LANDIRENZO®

(Translation from the Italian original which remains the definitive version)

2006 Group Annual Report

Company bodies

Board of directors	
Chairperson	Giovannina Domenichini
Managing director	Stefano Landi
Directors	Silvia landi
	Paolo Gabbi

Board of statutory auditors	
Chairperson	Romano Merlatti
Standing auditors	Massimiliano Folloni
	Marina Torelli
Alternate auditors	Nicola Fontanesi
	Filomena Napolitano

Independent auditors	KPMG S.p.A.

Key shareholders of Landi Renzo S.p.A.

The parent's shareholding structure as at 31 December 2006 is summarised below.
The parent's share capital consists of 250,000 shares with a nominal value of € 10.00 each for a total of € 2,500,000.00.

Key shareholders	No. of shares	%
Girefin S.p.A.	237,500	95%
Treasury shares	12,500	5%

Group structure	
Landi Renzo S.p.A.	Parent
Landi S.r.l.	99% owned
Med S.p.A.	99.95% owned
LR Industria e Comercio Ltda (Brazil)	96% owned
Beijing Landi Renzo Autogas System Co Ltd (China)	100% owned
LR Pak Private Limited (Pakistan)	70% owned
Landi International B.V. (The Netherlands)	100% owned
* Eurogas Utrecht B.V. (The Netherlands)	100% owned
* Landi Renzo Polska Sp.Zo.o (Poland)	100% owned

*** 100% owned by Landi International B.V.**

Consolidated balance sheet

ASSETS	Note	IFRS Thousands of Euros 2006	IFRS Thousands of Euros 2005
Non-current assets			
Property, plant and equipment	1	24.581	18.296
Investment property	2	879	794
Development expenditure	3	1.095	514
Goodwill	4	2.988	2.988
Other intangible assets with finite useful lives	5	637	405
Other non-current financial assets	6	102	230
Deferred tax assets	7	1.193	1.450
Total non-current assets		**31.475**	**24.677**
Current assets			
Trade receivables	8	21.371	17.524
Inventories	9	32.161	22.255
Other receivables and current assets	10	7.368	4.717
Current financial assets	11	188	191
Cash and cash equivalents	12	9.771	9.346
Total current assets		**70.858**	**54.033**
TOTAL ASSETS		**102.333**	**78.710**

EQUITY AND LIABILITIES		2006	2005
Equity attributable to the shareholders of the parent			
Share capital		2.500	2.500
IFRS adjustment reserve		346	346
Other reserves		16.549	15.148
Retained earnings		7.319	3.558
Profit for the year		16.680	11.133
Total equity attributable to the shareholders of the parent	13	**43.394**	**32.685**
Minority interests	13	**160**	**307**
TOTAL EQUITY		**43.554**	**32.992**
Non-current liabilities			
Bank loans	14	5.673	1.047
Other non-current financial liabilities	15	7.083	8.172
Provisions for risks and charges	16	611	259
Defined benefit plans	17	2.419	2.052
Deferred tax liabilities	18	3.318	2.911
Total non-current liabilities		**19.105**	**14.440**
Current liabilities			
Bank overdrafts and short-term loans	19	3.207	1.253
Other current financial liabilities	20	1.212	1.193
Trade payables	21	24.447	19.668
Trade payables - related parties	22	3.178	3.846
Tax liabilities	23	2.690	1.344
Other current liabilities	24	2.352	2.388
Other current liabilities - related parties	25	2.588	1.585
Total current liabilities		**39.674**	**31.278**
TOTAL LIABILITIES AND EQUITY		**102.333**	**78.710**

Consolidated income statement

		IFRS	IFRS
		IFRS format	Thousands of Euros
CONSOLIDATED INCOME STATEMENT	**Note**	**2006**	**2005**
Revenue (goods and services)	26	138.689	92.287
Other revenue and income	27	530	585
Cost for raw materials, consumables and goods and change in inventories	28	-45.338	-31.485
Cost for raw materials - related parties	29	-17.746	-11.092
Cost for services and use of third party assets	30	-31.600	-20.098
Personnel expenses	31	-12.457	-10.126
Accruals, impairment losses and other operating expenses	32	-1.740	-721
Gross operating profit		**30.340**	**19.350**
Amortisation, depreciation and impairment losses	33	-2.885	-2.449
Operating profit		**27.455**	**16.901**
Financial income	34	254	332
Financial expenses	35	-1.164	-697
Exchange rate gains (losses)	36	332	497
Profit before tax		**26.876**	**17.033**
Income tax expense	37	-10.183	-5.683
Profit for the year, of which attributable to:		**16.693**	**11.351**
Minority interests		13	217
Shareholders of the parent		16.680	11.133
Basic earnings per share (in Euros)	38	66,72	44,53
Diluted earnings per share (in Euros)		66,72	44,53

Consolidated cash flow statement

CONSOLIDATED CASH FLOW STATEMENT	IFRS Thousands of Euros 2006	IFRS Thousands of Euros 2005
Opening cash and cash equivalents	**8.093**	**1.238**
Profit before tax (less minority interests)	**26.863**	**16.816**
Amortisation, depreciation and impairment losses	2.885	2.449
Accruals to provisions for employee benefits	553	394
Other accruals to provisions less utilisation	56	93
Current taxes paid	-9.474	-5.268
Government grants collected	-302	-599
Utilisation of provisions for employee benefits	-186	-329
(Increase) decrease in current assets:		
inventories	-9.906	-2.456
trade receivables	-3.846	-3.367
receivables due from others and other assets	-2.020	216
(increase) decrease in current liabilities:	0	0
trade payables	4.779	5.112
trade payables - related parties	-668	950
payables to others and other liabilities	2.333	2.851
Cash flows from operating activities	**11.068**	**16.861**
Changes in non-current assets:		
Investments in intangible assets	-1.372	-714
Disposals of intangible assets	13	26
Investments in property, plant and equipment	-8.800	-2.920
Disposals of property, plant and equipment	91	118
Investments in financial assets - equity investments	0	36
Investments in other non-current financial assets	-77	-95
Disposals of other non-current financial assets	127	2
Cash flows from investing activities	**-10.017**	**-3.547**
Dividends paid	-5.339	-5.005
Change in consolidation scope	-779	413
Loans obtained from banks and other financial backers during the year	4.622	-1.257
Interest and other financial expenses	-1.084	-611
Cash flows from financing activities	**-2.579**	**-6.459**
Total cash flows	**-1.529**	**6.855**
Closing cash and cash equivalents	**6.564**	**8.093**

Statement of changes in consolidated equity

Thousands of Euros	Share capital	Legal reserve	Statutory reserve	Extraordinary and other reserves	Profit for the year	Equity attributable to the shareholders of the parent	Profit attributable to minority interests	Share capital and reserves attributable to minority interests	Total equity
Balance at 1 January 2005	**2.500**	**430**	**1.394**	**18.840**	**3.234**	**26.398**	**-10**	**62**	**26.450**
Allocation of profit		70	134	3.030	-3.234	0	10	-10	0
Change in consolidation scope						0			0
Translation difference				153		153		35	188
Distribution of reserves				-5.000		-5.000		-5	-5.005
Capital injection for share capital increase								8	8
Profit for the year					11.133	11.133	217		11.351
Balance at 31 December 2005	**2.500**	**500**	**1.528**	**17.023**	**11.133**	**32.684**	**217**	**90**	**32.992**
Allocation of profit			295	10.839	-11.134		-217	217	0
Purchase of minority interests				-779		-779		0	-779
Translation difference				-190		-190		45	-145
Distribution of reserves				-5.000		-5.000		-339	-5.339
Share capital increase								132	132
Profit for the year					16.680	16.680	13		16.693
Balance at 31 December 2006	**2.500**	**500**	**1.823**	**21.893**	**16.679**	**43.395**	**13**	**145**	**43.554**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2006

LANDI RENZO GROUP

A) GENERAL INFORMATION

LANDI RENZO group has been active in the motor propulsion fuel supply system sector for more than fifty years, designing, producing and selling environmentally-friendly LPG and natural gas fuel supply systems ("LPG line" and "natural gas line", respectively). Its secondary business is the alarm system sector, in which it operates via its subsidiary Med S.p.A.. The group manages all the stages of the process from production to the sale of fuel supply systems for motor propulsion. Its customers are both international car manufacturers (OEM customers) and retailers and independent importers (after market customers).
The parent is LANDI RENZO S.p.A. with its registered office in Cavriago (RE).
LANDI RENZO group is managed and coordinated by Girefin S.p.A., pursuant to article 2497 of the Italian Civil Code.
These consolidated financial statements as at and for the year ended 31 December 2006 were drawn up and approved by the board of directors on 7 March 2007.
The figures disclosed in the consolidated financial statements, comprising a balance sheet, income statement, cash flow statement and statement of changes in equity together with these notes, are presented in thousands of Euros as the Euro is the functional currency of the primary economic environment in which the parent and the main group companies operate.

B) PREPARATION CRITERIA

Following the roll out of the project for the public offering and subsequent listing of the parent's ordinary shares on the stock exchange organised and managed by Borsa Italiana and as required by regulation no. 809/2004/EC and recommendation no. 05-054b of the Committee of European Securities Regulators ("CESR"), the parent has availed of the option to apply the International Financial Reporting Standards (“IFRS”) endorsed by the EU beginning from the year ended 31 December 2006 pursuant to Legislative decree no. 38 of 28 February 2005 for its consolidated financial statements.
The consolidated financial statements have been prepared in accordance with the IFRS issued by the International Accounting Standards Board ("IASB") effective at the balance sheet date and related SIC/IFRIC interpretations issued to date by the Standing Interpretations Committee and the International Financial Reporting Interpretations Committee.
The comparative consolidated figures included therein have been restated to comply with the IFRS.
The consolidated financial statements of LANDI RENZO group as at and for the year ended 31 December 2006 is the first set of consolidated financial statements to be drawn up under IFRS endorsed by the European Commission. Up until 31 December 2005, the group had prepared its consolidated financial statements in accordance with Italian GAAP issued by the Italian Accounting Profession (Consiglio dei Dottori Commercialisti e dei Ragionieri) and the Italian Accounting Standard Setter (Organismo Italiano di Contabilità - OIC).
There may be significant differences between such Italian standards and the IFRS. The parent's directors applied the accounting and consolidation criteria under IFRS to the consolidated financial statements as at and for the year ended 31 December 2006.
The group determined the effects of First-time adoption and prepared the reconciliation schedules required by paragraphs 39 and 40 of IFRS 1 First-time Adoption of International Financial Reporting Standards together with notes explaining the preparation criteria and captions included in such schedules.

Specifically, it was necessary to restate the 2005 comparative figures to reflect the changes introduced by adoption of the IFRS. The reconciliations and description of the effects of transition from Italian GAAP to the IFRS are set out in the annex to these notes.
The following are given:

• a reconciliation of the captions of the consolidated balance sheet as at 1 January 2005 and 31 December 2005;
• a reconciliation of the captions of the consolidated income statement for the year ended 31 December 2005;
• a reconciliation of consolidated equity as at 1 January 2005 and 31 December 2005;
• a reconciliation of consolidated profit for the year ended 31 December 2005;
These reconciliations are included as annexes hereto.

This annual report also includes a reconciliation of the captions of the consolidated cash flow statement for 2005 although the effects of adoption of the IFRS on the group's cash flow and the presentation format are immaterial.
These statements were approved by the parent's board of directors concurrently with the draft 2006 consolidated financial statements.
The independent auditors KPMG S.p.A. were engaged specifically to audit the IFRS reconciliation schedules as at 1 January 2005 and 31 December 2005.
The parent prepared its separate financial statements as at and for the year ended 31 December 2006 in accordance with Italian GAAP.
In order to prepare these consolidated financial statements, the parent restated the financial statements of its Italian and foreign subsidiaries, which had been drawn up in accordance with international standards.
The format of the consolidated income statement shows costs analysed by nature as this presentation is held to best represent the group's results.
The following standards have been applied consistently to all the periods presented.
Moreover, the IASB and IFRIC approved certain changes to the IFRS already published in the EU Official Journal. These changes are applicable for the first time from 1 January 2006.
They relate to:
- IAS 39, which provides for introduction of the option to measure financial assets and liabilities at fair value through profit or loss;
- IAS 21, which introduces and changes certain paragraphs on investments in foreign operations;
- the introduction of IFRIC 5 ("Rights to Interests arising from Decommissioning, Restoration. and Environmental Rehabilitation Funds"), IFRIC 6 ("Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment"), and IFRIC 7 ("Applying the Restatement Approach under IAS 29").
- application of IFRIC 4, (“Determining Whether an Arrangement Contains a Lease”).

No effects were noted from application of these changes to the standards or from the introduction of new standards and interpretations.

C) CONSOLIDATION PROCEDURES

Subsidiaries

A subsidiary is a company over which the parent has the direct or indirect power to control its operations in such a way as to benefit therefrom. Control exists when the parent holds the majority of the voting rights. Potential voting rights that are currently exercisable or convertible are also considered. The financial statements of the subsidiaries are consolidated on a line-by-line basis from the date of acquisition of control until their disposal.
As required by IFRS 3, subsidiaries acquired by the group are recognised using the purchase method whereby:
- the cost of the business combination is the fair values of the assets given, considering the possible issue of equity instruments, and liabilities assumed, increased by costs directly attributable to the business combination;
- the excess of the cost of the business combination over the acquirer’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill;
- if the cost of the business combination is smaller than the fair value of the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities, the difference is recognised directly in profit or loss;
- should the group acquire an additional interest in one of its subsidiaries, any excess of the consideration paid compared to the carrying amount of the additional interest is taken to equity; considering that acquisitions of additional interests after obtaining control are not specifically regulated by IFRS 3, the group has defined a policy whereby these acquisitions are treated as "equity transactions".

Intragroup payables and receivables, costs and revenue are eliminated as are the effects of all material transactions undertaken by group companies.

Specifically, unrealised profit with third parties on transactions performed among the group companies are eliminated, including unrealised profit on closing inventories.
Equity attributable to minority interests is shown separately; the profit attributable to minority interests is also recognised separately in the consolidated income statement.

Associates and jointly-controlled entities

An associate is a company over which the parent exercises significant influence but does not control its operations. This influence exists if the parent holds an investment of between 20% to 50% of the voting rights. Investments in associates are measured using the equity method.
IAS 31 defines a joint venture as a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Interests in joint ventures are recognised on a proportionate basis.

At 31 December 2006, the parent did not have investments in associates or interests in joint ventures.

TRANSLATION OF THE FINANCIAL STATEMENTS OF THE FOREIGN GROUP COMPANIES

The foreign currency financial statements are translated into the presentation currency using the closing rate for the balance sheet and the average annual rate for the income statement. Translation differences deriving from the adjustment of opening equity using the year-end spot rates and those due to different methods used to translate the profit for the year are taken to equity under other reserves.
The following table shows the exchange rates used to translate the foreign currency financial statements.

Exchange rate (Foreign currency vs. Euro)	31/12/2005	Average annual rate for 2005	31/12/2006	Average annual rate for 2006
Zloty – Poland	3.8600	4.0230	3.8310	3.8959
Real – Brazil	2.7432	3.0344	2.8133	2.7331
Renminbi – China	9.5204	10.1964	10.2793	10.0096
Rupia - Pakistan	70.5302	74.1464	80.2073	75.7151

D) CONSOLIDATION SCOPE

The consolidated financial statements include the financial statements of the parent LANDI RENZO S.p.A. and all the companies over which it exercises direct and indirect control.

COMPANIES CONSOLIDATED ON A LINE-BY-LINE BASIS

The consolidated financial statements include the financial statements of the parent LANDI RENZO S.p.A. and the companies over which the latter exercises direct and indirect control through the majority of voting rights at ordinary shareholders' meetings.
At 31 December 2006, LANDI RENZO group consists of the following companies, each of which is included in the consolidated financial statements on a line-by-line basis.

Company	Registered office		Fully paid-up share capital	Direct investment	Indirect investment
Landi Renzo S.p.A.	Cavriago (RE)	€	2,500,000	Parent	
Landi S.r.l.	Reggio Emilia (RE)	€	500,000	99.00%	0.00%
Med S.p.A.	Reggio Emilia (RE)	€	2,000,000	99.95%	0.00%
LR Industria e Commercio Ltda	Espirito Santo (Brazil)	R$	4,320,000	960.00%	0.00%
Landi International B.V.	Zeewolde (The Netherlands)	€	18,151	100.00%	0.00%
Beijing Landi Renzo Autogas System Co. Ltd	Beijing (China)	USD	2,600,000	100.00%	0.00%
Eurogas Utrecht B.V.	Zeewolde (The Netherlands)	€	36,800	0.00%	100.00%
Landi Renzo Polska Sp.Zo.O.	Warsaw (Poland)	PLN	50,000	0.00%	100.00%
L.R. Pakistan (Private) Limited	Karachi (Pakistan)	RKR	25,000,000	70.00%	0.00%

The following changes were made to the consolidation scope in 2006:

- Incorporation of a subsidiary in Pakistan on 10 November 2006 with two minority shareholders. This led to a change of € 84 thousand in equity attributable to minority interests.
- Acquisition of an additional interest of 26% in the Brazilian subsidiary LR Industria e Comercio Ltda for € 779 thousand from third parties. The greater consideration paid compared to the carrying amount of the net assets acquired was directly offset against equity attributable to shareholders of the parent. It was treated as an equity transaction.

COMPANIES CONSOLIDATED USING THE PROPORTIONATE METHOD

The group does not have any companies consolidated using the proportionate method.

COMPANIES CONSOLIDATED USING THE EQUITY METHOD

The group does not have any companies consolidated using the equity method.

E) ACCOUNTING POLICIES

The consolidated financial statements are prepared on a historic cost basis, except for securities classified as other current financial assets which are measured at fair value from 1 January 2005.
The accounting policies described below have been applied consistently to all the periods covered by these consolidated financial statements and to prepare the opening balance sheet as at 1 January 2005 for the purposes of transition to the IFRS endorsed by the EU.
With respect to presentation, the parent has adopted the following criteria:
 current and non-current assets and liabilities are presented separately in the balance sheet. Current assets, including cash and cash equivalents, are those expected to be realised, or intended for sale or consumption, in the group's normal operating cycle and, moreover, within twelve months from the balance sheet date; current liabilities are those expected to be settled in the group's operating cycle and, moreover, within twelve months after year end;
 expenses in the income statement are classified by nature;
 the indirect method has been adopted for the cash flow statement.

The main accounting policies applied to the individual captions are described below:

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognised at cost including directly related expenses at the transition date in line with the exemption allowed by IFRS 1.
They are amortised on a straight-line basis over their estimated useful lives using the following rates, which are held to represent their effective use:

Category	Depreciation period	Depreciation rate
Land		Indefinite useful life
Buildings	Straight-line basis	3%
Plant and machinery	Straight-line basis	10%
Industrial and commercial equipment	Straight-line basis	17.5 – 25%
Other assets	Straight-line basis	12 – 20 – 25%

The carrying amount and useful life of an item of property, plant and equipment are reviewed at least at every year end.
Given its indefinite life, land is not depreciated.
Ordinary maintenance costs are expensed in full. Costs for maintenance that increase the value of the asset are allocated thereto and depreciated over the asset's useful life or, if shorter, up until when more extraordinary maintenance is needed.
Financial expenses directly related to the purchase, construction or production of an item of property, plant and equipment are expensed when incurred as provided for by IAS 23.
The carrying amount of property, plant and equipment is tested for impairment using the methods described in the paragraph on impairment losses.
Assets are derecognised from the balance sheet upon their sale or when no further economic benefits are expected from their use. Any gain or loss (calculated as the difference between the sales price and carrying amount) is taken to profit or loss in the year of derecognition.

INVESTMENT PROPERTY

As allowed by IAS 40, investment property is recognised at cost including directly related charges. It is depreciated on a straight-line basis over its estimated useful life using a rate of 3%, held to represent the effective economic use.
These notes disclose information about the investment property's fair value at year end, determined reliably using appraisals drawn up by independent experts as required by IAS 40.

LEASES

Finance leases are recognised under IAS 17.
This implies that:
- the cost of the leased asset is recognised under property, plant and equipment and amortised on a straight-line basis over the asset's estimated useful life; a balancing entry is made under financial liabilities for the same amount as the leased asset's carrying amount;
- the lease payments are apportioned between the finance charge and the reduction of the outstanding liability to the lessor.

Leases where the lesssor retains substantially all the risks and rewards of ownership are classified as operating leases and the related payments are taken to the income statement on a systematic basis over the lease term.

GOODWILL

Goodwill deriving from business combinations is initially recognised at cost and is the excess of the cost of the combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities assumed. Goodwill is subsequently recognised as an intangible asset with an indefinite useful life and is no longer amortised. It is decreased for impairment losses, determined as described below.
Goodwill deriving from acquisitions carried out before 1 January 2005 is recognised at the amount carried in the last set of financial statements prepared under Italian GAAP (31 December 2004). As allowed by IFRS 1, acquisitions performed before 1 January 2005 were not restated when preparing the opening balance sheet under IFRS.

Goodwill is tested for impairment annually or more frequently when events or changes in circumstances arise that could lead to impairment losses.
At acquisition date, any goodwill is allocated to each of the cash-generating units that is expected to benefit from the synergetic effects of the acquisition. Any impairment losses are identified through appraisals based on the ability of each cash-generating unit to generate cash flows sufficient to recover the part of goodwill allocated thereto. If the recoverable value of the cash-generating unit is lower than its carrying amount, an impairment loss is recognised. This loss is not reversed if the reasons therefor are no longer valid.

DEVELOPMENT EXPENDITURE

Development expenditure that meets the requirements of IAS 38 for recognition as an asset (technical feasibility, intention and ability to complete, use or sell the asset, availability of adequate resources to complete the development and ability to measure reliably the expenditure attributable to the asset during its development) is amortised over three years based on its expected future use from when the related products are available for use. Its useful life is reviewed and changed to reflect forecasts about future use.
Research expenditure is recognised in profit or loss when incurred.

OTHER INTANGIBLE ASSETS

Other intangible assets with a finite useful life purchased or developed internally are recognised when it is probable that the use of the asset will generate future economic benefits and its cost can be determined reliably. These assets are recognised at cost.
Intangible assets with finite useful lives are amortised on a straight-line basis considering their estimated useful lives as follows:

- Industrial patents and intellectual property rights: from 3 to 10 years;
- Software, licences and other: 5 years;
- Trademarks: 10 years.

IMPAIRMENT LOSSES

Property, plant and equipment or intangible assets undergo impairment losses when the company is unable to recover their carrying amount through their use or sale. The objective of the impairment test provided for by IAS 36 is to ensure that the assets are not recognised at an amount greater than their recoverable amount, being the higher of fair value less costs to sell and value in use.
Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit to which an asset belongs. The expected cash flows are discounted using a pre-tax discount rate which reflects the present market estimate considering the time value of money and specific risks.
If the carrying amount exceeds the recoverable amount, the assets or cash-generating units are impaired and the group recognises an impairment loss in profit or loss.
Impairment tests are carried out when internal or external factors show that the assets may be impaired. Goodwill and other intangible assets with an indefinite useful life are tested for impairment annually. When the conditions for impairment are no longer valid, the impairment loss is reversed to the extent of the carrying amount the asset would have had, net of amortisation or depreciation calculated on historic cost, had the impairment loss not been recognised. Reversals are recognised in the income statement.
Impairment losses on goodwill recognised in previous years are not reversed as provided for by the IFRS.

FINANCIAL ASSETS

Financial assets are initially recognised at cost, which equals their fair value, including transaction costs.
Assets held for trading are subsequently classified as current financial assets and measured at fair value. Gains or losses deriving from this treatment are taken to profit or loss.
Held-to-maturity investments are classified as current financial assets if they mature in less than one year and as non-current if after one year. They are subsequently measured at amortised cost. Therefore, the initial carrying amount is subsequently adjusted to reflect repayments of principal, any impairment losses and discounting of the difference between the repayment amount and initial carrying amount. Discounting is carried out using the effective interest rate being the rate that aligns, at initial recognition, the present value of expected cash flows

and initial carrying amount (amortised cost method). If there is objective evidence of impairment, the asset's carrying amount is decreased to the discounted expected future cash flows. Impairment losses are taken to the income statement. If the reasons for impairment are no longer valid in future years, the asset is reinstated at the carrying amount it would have had, had the amortised cost method been applied and the impairment loss not recognised.

INVENTORIES

Raw materials, semi-finished products and finished goods are recognised at the lower of purchase or production cost, including related costs, determined using the FIFO method, and estimated realisable value based on market trends. Obsolete and slow-moving items are written down to reflect their realisable value. Specifically, the purchase cost is used for products purchased and held for resale and for the directly and indirectly used materials, purchased and used in production.
Production cost is used to determine the value of finished goods or work in progress.
Purchase cost is calculated considering the effective price net of trade discounts.
Production cost includes the cost of the materials used, as defined above, and the direct and indirect industrial costs.

TRADE AND OTHER RECEIVABLES

Receivables are initially recognised at fair value and subsequently adjusted to reflect repayments of principal, any impairment losses and discounting of the difference between the repayment amount and initial carrying amount. Discounting is carried out using the effective interest rate, being the rate that aligns, at initial recognition, the present value of expected cash flows and initial carrying amount (amortised cost method). If there is objective evidence of impairment, the asset's carrying amount is decreased to the discounted expected future cash flows. Impairment losses are taken to the income statement. If the reasons for impairment are no longer valid in future years, the asset is reinstated at the carrying amount it would have had, had the amortised cost method been applied and the impairment loss not recognised. The provision for bad debts, recognised to align receivables to their smaller realisable amount, includes impairment losses recognised to reflect objective evidence of indicators of impairment. The impairment losses, based on the most recent information available and best estimates made by the directors, are determined so that the impaired assets' carrying amount is aligned with the discounted future cash flows.
The provision for bad debts is offset against "Trade receivables".
Accruals to the provision are classified as "Accruals, impairment losses and other operating costs" in the income statement. This treatment is also used for any utilisations of the provision and for impairment losses on trade receivables.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents mainly comprise cash, on sight deposits with banks and other highly liquid short-term investments (that can be transformed into cash within 90 days). They are recognised at fair value and any changes are taken to profit or loss. Current account overdrafts are recognised as "Current financial liabilities".
In order to show the cash flows for the year, the bank overdrafts and short-term loans are included under cash flows from financing activities in the cash flow statement, as they mainly relate to bank advances and short-term loans.

TREASURY SHARES

As required by IAS 32, when an entity repurchases treasury shares, they are deducted directly from other reserves under equity. Gains or losses arising from the repurchase, sale or cancellation of treasury shares are not recognised in the income statement.
The consideration paid or received, including all costs incurred and directly related to the transaction, net of any related tax benefit, is taken directly to equity.

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are set up to meet present legal or constructive obligations deriving from past events for which a reliable estimate of the related amount required to settle the obligation can be made at the balance sheet date.
When a liability is considered as potential, provision is not made therefor and adequate disclosure is made in the notes.
When the time value of money is material and the date of the outflow of resources related to the obligation can be determined reliably, the estimated cost is discounted using a rate that reflects the current market assessments of the time value of money and risks specific to the liability. After discounting, the increase in the provision due to the passage of time is recognised as an interest expense.

EMPLOYEE BENEFITS

Employee benefits substantially comprise post-employment benefits for the employees of the Italian group companies and pension funds. They are classified as defined benefit plans and are measured under IAS 19 using the projected unit credit method determined by independent actuaries.
This calculation consists of estimating the amount of the benefit that an employee will receive at the estimated date of termination of employment using demographic assumptions (such as the mortality rate and personnel turnover rate) and financial assumptions (such as the discount rate and future salary rises). The resulting amount is discounted and restated on the basis of matured seniority compared to total seniority and represents a reasonable estimate of the benefits vested by each employee for his/her services.
The actuarial gains and losses deriving from the related calculation are taken to profit or loss as revenue or expense when the cumulative net amount of the unrecognised actuarial gains and losses for each plan at the end of the previous year exceeds the higher of the obligations for the defined benefit plans and fair value of plan assets at that date by more than 10% (corridor approach).

TRADE PAYABLES

Trade payables are recognised at the fair value of the initial consideration received and are subsequently measured at amortised cost using the effective interest method. Trade payables with due dates in line with normal commercial terms are not discounted.

FINANCIAL LIABILITIES

Financial liabilities are initially recognised at cost, equal to the fair value of the liabilities net of the transaction costs which are directly related to their issue.
Financial liabilities are subsequently measured at amortised cost using the effective interest method.

INCOME TAXES

Income taxes include current and deferred taxes. They are generally taken to profit or loss unless they relate to items recognised directly in equity. In this case, they are also taken directly to equity. Current taxes are those expected to be paid calculated by applying the tax rate ruling at the balance sheet date to the taxable profit for the year.
Deferred taxes are calculated using the liability method for temporary differences between the carrying amounts of assets and liabilities and their tax values. They are calculated using the tax rate expected to be applicable when the asset is realised or payable settled. Deferred tax assets are only recognised when it is probable that the entity will generate taxable profit in the future sufficient to realise these assets. Deferred tax assets and

liabilities are only netted when they have the same expiry date, when the entity has a legal right to net and they are from/due to the same taxation authorities.

REVENUE AND EXPENSES

Revenue is recognised to the extent it is probable that the economic benefits will be realised and the related amount can be determined reliably. The revenue and income are recognised net of returns, discounts and allowances as well as the taxes related directly to the sale of the products or provision of services. Revenue is recognised in the income statement only when it is probable that the group will benefit from cash flows deriving from the transaction. Revenue from the sale of products is recognised upon transfer of title, generally with delivery.

Expenses are recognised to the extent it is probable to reliably determine that the group will receive the related economic benefits. Costs for services are recognised on an accruals basis when received.

DIVIDENDS

Dividends payable by the group are shown as changes in equity in the year in which they are approved by the shareholders.

FINANCIAL INCOME AND EXPENSES

Income and expenses are recognised on an accruals basis considering interest accrued on the net carrying amount of the related financial assets and liabilities using the effective interest method as set out n paragraph 9 of IAS 39.

GRANTS

Grants from public and private bodies are recognised at fair value when it is reasonably certain that they will be received and the conditions for their receipt will be met.

Grants related to income (provided as immediate financial assistance to an entity or to cover expenses and losses incurred in a previous year) are fully recognised in profit or loss when the conditions for their recognition are met.

The group did not receive grants related to assets during the year.

TRANSLATION OF FOREIGN CURRENCY CAPTIONS

Functional and presentation currency

The group companies' balance sheets, income statements and cash flow statements are prepared in the currency of the primary economic environment in which the group operates (functional currency). The consolidated financial statements are prepared in Euros, the group's functional and presentation currency.

Transactions and balances

As provided for by IAS 21, items originally expressed in foreign currency are translated into the functional currency and recognised as follows:

- monetary items are translated using the closing rate;
- non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction;
- non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

Exchange rate gains and losses arising on collection of the receivables or settlement of the payables in foreign currency are taken to profit or loss.

Group companies

Translation of the consolidated foreign companies' financial statements into Euros involves applying the closing rates to the balance sheet captions and the average annual rates to the income statement captions.
Any exchange rate gains or losses deriving from the translation of opening equity at the closing rates and the translation of the income statement using the average annual rates are recognised in a specific caption under equity.

SEGMENT REPORTING

A business segment is a distinguishable component of an entity that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments.
A geographical segment is a distinguishable component of an entity that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of companies operating in other economic environments.

The group's primary reporting format is by business segment as follows:
- gas systems for motor propulsion sector;
- alarm and other systems sector .

The group's secondary reporting format is by geographical segment.

EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit attributable to the shareholders of the parent by the weighted average number of ordinary shares outstanding during the year.

USE OF ESTIMATES

The preparation of consolidated financial statements requires the directors to apply accounting standards and methods that are sometimes based on difficult and subjective assessments and estimates based, in turn, on past experience and assumptions that are considered reasonable and realistic given the circumstances. Application of these estimates and assumptions affects the amounts presented in the balance sheet, income statement and cash flow statement and disclosures. The carrying amount of captions, for which the estimates and assumptions are used, may require adjustments due to uncertainties characterising the underlying assumptions and conditions. A list of the captions that require greater subjectivity by the directors when preparing the estimates and for which a change in the conditions underlying the assumptions may have a significant effect on the group's consolidated financial statements are listed below:
Goodwill
- Impairment losses of non-current assets;
- Development expenditure
- Deferred tax assets and liabilities;
- Provisions for bad debts and inventories;
- Employee benefits
- Provisions for risks and charges.

The directors review the estimates and assumptions regularly and the effects of any changes are usually reflected immediately in the income statement.

MAIN ACCOUNTING STANDARDS THAT INVOLVE GREATER SUBJECTIVITY

A brief description of the main accounting standards that involve greater subjectivity by the directors when preparing the estimates and for which a change in the conditions underlying the assumptions could have a significant effect on the reclassified combined financial data is given below.

(i) Measurement of receivables: trade receivables are adjusted by the related provision for bad debts to consider their actual recoverable amount. Determination of the amount of impairment losses involves subjective assessments by directors based on documentation and information available, also about the customers' solvency, past experience and historic trends.

(ii) Measurement of goodwill and intangible assets under development: in line with the group's accounting policies, goodwill and intangible assets under development are tested annually for impairment which is recognised by decreasing the asset's carrying amount, when the net carrying amount of a cash-generating unit to which the asset is allocated is greater than its recoverable amount (defined as the higher of value in use and fair value less costs to sell). This implies that the directors carry out subjective assessments based on information available within the group and the market as well as past experience. If there is a potential impairment loss, the group determines this using suitable actuarial techniques. The tests and techniques are applied to intangible assets and items of property, plant and equipment with finite useful lives when indicators exist showing difficulty in recovering the related carrying amount through continued use. The correct identification of the indicators of existence of potential impairment losses and the estimates used to determine the amount of the losses are based on factors that may vary over time affecting the assessments and estimates made by the directors.

(iii) Provisions for risks: identification of whether or not a present (legal or constructive) obligation exists in circumstances where no reliable estimates can be made. The directors assess these circumstances on a case by case basis using the estimates of the amounts that would be required to meet the obligation. When the directors deem that a liability is only possible, the risks are disclosed in a specific section of the notes on commitments and risks while no provision is made therefor.

(iv) Measurement of closing inventories: closing inventories of obsolete or slow-moving items are periodically tested for impairment and written down if their recoverable amount is lower than their carrying amount. Such write-downs are based on assumptions and estimates put together by management based on their experience and past results.

(v) Measurement of deferred tax assets: this measurement is based on expected profit for future years. Assessment of such future profit is tied to factors that may vary over time and have significant effects on the measurement of deferred tax assets.

F) ANALYSIS OF RISKS

The group's key risks are discussed and analysed at top management level in order to agree the conditions for their hedging, insurance and assessment of the remaining risk.

Interest rate risk

With respect to interest rate volatility risks, the group's financial indebtedness mainly bears variable interest rates. Therefore, the parent is exposed to interest rate fluctuations as the group has not agreed hedges of such fluctuations on its lease payables or loans disbursed by banks at year end.

Exchange rate risks

Landi group sells part of its production and purchases a small amount of parts in non-Euro land countries. Therefore, it may be exposed to exchange rate fluctuation risks, especially with respect to the Polish, Brazilian and Chinese currencies, as it has not agreed exchange rate hedges.

Credit risk

The group does not have a significant concentration of receivables and has the appropriate procedures in place to minimise exposure to this risk, such as checks of debtor solvency. It usually uses letters of credit to guarantee collections with foreign customers.

Liquidity risk

The group manages its liquidity risk by maintaining an adequate level of financial resources available and credit lines granted by the major banks in order to meet the liquidity requirements of its day-to-day operations.
It does not have a cash pooling system. Management of its ordinary treasury operations takes place locally by each company while extraordinary transactions have to be approved by the parent.

G) CRITERIA ADOPTED FOR THE TRANSITION TO THE IFRS ENDORSED BY THE EUROPEAN COMMISSION

The restated figures at 31 December 2005 were drawn up in accordance with the IFRS endorsed by the European Commission. The group also prepared an opening IFRS balance sheet as at 1 January 2005.
The restated consolidated figures were prepared by applying the endorsed standards retrospectively to all the periods ended before 1 January 2005 except for certain exemptions and exceptions under IFRS 1 as described below.
The "current/non-current" criterion was adopted for the balance sheet while the income statement was classified by cost nature.

EXEMPTIONS AND EXCEPTIONS

Entities adopting the IFRS for the first time may opt to apply certain exemptions to the full retrospective application of the standards. The exemptions applied by the group are:

(i) Business combinations
The group opted not to retrospectively apply IFRS 3 - Business combinations for transactions that took place before the transition date (1 January 2005);

(ii) Employee benefits
The group opted to recognise all cumulative actuarial gains and losses existing at 1 January 2005 that would have arisen from retrospective application of IAS 19.

(iii) Application of IAS 32 and IAS 39
IAS 32 - Financial instruments: presentation and disclosure and IAS 39 - Financial instruments - Recognition and Measurement were applied from 1 January 2005. The Italian GAAP were applied to the year ended 31 December 2004 to measure financial assets and liabilities.

IFRS 1 sets out certain exceptions to the retrospective application of the IFRS during the transition period. Those applicable to the group are:

(i) Estimates
Estimates made at the transition date shall comply with the estimates made at the same date under Italian GAAP (after the adjustments necessary to reflect any differences between the standards).

TREATMENTS CHOSEN AS PART OF THE ACCOUNTING OPTIONS PROVIDED FOR BY THE FIRS

(i) Measurement of property, plant and equipment and intangible assets
After initial recognition at cost, IAS 16 - Property, plant and equipment (paragraph 30) and IAS 38 - Intangible assets (paragraph 72) require that property, plant and equipment and intangible assets be measured at cost, or by periodically determining market value and adjusting the carrying amount at the date of the market value measurement to that value. The group opted to adopt the cost model.
(ii) Measurement of investment property
Subsequent measurement of investment property is based on the cost model; the fair value of these investments is disclosed in the notes.
(iii) Actuarial differences
IAS 19 – Employee benefits (paragraph 95) provides that actuarial gains and losses arising from changes to the assumptions applied to calculate defined benefit pension plans, such as post-employment benefits, may be recognised using the corridor approach, ie, taken directly to profit or loss or equity upon their recognition. The group opted to apply the corridor approach.

(iv) Inventories
Under IAS 2 - Inventories (paragraph 25), the cost of replaceable goods is determined using the FIFO method or the average weighted cost method. The group opted to use the FIFO method.

(v) Financial expenses
IAS 23 – Borrowing costs (paragraph 11) requires that borrowing costs be taken directly to the income statement or, in certain conditions, capitalised as part of the cost of the qualifying asset if they are directly attributable to its acquisition, construction or production. The group opted to expense such costs directly in the year in which they were incurred.

H) NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following changes have been calculated on the 31 December 2005 balances for the balance sheet and the 2005 balances for the income statement.

SEGMENT REPORTING

The group's primary reporting format is business segment. A breakdown of consolidated revenue by business segment is set out below:

(Thousands of Euros)	IFRS 2005	% of revenue	IFRS 2006	% of revenue	Variation	Variation %
Gas sector - LPG line	42,141	45.7%	58,859	42.4%	16,718	39.7%
Gas sector - natural gas line	46,390	50.3%	75,690	54.6%	29,300	63.2%
Alarm systems	3,755	4.1%	4,140	3.0%	385	10.3%
Total revenue	**92,286**	**100.0%**	**138,689**	**100.0%**	**46,403**	**100.0%**

Based on these figures and given the little materiality of the sales of alarm systems and other products, the group's sole business segment can be said to be the production of LPG and natural gas fuel fuel supply systems. Given that the main source of risks and benefits is tied to its operations and that the internal communication system uses just one business segment, no further details are given about the natural gas sector as the information given for the entire group is sufficient and basically the same.

The group is active on an international basis. Its revenue and operations are split by geographical segment (secondary reporting format) based on the end customer's location while the amount of its assets and investments is split by geographical area considering the assets' location. Sales are shown in thousands of Euros in the following table:

(Thousands of Euros)	IFRS 2005	% of revenue	IFRS 2006	% of revenue	Change	Change %
Italy	24,817	26.9%	35,590	25.7%	10,773	43.4%
Europe (excluding Italy) (*)	27,216	29.5%	35,285	25.4%	8,069	29.6%
South-west Asia (**)	26,980	29.2%	47,366	34.2%	20,386	75.6%
Rest of Asia	5,330	5.8%	7,832	5.6%	2,502	46.9%
Americas	5,678	6.2%	8,890	6.4%	3,212	56.6%
Rest of the world	2,265	2.5%	3,726	2.7%	1,461	64.5%
Total revenue	**92,287**	**100.0%**	**138,689**	**100.0%**	**46,403**	**50.3%**

(*) The figure for Europe includes sales made in the entire geographical area comprising Russia and excluding Turkey.
(**) The figure for South-west Asia includes sales made in Pakistan, Iran and Turkey.

With respect to the changes in the breakdown of revenue by geographical segment, the following should be noted:

The previous table shows that 74.3% of the 2006 revenue is generated abroad (25.4% in Europe and 48.9% outside Europe).

For 2005, 73.1% of revenue is generated abroad (29.5% in Europe and 43.6% outside Europe). These figures are substantially in line with the previous year as they relate to a percentage breakdown of revenue by geographical area.

Italy

The overall increase in Italian revenue (+43.4% in 2006 compared to 2005 up from € 24,817 thousand to € 35,590 thousand) is mainly due to the greater sales of LPG systems and, to a lesser extent, the rise in sales of natural gas systems, encouraged by recent developments in the national distribution network. The upturn in revenue is tied to the growth of the LPG and natural gas systems sector and measures taken by the group. Specifically:

- agreements signed with car manufacturers for the installation of LPG and natural gas systems in new cars (O km cars);
- the steady improvement in technological levels of systems sold;
- the widespread adoption of stricter environmental policies by governments and local bodies which include the granting of state aid to car owners for the installation of environmentally-friendly fuel supply systems;
- more competitive consumer prices of environmentally-friendly fuel, such as LPG and natural gas, compared to traditional fuels, such as petrol and diesel;

Europe

The group's European revenue (excluding Italy) is also on the rise, up 29.6% on 2005 from € 27,216 thousand to € 35,285 thousand, mainly generated in the German, Dutch and Russian markets. This change is due to the improvement in the technological level of the systems sold, widespread adoption of stricter environmental policies and rising non-environmentally-friendly fuel prices, like for Italy. The smaller business and sector growth in Europe compared to Asia is the main cause for the decrease in the contribution of the European market to total sales in percentage terms although such sales are better in the two years under analysis.

South-west Asia

The group saw an increase in its revenue over the two years in this area (+75.6% in 2006 compared to 2005 from € 26,980 thousand to € 47,366 thousand). The rise in absolute terms and compared to total turnover is mainly due to the rapid growth in the local economies and strong upturn in demand for LPG and natural gas systems, boosted by political interests in becoming self sufficient in energy terms, as well as the rise in non-environmentally-friendly fuel prices. The group set up a production company in Pakistan during 2006.

Rest of Asia

The group's revenue generated in the rest of Asia grew, mainly in 2006 (+46.9% compared to 2005 up from € 5,330 thousand to € 7,832 thousand). Transactions undertaken by the Chinese subsidiary in 2006 have driven the sales of the group's LPG and natural gas systems in these markets.

Americas

Revenue is almost entirely generated in South America. Once again, consolidated turnover has improved on 2005 from € 5,678 thousand to € 8,890 thousand (+56.6%). This was due to greater market penetration, assisted by the increase in activity of the Brazilian subsidiary and the strong growth rate of the South American economy. Another factor was the introduction of the electronic gear case developed and produced by the Brazilian subsidiary.

Rest of the world

The rest of the world (Africa and Oceania) saw a 64.5% increase in revenue in 2006 compared to 2005, going from € 2,265 thousand to € 3,726 thousand.

A breakdown of assets by geographical segment is given in the following table (in thousands of Euros):

Total ASSETS	31/12/05	31/12/06	Variation
Italy	69,265	87,768	18,503
Europe (excluding Italy)	5,649	7,190	1,541
South-west Asia	0	323	323
Rest of Asia	106	4,080	3,974
Americas	3,690	2,972	(718)
Rest of the world	0	0	0
Total ASSETS	**78,710**	**102,333**	**23,623**

A breakdown of investments by geographical segment is given in the following table (in thousands of Euros:

Total INVESTMENTS IN NON-CURRENT ASSETS	31/12/05	31/12/06	Variation
Italy	3,377	7,726	4,349
Europe (excluding Italy)	52	89	37
South-west Asia	0	0	0
Rest of Asia	0	2,110	2,110
Americas	118	92	(26)
Rest of the world	0	0	0
Total INVESTMENTS IN NON-CURRENT ASSETS	**3,547**	**10,017**	**6,470**

NON-CURRENT ASSETS

1. PROPERTY, PLANT AND EQUIPMENT

This caption shows a net increase of € 6,285 thousand from € 18,296 thousand in 2005 to € 24,581 thousand. A breakdown of changes in the historic cost of the items during the year is as follows (in thousands of Euros):

HISTORIC COST	1/01/06	Acquisitions	(Disposals)	Other changes	31/12/06
Land and buildings	13,524	1,995	0	0	15,519
Plant and machinery	3,083	543	(2)	55	3,680
Industrial and commercial equipment	8,201	1,247	(2)	9	9,455
Other assets	3,540	1,613	(87)	(55)	5,011
Assets under construction and payments on account	369	3,285	0	(9)	3,645
Net carrying amount - Total	**28,717**	**8,683**	**(91)**	**0**	**37,310**

A breakdown of changes in accumulated depreciation during the year is as follows (in thousands of Euros):

ACCUMULATED DEPRECIATION	1/01/06	Depreciation charge	Acquisitions	(Disposals)	Other changes	31/12/06
Land and buildings	1,338	430	0	0	0	1,768
Plant and machinery	980	333	0	0	0	1,313
Industrial and commercial equipment	5,828	987	0	0	0	6,815
Other assets	2,275	558	0	0	0	2,833
Assets under construction and payments on account	0	0	0	0	0	0
Net carrying amount - Total	**10,421**	**2,308**	**0**	**0**	**0**	**12,729**

An analysis of changes in net items of property, plant and equipment during the year is as follows (in thousands of Euros):

NET CARRYING AMOUNT	1/01/06	Acquisitions	(Disposals)	(Depr. + impair. losses)	Other changes	31/12/06
Land and buildings	12,187	1,995	0	(430)	0	13,752
Plant and machinery	2,103	543	(2)	(333)	55	2,367
Industrial and commercial equipment	2,372	1,247	(2)	(987)	9	2,639
Other assets	1,265	1,613	(87)	(558)	(55)	2,178
Assets under construction and payments on account	369	3,285	0	0	(9)	3,645
Net carrying amount - Total	**18,296**	**8,683**	**(91)**	**(2,308)**	**0**	**24,581**

Land includes € 403 thousand of land in Reggio Emilia owned by the parent and € 1,863 thousand of land under finance leases in Cavriago (RE). As already noted, land is not depreciated.
Buildings mainly comprise buildings used for operations under finance leases in Cavriago which house the parent's registered office and the building in China owned by Beijing Landi Renzo Autogas, acquired in 2006.

Land and buildings are recognised at their carrying amount determined under Italian GAAP at the transition date. This amount was used as their deemed cost. Reference should be made to the IFRS 1 reconciliation schedule in the annex for greater information.

Plant and equipment include production equipment owned by the group companies.
Industrial and commercial equipment include moulds, testing equipment and control instruments.
Other assets mainly comprise computers, cars, internal transport vehicles and fittings.

The main increases in property, plant and equipment in 2006 relate to:

- acquisition of a new automated line by Med S.p.A. to produce injectors for the group for € 3,241 thousand; this line was rolled out in early 2007;
- acquisition of an industrial building to house the Chinese subsidiary's operating offices for € 1,817 thousand;
- acquisition of an assembly line for natural gas reducers and vertical storage systems;
- acquisition of moulds and testing and control equipment;
- acquisition of computers, vehicles, internal transportation vehicles and fittings.

The net carrying amount of assets acquired under finance lease, split by category, is as follows (in thousands of Euros):

31/12/2006	Historic cost	Accumulated dep.	Net carrying amount
Land and buildings	13,377	2,083	11,294
Plant and machinery	50	26	24
Industrial and commercial equipment	129	125	4
Other assets	204	134	70
Assets under construction and payments on account	0	0	0
Net carrying amount - Total	**13,760**	**2,368**	**11,392**

These assets mainly relate to the lease agreed by LANDI RENZO S.p.A. for the finance lease of land and industrial building to be used as the operating offices of the parent in Via Nobel in Cavriago (RE).

2. INVESTMENT PROPERTY

This caption includes land and property owned by the parent in Reggio Emilia and not used for the group's operations but leased to third parties.
The € 85 thousand increase is due to extraordinary maintenance work carried out on the buildings, net of depreciation. Changes in such property are analysed below (in thousands of Euros):

Investment property	1/01/06	Acquisitions	Decrease	Other changes	Depreciation charge	31/12/06
Land and buildings	961	117	0	0	0	1,078
Acc. depr. of land and buildings	(167)	0	0	0	(32)	(199)
Net carrying amount - Total	**794**	**117**	**0**	**0**	**(32)**	**879**

According to the relevant appraisal, the fair value of this property at year end is approximately € 913 thousand compared to the estimated approximate € 810 thousand at the end of 2005.

3. DEVELOPMENT EXPENDITURE

A breakdown of changes in development expenditure during the year is as follows (in thousands of Euros):

Development expenditure	1/01/06	Increase	Decrease	Other changes	(Amort. + impair. losses)	31/12/06
Research and development expenditure	514	795	0	0	(213)	1,095
Total	**514**	**795**	**0**	**0**	**(213)**	**1,095**

Development expenditure of € 1,095 thousand (31 December 2005: € 514 thousand) includes expenditure incurred by the parent for projects that meet the requirements of IAS 38 for capitalisation. These projects relate to innovative projects, not available in the past and undertaken for new market segments in order to develop and optimise the group's portfolio, such as:

- study and development of a system for innovative applications for gas-powered gear cases;
- development of a new gasification kit for OEM, LPG and natural gas systems, designed for the Italian market;
- study and development of a gas injector using state-of-the-art technological components;
- study and research for the design and development of new applications for low-cost reducers.

The development expenditure, which meets the requirements of IAS 38 and capitalised for technical assistance and personnel expenses related to projects carried out in 2006, amounts to € 795 thousand.
The group plans to develop new products in 2007.

Research expenditure (including technical assistance costs) and development expenditure, which does not meet the requirements for capitalisation, and are therefore expensed, amount to approximately € 4,704 thousand (31 December 2005: € 2,996 thousand).

4. GOODWILL

Goodwill is as follows (in thousands of Euros):

Goodwill	1/01/06	Acquisitions	Decrease	Other changes	(Impairment losses)	31/12/06
Goodwill	2,988	0	0	0	0	2,988
Total	**2,988**	**0**	**0**	**0**	**0**	**2,988**

The table shows how goodwill paid upon the acquisition of Med S.p.A. was allocated to the group's cash-generating units (CGUs) that are tested for impairment.

The procedures set out in IAS 36 did not identify any impairment losses. The projected cash flows included in the five-year business plan prepared by top management were used for the calculation. The discount rate applied to expected future cash flows was 8.5% equal to the weighted average cost of capital calculated using the capital asset pricing model.

5. OTHER INTANGIBLE ASSETS WITH FINITE USEFUL LIVES

Other intangible assets with finite useful lives	1/01/06	Acquisitions	Decrease	Other changes	(Amort. + impair. losses)	31/12/06
Intellectual property rights	284	330	0	0	(270)	344
Trademarks and licences	93	5	0	0	(44)	53
Assets under development and payments on account	12	140	0	(12)	0	140
Other assets	16	102	0	0	(18)	100
Total	**405**	**576**	**0**	**(12)**	**(332)**	**637**

The balance of € 637 thousand as at 31 December 2006 (31 December 2005: € 405 thousand) mainly comprises the cost of purchasing licences for the new SAP release recognised as intellectual property rights.

Assets under development and payments on account of € 140 thousand (31 December 2005; € 12 thousand) include advances paid for software for the SAP project for the branches.

Other mainly consists of the capitalisation of costs incurred for extraordinary maintenance work carried out on leased buildings.

6. OTHER NON-CURRENT FINANCIAL ASSETS

Other non-current financial assets	31/12/05	31/12/06	Variation
Receivables due from others	230	102	(128)
Total	**230**	**102**	**(128)**

The item mainly includes guarantee deposits and the tax advance on post-employment benefits. The group did not discount these captions as the effect was immaterial.

7. DEFERRED TAX ASSETS

Deferred tax assets	31/12/2005	31/12/2006	Variation
Deferred tax assets	1,450	1,193	(257)
Total	**1,450**	**1,193**	**(257)**

Deferred tax assets decreased from € 1,450 thousand in 2005 to € 1,193 thousand in 2006, principally due to the reversal of the deductible temporary difference on the impairment losses recognised on the investment in Med S.p.A. in 2002 and 2003, only partly offset by deferred tax liabilities on depreciation/amortisation of vehicles and licences.

The key items of deferred tax assets and changes therein during 2006 and 2005 are set out below (in thousands of Euros):

	31/12/2005			31/12/2006		
Deferred tax assets	**Amount**	**Tax rate**	**Deferred tax assets**	**Amount**	**Tax rate**	**Deferred tax assets**
Provision for inventories	1,590	37.25 %	592	1,590	37.25 %	592
Provision for investments and securities	1,883	33.00 %	622	587	33.00 %	194
Entertainment expenses	130	37.25 %	49	185	37.25 %	69
Agents' termination indemnity	67	37.25 %	25	67	37.25 %	25
Non-deductible acc. amortis. of goodwill	221	37.25 %	82	442	37.25 %	165
Non-deductible amortisation	0	37.25 %	0	99	37.25 %	37
Provision for future expenses	0	37.25 %	0	100	37.25 %	37
Taxed provision for bad debts	200	33.00 %	66	200	33.00 %	66
Derecognition of start-up and capital costs not capitalisable under IFRS	40	37.25 %	15	22	37.25 %	8
Total deferred tax assets			**1,450**			**1,193**

Deferred tax assets were not calculated on the Dutch and Polish subsidiaries' provisions for inventories of € 138 thousand, as the group does not believe they will be recovered through future taxable profit.

CURRENT ASSETS

8. TRADE RECEIVABLES

Trade receivables, net of the provision for bad debts, may be analysed as follows by geographical segment (thousands of Euros):

Trade receivables - Geographical segment	31/12/2006
Italy	7,559
Europe (excluding Italy)	5,648
South-west Asia	4,942
Rest of Asia	170
Americas	1,631
Rest of the world	1,421
Total	**21,371**

The group does not have any receivables due after one year.

The provision for bad debts underwent the following changes:

Provision for bad debts	31/12/2005	Accrual	Utilisation	Other changes	31/12/2006
Provision for bad debts	549	385	(122)	0	811

The group does not have any non-current trade receivables or receivables secured by collateral.

9. INVENTORIES

This caption is as follows (in thousands of Euros):

Inventories	31/12/05	31/12/06	Variation
Raw materials	13,884	16,154	2,270
Work in progress and semi-finished products	6,074	7,554	1,480
Finished goods	4,014	9,896	5,882
Payments on account	0	284	284
(Provision for inventories)	(1,717)	(1,728)	(11)
Total	**22,255**	**32,161**	**9,906**

The table shows a Euro 9,906 thousand increase in inventories tied to the group's need to meet the sharp rise in demand and greater market share.

The parent has estimated a provision for inventories to cover risks of technical obsolescence and to align their carrying amount to their estimated realisable value. This provision showed the following changes during the year:

Provision for inventories	31/12/05	Accrual	Utilisation	Other changes	31/12/06
Provision for inventories (raw materials)	1,150	0	0	0	1,150
Provision for inventories (work in progress)	210	0	0	0	210
Provision for inventories (finished goods)	357	20	(9)	0	368
Provision for inventories - Total	**1,717**	**20**	**(9)**	**0**	**1,728**

10. OTHER RECEIVABLES AND CURRENT ASSETS

This caption is as follows (in thousands of Euros):

Other receivables and current assets	31/12/05	31/12/06	Variation
Tax receivables	4,385	6,472	2,087
Receivables due from others	231	698	467
Prepayments and accrued income	101	199	98
Total	**4,717**	**7,368**	**2,652**

TAX RECEIVABLES

This caption mainly consists of VAT credits. The 2005 VAT credit, for which the parent claimed reimbursement, was fully reimbursed.

RECEIVABLES DUE FROM OTHERS

This caption comprises advances, credit notes to be received and other receivables, mainly due to the parent. It also includes other receivables of the subsidiaries.

PREPAYMENTS

This caption principally consists of prepaid insurance premiums and hardware and software maintenance payments paid in advance. There are no prepayments related to events after 31 December 2007.

11. CURRENT FINANCIAL ASSETS

Current financial assets include (in thousands of Euros):

Current financial assets	31/12/2005	31/12/2006	Variation
Investment in Deutsche Telekom	190	188	(2)
Total	**190**	**188**	**(2)**

The carrying amount of the above investment of € 188 thousand reflects the stock market prices of December 2006. The impairment loss was taken to the income statement.

12. CASH AND CASH EQUIVALENTS

This caption includes deposits in the bank current accounts and cash on hand in Euros and foreign currency. It may be analysed as follows (in thousands of Euros):

Cash and cash equivalents	31/12/2005	31/12/2006	Variation
Bank and postal accounts	9,334	9,755	420
Cash	12	16	4
Total	**9,346**	**9,771**	**424**

Reference should be made to the consolidated cash flow statement for an analysis of the source and application of liquidity.

13. EQUITY

The following table gives a breakdown of the equity captions (in thousands of Euros):

Equity	31/12/2005	31/12/2006	Variation
Share capital	2,500	2,500	0
IFRS adjustment reserve	346	346	0
Other reserves	15,148	16,549	1,401
Retained earnings	3,558	7,319	3,761
Profit for the year	11,133	16,680	5,547
Total equity attributable to the shareholders of the parent	**32,685**	**43,394**	**10,709**
Share capital and reserves attributable to minority interests	90	148	58
Profit attributable to minority interests	217	12	(205)
Total shareholders' equity pertaining to minority interests	**307**	**160**	**(147)**
Total consolidated equity	**32,992**	**43,554**	**10,562**

The share capital is that issued (and entirely subscribed and paid-in) by the parent consisting of 250,000 ordinary shares with a nominal value of € 1 each.
The IFRS adjustment reserve was set up at first-time adoption on 1 January 2005. Reference should be made to annex 1 for more information about its composition.
Other reserves comprise:

Other reserves	31/12/2005	31/12/2006	Variation	Possible use
Legal reserve	500	500	0	B
Statutory reserve	1,528	1,822	294	A,B,C
Extraordinary and translation reserve	13,120	13,690	570	A,B,C
FTA reserve	0	537	537	A,B,C
Total Other reserves	**15,148**	**16,549**	**1401**	

Key: A = share capital increase, B = to cover losses, C = dividends

The FTA reserve includes the effects of applying the IFRS to the consolidated financial statements as at 31 December 2005. This reserve is not included in the parent's separate financial statements drawn up under Italian GAAP.
A reconciliation of the consolidated profit for the year and equity as at 31 December 2006, determined under the IFRS, with the separate financial statements of the parent drawn up under Italian GAAP is as follows:

RECONCILIATION (in Thousands of Euros)

	2006 equity	2006 profit
Shareholders' equity and net profit for the year - separate financial statements	**30,877**	**11,245**
Difference between the carrying amount and the parent's share of equity of the consolidated companies	10,319	0
Share of the profits or losses of the investees	0	8,330
Derecognition of intragroup dividends		(3,398)
Derecognition of effects of intragroup trading transactions	(976)	(609)
Recognition of finance leases	3,086	470
Effects of adoption of IFRS on the consolidated financial statements:		
Reclassification of reserve for treasury shares	(1,291)	0
IFRS 3 – Business combinations	626	313
IAS 38 – Intangible assets	674	376
IAS 16 – Property, plant and equipment	260	43
IAS 19 – Employee benefits	(21)	(77)
Equity and profit for the year - consolidated financial statements	**43,554**	**16,693**
Equity and profit attributable to minority interests	160	13
Equity and profit attributable to shareholders of the parent	**43,394**	**16,680**

NON-CURRENT LIABILITIES

14. BANK LOANS

Bank	31/12/2005	31/12/2006	Variation
Mortgage loans and loans	1,047	5,673	4,626
Total	**1,047**	**5,673**	**4,626**

The caption includes the medium to long-term portions of bank loans and mortgages of € 5,637 thousand (31 December 2005: € 1,047 thousand).
The following table shows a breakdown of medium to long-term loans and the related interest rates (in thousands of Euros):

	Lender	Company	Expiry date	Interest rate	Non-current portion
Mortgage loan	Banca Intesa	LANDI RENZO S.p.A.	Sept-10	Euribor 3 month+0.60%	1,841
Loan	CREDEM	LANDI RENZO S.p.A.	Dec-08	Euribor 3 month+0.425%	1,741
Mortgage loan	CREDEM	MED S.p.A.	Jan-09	Euribor 3 month+0.95%	133
Mortgage loan	CREDEM	MED S.p.A.	Dec-08	Euribor 3 month+0.425%	870
Loan	Banco Pop. VR E NO	MED S.p.A.	March-11	Euribor 3 month+0.70%	469
Loan	Unicredit Banca	MED S.p.A.	Oct-10	Euribor 3 month+0.80%	619
				TOTAL	**5,673**

No guarantees have been given for the loans.

At year end, the group had available and unused credit lines of more than € 40 million.

15. OTHER NON-CURRENT FINANCIAL LIABILITIES

This caption is as follows (in thousands of Euros):

	Lender	Company	Expiry date	Interest rate	Non-current portion
Loan	Ministry for Prod. Activities	LANDI RENZO S.p.A.	Dec-14	3.08%	159
Bonds		MED S.p.A.	Jan-11	TUR BCE + 2/3	2,000
Loan	Ministry for Prod. Activities	MED S.p.A.	Jan-11	2.00%	150
Loan	Ministry for Prod. Activities	MED S.p.A.	Jan-13	2.00%	486
Lease	Locat S.p.A./CredemL.	LANDI RENZO S.p.A.	March-12	Euribor 3 month+0.80%	4,288
				TOTAL	**7,083**

The 2006 year-end balance includes € 2,000 thousand (unchanged from the previous year) related to the bonds issued by Med S.p.A. which are reimbursable in one instalment in January 2011, € 4,288 thousand (31 December 2005: € 6,172 thousand) of the payable due after one year of principal due to the leasing company for finance leases and the long-term portion (€ 795 thousand) of subsidised financing granted by the Ministry for Production Activities in line with specific legislation.

A reconciliation of the total minimum future payments due for the finance leases at the balance sheet date and their present value is given below (in thousands of Euros):

	Within one year	From 1 to five years	After 5 years	Total
2005:				
Minimum finance lease payments	1,126	4,490	1,126	6,742
Less allocation of finance charge	-130	-293	-16	-439
Present value of minimum finance lease payments	**996**	**4,197**	**1,110**	**6,303**
2006:				
Minimum finance lease payments	1,126	4,490	0	5,616
Less allocation of finance charge	-108	-202	0	-310
Present value of minimum finance lease payments	**1,018**	**4,288**	**0**	**5,307**

The change in net financial indebtedness is mainly due to the partial repayment of the principal portion of the real estate lease and subsidised financing.

16. PROVISIONS FOR RISKS AND CHARGES

The provisions may be analysed as follows (in thousands of Euros):

Provisions for risks and charges	31/12/05	Accrual	Utilisation	Other changes	31/12/06
Pension and similar provisions	85	8	0	0	93
Term of office entitlement for directors	135	34	0	0	169
Other	39	311	0	0	349
Total	**259**	**353**	**0**	**0**	**611**

The provisions for risks comprise those for pension and similar provisions, related to the accrual for agents' termination indemnity and the term of office entitlement for the parent's directors. The € 311 thousand accrual includes € 100 thousand made by Med S.p.A., for the probable compensation to be paid in 2007 for alleged damage incurred by a customer on products sold to it during the year, and € 203 thousand accrued by the Brazilian subsidiary for the tax on grants collected for subsidised exports.

17. DEFINED BENEFIT PLANS

This caption underwent the following changes during the year (in thousands of Euros):

Defined benefit plans	31/12/05	Accrual	Utilisation	Other changes	31/12/06
Post-employment benefits	2,052	553	(186)	0	2,419
Total	**2,052**	**553**	**(186)**	**0**	**2,419**

The caption includes the post-employment benefits measured using the projected unit credit method and provided for solely by the Italian companies in accordance with the ruling legislation.
The key economic and financial assumptions applied by the actuary are:

Category	Salary increases		Probability of requests for advances	% of benefits for which advance requested
	Males	Females		
Managers	2.00%	2.00%	3.00%	70%
White collars	2.00%	2.00%	3.00%	70%
Blue collars	2.00%	2.00%	3.00%	70%

18. DEFERRED TAX LIABILITIES

Deferred tax liabilities	31/12/2005	31/12/2006	Variation
Taxation, including deferred	2,911	3,318	407
Total	**2,911**	**3,318**	**407**

At 31 December 2006, deferred tax liabilities amount to € 3,318 thousand (31 December 2005: € 2,911 thousand), showing an increase of € 407 thousand. They include both deferred tax liabilities, changes in which are shown in the following table, and the estimated income tax expense.
The key elements of deferred tax liabilities and changes therein during 2006 and 2005 are set out below (in thousands of Euros):

	31/12/2005			**31/12/2006**		
Deferred tax liabilities	**Amount**	**Tax rate**	**Deferred taxes**	**Amount**	**Tax rate**	**Deferred taxes**
Fiscally-driven depreciation/amortisation	1,376	37.25%	513	1,563	37.25%	582
Consolidation adjustments	3,415	40.50%	1,383	3,436	37.25%	1,280
Income taxable in future years	342	37.25%	127	141	37.25%	53
Gains on the disposal of assets	937	37.25%	349	469	37.25%	175
Derecognition of amortisation of goodwill	498	37.25%	186	996	37.25%	371
Capitalisation of development expenditure	514	37.25%	191	1,095	37.25%	408
Separation of land from buildings	363	37.25%	135	431	37.25%	160
Actuarial calculation of post-employment benefits	83	33.00%	27	(33)	33.00%	(11)
Estimated taxes to be paid	0	0.00%	0	0	0.00%	300
Total Deferred tax liabilities			**2,911**			**3,318**

CURRENT LIABILITIES

19. BANK OVERDRAFTS AND SHORT-TERM LOANS

The balance of € 3,207 thousand at year end (31 December 2005: € 1,253 thousand) comprises exclusively the short-term portion of mortgage loans and loans as follows (in thousands of Euros):

	Lender	Company	Expiry date	Interest rate	Current portion
Mortgage loan	Banca Intesa	LANDI RENZO S.p.A.	Sept-10	Euribor 3 month+0.60%	158
Loan	CREDEM	LANDI RENZO S.p.A.	Dec-08	Euribor 3 month+0.425%	1,260
Mortgage loan	CREDEM	MED S.p.A.	Jan-09	Euribor 3 month+0.95%	102
Mortgage loan	CREDEM	MED S.p.A.	Dec-08	Euribor 3 month+0.425%	629
Loan	Banco Pop. VR E NO	MED S.p.A.	March-11	Euribor 3 month+0.70%	134
Loan	Unicredit Banca	MED S.p.A.	Oct-10	Euribor 3 month+0.80%	194
Loan	Banca Intesa	Beijing Landi Renzo	Nov-07	Basic People's Bank of China (6.13%)	730
				TOTAL	**3,207**

No guarantees have been given for the loans.

A breakdown of the group's net financial indebtedness is as follows (in thousands of Euros):

	31/12/2005	**31/12/2006**
Cash and cash equivalents	(9,346)	(9,771)
Bank overdrafts and short-term loans	2,446	4,419
Net short-term financial indebtedness	**(6,900)**	**(5,352)**
Medium to long-term loans	7,220	10,756
Bonds	2,000	2,000
Net medium to long-term financial indebtedness	**9,219**	**12,756**
NET FINANCIAL INDEBTEDNESS	**2,320**	**7,404**

2006 net financial indebtedness increased by € 5,084 thousand from € 2,320 thousand to € 7,404 thousand over the previous year, mainly due to the agreement of new medium to long-term loans, needed to partly cover the new investments made.

20. OTHER CURRENT FINANCIAL LIABILITIES

This caption is as follows (in thousands of Euros):

	Lender	Company	Expiry date	Interest rate	Short-term portion
Loan	Ministry for Prod. Activities	LANDI RENZO S.p.A.	March-07	1.85%	34
Loan	Ministry for Prod. Activities	LANDI RENZO S.p.A.	Dec-14	3.08%	20
Loan	Ministry for Prod. Activities	MED S.p.A.	Jan-11	2.00%	48
Loan	Ministry for Prod. Activities	MED S.p.A.	Jan-13	2.00%	92
Lease	Locat S.p.A./CredemL.	LANDI RENZO S.p.A.	March-12	Euribor 3 month+0.80%	1,019
				TOTAL	**1,212**

The year-end balance of € 1,212 thousand (31 December 2005: € 1,193 thousand) mainly related to the short-term portion of the outstanding lease payments for the aforesaid real estate lease and, to a lesser extent, the short-term portion of subsidised loans granted by the Ministry for Production Activities in line with the relevant legislation.

21. TRADE PAYABLES

Changes in this caption are as follows (in thousands of Euros):

Trade payables	31/12/2005	31/12/2006	Variation
Trade payables (including related parties)	23,514	27,625	4,111
Total	**23,514**	**27,625**	**4,111**

Trade payables (including those with related parties) may be analysed as follows by geographical segment (in thousands of Euros):

Trade payables by geographical segment	31/12/2006
Italy	25,660
Europe (excluding Italy)	965
South-west Asia	0
Rest of Asia	175
Americas	546
Rest of the world	279
Total	**27,625**

22. TRADE PAYABLES - RELATED PARTIES

These payables include those for the purchase of parts from A.E.B. S.r.l. (an associate of the ultimate parent Girefin S.p.A.) for € 3,178 thousand (31 December 2005: € 3,846 thousand). All the related transactions are carried out at normal market conditions. Reference should be made to the section on other information - related party transactions for additional information.

23. TAX LIABILITIES

Tax liabilities	31/12/2005	31/12/2006	Variation
Tax liabilities	1,344	2,690	1,346
Total	**1,344**	**2,690**	**1,346**

The caption comprises payables due to the taxation authorities of the individual countries in which the group companies are based.

24. OTHER CURRENT LIABILITIES

Other current liabilities	31/12/2005	31/12/2006	Variation
Other current liabilities	2,388	2,352	(36)
Total	**2,388**	**2,352**	**(36)**

The year-end balance relates to social security charges payable of € 627 thousand, advances of € 131 thousand, accrued expenses and deferred income of € 185 thousand and other sums payable of € 1,409 thousand, mainly for current and deferred remuneration to be paid to employees.

25. OTHER CURRENT LIABILITIES - RELATED PARTIES

Payables to related parties of € 2,589 thousand (31 December 2005: € 1,585 thousand) included in this caption relate to the payables of Landi Renzo S.p.A. and Landi S.r.l. due to the ultimate parent Girefin S.p.A. as part of the national consolidated tax scheme.

CONSOLIDATED INCOME STATEMENT

26. REVENUE

Revenue (goods and services)	2005	2006	Variation
Revenue (goods)	91,864	138,191	46,326
Revenue (services)	7	36	29
Recharges and recoveries of costs	416	463	47
Total	**92,287**	**138,689**	**46,402**

Consolidated revenue increased by 50.3% and 43.1% in 2006 and 2005 compared to 2005 and 2004, respectively. This growth was primarily driven by the upturn in sales volumes thanks to (i) the increase in demand for LPG and natural gas fuel supply systems in the group's markets, and (ii) the group's expansion policies.

The increase in demand for LPG and natural gas fuel supply systems is part of a general move towards alternative fuel for vehicles. This is the result of a number of factors, including:

- stricter regulations about greenhouse gas emissions, also in compliance with international multilateral agreements (eg, the Kyoto Protocol);
- more competitive consumer prices of environmentally-friendly fuel, such as LPG and natural gas, compared to traditional fuels, such as petrol and diesel;
- presence of natural energy sources, such as natural gas, in certain markets;

- the intention of certain countries which import oil and/or with a limited refining capacity to reduce their dependence on energy sources of the countries exporting oil and/or refined products;
- the rise in the availability of LPG and natural gas following the increase in the number of LPG and natural gas service stations along the national road network and motorways.

These factors have encouraged countries to introduce and implement policies aimed at promoting alternative energy sources. Such policies include:

- monetary incentives for the installation of LPG or natural gas fuel supply systems for the OEM and aftermarket channels;
- closing historical centres or other areas of towns and cities used by traditional petrol or diesel vehicles (in Italy and other EU states);
- imposing minimum production levels for new vehicles powered by alternative fuels with the related development of the OEM channel;
- direct public intervention (eg, assistance to construct LPG and natural gas service stations along the national road network and motorways);
- favourable tax and customs policies.

In this scenario, the group has implemented an international expansion strategy in those markets which have seen significant demand for natural gas and LPG fuel supply systems. The group set up companies in Pakistan, China and Brazil in the period from 2003 to 2006 as part of this strategy to strengthen its presence in these markets.

The group also undertook a policy to build up and optimise its product portfolio. Therefore, the increase in revenue was also due to a product mix focused on products with high added value. Moreover, the group has increased its sales to the OEM market alongside the traditional distribution on the After market channel for installations at assembly line level of the car manufacturers and at car dealer level (the "O" km new cars).

27. OTHER REVENUE AND INCOME

Other revenue and income amount to Euro 530 thousand compared to € 585 thousand in 2005. They mainly relate to grants related to income received for research expenditure.

28. COSTS FOR RAW MATERIALS, CONSUMABLES AND GOODS AND CHANGE IN INVENTORIES

Cost for raw materials, consumables and goods and change in inventories	31/12/2005	31/12/2006	Variation
Raw materials (including purchases from related parties)	33,161	52,770	19,609
Finished goods for sale	11,003	19,214	8,211
Packaging	246	347	101
Advertising material	185	247	62
Sundry consumables	73	112	39
Consumable equipment	53	107	54
Test material	108	162	53
Change in inventories	(2,252)	(9,875)	(7,623)
Total	**42,577**	**63,084**	**20,507**

Total costs (including those with related parties) for raw materials, consumables and goods (including the change in inventories) increased from € 42,577 thousand in 2005 to € 63,084 thousand, mainly due to the rise in sales volumes. The small proportion of these costs as a part of revenue is due to the increase in profit margins, mainly attributable to the introduction of last generation products incorporating new technologies, the rise in sales volumes in geographical areas where the group has higher average margins and its continuous monitoring of its procurement policy.

Reference should be made to the note to inventories for information on the increase in the change in inventories.

29. COSTS FOR RAW MATERIALS, CONSUMABLES AND CHANGE IN INVENTORIES - RELATED PARTIES

Costs for raw materials and consumables (including the change in inventories) paid to related parties refer to the purchases of parts from A.E.B. S.r.l., an associate of the ultimate parent Girefin S.p.A. for € 17,746 thousand (2005: € 11,092 thousand).

30. COSTS FOR SERVICES AND USE OF THIRD PARTY ASSETS

This caption is as follows (in thousands of Euros):

Cost for services and use of third party assets	2005	2006	Variation
External manufacturing expenses	11,581	19,865	8,284
Maintenance and repairs	694	1,195	501
Technical, legal and administrative consultancy	1,844	2,292	448
Travel	412	519	107
Transportation	745	1,238	493
Advertising and participation at trade fairs	922	1,092	170
Utilities and cleaning	724	951	227
Insurance	267	361	94
Commissions	921	1,339	418
Statutory auditors' fees	48	48	0
Costs for use of third party assets	452	579	127
Other general costs	1,486	2,122	635
Total	**20,098**	**31,600**	**11,502**

Costs for services and the use of third party assets amount to € 31,600 thousand, an increase of € 11,502 thousand (57.2%) on the previous year figure of € 20,098 thousand.

The total cost of external manufacturing expenses increased from € 11,581 thousand in 2005 to € 19,865 thousand, up 71.5%. This was mainly due to the greater resort to subcontracting in line with production requirements, tied to sales volumes and the installation of environmentally-friendly systems on new cars by external suppliers at OEM customers in Italy.

Technical, legal and administrative consultancy services increased from € 1,844 thousand to € 2,292 thousand in 2006. The key costs incurred in 2006 related to the upgrading of the management software, the management accounts system and technological research. However, as a percentage of revenue, they decreased as these costs are not closely tied to increases in turnover.

31. PERSONNEL EXPENSES

This caption may be analysed as follows (in thousands of Euros):

Personnel expenses	2005	2006	Variation
Wages and salaries	6,652	7,633	981
Social security contributions	2,116	2,424	308
Liabilities for defined benefit plans	340	544	204
Temporary work	586	1,282	696
Directors' fees	390	480	90
Other costs	42	94	52
Total	**10,126**	**12,457**	**2,331**

The group's average number of employees in 2006 and 2005 are analysed by position in the following table:

Average number of employees (*)	2005	2006
White collars and managers	136	168
Blue collars	150	175
Trainees	1	0
Total	**287**	**343**

(*) These figures do not include temporary workers or the directors.

This caption increased by 23.0% on the previous year due to the rise in personnel numbers as part of the group's policy to increase its workforce in line with its greater business volumes. Newly hired employees were mainly highly qualified professionals.
The group made greater resort to temporary workers to meet the rise in production. The related cost increased by 118.6% from € 586 thousand in 2005 to € 1,282 thousand for 2006.

32. ACCRUALS, IMPAIRMENT LOSSES AND OTHER OPERATING EXPENSES

This caption is as follows (in thousands of Euros):

Accruals, impairment losses and other operating expenses	2005	2006	Variation
Taxes and duties	165	790	625
Bad debts	29	21	-8
Other operating costs	101	463	362
Impairment losses on receivables	425	466	41
Total	**721**	**1,740**	**1,019**

This caption increased from € 721 thousand in 2005 to € 1,740 thousand in 2006, mainly due to the following:

- accruals for probable defaults, mainly made by the Brazilian subsidiary;
- greater taxes and duties paid mainly by the foreign subsidiaries.

33. AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

Amortisation, depreciation and impairment losses	2005	2006	Variation
Amortisation of intangible assets	453	545	92
Depreciation of property, plant and equipment	1,996	2,340	344
Impairment of non-current assets	0	0	0
Total	**2,449**	**2,885**	**436**

Amortisation mainly relates to development and design expenditure incurred by the group, costs for the purchase and registering of trademarks and licences and application and management software over the years.
Depreciation mainly relates to property, plant and equipment for the production, assembly and testing of products, industrial and commercial equipment for the purchase of moulds, testing and control equipment and computers.
Amortisation and depreciation amount to € 2,885 thousand for the year compared to € 2,449 thousand in 2005, showing an increase of € 436 thousand or 17.8% due to the larger investments made in 2006.

34. FINANCIAL INCOME

This caption is as follows (in thousands of Euros):

Financial income	2005	2006	Variation
Interest income on bank deposits	231	148	(83)
Default interest on trade receivables	10	35	25
Other income	91	71	(20)
Total	**332**	**254**	**(78)**

Financial income mainly consists of bank interest income and interest income on other financial assets.
The 2006 balance amounts to € 254 thousand, a decrease of € 78 thousand (23.5%) on the previous year figure of € 332 thousand. This variation is due to the smaller bank interest income recorded due to the reduction in the group's average cash and cash equivalents.

35. FINANCIAL EXPENSES

This caption is as follows (in thousands of Euros):

Financial expense	2005	2006	Variation
Interest on bank overdrafts and loans and loans from other financial backers	243	433	190
Interest on bonds	71	104	33
Bank charges and commissions	144	459	315
Impairment losses on investments	33	0	(33)
Other expenses	206	168	(38)
Total	**697**	**1,164**	**467**

This caption mainly comprises interest expense on leases, bank commissions and bank interest expense.

It shows an increase of € 467 thousand or 67% over the 2005 figure of € 697 thousand at € 1,164 thousand. This variation is mainly due to:

- new bank loans required to cover part of the investments;
- the rise in market interest rates;

- greater expenses incurred by the parent for bank commissions (up from € 144 thousand to € 459 thousand) related to the greater number of foreign trading transactions guaranteed by letters of credit and resort to advances on foreign invoices.

36. EXCHANGE RATE GAINS (LOSSES)

Exchange rate gains (losses)	2005	2006	Variation
Exchange rate gains	791	610	(181)
Exchange rate losses	(294)	(278)	16
Total	**497**	**332**	**(165)**

The group's revenue is mainly earned in Euros.
More than 90% of the group's purchases of raw materials and consumables are made in Euros.
Exchange rate gains and losses mainly relate to the Brazilian subsidiary which operates in the local currency, makes purchases in Euros and sales in US dollars.
At year end, the group did not have exchange rate hedging derivatives.

37. INCOME TAX EXPENSE

The theoretical tax rate used to calculate the income tax expense of the Italian companies is 37.25% of the annual taxable income. The foreign companies' tax expense is calculated applying the rates ruling in the different countries.
A breakdown of this caption is as follows (in thousands of Euros):

Income tax expense	2005	2006	Variation
Current taxes	5,268	9,474	4,205
Deferred tax expense (income)	415	709	295
Total	**5,683**	**10,183**	**4,500**

The income tax expense for the year is € 10,183 thousand compared to € 5,683 thousand for 2005 (+ € 4,500 thousand, 79.2%). The average tax rate increased from 33.4% for 2005 to 37.9% for 2006. This variation is due to the utilisation of carry forward tax losses by Med S.p.A., for which it had not recognised deferred tax assets and which entirely offset the subsidiary's taxable income for 2005 and partly decreased that for 2006.

38. EARNINGS PER SHARE

The basic earnings per share are determined by dividing profit attributable to the shareholders of the parent by the weighted average number of ordinary shares outstanding in the year (250,000). The basic earnings per share, which equal the diluted earnings per share as there are no convertible bonds, are € 66.72 at 31 December 2006 compared to € 44.53 at the end of 2005.

OTHER INFORMATION

39. GUARANTEES GIVEN

At 31 December 2006, the group had given banks sureties of € 253 thousand compared to € 334 thousand at the end of 2005.

40. COMMITMENTS

The group only had commitments for lease payments at year end as follows (in thousands of Euros):

Commitments for leases	Within one year	From 1 to five years
2005:		
Commitments for leases	435	0
2006:		
Commitments for leases	609	180

The group does not have commitments for leases of more than five years.

41. MAIN LITIGATION

The group is involved in litigation for immaterial amounts.
Based on the opinions of the lawyers, the parent's directors did not deem it necessary to provide for litigation in the balance sheet as they hold the claims made to be ungrounded and the existence of any contingent liabilities deriving from settlement of the litigation to be remote.
The group is not involved in litigation with the taxation authorities.

42. RELATED PARTY TRANSACTIONS

Transactions with the related parties listed below include the supply of goods (parts) by A.E.B. S.r.l., an associate of the ultimate parent Girefin S.p.A., payables of Landi Renzo S.p.A. and Landi S.r.l. due to the ultimate parent for the national consolidated tax scheme and dividends paid by Landi Renzo S.p.A. to Girefin S.p.A..

EFFECT OF TRANSACTIONS WITH RELATED PARTIES

a) effect of transactions or positions with related parties on the balance sheet captions	Total caption	Total amount	%
Trade payables	27,625	3,178	12%
Other current liabilities	4,941	2.588,	52%
b) effect of transactions or positions with related parties on the income statement captions			
Costs for raw materials, consumables and goods	63,084	17,746	28%

Fees paid in 2006 to the directors and statutory auditors are given in the section on the Consob resolution no. 11971 of 14 May 1999.

43. NON-RECURRING SIGNIFICANT EVENTS AND TRANSACTIONS

Pursuant to Consob communication no. 6064293 of 28 July 2006, the group notes that no non-recurring significant events or transactions took place during the year.

44. POSITIONS OR TRANSACTIONS ARISING FROM ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to Consob communication no. 6064293 of 28 July 2006, we note that no atypical and/or unusual transactions took place during the year that would cast doubts on the correctness and completeness of the disclosures in the financial statements, lead to conflicts of interest, or affect protection of company assets and of the minority shareholders.

45. SIGNIFICANT POST-BALANCE SHEET EVENTS

The key events that have taken place since the balance sheet date are as follows:
On 28 February 2007, Landi Renzo S.p.A. acquired a 1% interest in Landi S.r.l. and 0.05% of Med S.p.A. in order to acquire 100% control thereof.

On 5 March 2007, Landi Renzo S.p.A. approved the partial proportional spin-off of a part of its assets (including the real estate business unit, related transactions and all its treasury shares) to a newco.

The group is currently involved in the procedure for floating part of the shares of Landi Renzo S.p.A. involving the listing of its ordinary shares possibly on the Star segment of the stock exchange organised and managed by Borsa Italiana S.p.A.

No other significant events took place in the period from 31 December 2006 to 7 March 2007.

I) DISCLOSURES REQUIRED BY CONSOB RESOLUTION NO. 11971 OF 14 MAY 1999

As expressly required by this resolution, details of the fees paid by the parent and other group companies to directors, statutory auditors and CEOs in any form and for any reason are described below.

FEES PAID TO THE DIRECTORS AND STATUTORY AUDITORS

Fees	31/12/2005		31/12/2006	
	fee	Term of office entitlement	fee	Term of office entitlement
LANDI RENZO S.p.A.				
Board of directors				
Giovannina Domenichini (chairperson)	16	0	16	
Stefano Landi (managing director/director)	129	31	129	31
Silvia Landi (director)	16	3	16	3
Paolo Gabbi (director)	5	0	5	
INPS social security contributions	13		13	
Board of statutory auditors				
Pierangelo Paleari	6		0	
Marina Torelli	2		7	
Massimiliano Folloni	7		7	
Romano Merlatti (chairperson)	12		12	
LANDI S.r.l.				
Stefano Landi (chairperson)	16	0	16	
Silvia Landi (director)	5	0	5	
Carlo Coluccio (managing director/director)	102	0	158	
INPS social security contributions	1		1	
Board of statutory auditors				
Pierangelo Paleari	2		0	
Marina Torelli	1		3	
Massimiliano Folloni	3		3	
Romano Merlatti (chairperson)	4		4	
Med S.p.A.				
Angelo Iori (CFO)	50	0	50	
Silvia Landi (director)	0	0	10	
Stefano Landi (chairperson)	0	0	10	
Giovannina Domenichini (director)	0	0	10	
INPS social security contributions	3		7	
Board of statutory auditors				
Fiorenzo Oliva	3		3	
Massimiliano Folloni	3		3	
Romano Merlatti (chairperson)	5		5	
Total	**404**	**34**	**493**	**34**

LANDI RENZO S.p.A.

Registered office in via Nobel 2/4, Cavriago (Reggio Emilia)
Share capital: Euro 2,500,000.00, fully paid-up.
Reggio Emilia company registration no. and tax code. 00523300358

CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2006

DIRECTORS' REPORT

This is the first year that the consolidated financial statements have been drawn up under the International Financial Reporting Standards (IFRS) as explained in the notes thereto and in the relevant section of the report on the transition to the IFRS.
The group's consolidated financial statements have previously been prepared under Italian GAAP.
The 2005 consolidated financial statements figures, presented for comparative purposes, have been restated to comply with the IFRS.
The annex to the notes to the consolidated financial statements sets out the methods and a quantification of the effects of the transition and also includes the 2005 consolidated financial statements restated under the IFRS.

The 2006 consolidated financial statements presented for your approval show a profit of € 16,680 thousand compared to € 11,113 thousand in 2005, after amortisation, depreciation and impairment losses of € 2,885 thousand and income tax expense of € 10,183 thousand.

Macro economic context and reference market

The increase in demand for LPG and natural gas fuel supply systems is part of a general move towards alternative fuel for vehicles.
This is the result of a number of factors, including:

- stricter regulations about greenhouse gas emissions;
- more competitive prices of alternative fuel, such as LPG and natural gas, compared to traditional fuels, such as petrol and diesel;
- presence of natural energy sources, such as natural gas, in certain markets;
- the intention of certain countries which import oil and/or with a limited refining capacity to reduce their dependence on energy sources of foreign countries;
- the rise in the number of LPG and natural gas service stations along the national road network and motorways.

These factors have encouraged some countries to introduce and implement policies aimed at promoting alternative energy sources. Such policies include:

- economic incentives for the installation of LPG or natural gas fuel supply systems;

- closing historical centres or other areas of towns and cities used by traditional petrol or diesel vehicles (in Italy and other EU states);
- imposing minimum production levels for new vehicles powered by alternative fuels;
- direct public intervention (eg, assistance to construct LPG and natural gas service stations along the national road network and motorways);
- favourable tax and customs policies.

In this scenario, the group has implemented an international expansion strategy in those markets which have seen significant demand for natural gas and LPG fuel supply systems. It has set up companies in Brazil, China and Pakistan and will shortly incorporate a company in Iran.

The group also undertook a policy to build up and optimise its product portfolio. Therefore, the increase in revenue was partly due to a product mix focused on products with high added value. Moreover, in the last three years, the group has increased its sales to the OEM market alongside the traditional distribution on the after market channel for installations at assembly line level of the car manufacturers and at car dealer level (the "O" km cars).

Operations

Landi Renzo has more than fifty years experience in the motor propulsion fuel supply system sector designing, producing and selling environmentally-friendly LPG and natural gas systems.
The parent is an international leader in its market thanks to its constant focus on environmental issues, ongoing attention to the technological and quality content of its products and a flexible customer approach.
The group recorded consolidated revenue of € 64.5 million, € 92.3 million and € 138.7 million for 2004, 2005 and 2006, respectively, with a CAGR of roughly 47%.
Landi Renzo sells its products and systems in around fifty countries around the world including Italy and in Asia, western Europe, eastern Europe, Africa, South America and Australia.

The group's customers are both international car manufacturers (Original Equipment Manufacturing - "OEM" - customers), retailers and independent importers (after market customers).

The following two tables give a breakdown of gross revenue split by geographical and business segment.

Breakdown of revenue by geographical area

(thousands of Euros)	2005	% of revenue	2006	% of revenue	2006/2005	% 2006/2005
Italy	24,817	26.9%	35,590	25.7%	10,773	43.4%
Europe (excluding Italy) (*)	27,216	29.5%	35,285	25.4%	8,069	29.6%
South-west Asia (**)	26,980	29.2%	47,366	34.2%	20,386	75.6%
Rest of Asia	5,330	5.8%	7,832	5.6%	2,502	46.9%
Americas	5,678	6.2%	8,890	6.4%	3,212	56.6%
Rest of the world	2,266	2.5%	3,726	2.7%	1,460	64.4%
Total revenue	**92,287**	**100.0%**	**138,689**	**100.0%**	**46,402**	**50.3%**

(*) including sales in Russia and excluding those in Turkey

(**) including sales in Pakistan, Iran and Turkey

Breakdown of revenue by business area

(thousands of Euros)	2005	% of revenue	2006	% of revenue	2006/2005	% 2006/2005
Gas sector - LPG line	42,141	45.7%	58,564	42.2%	16,423	39.0%
Gas sector - natural gas line	46,390	50.3%	75,984	54.8%	29,594	63.8%
Alarm and other systems	3,756	4.1%	4,141	3.0%	385	10.3%
Total revenue	**92,287**	**100.0%**	**138,689**	**100.0%**	**46,402**	**50.3%**

The group's strong points include:

- leadership in the design and production of environmentally-friendly LPG and natural gas fuel supply systems, assisted by its strong international characteristics;
- excellence in technological innovation used to develop state-of-the-art products and use low environmental impact energy sources to fuel vehicles;
- flexible and efficient business model able to take on market changes without affecting its tight control of the critical production stages;
- quality and versatility of products which enables the group to meet demand and comply with the legislation in every country in which it operates;
- in-depth knowledge of the distribution channels, thanks to solid relationships with leading OEM customers and a strong presence in the after market sector.

Proposed strategic plan and key actions

The group's business philosophy is based on continued technological innovation, aimed at finding solutions that are increasingly environmentally-friendly, with high quality standards and a flexible and efficient business model.

Its strategy is very international, as can be seen from the considerable market share of the more interesting markets obtained by marketing products requested locally.

These guidelines represent the basis for growth and the key drivers for future development to be implemented through the following strategic policies:

- continued implementation of innovative solutions and expansion of the product portfolio to ensure its cutting edge standards are maintained;
- strengthening of the share in markets in which the group is already active and expansion into new areas;

- development of sales activities in the OEM channel;
- geographical expansion of the after market channel;
- greater operating efficiency and profitability.

Performance

Once again, the group's results are satisfactory with revenue at € 138.7 million (+50.3% on 2005) and a pre-tax profit of € 26.9 million (+57.8% on 2005), achieved in a positive market scenario with steady growth in the demand for LPG and natural gas systems.

Consolidated results

The key consolidated figures are shown below.

Consolidated income statement

(thousands of Euros)	**2005**	**% of revenue**	**2006**	**% of revenue**	**Change**	**%**
Revenue (goods and services)	**92,287**	**100.0%**	**138,689**	**100.0%**	**46,402**	**50.3%**
Other revenue and income	585		530		-55	-9.4%
Operating expenses	(73,522)	79.7%	(108,880)	78.5%	-35,358	48.1%
Gross operating profit	**19,350**	**21.0%**	**30,340**	**21.9%**	**10,990**	**56.8%**
Amortisation, depreciation and impairment losses	(2,449)	2.7%	(2,885)	2.1%	-436	17.8%
Operating profit	**16,901**	**18.3%**	**27,455**	**19.8%**	**10,554**	**62.4%**
Financial income	332	0.4%	254	-0.2%	-78	-23.5%
Financial expenses	(697)	0.8%	(1,164)	0.8%	-467	67.0%
Net exchange rate gains	497	0.5%	332	-0.2%	-165	-33.3%
Profit before tax	**17,033**	**18.5%**	**26,876**	**19.4%**	**9,843**	**57.8%**
Income tax expense	(5,683)	6.2%	(10,183)	7.3%	-4,500	79.2%
Profit for the year, of which attributable to:	**11,350**	**12.3%**	**16,693**	**12.0%**	**5,343**	**3.9%**
Minority interests	217	0.2%	13	0.0%	-204	-94.0%
Shareholders of the parent	11,133	12.1%	16,680	12.0%	5,547	49.8%

2006 consolidated revenue of the core business is € 138,689 thousand compared to € 92,287 thousand in 2005, up 50.3%.

This improvement is due to the rise in sales volumes in the group's key markets as a result of the following actions:

- new sales agreements with car manufacturers;
- extension of the product portfolio and development of existing products by applying new technological solutions;
- high product versatility, characterised by quality standards that meet the strict requirements of the key car manufacturers with which the group has long-standing relationships;
- in-depth knowledge of the after market distribution channels thanks to a widespread presence in the relevant markets;
- efficient after sales assistance service, also due to the excellent service provided by the technical-sales staff.

The gross operating profit for 2006 amounts to € 30,340 thousand against € 19,350 thousand for 2005. As a percentage of revenue, it equals 21.9% and 21.0% in 2006 and 2005, respectively.

The rise in revenue contributed positively to the improvement in gross operating profit thanks to a change in the product mix favouring sales of products with higher profit margins and the optimisation of certain production processes of strategic parts by the subsidiary Med S.p.A..

The profit for the year is € 16,680 thousand, equal to 12.0% of revenue compared to € 11,133 thousand for 2005, at 12.1% of revenue.

Balance sheet

(thousands of Euros)	31/12/2005	31/12/2006	Change	%
Property, plant and equipment	19,090	25,460	6,370	
Intangible assets	3,907	4,720	813	
Financial assets	1,680	1,295	- 385	
(a) Non-current assets	**24,677**	**31,475**	**6,798**	**27.5%**
Inventories	22,255	32,161	9,906	
Assets	31,778	38,697	6,919	
Liabilities	28,831	35,255	6,424	
Provisions for risks and charges and def. tax liabilities	3,170	3,930	760	
(b) Net working capital	**22,032**	**31,673**	**9,641**	**43.8%**
(c) NET INVESTED CAPITAL (a)+(b)	**46,709**	**63,148**	**16,439**	**35.2%**
(d) Equity	**32,992**	**43,554**	**10,562**	
(e) Post-employment benefits and other provisions for employees	**2,052**	**2,419**	**367**	
Medium to long term net fin. Indebtedness	9,219	12,756	3,537	
Short term net financial indebtedness	2,446	4,419	1,973	
(f) Net financial indebtedness	**11,665**	**17,175**	**5,510**	**47.2%**
(g) COVERAGE (d)+(e)+(f)	**46,709**	**63,148**	**16,439**	**35.2%**

Property, plant and equipment, intangible assets and other non-current assets amount to € 31,475 thousand, an increase of € 6,798 thousand (+27.5%) on the 2005 figure of € 24,677 thousand.
This increase was mainly due to capital expenditure made during the year net of the depreciation charges.
The key increases in property, plant and equipment in 2006 relate to:

- acquisition of a building to house the Chinese subsidiary's operating offices;
- acquisition of a new automated line by Med S.p.A. to produce injectors for the group; this line was rolled out in early 2007;
- acquisition by the parent of an assembly and testing line for natural gas reducers and vertical storage systems;
- acquisition of moulds and testing and control equipment;
- acquisition of computers, vehicles and internal transportation vehicles.

The main intangible assets capitalised during the year were:

- acquisition of software licences, mainly for the new SAP release in order to make this software

more efficient and responsive to the group's greater requirements;
- capitalisation of costs for technical assistance and personnel expense related to technological development projects carried out by the parent.

Equity went from € 32,992 thousand in 2005 to € 43,554 thousand, mainly due to the increase in the profit for the year (€ 16,680 thousand) offset by the payment of dividends (€ 5,339 thousand).

Cash flows

(thousands of Euros)

	31/12/2005	31/12/2006	Change
APPLICATION			
Net working capital	15,856	25,832	9,976
Non-current assets and other non-current assets	24,677	31,474	6,797
Non-current liabilities (excluding loans)	(5,222)	(6,348)	(1,126)
Net invested capital	**35,311**	**50,958**	**15,647**
SOURCES			
Net financial position	2,320	7,404	5,084
Equity	32,991	43,554	10,563
Sources	**35,311**	**50,958**	**15,647**

Net working capital for the year amounts to € 25,832 thousand, an increase of € 9,976 thousand (+62.9%) on the previous year (€ 15,856 thousand). This change is mainly due to the greater inventories (up from € 22,255 thousand to € 32,161 thousand) in order to meet the rise in sales volumes; the increase in trade receivables and receivables due from others was countered by an increase in trade payables and payable due to others.

Non-current liabilities at 31 December 2006 amount to € 6,348 thousand compared to € 5,222 thousand at the end of 2005 (+ € 1,126 thousand or 21.6%). The main increases relate to the provisions to defined benefit plans for employees, the adjustment to the provisions for risks and charges and increase in the provision for taxation.

Net financial indebtedness increased by € 5,084 thousand from € 2,320 thousand to € 7,404 thousand over the previous year, mainly due to the agreement of new medium to long term loans, needed to partly cover the new investments made.

Net financial expenses increased although they did not change substantially as a percentage of revenue. The worsening is due to the rise in working capital requirements necessary to support the significant increase in turnover and capital expenditure.

Performance of the subsidiaries

The key figures of the group companies as shown in their financial statements drawn up under local GAAP are set out below.

LANDI RENZO S.p.A.

The 2006 financial statements show a net profit of € 11,245 thousand (2005: € 5,893 thousand) after

amortisation and depreciation of € 1,484 thousand, write-downs of receivables of € 63 thousand and income tax expense of € 6,738 thousand.
Net turnover from the sale of goods increased by 63.3% from € 65,213 thousand to € 106,510 thousand thanks to favourable market conditions that enabled steady growth in demand for natural gas and LPG systems.
Personnel expenses rose € 829 thousand to € 6,220 thousand, equal to 5.8% of total revenues, following the hiring of new employees.
The gross operating profit came in at € 17,649 thousand, an improvement of more than 86% on the previous year, while the operating profit amounts to € 16,102 thousand (more than 99% better).
Net financial income is € 1,881 thousand and includes dividends distributed by Landi S.r.l. and LR Industria e Comercio Ltda of € 2,425 thousand.
The pre-tax profit is € 17,983 thousand compared to € 9,257 thousand in 2005 and the net profit for the year, after current and deferred taxes, is € 11,245 thousand (2005: € 5,893 thousand).

LANDI S.r.l.

The 2006 financial statements show a net profit of € 1,566 thousand (2005: € 1,592 thousand) after amortisation and depreciation of € 98 thousand, write-downs of receivables of € 9 thousand and income tax expense of € 1,157 thousand.
Total revenues amounts to € 13,703 thousand compared to € 11,483 thousand in 2005 (+19.3%) thanks to the favourable motor propulsion LPG systems market which led the rise in revenue, especially outside the EU.
The gross operating profit came in at € 2,799 thousand (20.4% of total revenue) while the operating profit increased by € 155 thousand, equal to 19.6% of total revenues (2005: 22%).
The operating profit amounts to € 2,692 thousand (19.6% of net revenue) compared to € 2,537 thousand in 2005 (22%).
The pre-tax profit amounts to € 2,723 thousand (2005: € 2,534 thousand), equal to 19.8% of net revenues (2005: 22%).

Med S.p.A.

This subsidiary recorded a net profit of € 4,179 thousand for the year compared to € 2,274 thousand in 2005.
Total revenues are € 32,167 thousand, up 55% on the previous year (€ 20,703 thousand), mainly due to the increase in revenues generated by the mechanical equipment sector.
The mechanical division contributed total turnover of € 24.1 million compared to € 14.3 million in 2005 following the production of a larger amount of injectors and solenoid valves for the gas sector. This led to an increase in sales, especially intragroup.
The electronic division recorded turnover of € 8.1 million against € 6.4 million in 2005 due to the greater production of parts for the gas sector.
The alarm system sector had a turnover of approximately € 4 million, up 8%, with continued weak demand.
Personnel expenses amount to € 3,268 thousand, equal to 10% of total revenue (2005: 12.6%). The operating profit amounts to € 5,447 thousand compared to € 2,591 thousand for 2005).
The pre-tax profit is € 5,230 thousand (2005: € 2,371 thousand).

EUROGAS UTRECHT B.V.

This subsidiary, in which the group has had an investment since 1995, sells LPG fuel supply systems

for “Eurogas” vehicles in northern Europe.
It recorded a net profit of € 1,066 thousand, after amortisation and depreciation of € 47 thousand, compared to € 578 thousand in 2005.
Total turnover is € 5,830 thousand, up 46% on the previous year figure (€ 3,995 thousand) thanks to the rise in LPG system sales.

The difference between revenues and production costs is a positive € 1,484 thousand compared to € 832 thousand in 2005..

LANDI RENZO POLSKA Sp.zo.o

Active since 1998, this company mainly sells LPG fuel supply systems for vehicles on the Polish market.
It recorded a net profit of € 239 thousand, after amortisation and depreciation of € 75 thousand, compared to € 694 thousand in 2005.
Revenues decreased by 28% from € 5,247 thousand to € 3,758 thousand due to the contraction in local demand for LPG systems.
The operating profit amounts to € 304 thousand, down € 792 thousand on the previous year, mainly due to the reduction in revenue.

LANDI INTERNATIONAL B.V.

The Dutch holding company, which has complete control of Landi Polska Sp.zo.o. and Eurogas Utrecht B.V., recorded a net profit of € 1,323 thousand thanks to dividends collected from its two subsidiaries.
It fully repaid the loan received from the parent during the year.

LR INDUSTRIA E COMERCIO Ltda

The Brazilian company, in which the group has had an interest since 2003, produces and sells environmentally-friendly fuel supply systems for vehicles in South America. It started a new production line of electronic parts in 2006.
The subsidiary recorded a net profit of € 200 thousand for the year compared to € 657 thousand in 2005.
Revenues rose 68% from € 5,490 thousand in 2005 to € 9,212 thousand while the operating profit went from € 463 thousand to € 202 thousand in 2006 due to the greater percentage of direct production costs.
The pre-tax profit is € 519 thousand compared to € 957 thousand for 2005 reflecting the downturn in the operating profit.

BEIJING LANDI RENZO AUTOGAS SYSTEM Co. Ltd

This company was set up in December 2005 and sells group products in China. It has an internal research and development unit which concentrates on after sales assistance.
Its 2006 net profit is € 166 thousand with revenues at € 1,719 thousand.
The subsidiary made a large investment during the year of approximately € 2 million to purchase a building used to house its operating offices.

LR PAK (PRIVATE) LIMITED

This 70% controlled company was set up in November 2006 to increase the group's share of the Pakistan market.
Its net loss of € 35 thousand is due to its start-up and operating costs. It did not record any revenue.

The group does not have investments in out of scope subsidiaries or in associates. All the transactions undertaken among the consolidated companies are on an arms' length basis. Reference should be made to the notes to the consolidated financial statements for information on related party transactions.

Human resources and organisation

The number of group employees at year end is as follows:

Company	**31 December 2006**
Landi Renzo S.p.A.	150
Med S.p.A.	90
Landi S.r.l.	8
LR Industria e Commercio LTDA	67
Landi International B.V.	0
Eurogas Utrecht B.V.	12
Landi Renzo Polska Sp.zo.o	13
Beijing Landi Renzo Autogas Systems Co. Ltd	27
LR Pak (Private) Limited	0
Total	**367**

During the year, the group undertook a far reaching training project setting up the "LANDIRENZO Corporate University" with a twofold objective:
- encourage maximum development of the group's human resources, and exploit its key strengths so as to build up its leadership position;
- encourage the spreading of a sustainable mobility culture.

The "LANDIRENZO Corporate University" is a business school which is very well regarded for its technological research and innovation characteristics as well as its market, management and communication strategy subjects.
The first courses were designed for employees holding strategic positions in the Italian group companies and the Brazilian and Chinese subsidiaries. Their objective was to improve the students' knowledge of the low environmental impact fuel sector, communication skills and ability to create synergies in order to best meet group targets.
The group plans to offer courses to external people and also make its course documentation available in order to provide the communities in which it operates with its information and experience about environmentally-friendly mobility.
The school's scientific committee's members are very highly reputed persons in the research and industry world who will work together to define strategies, useful at national and international level, for distributing knowledge about sustainable mobility.

The group also rolled out its Campus project during the year. This is designed for university and high school students and offers job experience in companies that have excellent applied research and innovation track records.

The students participate actively in the internal life of the company, carrying out specific projects which require their proactive involvement and which give them invaluable work experience for their future careers.

Research and development

The *R&D* activities of the year maintained the *group's* standards and quality levels and featured ongoing innovation from both a technological viewpoint and to extend the product range.

Product innovation is the key factor for improving a company's competitive position and consists of developing new products, improving existing products and undertaking technological research for future products.
During 2006, certain very innovative projects were carried out at the Cavriago (RE) plant (in Via Nobel 2), including:

- study and development of a system for innovative applications for gas gear cases;
- development of a new gasification kit for OEM, LPG and natural gas systems, designed for the Italian market;
- study and development of a gas injector using state-of-the-art technological components;
- study and research for the design and development of new applications for low-cost reducers.

The group also carefully analysed the possible opening of production sites in markets with strong potential, especially in Asia.
As part of this strategy, it set up a company in Pakistan to optimise flexible deliveries and possibly cut production costs.

In accordance with IAS 38, development expenditure capitalised for technical consultancy and personnel expenses related to projects carried out in 2006, amounts to € 794,989 thousand.
The group intends to continue its research activities in 2007 which should assist the achieving of good results and outlook.

Quality

The group has always placed the quality of its products and service at the top of the list to ensure visibility on the market.
It was the first of its sector to have a quality control system (ISO 9001 certified in 1995) in 2004. This ensures that the design, production, sales and assistance of LPG and natural gas systems best meet market requirements, both for the after market and OEM manufacturers channels.
It has focused on researching quality since 2001 both in terms of the design of technologies and products and customer assistance with the related ISO/TS 16949 certificate.
This certificate is issued by Bureau Veritas Quality International based on a document prepared by the IAFT - International Automotive Task Force which sets the quality control standards for companies of the automotive sector.

The group commenced an ambitious project in 2004 aimed at extending its ISO 9001 processes, procedures and standards to its retailers and authorised garages. In November 2006, 198 authorised garages and 20 Italian retailers had been awarded the certificate.
This means that the group is the leading LPG and natural gas system installation networks in the world with the key ISO 9001 certificate.

Other information

Transactions with the subsidiaries and related parties are disclosed in the notes as are those with the company which manages and coordinates the parent, along with its subsidiaries. They do not include atypical and/or unusual transactions and took place at market conditions.

The parent holds 12,500 treasury shares with a nominal value of € 10 each, equal to 5% of its share capital.
No purchases or sales of treasury shares took place during the year, either directly or through trustees or nominees.

Personal Data Protection Code

Pursuant to Legislative decree no. 196/2003, the parent’s board of directors notes that this code was updated.

Financial instruments and risk management

Pursuant to point 6-bis, paragraph 2, article 2428 of the Italian Civil Code, we note that the parent does not have financial instruments as it is not exposed to significant credit, liquidity or market risks that would affect the measurement of its assets and liabilities or its profit for the year.
Specifically:

Interest rate risk
The group’s financial indebtedness is exposed to interest rate fluctuation risks as the group has not agreed hedges of such fluctuations on its lease payables or loans disbursed by banks at year end.

Exchange rate risks
Landi group sells part of its production and purchases a small amount of parts in non-Euro land countries.
Therefore, it may be exposed to exchange rate fluctuation risks, especially with respect to the Polish, Brazilian and Chinese currencies, as it has not agreed exchange rate hedges.

Credit risk
The group does not have a significant concentration of receivables and has the appropriate procedures in place to minimise exposure to this risk, such as checks of debtor solvency. It usually uses letters of credit to guarantee collections with foreign customers.

Liquidity risk
The group manages its liquidity risk by maintaining an adequate level of financial resources available and credit lines granted by the major banks in order to meet the liquidity requirements of its day-to-day operations.
It does not have a cash pooling system. Management of its ordinary treasury operations takes place locally by each company while extraordinary transactions have to be approved by the parent.

Transition to the IFRS
Companies whose securities are listed on a regulated market in the EU are required to prepare their consolidated financial statements in accordance with the International Financial Reporting Standards

(IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission.
Therefore, the consolidated financial statements as at and for the year ended 31 December 2006 have been prepared for the first time under IFRS which involves changes compared to the last sets of financial statements drawn up under Italian GAAP.
The parent has thus prepared a document "Transition to the IFRS" which includes:
– a brief description of the key standards adopted from 1 January 2005;
– the methods used to determine and measure the effects of first-time adoption on the 2005 consolidated financial statements compared to the same financial statements prepared under Italian GAAP, as provided for by the application of IFRS 1 (First-time Adoption of International Financial Reporting Standards).
The 2005 consolidated figures, presented for comparative purposes and prepared using the same criteria as those applied to the 2006 consolidated financial statements, the reclassifications and transition schedules are attached to the consolidated financial statements as required by the IFRS.

Significant post-balance sheet events

On 28 February 2007, Landi Renzo S.p.A. acquired a 1% interest in Landi S.r.l. and 0.05% of Med S.p.A. in order to acquire 100% control thereover.
On 5 March 2007, Landi Renzo S.p.A. approved the partial proportional spin-off of a part of its assets (including the real estate business unit, related transactions and all its treasury shares) to a newco.
The group is currently involved in the procedure for floating part of the shares of Landi Renzo S.p.A. involving the listing of its ordinary shares possibly on the Star segment of the stock exchange organised and managed by Borsa Italiana S.p.A.
No other significant events took place in the period from 31 December 2006 to 7 March 2007.

Outlook

The group is very optimistic about its performance in 2007 despite the increasing competition thanks to its international development projects and production of new products.
Revenue deriving from the sale of LPG and natural gas systems is expected to grow and the production reorganisation should lead to an increase in the gross operating profit.
The growth trend of revenue is confirmed by the results of the first two months of 2007.

The chairperson of the board of directors

(signed on the original)

Giovannina Domenichini Landi

LANDI RENZO S.p.A.

Registered office in via Nobel 2/4, Cavriago (Reggio Emilia)

Share capital: € 2,500,000.00, fully paid-up

Reggio Emilia company registration no. and tax code: 00523300358

CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2006

REPORT OF THE BOARD OF STATUTORY AUDITORS

Dear shareholders,

The parent's board of directors prepared the consolidated financial statements as at and for the year ended 31 December 2006 as part of the project for the listing of the ordinary shares of LANDI RENZO S.p.A. on the STAR segment of the stock exchange, organised and managed by Borsa Italiana S.p.A..

We received the 2006 draft consolidated financial statements a few days ago. They comprise a consolidated balance sheet, consolidated income statement, consolidated cash flow statement, statement of changes in consolidated equity, the notes and directors' report. We checked that such draft consolidated financial statements match those presented to you today for your approval.

These consolidated financial statements are the first set of financial statements drawn up in accordance with the International Financial Reporting Standards (IFRS) endorsed by the European Commission. The group determined the effects of transition to these new standards and prepared the required reconciliation schedules as described in the document "Transition to the IFRS" attached to the consolidated financial statements.

Specifically, we checked:

1. that the data used for consolidation purposes matched that shown in the financial statements of the consolidated companies and information provided by them;
2. the correctness of the accounting policies, measurement criteria and methods disclosed in the notes and their correct application.

We confirm the following:

- the consolidated financial statements have their basis in the parent' and subsidiaries' accounting records and the information provided by the consolidated companies to comply with the instructions received from the parent;
- the information received was processed correctly by the parent using the policies and consolidation procedures disclosed in the notes and which comply with the IFRS endorsed by the European Union;
- the structure and content of the consolidated financial statements comply with the formats recommended by international standards and the related notes disclose the information generally requested by such standards. They also present the corresponding prior year figures for comparative purposes restated under IFRS;
- the directors' report is consistent with the figures given in the consolidated financial statements;
- the consolidated financial statements were audited by KPMG S.p.A. which issued its report thereon;
- this audit report was unqualified.

Reggio Emilia, 7 March 2007

Board of statutory auditors

Romano Merlatti (signed on the original)
Massimiliano Folloni (signed on the original)
Marina Torelli (signed on the original)

KPMG S.p.A.
Revisione e organizzazione contabile
Via Andrea Costa, 160
40134 BOLOGNA BO

Telefono 051 4392511
Telefax 051 4392599
e-mail it-fmauditaly@kpmg.it

(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with article 2409-ter of the Italian Civile Code

To the shareholders of
Landi Renzo S.p.A.

1 We have audited the consolidated financial statements of the Landi Renzo Group as at and for the year ended 31 December 2006, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and notes thereto. These financial statements are the responsibility of the parent's directors. Our responsibility is to express an opinion on these financial statements based on our audit. These are the first set of consolidated financial statements prepared in accordance with the International Financial Reporting Standards endorsed by the European Union.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements present the prior year corresponding figures for comparative purposes prepared using consistent accounting policies. Reference should be made to our report dated 5 June 2006 for our opinion on the consolidated financial statements of the Landi Renzo Group as at and for the year ended 31 December 2005 prepared in accordance with Italian generally accepted accounting principles, from which the corresponding figures have been derived. Furthermore, the separate Appendix to the consolidated financial statements discloses the effects of the adoption of the International Financial Reporting Standards endorsed by the European Union. We have examined such disclosure to the extent that we considered to be necessary to express an opinion on the consolidated financial statements at 31 December 2006.

3 In our opinion, the consolidated financial statements of the Landi Renzo Group as at and for the year ended 31 December 2006 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38 of 28 February 2005. Therefore, they are clearly stated and give a true and fair view of the financial position of the Landi Renzo Group as at 31 December 2006, the results of its operations, changes in its equity and its cash flows for the year then ended.

Bologna, 7 March 2007

KPMG S.p.A.

(Signed on the original)

Lino Barbieri
Director of Audit