DEAR FELLOW SHARE OWNERS:

The year 2006 certainly was a challenge, with both our Industrial and Electronics groups negatively impacted by a variety of issues. Cash flow generation reached record levels during the year, with free cash flow up 17% to $42 million, demonstrating the results from our working capital initiatives. Our drive for asset efficiency resulted in a 27% working capital reduction, with turns increasing 33% to 6.9 times for the year. The generation of record free cash also benefited from the reduction of capital investment during 2006 from that of prior years as the investment cycle came to a conclusion.

OUR INITIATIVES

In last year’s report, we outlined a number of key initiatives to drive change throughout our business. And while we are pleased to inform you that much progress was made during the year, it is important to note that much work remains and the experience to date has only deepened our commitment and resolve. Please join us for a brief review of these efforts.

Operational Excellence

Driving excellence in everything we do has always been important at Sypris. Our Operational Excellence initiative continues that legacy by putting into action tools and techniques to improve key operating performance metrics, such as efficiency and material yield.

The LEAN, Continuous Improvement, Six Sigma, and Total Productive Maintenance techniques we are deploying are focused on eliminating all sources of waste, reducing costs and improving delivery and quality — unlocking the margin potential and increasing the effective capacity of our value streams. Setup times, equipment downtime, material handling, material yields, product defects, late deliveries and safety incidents are all being targeted throughout our operations as we move beyond isolated pilots to a wider deployment across the business.

During 2006, we created a comprehensive plan and initiated a three-year restructuring program in our Industrial Group that will transition the current manufacturing footprint to a Center of Excellence model, with component manufacturing standardized and manufacturing flows reconfigured to reduce manufacturing and logistics costs. This effort follows the lead of our major customers and is expected to benefit both Sypris and its customers.

Sypris Solutions is a diversified provider of technology-based outsourced services and specialty products. We perform a wide range of manufacturing and technical services, typically under multi-year, sole-source contracts with corporations and government agencies in the markets for aerospace & defense electronics, truck components & assemblies, and test & measurement services.

Cash flow generation — the ultimate measure of value — hit record levels during the year, with free cash flow up 17% to $42 million, demonstrating the results from our working capital initiatives. Our drive for asset efficiency resulted in a 27% working capital reduction, with turns increasing 33% to 6.9 times for the year. The generation of record free cash also benefited from the reduction of capital investment during 2006 from that of prior years as the investment cycle came to a conclusion.
In 2006, we continued to improve our internal organizational communication through the expanded use of our SYPR.InSide web portal and through the launch of the Sypris Dashboard, which provides managerial personnel with real time access to critical operational and financial performance metrics. These efforts help to ensure that the execution and achievement of commitments remain critical components of the Sypris culture.

**Investing for Growth**

We continued to invest in the Company’s product and service offerings and the processes by which they are delivered. In our Electronics Group, we have invested in new secured communication programs over the past few years that are scheduled to begin full production during 2007. One of these new classified programs represents the next generation of an existing, highly successful product family, while the other program will introduce a completely new product and functionality. Both programs are expected to be important contributors to the group’s financial results for years to come.

Our data systems business developed new partnerships during the year to expand its platform into the intelligence receiver market, which we believe will provide the opportunity for this business unit to double in size over the next three years.

Our Electronics Group invested to accommodate the unique requirements and certifications of space-related manufacturing contracts, the result of which led to key contract wins during the year. If successful, these programs could increase our Space-related electronic manufacturing business four-fold within the next few years.

Our calibration business posted another solid year of growth during 2006, with revenue increasing 6.5% from 2005. Our success in North America is prompting customers to request our services globally and we are responding with partnerships and investments that will provide geographic growth, increased content and new platforms for expansion beyond our current customer base.

**Redefining our Portfolio**

These investments in and resulting growth of our Electronics Group will also serve to increase the group’s impact on the financial results of Sypris and reduce the cyclical influence of the commercial vehicle industry on the Company’s consolidated financial results.

The further reshaping of our portfolio will be implemented upon the completion of our customer and product line profitability analysis that underlies our commitment to redefine the Industrial Group portfolio. These efforts will continue to be centered on increasing our higher value-added, more profitable business, as we prepare for the return of the commercial vehicle market in 2008. When combined with a strong energy market to support the continued growth of our high-pressure closure business, we expect these portfolio redefinition efforts to yield significant margin improvements in the future.

**Maximizing Cash Flow**

The generation of substantial free cash flow continued during 2006 with the Company delivering $53 million in operating cash flow and $42 million in free cash flow during the year. Over the last two years, operating cash flow has exceeded $125 million, working capital turns are up 123%, and net debt is down to a recent low of 11% of total capital. These efforts require painstaking execution and diligence, but free cash flow provides the funds necessary to reinvest in new products, processes, technologies, services and facilities to support future growth and margin expansion.

**THE FUTURE**

We continue to see a future for Sypris that is bright. As previously announced, we expect 2007 to be challenging as we take advantage of the cyclical downturn in the commercial vehicle market by investing to restructure our Industrial Group in preparation for the market rebound in 2008 and beyond. We will also continue to invest in our Electronics Group to support double-digit organic growth and a further rebalancing of the overall Sypris portfolio. Collectively, we are confident that these initiatives represent strategies that will transform our business model and guide us to improved operational and financial results.

**THANK YOU**

As always, we close with notes of thanks. We appreciate the dedication and commitment of our fellow employees, many of whom are also share owners. We count on their passion for excellence in all that they do to help Sypris grow and to achieve ever higher levels of success.

We also want to thank our customers and investors, who place their trust in Sypris and count on us to deliver. We sincerely appreciate your confidence and encourage you to contact us. We welcome your comments and would be pleased to answer your questions.

Sincerely,

Jeffrey T. Gill
President & CEO

Robert E. Gill
Chairman of the Board
1. operational excellence

A number of initiatives are under way to drive Sypris toward operational excellence. We are developing an integrated sales forecasting, production planning and inventory-management process throughout our organization. We are deploying LEAN, Continuous Improvement and Total Productive Maintenance to enhance efficiency, cost reduction, quality and delivery performance. As part of a longer-term strategic initiative, our Industrial Group is launching a multi-year restructuring to transition to a Center of Excellence model.

2. organizational effectiveness

We are migrating to a commodity-management supply chain organization structure that will be managed at the corporate level. Under this initiative, we will be consolidating and where practical, standardizing the specifications of our buy to generate savings. We are also implementing a functional approach to our Information Systems to reduce the cost-to-serve for this important component of our infrastructure.

3. investing for growth

We are continuing to invest in growth initiatives for our business, particularly for the Electronics Group. During 2007, we will be launching full production of two new secure communications products and will continue to invest in research and development activities to meet our customers’ needs. We are pursuing new opportunities to gain entry into the intelligence receiver market and to grow our volume in the Space market through turnkey solutions designed in cooperation with our customers. We are looking to expand into international markets to maintain the growth momentum of our calibration business.
4. redefining our portfolio

We expect to achieve double-digit growth in our Electronics Group in 2007 and further expect to sustain that level of growth in subsequent years. Our customer requirements are projected to increase and we are making the investments in research and development as well as market presence to meet these needs.

Our Industrial Group is facing challenges arising from a temporary market decline in 2007 and we will use the coming year as an opportunity to rationalize our business by investing in our higher value-added business areas.

5. maximizing cash flow

We have been successful in improving cash flow by changing our culture with respect to cash management, including the implementation of “quick response” mechanisms utilizing real-time operational dashboard data to improve cash management. We are broadening these actions to new areas of the cash-conversion cycle, including the implementation of business-to-business e-commerce solutions for efficiency and cash management. Our goal is to achieve and sustain working capital turns of eight to ten times.
### Sypris At A Glance

#### Market-Focused Businesses

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<tr>
<th>Business Summary</th>
<th>Applications and Uses</th>
<th>Select Customers</th>
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<tr>
<td><strong>Manufacturing Services</strong></td>
<td>Automated forging, machining, induction hardening, cold extrusion, heat-treating, testing and fabrication of products, production tooling and prototypes.</td>
<td>Axle shafts, steer axles, trailer axle beams, carriers, full-float tubes, ring gears, pinions, knuckles, input shafts, helical gears, housings and other drive train components for use in light, medium and heavy-duty trucks, pickup trucks and automobiles.</td>
</tr>
<tr>
<td><strong>Products</strong></td>
<td>High-pressure closures, transition joints and insulated joints.</td>
<td>Pipeline and chemical systems in the energy and chemical industries.</td>
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| **Manufacturing Services** | Integrated design and engineering services, component selection, sourcing and procurement, automated assembly, design and implementation of product testing, systems assembly, and repair and warranty services. | Electronic assemblies and subsystems for use in military cockpit control and display systems, missile guidance systems, commercial avionics, satellite communications systems, ruggedized hand-held computers, and secure communications networks and products. | Boeing, Eaton, General Dynamics, Honeywell, L3, Lockheed Martin, U.S. Department of Defense, Northrop Grumman, Raytheon, U.S. Army and ViaSat. |
| **Engineering Services** | Software design services for data and communications security products and contract design services, network security vulnerability assessment, design and certification. | Secured transmission of voice and data for intelligence and surveillance applications. | General Services Administration, U.S. Department of Defense and U.S. Army. |

| **Calibration and Repair** | Calibration, repair and certification of electrical, electronic, physical and dimensional test equipment, installation, execution and turn-key management of customer "Permanent On-Site" Calibration Programs. | Telecommunications systems, air traffic control systems, electronic component manufacturing, automotive, process control, weather radar systems, aerospace and defense, medical device manufacturing and power generation and distribution. | AT&T, Bombardier, Bose, Delphi Automotive, Eaton, FAA, General Dynamics, Hamilton Sundstrand, Honeywell, ITT, Kodak, Lucent Technologies, Motorola, National Weather Service, Nokia, Siemens, Square D, Texas Instruments, Tyco Electronics, TRW Automotive and Underwriters Laboratories |
| **Testing** | Testing of digital, linear, discrete, passive and hybrid components, RF device testing, EMI testing, environmental testing, dynamics testing, NEMA Traffic Systems testing and transportation testing on packaging, products, systems and subassemblies. | Military, aerospace, satellite and launch systems, missile systems, avionics, medical, telecommunications semiconductor manufacturing, automotive and transportation. | Arrow Electronics, Avnet, BAE Systems, Boeing, Bose, Eldec, General Dynamics, GE Infrastructure Security, Goodrich, Hamilton Sundstrand, Harris, Honeywell, iRobot, Jabil Circuit, JPL, L-3, Lockheed Martin, Merrimac Industries, NASA, Northrop Grumman, Raytheon, Reckitt Benckiser, Sawtek, Suntron and Teledyne |
| **Products** | Hall generators, current sensors, autoprobes and gaugemeters. | Current measurement applications in mass transit systems, elevators, automotive diagnostic systems and laboratory diagnostic systems. Magnetic measurement of components used in military, aerospace and medical applications, and for research and development and quality control. | Electro-Motive Diesel, Hamilton Sundstrand, Ithaco, Lockheed Martin, Science and Engineering Services and Toyo |

#### Aerospace and Defense Electronics

- Electronic assemblies and subsystems for use in military cockpit control and display systems, missile guidance systems, commercial avionics, satellite communications systems, ruggedized hand-held computers, and secure communications networks and products.
- Secured transmission of voice and data for intelligence and surveillance applications.
- Network and communications security, collection and storage of data for aerospace applications, weapons test and evaluation, and acquisition of signal data from targets of interest for the intelligence gathering community.

#### Test and Measurement Services

- Calibration, repair and certification of electrical, electronic, physical and dimensional test equipment, installation, execution and turn-key management of customer "Permanent On-Site" Calibration Programs.
- Testing of digital, linear, discrete, passive and hybrid components, RF device testing, EMI testing, environmental testing, dynamics testing, NEMA Traffic Systems testing and transportation testing on packaging, products, systems and subassemblies.
- Hall generators, current sensors, autoprobes and gaugemeters.
EXECUTIVE OFFICERS

T. SCOTT HATTON  Vice President and CFO
JOHN R. MCGEENEY  General Counsel and Secretary
RICHARD L. DAVIS  Senior Vice President
ANTHONY C. ALLEN  Vice President, Treasurer and Assistant Secretary

BOARD OF DIRECTORS

ROBERT E. GILL (1†) (5)  Chairman of the Board
SIDNEY R. PETERSEN (1) (7)  Retired Chairman & CEO
JEFFREY T. GILL (1) (8)  President & CEO

JOHN F. BRINKLEY (2) (4)  Retired General Manager
North American Automotive Operations Export Sales
Ford Motor Company

ROBERT SROKA  Managing Director
Corporate Solutions Group

WILLIAM L. HEALEY  (2) (4)  Private Investor & Consultant
R. SCOTT GILL (1)  Managing Member
Astor & Longwood, LLC

RICHARD L. DAVIS  Senior Vice President
ANTHONY C. ALLEN  Vice President, Treasurer and Assistant Secretary
G. DARRELL ROBERTSON  Vice President, Sypris Data Systems
KATHY SMITH BOYD  Vice President, Sypris Solutions, and President, Sypris Test & Measurement
JOHN M. KRAMER  Group Vice President, Sypris Solutions, and President, Sypris Technologies
ROBERT B. SANDERS  Group Vice President and President, Sypris Electronics

(1) Member of Executive Committee
(2) Member of Compensation Committee
(3) Member of Audit and Finance Committee
(4) Member of Nominating and Governance Committee
(5) Executive Officer
† Committee Chairman