Current liabilities	336,770
Total equity and liabilities	**774,310**

Income Statement

Gross operating income	118,969
Net operating income	79,543
Income before taxation	70,409
Income before minority interests	44,199
Group income for the year	**42,945**

In our opinion, the Consolidated Financial Statements present a fair picture of Brembo Group's equity, financial situation and operating income for the year ended 31 December 2006, in compliance with above-mentioned accounting principles for consolidated financial statements.

Moreover, the Board of Statutory Auditors deems the Report on Group Operations correct and consistent with the Consolidated Financial Statements.

Curno, 11 April 2007

BOARD OF STATUTORY AUDITORS

Sergio Mazzoleni (Chairman)

Enrico Cervellera (Auditor)

Andrea Puppo (Auditor)

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

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

To the shareholders of
Brembo SpA

1 We have audited the consolidated financial statements of Brembo SpA and its subsidiaries ("Brembo Group") as of 31 December 2006, constituted by the balance sheet, income statement, statement of changes in shareholders' equity, cash flow statement and the related notes. These consolidated financial statements are the responsibility of Brembo SpA's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. In accordance with those standards and criteria, the audit has been planned and performed to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are reliable. An audit includes examining, on a sample basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference is made to our report dated 12 April 2006.

3 In our opinion, the consolidated financial statements of Brembo SpA as of 31 December 2006 comply with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38/2005; accordingly, they have been drawn up clearly and give a true and fair view of the financial position, results of operations, changes in shareholders' equity and cash flows of Brembo Group for the year then ended.

Milan, 11 April 2007

PricewaterhouseCoopers SpA

Signed by Luigi Migliavacca
(Partner)

This report has been translated from the original which was issued in accordance with Italian legislation. References in this report to the Consolidated Financial Statements refer to the Consolidated Financial Statements in original Italian and not to their translation.

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob – Altri Uffici: **Bari** 70125 Viale della Repubblica 110 Tel. 0805429863 – **Bologna** 40122 Via delle Lame 111 Tel. 051526611 – **Brescia** 25124 Via Cefalonia 70 Tel. 0302219811 – **Firenze** 50129 Viale Milton 65 Tel. 0554627100 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 30 Tel. 08136181 – **Padova** 35137 Largo Europa 16 Tel. 0498762677 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel. 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel. 011556771 – **Trento** 38100 Via Grazioli 73 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel.0458002561

About 500 technicians and engineers work
in Brembo's Research & Development Department.

A good reason to feel safe when braking.

Brembo S.p.A Separate Financial Statements at 31 December 2006

Brembo S.p.A. Separate Financial Statements at 31 December 2006

Balance Sheet at 31 December 2006

(euro)	***Notes***	***31.12.2006***	***31.12.2005***	***Change***
ASSETS				
Non-current assets				
Property, plant, equipment and other equipment	1	152,806,569	124,685,959	28,120,610
Development costs	2	25,284,001	18,323,884	6,960,117
Other intangible assets	2	6,106,992	5,187,718	919,274
Shareholdings	3	107,093,414	111,571,160	(4,477,746)
Other financial assets (investments in other companies and derivatives)	4	805,481	54,589	750,892
Receivables and other non-current assets	5	202,662	202,662	0
Total non-current assets		**292,299,119**	**260,025,972**	**32,273,147**
Current assets				
Inventories	7	86,825,826	83,532,926	3,292,900
Trade receivables	8	152,299,160	122,395,878	29,903,282
of which with related parties	*29*	*40,509,310*	*25,697,036*	*14,812,274*
Other receivables and current assets	9	5,112,592	22,588,291	(17,475,699)
Financial current assets and derivatives	10	17,234,152	10,616,341	6,617,811
of which with related parties	*29*	*16,924,600*	*1,940,956*	*14,983,644*
Cash and cash equivalents	11	2,728,323	3,125,581	(397,258)
Total current assets		**264,200,053**	**242,259,017**	**21,941,036**
Non-current assets held for sale and/or discontinued groups and/or operation		**394,000**	**0**	**394,000**
TOTAL ASSETS		**556.893.172**	**502.284.989**	**54.608.183**

(euro)	Notes	31.12.2006	31.12.2005	Change
EQUITY AND LIABILITIES				
Equity				
Share capital	12	34,727,914	34,727,914	0
Other reserves	12	106,463,797	111,081,070	(4,617,273)
Retained earnings (losses)	12	12,840,937	0	12,840,937
Profit / (loss) for the year	12	20,247,788	15,518,820	4,728,968
Total Equity		**174,280,436**	**161,327,804**	**12,952,632**
Non-current liabilities				
Non-current payables to banks	13	6,894,137	7,806,176	(912,039)
Other non-current financial payables and derivatives	13	61,944,981	62,458,960	(513,979)
of which with related parties	*29*	*50,000,000*	*50,000,000*	*0*
Other non-current liabilities	14	8,944,457	5,466,316	3,478,141
Reserves for non-current contingencies and charges	15	3,297,661	2,816,492	481,169
Provisions for employee benefits	16	24,692,552	21,466,794	3,225,758
Deferred taxes	6	16,899,903	14,253,636	2,646,267
Total non-current liabilities		**122,673,691**	**114,268,374**	**8,405,317**
Current liabilities				
Current payables to banks	13	94,039,092	81,588,251	12,450,841
of which with related parties	*29*	*0*	*15,734,480*	*(15,734,480)*
Other current financial payables and derivatives	13	2,741,872	5,419,176	(2,677,304)
of which with related parties	*29*	*360,067*	*3,415,732*	*(3,055,665)*
Trade payables	17	127,510,262	112,857,684	14,652,578
of which with related parties	*29*	*20,420,925*	*18,930,753*	*1,490,172*
Tax payables	18	5,869,510	0	5,869,510
Other current payables	19	29,778,309	26,823,700	2,954,609
of which with related parties	*29*	*126,735*	*126,735*	*0*
Total current liabilities		**259,939,045**	**226,688,811**	**33,250,234**
TOTAL EQUITY AND LIABILITIES		**556,893,172**	**502,284,989**	**54,608,183**

Brembo S.p.A. Separate Financial Statements at 31 December 2006

Operating Results at 31 December 2006

(euro)	Notes	31.12.2006	31.12.2005	Change
Sales of goods and services	**20**	**571,357,319**	**505,428,560**	**65,928,759**
of which with related parties	***29***	***43,996,805***	***33,826,988***	***10,169,817***
Other revenues and income	21	17,728,742	9,852,423	7,876,319
of which with related parties	*29*	*11,702,959*	*4,370,803*	*7,332,156*
Costs for capitalised internal works	22	11,344,385	10,625,000	719,385
Raw materials, consumables and goods	23	(305,490,530)	(269,962,748)	(35,527,782)
of which with related parties	*29*	*(69,880,508)*	*(67,670,802)*	*(2,209,706)*
Other operating costs	24	(104,335,128)	(90,616,122)	(13,719,006)
of which with related parties	*29*	*(5,671,372)*	*(6,609,308)*	*937,936*
Personnel expenses	25	(119,281,553)	(103,801,717)	(15,479,836)
of which with related parties	*29*	*(1,265,391)*	*(977,346)*	*(288,045)*
Gross operating income		**71,323,235**	**61,525,396**	**9,797,839**
Depreciation, amortisation and impairment losses	26	(24,131,846)	(24,372,691)	240,845
Net operating income		**47,191,389**	**37,152,705**	**10,038,684**
Net financial income (charges)	27	(6,485,455)	(5,781,212)	(704,243)
of which with related parties	*29*	*(2,170,369)*	*(701,415)*	*(1,468,954)*
Income before taxes		**40,705,934**	**31,371,493**	**9,334,441**
Taxes	28	(20,458,146)	(15,852,673)	(4,605,473)
NET INCOME FOR THE YEAR		**20,247,788**	**15,518,820**	**4,728,968**

Cash-flow Statement for the Year Ended 31 December 2006

(euro)	31.12.2006	31.12.2005
Cash and cash equivalents at beginning of year	**(61,818,492)**	**(49,813,545)**
of which with related parties	***(15,734,480)***	***(18,095,790)***
Net debt arising on merger	(7,536,248)	(10,990,193)
Cash and cash equivalents at beginning of year	**(69,354,740)**	**(60,803,738)**
Net income for the year before taxes	**40,705,934**	**31,371,493**
Depreciation, amortisation/impairment losses	24,131,846	24,296,545
Gains/Losses from disposal of fixed assets	(5,145,796)	(1,662,000)
Write-ups/Write-downs of shareholdings	0	243,000
Financial portion of provisions for payables for personnel	968,796	877,000
Long-term provisions for employee benefits	4,804,242	3,217,600
Other provisions net of utilisations	780,624	1,005,466
Net working capital generated by operations	**66,245,646**	**59,349,104**
Paid current taxes	(8,221,277)	(12,795,226)
Uses of long-term provisions for employee benefits	(3,332,147)	(1,655,859)
(Increase)/reduction in current assets:		
inventories	(1,391,181)	(7,291,611)
financial assets	(6,298,845)	(7,472,055)
of which with related parties	*(14,983,644)*	*(57,301)*
trade receivables and receivables from other Group companies	(18,403,915)	4,128,428
of which with related parties	*(14,812,274)*	*(97,486)*
receivables from others and other assets	16,043,067	(4,646,682)
Increase/(reduction) in current liabilities:		
trade payables and payables to other Group companies	9,906,213	(1,817,957)
of which with related parties	*1,490,172*	*4,228,071*
payables to others and other liabilities	1,041,263	298,187
of which with related parties	*(3,055,665)*	*3,415,732*
Net cash flow from / (for) operating activities	**55,588,824**	**28,096,329**
Investments in:		
intangible assets	(14,307,051)	(13,359,906)
property, plant and equipment	(42,096,806)	(26,977,222)
financial fixed assets (shareholdings)	(7,309,179)	(6,094,000)
Cost price for disposal, or reimbursement value of fixed assets	19,487,951	3,163,405
Cash flows from / (for) investing activities	**(44,225,085)**	**(43,267,723)**
Dividends paid in the year	(14,024,735)	(12,021,000)
Substitute tax paid	0	(540,000)
Loans and financing granted by banks and other financial institutions in the year	5,082,845	50,866,000
of which with related parties	*0*	*50,000,000*
Repayment of long-term loans	(18,773,389)	(24,148,360)
Cash flow from (for) financing activities	**(27,715,279)**	**14,156,640**
Total cash flow	**(16,351,540)**	**(1,014,754)**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**(85,706,280)**	**(61,818,492)**

Brembo S.p.A. Separate Financial Statements at 31 December 2006

STATEMENT OF MOVEMENTS IN EQUITY

(euro)	*Share capital*	*Legal reserve*	*Share premium reserve*	*Revaluation reserve*	*Fund Re. Law 46/82*	*Own share purchasing reserve*
Balance at 1 January 2005	**36,317,034**	**5,212,244**	**26,650,263**	**13,506,378**	**98,348**	**15,400,000**
Allocation of profit for the previous year		1,545,000				
Payment of dividends						
Decrease in share capital with cancellation of own shares	(1,589,120)					
Liberation of revaluation reserve Re. Law 331/04				(540,255)		
Liberation of reserve Re. Article 2426 of the It. Civ. Code						
Change in reserves from application of IAS 39						
FTA reserve of merged company (Bibielle S.p.A.)						
Net income (loss) for the year						
Rounding off						
Balance at 31 December 2005	**34,727,914**	**6,757,244**	**26,650,263**	**12,966,123**	**98,348**	**15,400,000**
Allocation of profit for the previous year		188,340				
Payment of dividends						
Plan for own share purchasing						2,600,000
Change in reserves from application of IAS 39						
Merger of FOMM S.p.A.						
Net income (loss) for the year						
BALANCE AT 31 DECEMBER 2006	**34,727,914**	**6,945,584**	**26,650,263**	**12,966,123**	**98,348**	**18,000,000**

Hedging reserves are net of the related tax effect

Extraordinary reserve	Taxed reserve for accelerated amor. and depr.	Goodwill arising from merger	Non-distributable reserve	FTA reserve	Hedging reserve	Retained earnings	Income for the year	Equity
20,020,534	**556,823**	**54,401**	**0**	**9,093,689**	**0**	**0**	**30,899,786**	**157,809,500**
16,786,585			547,000				(18,878,585)	**0**
							(12,021,201)	**(12,021,201)**
1,589,120								**0**
								(540,255)
547,000			(547,000)					**0**
					12,149			**12,149**
				548,792				**548,792**
							15,518,820	**15,518,820**
				(1)				**(1)**
38,943,239	**556,823**	**54,401**	**0**	**9,642,480**	**12,149**	**0**	**15,518,820**	**161,327,804**
						7,098,976	(7,287,316)	**0**
(5,793,231)							(8,231,504)	**(14,024,735)**
(2,600,000)								**0**
					684,740			**684,740**
		208,238		94,640		5,741,961		**6,044,839**
							20,247,788	**20,247,788**
30,550,008	**556,823**	**262,639**	**0**	**9,737,121**	**696,889**	**12,840,937**	**20,247,788**	**174,280,436**

Report of the Board of Statutory Auditors to the Shareholders' Meeting for Approval of the Financial Statements for the Year Ended 31 December 2006

Shareholders,

Pursuant to Art. 153 of Legislative Decree No. 58 of 24 February 1998, the Board of Statutory Auditors has to report to the General Meeting on its supervision and on omissions and censurable operations observed. Furthermore, the Statutory Auditors may put forward proposals with regards to Financial Statements, their approval or subjects for which they are qualified.

In compliance with the above-mentioned provision we submit the report herein.

During the year, the Statutory Auditors performed their tasks as per Art. 149 of the above-mentioned Decree and are now able to report the following information, in compliance with the provisions of CONSOB Circular of 6 April 2001:

1. During Board Meetings and periodic checks, Company Directors constantly informed us on the most significant economic and financial transactions carried out by the company.
   These transactions are part of the Group's strategic development plan and fully comply with laws and the Company By-laws. The main economic, financial and equity transactions carried out during financial year 2006 are listed below:
   a) on 4 February 2006, the Pune-based company KBX Motorbike Products Private Ldt. was formed. The company is a joint venture between Brembo and Bosch Chassis Systems India Ltd., a subsidiary of the Bosch group. Brembo subscribed 50% of the JV share capital for a total amount of INR 357 million (equal to €6.7 million);
   b) in October, Brembo Performance S.p.A. was incorporated. Brembo subscribed the entire share capital (amounting to €120 thousand) of the company, which designs, manufactures, and sells components and accessories for cars and vehicles. In November, through the subscription of a €500 thousand capital increase, Brembo acquired a 20% stake in Petroceramics S.r.l., a company specialising in research and development of innovative technologies for the production of technical and advanced ceramic materials; in November, Brembo also acquired a 100% stake in Brembo Deutschland GmbH for a total amount of €25 thousand. The German company will purchase and resell used cars in order to carry out tests;
   c) with a view to streamlining the corporate structure and achieving economies of scale, FOMM S.p.A. was merged by incorporation into Brembo S.p.A., which already held a 100% stake in the company;
   d) in December 2006, the sale of an industrial building in Levate, which was no longer used for production, generated a €3 million gain;
   e) finally, with a view to streamlining and simplifying the Group's structure Brembo Participations B.V. has started liquidation procedures, with subsequent transfer of its shareholdings to its Parent Company Brembo International S.A., which is fully controlled by Brembo S.p.A.
2. In 2006, the Company did not carry out any atypical or unusual transactions.
   No atypical or unusual transactions were carried out with related parties, nor were there any that can significantly affect the Company's economic, equity and financial situation.

No atypical or unusual transactions were carried out with third parties or with Group companies.

Ordinary transactions within the Group related to the purchase and sale of products, services and the transfer of fixed assets. The total amount of commercial transactions with other related parties was immaterial. All the transactions took place at prices that are in line with normal market values. These transactions are deemed fair and have been carried out in the interest of the Company.

In 2006, Brembo S.p.A. granted an €15 million market-rate interest-bearing loan to Brembo Poland Spolka Zo.o.;

3. It is noted that the Directors' Report on Operations contains specific detailed information regarding intra-Group transactions and transactions with related parties.

   Moreover, the Directors reported on the 2006-2008 three-year incentive plan approved by the Board of Directors on 24 March 2006. The Plan is aimed at executive directors and top managers of Brembo S.p.A. and its subsidiaries, 38 people overall, and involves a total commitment of up to €7 million.

4. The Independent Auditors' Report drafted on 11 April 2007 does not set forth any items particularly worthy of note.

5. In 2006, we did not receive any complaints from shareholders as per Art. 2408 of the Italian Civil Code.

6. In 2006, no claims were submitted to the Board of Statutory Auditors.

7. The Independent Auditors were assigned the task of auditing the balances of the IFRS reconciliation statements, for a cost of €15,000; a total amount of €90,400 was also paid for an accounting organisation activity to comply with new regulations introduced by Law 262/05 (Savings Law).

8. No assignments were conferred to parties with an ongoing relationship with PricewaterhouseCoopers.

9. During the financial year, the Board of Auditors issued an opinion on the prolongation of the Independent Auditors' assignment. It checked correct application of criteria and procedures followed by the Board of Directors to assess the level of independence of its own members, pursuant to Articles 3 and 5 of the Corporate Governance Code.

10. During 2006, the Board of Directors met eight times and the Board of Statutory Auditors met four times, whereas the Audit Committee met four times.

11. During the periodic audits and based on the information gathered from heads of departments and data and information received during our meetings with the independent auditors, we found that operations were carried out in full observance of the principles of proper management.

12. Brembo's organisational structure is constantly adjusted to the size and complexity reached by the company.

13. The internal audit system procedure is adequate and effective, and it appears to be suitable for pursuing risk prevention and ensuring the effective application of standards of corporate conduct, which have been acknowledged in the Code of Ethics.

    During the year, Internal Audits were focussed on a two-folded objective: risk prevention and detecting and eliminating any anomalies and irregularities.

    With reference to risk prevention, five management audits were planned and carried out, of which two at group companies. As for actions aimed at detecting anomalies, several ethical audits were conducted and on-site inspections were performed at the Italian facilities, with the goal of protecting physical assets. All the problems found were dealt with and resolved, or are currently under study by staff directly in charge of the same.

14. The administrative/accounting system seems to be fully adequate and reliable.
    Based on what we have observed and verified also during the previous periods, it correctly reflects operations.
    As of 2006, the Company adopted the IFRS: the Appendix on Transition to International Accounting Standards provides a detailed description of the effect of the transition to IFRS on the Company accounts. In 2006, a project on the phasing in of a new Group-wide ERP system aimed at improving the internal control system, especially with reference to foreign subsidiaries, as well as the quality, rapidity, and comparability of data from different companies.

15. The Company issued instructions to subsidiaries, as provided for by Article 114, paragraph 2, of Legislative Decree 58/1998: these instructions are deemed in line with regulations.

16. During the meetings held periodically with the Independent Auditors, pursuant to the provisions of Article 150 of the TUF (Unified Finance Act) no significant aspects emerged in relation to problems that come under our area of responsibility.

17. Brembo's System of Corporate Governance was implemented also in financial year 2006, fully complying with the provisions of the "Corporate Governance of Listed Companies" and the new requirements for companies listed on the STAR segment. In compliance with Art. 6 of Legislative Decree 231/2001, the Company continued all the necessary actions aimed at setting up an Organisation, Management and Control system capable of ensuring Brembo's non-responsibility for crimes pursuant to Italian Legislative Decrees 231/2001 and 61/2002.
    Training sessions were organised by conference calls with foreign associates, with a view to share Internal Audit activities and set up an institutional communication channel with individual companies which have each appointed a referee for control operations.
    Brembo's Corporate Governance Manual was brought in line with the recent edition of the Corporate Governance Code, issued by Borsa Italiana S.p.A. on 26 March 2006: the amended text was approved by the Board of Directors during the meeting held on 23 March 2007, together with the Rules for the Audit Committee and Instructions for the Management of Significant Transactions and Transactions Involving Conflicts of Interest.
    The procedures followed by the Company to adopt and implement the rules introduced by the Corporate Governance Code issued by Borsa Italiana are broadly described in the relevant report presented by the Board of Directors to the Ordinary Shareholders' Meeting. The Board of Auditors agrees with the content of said report.

18. During the year, we carried out the monitoring activities set forth in Article 149.
    During the meetings of the Board of Directors and our periodic meetings with the Directors, we were immediately informed of significant transactions and were able to obtain all the details required to analyse and evaluate their impact on the Company's economic and financial structure.
    During our frequent meetings with the Audit Committee and with the Independent Auditors, we were able to obtain detailed information on the Internal Auditing System and on the Company's level of administration-accounting organisation.

We can confirm that in performing our activities, we did not note any irregularities, omissions or censurable operations.

19. We hereby propose that the Shareholders' Meeting approve the Financial Statements for the year ended 31 December 2006 and we further express our favourable opinion on the proposal of the Board of Directors for the distribution of dividends.

Curno, 11 April 2007

BOARD OF STATUTORY AUDITORS

Mr. Sergio Mazzoleni *(Chairman)*
Mr. Enrico Cervellera *(Auditor)*
Mr. Andrea Puppo *(Auditor)*

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

To the shareholders of
Brembo SpA

1 We have audited the financial statements of Brembo SpA as of 31 December 2006, constituted by the balance sheet, income statement, statement of changes in shareholders' equity, cash flow statement and the related notes. These financial statements are the responsibility of Brembo SpA's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. In accordance with those standards and criteria, the audit has been planned and performed to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are reliable. An audit includes examining, on a sample basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

The financial statements present the prior year corresponding figures prepared in accordance with the same accounting principles. Furthermore, the Appendix named "Transition to International Financial Reporting Standards" to the notes to financial statements explains the effects of the transition to International Financial Reporting Standards as adopted by the European Union and includes the disclosures related to the reconciliation schedules required by IFRS 1. As shown in the notes to the financial statements, the directors reclassified the "Reconciliation Schedules" required by IFRS 1, which have been formerly approved and published tin appendix with the interim consolidated financial report for the six months period ended 30 June 2006.
These "Reconciliation Schedules" have been previously audited by us and reference is made to our report dated 9 October 2006. The information

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presented in the notes to financial statements, relating to the reclassification to the "Reconciliation Schedules" required by IFRS1, have been audited by us to provide reasonable basis for our opinion on financial statements as of 31 December 2006.

3 In our opinion, the financial statements of Brembo SpA as of 31 December 2006 comply with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38/2005; accordingly, they have been drawn up clearly and give a true and fair view of the financial position, results of operations, changes in shareholders' equity and cash flows of Brembo SpA for the year then ended.

Milan, 11 April 2007

PricewaterhouseCoopers SpA

Signed by Luigi Migliavacca
(Partner)

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