Member of the YAMA group

Annual Report 2006

Emak Spa

Registered office in
Via E. Fermi 4, 42011 Bagnolo in Piano (RE), Italy
Share capital: € 7,189,910
Reggio Emilia Company Register number, tax code and VAT number: 00130010358

This report and financial statements were approved by the Board of Directors on 27 March 2007.

This document is available on the internet at www.emak.it

Contents

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Company under the governance and coordination of Yama S.p.A. (Reggio Emilio Company Register number: 00638290353)

Notice of Annual General Meeting

The shareholders are called to a general meeting in both ordinary and extraordinary session at 10.00 a.m. on 27 April 2007 to be held at the company's registered office in Via Fermi 4, Bagnolo in Piano (RE), and, if necessary, in second call on 4 May 2007, at the same time and place, to discuss and vote on the following:

Agenda

ORDINARY SESSION

1) Presentation of the individual and consolidated financial statements at 31 December 2006 and the reports by the Board of Directors, the Board of Statutory Auditors and independent auditors; related resolutions;
2) Appointment of the Board of Directors, after determining its size; related resolutions;
3) Appointment of the Board of Statutory Auditors; related resolutions;
4) Engagement of independent auditors to audit the annual individual and consolidated financial statements, and to perform a limited review of the half-year report, as required by law;
5) Proposal to authorize the purchase and sale of treasury shares and related resolutions.

EXTRAORDINARY SESSION

1) Proposed revision of the following articles in the articles of association, mainly, but not only, to update them for the provisions introduced or amended by Decrees 262/05 and 303/06:
   - articles 7 and 9 (General meetings);
   - articles 12 and 14 (Board of Directors);
   - article 17 (appointment of a senior manager in charge of financial reporting; related rules);
   - article 19 (Board of Statutory Auditors).

   Plus appropriate presentational changes to the articles of association, including the insertion of headings. Related resolutions.

By law and the company's articles of association, shareholders with voting rights are entitled to take part in the meeting provided they have complied with the provisions of article 2370.2 of the Italian Civil Code at least two days before the date of the meeting.
As regards the appointment of the Board of Statutory Auditors, the procedures shall refer to those contained in article 19 of the current articles of association, which are available on the company's website (www.emak.it), on the website of Borsa Italiana s.p.a. (www.borsaitaliana.it) and at the company's registered office.
The legally required documentation relating to items on the agenda will be publicly available at the company's registered office and at the offices of Borsa Italiana S.p.A. within the prescribed deadlines. Shareholders are entitled to obtain copies.

Bagnolo in Piano, (RE) 25 March 2007

on behalf of the Board of Directors
The Chairman – Giacomo Ferretti

Corporate Officers

The shareholders of the parent company Emak S.p.A. voted in an ordinary meeting held on 30 April 2004 to appoint the Board of Directors for the three years 2004, 2005 and 2006; the Board of Statutory Auditors was appointed at the same time for the same term, and the firm of Axis S.r.l. was engaged as independent auditors for financial years 2004, 2005 and 2006.

Board of Directors

Chairman	Giacomo Ferretti
Deputy Chairman	Aimone Burani
Chief Executive Officer	Fausto Bellamico
Independent directors	Ivano Accorsi
	Andrea Barilli
	Andrea Ferrari
Directors	Carlo Baldi
	Luigi Bartoli
	Paola Becchi
	Giuliano Ferrari
	Ivano Salsapariglia
	Vilmo Spaggiari
	Guerrino Zambelli

Board of Statutory Auditors

Chairman	Marco Montanari
Acting auditors	Andrea Magnanini
	Martino Masini
Alternate auditors	Giuseppe Antonio Barranco
	Silvia Pattacini

Independent Auditors Axis S.r.l.

Audit Committee

Chairman	Andrea Ferrari
	Ivano Accorsi
	Andrea Barilli

Remuneration Committee

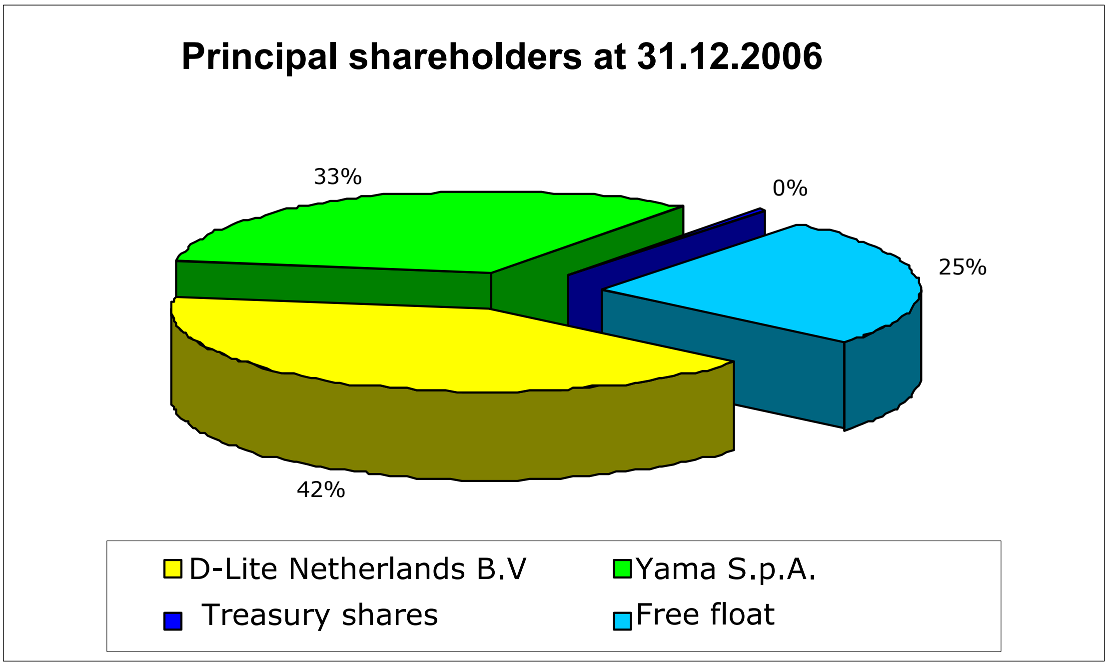
Chairman	Andrea Ferrari
	Ivano Accorsi
	Andrea Barilli

Note: the nature of the powers granted to the Chairman, the Executive Directors and General Managers are discussed in the section on "Corporate Governance".

Principal shareholders of Emak S.p.A.

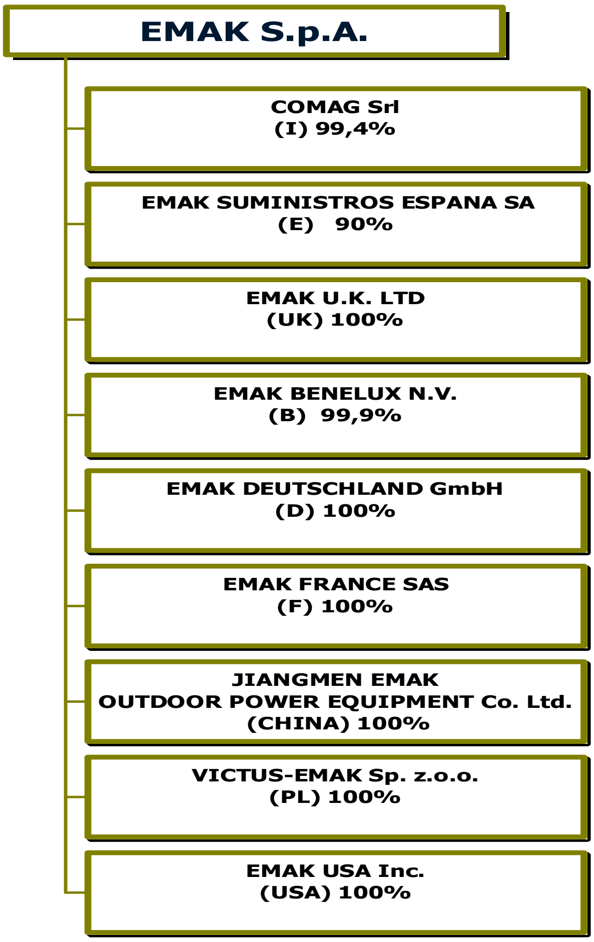
The composition of the shareholders of Emak S.p.A. at 31 December 2006 is presented below. Share capital consists of 27,653,500 shares of par value €0.26 each.
The company has been listed on the Milan Stock Exchange since 25 June 1998. The company's stock was admitted to the STAR segment of the market in September 2001, which has higher standards in terms of reporting, stock liquidity and corporate governance.

Principal shareholders	Number of shares	%
D-Lite Netherlands B.V. (Yama Group)	11,446,876	41.40%
Yama S.p.A.	9,095,624	32.89%
Treasury shares held at 31.12.2006	108,849	0.39%
Free float	7,002,151	25.32%
Total number of shares	27,653,500	100.00%



Group structure

The Emak Group is structured as follows at 31 December 2006:



The group's interest in Jiangmen Emak Outdoor Power Equipment Co. Ltd. includes the 49% interest held by Simest S.p.A.. Under the contract signed in December 2004 and subsequent additions thereto, the interest held by Simest S.p.A. is the subject of a binding agreement for repurchase by Emak S.p.A. on 30 June 2013.

Financial highlights

All the figures contained in this report are IFRS compliant; the comparative figures have been reclassified on a consistent basis.

Income statement (€/000)

	FY 2006	FY 2005
Net sales	208.402	183.381
EBITDA (1)	25.127	22.268
EBIT	19.771	17.038
Net profit	11.304	9.605

Investment and free cash flow (€/000)

	FY 2006	FY 2005
Investment in property, plant and equipment	8.020	6.053
Investment in intangible assets	973	1.192
Free cash flow from operations (2)	16.660	14.835

Balance sheet (€/000)

	31.12.2006	31.12.2005
Net capital employed	119.740	101.195
Net debt	(37.864)	(25.836)
Total equity	81.876	75.359

Other statistics

	FY 2006	FY 2005
EBITDA / Net revenues (%)	12,1%	12,1%
EBIT / Net revenues (%)	9,5%	9,3%
Net profit / Net revenues (%)	5,4%	5,2%
EBIT/ Net capital employed (%)	16,5%	16,8%
Debt /Equity	0,46	0,34
Number of employees at period end	902	856

Share information and prices

	31.12.2006	31.12.2005
Earnings per share (€)	0,407	0,345
Equity per share (€) (3)	2,95	2,71
Official price (€)	4,84	4,79
Maximum share price in period (€)	5,50	5,16
Minimum share price in period (€)	4,59	3,86
Stockmarket capitalization (€/million)	133	132
Average number of oustanding shares	27.589.077	27.650.588
Number of shares comprising share capital	27.653.500	27.653.500
Cash flow per share: net profit + amortization/depreciation (€) (4)	0,60	0,54
Dividend per share (€)	0,175	0,150

(1) "Ebit" plus "Amortization, depreciation and impairment losses"
(2) "Net Profit" plus "Amortization, depreciation and impairment losses"
(3) "Group Equity" divided by "Number of outstanding shares at period end"
(4) "Group Net Profit + Amortization/depreciation " divided by "Average number of outstanding shares"

Report on performance

Shareholders,

Emak's consolidated financial statements at 31 December 2006 closed with a net profit of €11,304 thousand compared with €9,605 thousand in 2005, representing an increase of 17.7%.
The group's share of net profit was €11,239 thousand compared with €9,532 thousand in 2005.
The group consisted of ten companies at 31 December 2006, all of which were consolidated on a line-by-line basis. Emak USA Inc. joined the scope of consolidation during 2006.
Net sales increased by 13.6% on 2005 to €208,402 thousand.
EBITDA (earnings before interest, tax, depreciation and amortization) was €25,127 thousand compared with €22,268 thousand in 2005, representing an increase of 12.8%.
EBIT (earnings before interest and tax) was €19,771 thousand compared with €17,038 thousand in 2005, representing an increase of 16%.
Net debt increased from €25,836 thousand at the end of 2005 to €37,864 thousand at the end of 2006.
The financial statements of Emak S.p.A., the group's parent company, closed with a net profit of €9,023 thousand at 31 December 2006 compared with €7,834 thousand in 2005, representing an increase of 15.2%.

1. Economic situation

The macroeconomic scenario in 2006 was one of widespread economic growth.
This good performance was due above all to growth by the North American economy and the emerging economies in the Far East, foremost of which China. Even Europe reported a recovery although, at 2.8%, its pace of growth in 2006 was below the global average. The Italian economy grew by 2% in 2006, which was better than expected. Latin America performed well with growth rates of around 4.5%, while Eastern Europe continued to grow at a pace of 5%.

2. Industry performance

The sector of garden and forestry maintenance machinery is affected by trends in the economic cycle, growth in the property market and, particularly in the case of gardening, by the weather.
The hot, dry summer of 2006 had a negative impact on sales of gardening products, although partly redressed by the extension of the selling season into the autumn.
The appreciation of the euro against the US dollar continued to hurt European products in markets outside of Europe.

3. Strategy

Emak Group seeks to be one of Europe's leader in the sector of greenery maintenance and one of the benchmark players at a global level in the supply of technological solutions and state-of-the-art service, making the activity of our professional customers and consumers both efficient and pleasant, guaranteeing them the best value for money. The mission in brief is: "State-of-the-art solutions with the best customer value for money".
The principal goals of the company’s mission are **to satisfy end customers,** to anticipate and exceed their expectations and **to create value** both for shareholders and stakeholders (employees, suppliers, dealers and the community).

a) VALUES

The underlying company values, combined with the mission, distinguish the corporate identity and help direct the business, its strategic decisions and policy.
The values represent the company's moral commitment to its stakeholders and to society in general, and, for those working within the company, they constitute the guiding principles behind their everyday conduct.
In Emak we are convinced that a company can achieve success only if it is based on strong, positive values, like those that inspired our founders and which we have kept alive over time, namely:
- **fair dealing**
- **expertise**
- **team spirit**
- **spirit of innovation**

b) SOCIAL RESPONSIBILITY

Social responsibility is expressed in the desire to measure, manage and make up for the environmental, social and economic impact of the company's activity, reporting on such to the various stakeholders (employees, suppliers, customers, shareholders, investors, the community etc.).
During 2006 we formalized our commitment and took steps in the direction of Corporate Social Responsibility, based on a number of fundamental principles:
- appreciation of **human capital**;
- **transparency** in dealings with all parties concerned;
- **consistency** between values, strategy and conduct;
- the importance of our contribution towards "**sustainable development**" (capable, in other words, of satisfying the needs of the present without compromising the ability of future generations to satisfy theirs).

Among the numerous options available to companies, we have chosen the SA 8000 Social Accountability Certification and the ISO 14000 Environmental Certification as the first steps in this direction.

The **SA 8000 Social Accountability Certification** represents the most common, recognized standard internationally with which organizations certify the ethical standard of their production processes and, indirectly, of its supply chain. The standard is based on the Universal Declaration on Human Rights, on the ILO Conventions and the UN Convention on the Rights of the Child, and involves complying with a series of requirements concerning matters such as child labour, forced labour, safety, discrimination and working conditions in general (remuneration, hours, freedom of association, disciplinary procedures).

The **ISO 14000 Environmental Certification** is the means by which companies seek to prevent pollution and to protect natural resources by identifying, controlling and gradually reducing the environmental impact of their activities. Obtaining these certifications involves the company giving a precise commitment to stakeholders, as well as actively involving suppliers and customers in a virtuous circle designed to safeguard human rights and the environment and provide consumers with assurance that our products are manufactured in compliance with these principles.

c) STRATEGIES AND PRINCIPAL GOALS

The creation of value is reflected in Emak's ability to satisfy the end customer; accordingly, the strategic plan must be primarily geared to customer satisfaction.
By carrying out its business mission in this way Emak seeks:
- To offer its end customers a range of "state-of-the-art" products, meaning those at the forefront of innovation in terms of reliability, performance, design and comfort;

- To enable the sales network to offer end customers a "state-of-the-art" level of service, meaning a level of excellence in terms of delivery and before- and after-sales support;
- To offer the best value to customers through a "value proposition" measured in terms of being more competitive than the market leader;
- To consolidate the presence on European markets where the company operates directly and increase its penetration of large overseas markets;
- To develop a highly customer oriented organization that is able to combine enthusiasm, empathy, competence and fairness.

In summary, the principal critical success factors for achieving the goal of value creation are:

- Product innovation
- Level of service
- Competitiveness
- International expansion
- Customer relationships

4. Significant events in the year

A number of extraordinary events took place during the year affecting the group's balance sheet and results.

<u>CAPITAL INCREASE BY VICTUS EMAK SP. z.o.o.</u>

Following the resolution adopted on 24 January 2006, Emak S.p.A. subscribed and paid in, during February 2006, the capital increase by the subsidiary Victus Emak Sp. z.o.o for PLN 9,997,500 (€2,627 thousand).

<u>INCORPORATION OF EMAK USA Inc. AND PAYMENT OF ITS SHARE CAPITAL.</u>

On 12 April 2006 Emak S.p.A. paid in the share capital of the newly incorporated company Emak USA Inc, amounting to USD 50 thousand.
Emak USA Inc, a wholly-owned subsidiary of Emak S.p.A., has its registered office in Wooster, Ohio and started operating in July 2006. Thanks to the new company the Emak Group now has a direct presence on this very important market for the growth of its turnover.

<u>SALE OF BUSINESS</u>

Emak S.p.A. entered into an agreement on 31 March, effective from 1 April 2006, for the sale of its plastic components manufacturing business.

The disposal to a specialized supplier is designed to improve service, efficiency and quality. The sale of this business involved the transfer of 16 members of staff.

The assets and liabilities transferred as a result of this transaction were as follows:

DESCRIPTION	(€/000)
Property, plant and equipment	249
Inventories	259
Other receivables	1
Prepaid expenses	19
Employee benefits (termination indemnities)	(201)
Accrued expenses (employees)	(23)

Total net assets sold	**304**
Capital gain	**201**
Disposal price	**505**

MERGER OF KENS INTERNATIONAL SA WITH EMAK BENELUX N.V.

The shareholders of Kens International SA and Emak Benelux N.V. met in July 2006 to approve the merger of these two Belgian subsidiaries.
This merger was based on the fact that it was no longer considered economic to continue running the sub-holding company Kens International SA since its only activity involved holding the investment in Emak Benelux N.V. which operates on the Belgian market.
The merger has not had any effect on the group's equity and the new company has kept the name of Emak Benelux N.V.. Emak Benelux N.V. voted in December 2006 to increase its share capital by €68 thousand, which was subscribed in full and paid in by its shareholders EMAK S.p.A. and COMAG Srl.

PAYMENT AGAINST FUTURE CAPITAL INCREASES BY COMAG S.r.l.

During the last quarter of 2006 the parent company Emak S.p.A. paid the sum of €1,000 thousand to its subsidiary Comag S.r.l. in respect of future capital increases.

5. Balances or transactions arising from atypical and unusual operations

No atypical or unusual transactions took place during the course of 2006.

6. Emak Group - overview of results

Highlights from the consolidated income statement

€/000	FY 2006	%	FY 2005	%	Change
Net sales	208,402	100	183,381	100	13.6
EBITDA	25,127	12.1	22,268	12.1	12.8
EBIT	19,771	9.5	17,038	9.3	16.0
Profit before taxes	18,579	8.9	16,905	9.2	9.9
Net profit	11,304	5.4	9,605	5.2	17.7

Sales
Net sales in 2006 and the prior year are broken down by product as follows:

€/000	FY 2006	%	FY 2005	%	% Change
Brushcutters	39,948	19.2	33,594	18.3	18.9
Chainsaws	38,645	18.5	36,992	20.2	4.5
Lawnmowers	33,114	15.9	29,051	15.8	14.0
Garden tractors	16,940	8.1	14,936	8.1	13.4
Other products	57,286	27.5	48,183	26.3	18.9
Spare parts and Accessories	22,469	10.8	20,625	11.3	8.9
Total	**208,402**	**100**	**183,381**	**100**	**13.6**

This table contains a few reclassifications of the 2005 figures for the sake of consistent comparison with those of 2006.

Net sales were 13.6% higher in 2006 at €208,402 thousand, up from €183,381 thousand in the prior year.

Good fourth-quarter weather conditions helped extend the sales season for all grass-cutting products well beyond its normal date. After a solid first-half start, this good fourth quarter made up for the drop in sales, for opposite reasons, in the third quarter, taking full-year sales growth for brush cutters, lawnmowers and garden tractors well into double digits.

The new chain saw models released in the fourth quarter boosted Emak's sales in this sector despite the flat market, which, unlike grass-cutting machinery, failed to benefit from the higher-than-average temperatures in the last few months of 2006.

Most of the other product lines performed well, also thanks to improvements in the group's competitiveness.

Sales are broken down by geographical area as follows:

€/000	FY 2006	%	FY 2005	%	% Change
Italy	40,872	19.6	40,435	22.0	1.1
Europe	134,763	64.7	114,796	62.6	17.4
Rest of world	32,767	15.7	28,150	15.4	16.4
Total	**208,402**	**100**	**183,381**	**100**	**13.6**

The particularly fierce competitive environment held back growth on the Italian market and in other West European countries, with the improvement for Europe as a whole mainly coming from the East.

Both South America and the Mediterranean Basin reported good sales, while those by Emak USA continued to be insignificant to the group as a whole having only started to do business in the second half of the year.

Profits

EBITDA

EBITDA increased by 12.8% to €25,127 thousand in 2006, up from €22,268 thousand in the previous year. EBITDA represented 12.1% of sales in both years.
The following factors contributed positively to full-year results:

- the increase in sales volumes;
- the change in the scope of consolidation;
- the reorganization of the production process.

The following factors all contributed negatively to results:

- the product/market/channel mix;
- the cost of raw materials, partly absorbed by other savings;
- higher payroll costs due to an increase in average headcount (up from 786 in FY 2005 to 900 in FY 2006), wage rises and greater use of temporary staff;
- the costs incurred for starting up the new subsidiary Emak Usa Inc.

The group's total number of employees amounted to 902 at 31 December 2006, compared with 856 a year earlier.

EBIT

EBIT was 16% higher in 2006 at €19,771 thousand, corresponding to 9.5% of revenues, compared with €17,038 thousand in 2005 (9.3% of revenues).

Net profit

Net profit was 17.7% higher in 2006 at €11,304 thousand (5.4% of sales), up from €9,605 thousand in the prior year (5.2% of sales).

Net financial expense was higher than in 2005, reflecting an increase in net debt and interest rates, as well as movements in exchange rates.

The tax rate went down from 43.2% in 2005 to 39.1% this year, reflecting differences in the tax rules applying in the various countries where the group operates.

Highlights from the consolidated balance sheet

€/000	31.12.2006	31.12.2005
Net non-current assets	37,955	34,776
Net working capital	81,785	66,419
Total net capital employed	**119,740**	**101,195**
Equity attributable to the group	81,393	74,901
Equity attributable to minority interests	483	458
Net debt	(37,864)	(25,836)

Net non-current assets

During 2006 the Emak Group invested €8,993 thousand in property, plant and equipment and intangible assets as follows:

- €2,088 thousand for product innovation (mainly analyses, research and equipment for new products);
- €1,587 thousand for boosting production capacity and for process innovation;
- €1,143 thousand for upgrading the computer network;
- €4,066 thousand for completing and modernizing existing buildings;
- €109 thousand for investments in management tools.

Net working capital

Net working capital was €15,366 thousand higher than at the end of December 2005, up from €66,419 thousand to €81,785 thousand, reflecting the following changes:

- increase in inventories	€8,462 thousand
- increase in trade receivables	€2,419 thousand
- decrease in trade payables	€5,170 thousand
- other changes	(€685) thousand

The increase in net working capital since 31 December 2005 is attributable to the larger volume of business and sales, the achievement of full-swing production by the Chinese factory and the start-up of business by the new trading company Emak USA.

Equity

Total equity was €81,876 thousand at the end of December 2006 compared with €75,359 thousand a year earlier. Earnings per share were €0.407 at 31 December 2006, up from €0.345 in the prior year.

Net financial position

€/000	31.12.2006	31.12.2005
Cash and banks	4.028	4.103
Securities and derivative financial instruments	5	137
Other financial assets	9	19
Financial liabilities	(35.572)	(22.921)
Derivative financial instruments	(229)	0
Short-term net debt	**(31.759)**	**(18.662)**
Financial liabilities	(6.105)	(7.174)
Long-term net debt	**(6.105)**	**(7.174)**
Cash and banks	4.028	4.103
Securities and derivative financial instruments	5	137
Other financial assets	9	19
Financial liabilities	(41.677)	(30.095)
Derivative financial instruments	(229)	0
Total net debt	**(37.864)**	**(25.836)**

Net debt increased from €25,836 thousand at 31 December 2005 to €37,864 thousand at 31 December 2006. The increase was mainly due to working capital needs and new investments.

Free cash flow from operations in the year was €16,660 thousand after tax, compared with €14,835 thousand in 2005.

The net financial position does not contain any balances with related parties either at 31 December 2006 or at 31 December 2005.

7. Research and development

Research and development activities in 2006 were conducted in accordance with the group's business plan, which views product innovation as the principal driver of the group's growth.

In fact, most of the planned investment expenditure is devoted to developing new products with the goal of releasing an average of between 8 and 10 new models every year.

All the main product lines underwent revisions or upgrades with the goal of upgrading the range and improving competitive position and the value proposition for our customers.

Important resources were also invested in developing new technology designed to reduce consumption and protect the environment, also in view of changes in the regulatory framework involving the transition from Euro 1 to Euro 2 by the end of 2007.

The company expensed a total of €4,306 thousand in R&D costs to income during the year (€4,060 thousand in 2005).

8. Human resources

The workforce at 31 December 2006 is analyzed by country in the following table:

Workforce	31.12.2006	31.12.2005
Italy	489	541
France	43	45
Belgium	5	5
UK	16	16
Spain	14	15
Germany	15	21
Poland	60	65
China	255	148
USA	5	-
Total	**902**	**856**

The growth in headcount since 31 December 2005, from 856 to 902 employees, is mostly due to the development of the factory in China with new staff recruited on both the manufacturing and administrative sides of the business (+107 employees).

In Italy the parent company Emak SpA reported a reduction in headcount after selling its plastic components business, while Comag Srl had 25 fewer employees at the end of 2006, with its workforce shrinking from 136 to 111 (even though Comag's average headcount in the year was slightly higher than in 2005).
The parent company also made use of fixed-term contracts and temporary workers during 2006 in order to cope with peaks in production.
Actions were taken during 2006 to optimize the structure of Emak Victus (PL) and Emak Deutschland.
As part of the process of skills assessment and development, Emak S.p.A. carried out a structured programme of technical and managerial training, providing a total of more than 6,811 hours of instruction and technical-specialist training, of which around 1,000 hours of training in the subjects of safety, quality, environment and ethics.

9. Emak S.p.A. - overview of results

Highlights from the income statement

€/000	FY 2006	%	FY 2005	%	% Change
Net sales	161,935	100	147,090	100	10.1
EBITDA	18,867	11.7	16,404	11.2	15.0
EBIT	15,567	9.6	12,910	8.8	20.6
Profit before taxes	15,484	9.6	13,612	9.3	13.8
Net profit	9,023	5.6	7,834	5.3	15.2

Sales by product line

Net sales are broken down by product line as follows:

€/000	FY 2006	%	FY 2005	%	% Change
Brushcutters	37,060	22.9	31,975	21.7	15.9
Chainsaws	37,395	23.0	35,850	24.4	5.8
Lawnmowers	30,447	18.9	27,737	18.9	9.8
Garden tractors	4,868	3.0	3,982	2.7	22.2
Other products	35,680	22.0	31,636	21.5	12.8
Spare parts and accessories	16,485	10.2	15,910	10.8	3.6
Total	**161,935**	**100**	**147,090**	**100**	**10.1**

This table contains a few reclassifications of the 2005 figures for the sake of consistent comparison with those of 2006.

Sales volumes were higher for all product lines. Sales of brushcutters, lawnmowers and garden tractors were particularly strong thanks to the prolonged spell of fine weather, extending the sales season for grass-cutting products well beyond its normal date.

Sales by geographical area

Net sales are broken down by geographical area as follows:

€/000	FY 2006	%	FY 20056	%	% Change
Italy	40,834	25.2	40,405	27.5	1.1
Europe	84,476	52.2	76,074	51.7	11.0
Rest of world	36,625	22.6	30,611	20.8	19.6
Total	**161,935**	**100**	**147,090**	**100**	**10.1**

"Rest of world" sales in 2006 also include around €2,700 thousand (€2,400 thousand in 2005) in component sales to the subsidiary Jiangmen Emak Outdoor Power Equipment Co. Ltd.

The particularly fierce competitive environment held back growth on the Italian market and in other West European countries, with the improvement for Europe as a whole mainly coming from the East.

Both South America and the Mediterranean Basin reported good sales.

EBITDA

EBITDA increased by 15% from €16,404 thousand in 2005 to €18,867 thousand in 2006.

The following factors contributed positively to full-year results:

- the increase in sales volumes;
- the reorganization of the production process.

The following factors all contributed negatively to results:

- the product/market/channel mix;
- the increase in the price of the principal raw materials, partially offset by other savings;
- the increase in costs associated with marketing campaigns in support of the sales network;

- the increase in the cost of transportation services and customs clearance of products originating from China.

There were 378 employees at 31 December 2006, of whom 3 on fixed-term contracts, compared with 405 a year earlier, of whom 14 on fixed-term contracts.

EBIT

EBIT was 20.6% higher in 2006 at €15,567 thousand, corresponding to 9.6 % of sales, compared with €12,910 thousand in 2005 (8.8 % of sales).

Net profit

Net profit was 15.2% higher in 2006 at €9,023 thousand (5.6 % of sales), compared with €7,834 thousand in the prior year (5.3 % of sales).

Highlights from the balance sheet

The company's balance sheet and financial position at 31 December 2006 are summarized as follows:

€/000	**31.12.2006**	**31.12.2005**
Net non-current assets	25,387	23,361
Net working capital	59,215	43,617
Total net capital employed	**84,602**	**66,978**
Equity	73,765	69,385
Net cash (debt)	(10,837)	2,407

Net non-current assets

During 2006 the company invested €2,459 thousand in property, plant and equipment and intangible assets as follows:

- €967 thousand in product innovation (mainly analyses, research and equipment for new products);
- €606 thousand for boosting production capacity and for process innovation;
- €755 thousand for upgrading the computer network;
- €131 thousand for modernizing and completing existing buildings.

The company also invested a total of €3,736 thousand in the capital of its subsidiaries as follows:

- €2,627 thousand (or PLN 9,998 thousand) in Victus Emak Sp. z o.o. headquartered in Poznan (Poland), for the capital increase approved by its shareholders on 24 January 2006;
- €41 thousand (or USD 50 thousand) to incorporate and pay in the share capital of EMAK USA Inc., a wholly-owned subsidiary of Emak S.p.A., headquartered in Wooster, Ohio; the company was incorporated on 12 April 2006 and started operations in July 2006;
- €1,000 thousand paid in the last quarter of 2006 to the subsidiary Comag Srl in respect of future capital increases;
- €68 thousand paid in December 2006 to the subsidiary Emak Benelux N.V. for the capital increase approved in the same month.

Net working capital

Net working capital was €15,598 thousand higher at the end of 2006 than a year earlier, reflecting the following changes:

- increase in inventories €3,139 thousand
- increase in trade receivables €3,994 thousand
- decrease in trade payables €8,761 thousand
- other changes (€296) thousand

The increase in net working capital since 31 December 2005 is attributable to the larger volume of business and goods supplied to the Chinese company towards the end of the year.

Equity

Equity amounted to €73,765 thousand at the end of 2006 compared with €69,385 thousand a year earlier.
Earnings per share were €0.327 at 31 December 2006, up from €0.283 in the prior year.

Net financial position

The net financial position reported net debt of €10,837 thousand at the end of 2006 compared with net cash of €2,407 thousand a year earlier.

The net financial position is made up as follows:

€/000	31.12.2006	31.12.2005
Cash and banks	827	1.077
Other financial assets	9	19
Financial liabilities	(17.673)	(8.949)
Derivative financial instruments	(44)	0
Short-term net debt	**(16.881)**	**(7.853)**
Other financial assets	10.209	14.892
Financial liabilities	(4.165)	(4.632)
Long-term net debt	**6.044**	**10.260**
Cash and banks	827	1.077
Other financial assets	10.218	14.911
Financial liabilities	(21.838)	(13.581)
Derivative financial instruments	(44)	0
Total net debt	**(10.837)**	**2.407**

Long-term "Other financial assets" at 31 December 2006 refer entirely to loans given to subsidiaries and have decreased as a result of the repayments received.

Short-term "Financial liabilities" have increased as a result of the increase in working capital.

10. Performance of subsidiaries

Emak U.K. Ltd

This company reported a net profit of €164 thousand compared with €200 thousand in 2005. Sales increased by 6% to €6,041 thousand, up from €5,698 thousand in 2005. The improvement in sales helped produce a satisfactory level of earnings in line with the prior year. The company distributes Emak products in the United Kingdom.

Emak Deutschland Gmbh

This company reported a net profit of €81 thousand compared with €104 thousand in 2005. Sales increased by 19.1% to €11,097 thousand, up from €9,319 thousand in 2005.
The 2005 results had benefited from €100 thousand in non-recurring income.
The 2006 result was negatively affected by non-recurring removal costs following the transfer of the company's registered and operational offices.
The company distributes Emak products in Germany.

Emak Benelux N.V.

Emak Benelux N.V. is the product of the merger between the Belgian company Kens International SA and its subsidiary Emak Benelux N.V.. It reported a net profit of €18 thousand, compared with a net profit of €61 thousand posted in 2005 by the merged operating company (Emak Benelux N.V.).
Sales amounted to €3,407 thousand, staying broadly in line with the figure of €3,428 thousand reported in 2005.
The company distributes Emak products on the Belgian and Dutch markets.

Emak Suministros Espana SA

This company reported a net profit of €621 thousand compared with €680 thousand in 2005. Sales were 5.1% higher at €8,325 thousand, up from €7,919 thousand in 2005.
The company distributes Emak products in Spain.

Comag S.r.l.

This company reported a net profit of €578 thousand compared with €864 thousand in 2005 and sales of €21,056 thousand compared with €19,188 thousand in 2005. The increase in sales reflected the higher volume of production in the year. Net profit was affected by the rise in the cost of raw materials in 2006. Net profit was also affected by the receipt of around €200 thousand in fewer operating grants than in the prior year.

Emak France SAS

This company reported a net profit of €836 thousand compared with €810 thousand in 2005. Sales were 3.8% higher at €37,210 thousand, up from €35,837 thousand in 2005.
The improvement in results reflected the trend in demand on the French market and the benefits of higher investment in commercial initiatives.
The 2005 results had benefited from €400 thousand in non-recurring income.
The company distributes Emak products in France.

Jiangmen Emak Outdoor Power Equipment Co. Ltd

This company reported a profit of €1,315 thousand compared with a loss of €32 thousand in 2005. Sales amounted to €15,872 thousand compared with €3,686 thousand in 2005.
Production reached a full-swing level during 2006 after transferring to the new factory.

Victus Emak Sp. z o.o.

This company reported a net profit of €733 thousand for the whole of 2006 compared with a loss of €246 thousand in the fourth quarter of 2005. Sales amounted to €16,862 thousand compared with €604 thousand in 2005.
This was this company's first full year of operation, with its results as forecast both in terms of sales and earnings, thanks to improved commercial penetration of the important Polish market.
The company distributes Emak products on the Polish market.

Emak USA Inc.

Emak USA Inc. has been operational since July 2006. Its results reported a loss of €206 thousand, reflecting the costs associated with its start-up. Sales came to €744 thousand.
The company distributes Emak products on the North American market.

11. Related party transactions

Please refer to note 38 to the consolidated financial statements and note 35 to the individual financial statements for information about related party transactions.

12. Buy-back of Emak S.p.A. shares

In accordance with the related authorization by shareholders, Emak S.p.A. has purchased treasury shares on the market for the purpose of improving the stock's liquidity. Emak S.p.A. held 6,000 treasury shares at 31 December 2005. It purchased 102,849 treasury shares between 1 January 2006 and 31 December 2006, while selling none, meaning that it held 108,849 such shares at the end of December 2006.
During the first few months of 2007 Emak S.p.A. sold all the treasury shares it held at 31 December 2006.

13. Corporate governance

In accordance with the requirements of CONSOB (Italy's stockmarket regulator) and Borsa Italiana S.p.A. (Italy's stockmarket manager) and the specific reporting obligations arising from Emak's membership of the Italian stockmarket's STAR segment, we shall now provide the relevant information concerning our system of governance.

* * * * * * *

Further to its appointment by the shareholders in the meeting of 30 April 2004 and the decisions taken by the Board of Directors on 14 May 2004, the current Board of Directors is made up as follows:

Giacomo Ferretti	Chairman and Executive Director
Aimone Burani	Deputy Chairman and Executive Director
Fausto Bellamico	Chief Executive Officer
Ivano Accorsi	Independent director
Carlo Baldi	Non-executive director
Andrea Barilli	Independent director
Luigi Bartoli	Non-executive director
Paola Becchi	Non-executive director
Andrea Ferrari	Independent director
Giuliano Ferrari	Non-executive director
Ivano Salsapariglia	Non-executive director
Vilmo Spaggiari	Non-executive director
Guerrino Zambelli	Non-executive director

Under article 17 of the articles of association, the Board of Directors consists of a minimum of nine and a maximum of thirteen members. It is invested with the widest powers for the company's ordinary and extraordinary management, with no exceptions, except those that fall by law to the shareholders' meeting. The Board of Directors is also empowered to appoint an Executive Committee or one or more Executive Directors, establishing the limits and manner of exercising the delegated powers.

The Board of Directors appointed three executive directors in its meeting of 14 May 2004. These have the power to act severally within the area of their specific responsibilities.

The Board of Directors, in delegating its powers, has decided that the following duties shall remain as its sole prerogative:

- to examine the strategic, operational and financial plans of the company and the group;
- to examine the annual budget of the company and the group;
- to approve the quarterly and half-year financial reports and the draft annual financial statements of the company and the group;
- to delegate powers to other members of the Board of Directors and also revoke them;
- to determine, after consulting the Board of Statutory Auditors, the remuneration of the executive directors and of those directors who are appointed to hold particular office within the company, and the allocation of the total amount approved by the shareholders' meeting to individual members of the Board;
- to monitor the company's general performance, with special reference to situations of conflict of interest, paying particular attention to the information received from the Executive Directors;
- to examine and approve transactions having a significant impact on the company's income statement, balance sheet or financial position, with special reference to transactions involving related parties;
- to evaluate the adequacy of the general organizational and administrative structure established by the Executive Directors for the company and the group;
- to report to the shareholders at shareholders' meetings;
- to exercise all other powers that may not be delegated under law or the company's articles of association;
- to pass resolutions to purchase, sell, exchange, confer or mortgage company property or property rights; to enter into and settle property finance leases;
- to pass resolutions to purchase, sell, exchange, confer or rent businesses, equity investments in other companies, trademarks and patents, and to transfer technology;
- to nominate the General Manager on the recommendation of the Executive Directors.

The Board of Directors has therefore granted Giacomo Ferretti, Chairman of the Board of Directors, Aimone Burani, the Deputy Chairman, and Fausto Bellamico, director and General Manager, separate powers for ordinary and extraordinary management within the bounds of the company's purpose and except for those powers reserved by law and the articles of association for the Board of Directors and all those powers nonetheless listed above.

The Executive Directors have been granted joint authority, requiring the signature of any two of them, to enter into overdraft and long-term lending agreements and unsecured loan agreements.

The emoluments of all the directors, including those appointed to particular positions, are allocated by the Board of Directors within the limit of the overall amount approved by the shareholders. All the Executive Directors take part, in varying degrees, in the company's incentive plan.
The shareholders voted on 5 May 2006 to increase the amount of emoluments payable to the Board of Directors, as allowed by article 16 of the current articles of association. This has enabled the Board of Directors to raise the remuneration of the executive directors and the deputy general manager, on a performance-related basis specifically linked to the year-on-year increase in EBITDA.

The Board of Directors is assisted by the Audit and Remuneration Committees, both of whose three members consist solely of independent directors.

The current Board of Directors will remain in office until the date of the shareholders' meeting called to approve the financial statements for the year ended 31 December 2006.

* * * * * * *

The shareholders' meeting of 30 April 2004 appointed the current Board of Statutory Auditors, which will remain in office until the date of approving the financial statements for the year ended 31 December 2006. The Board of Statutory Auditors currently has the following members:

Marco Montanari – Chairman
Andrea Magnanini – Acting auditor
Martino Masini – Acting auditor
Giuseppe Antonio Barranco – Alternate auditor
Silvia Pattacini – Alternate auditor

* * * * * * *

EMAK has complied since 2001 with the Corporate Governance Code, approved by the committee set up for this purpose by the Italian Stock Exchange, thereby achieving admission to the STAR segment of the Italian stockmarket. The company has complied with the Code's recommendations during 2006, as duly described in the Annual Corporate Governance Report, available on the company's website at www.emak.it.

The Board of Directors voted on 14 November 2006 to adopt the new Corporate Governance Code, approved by the Stock Exchange Committee in March 2006. Details of how the company has complied with the broader recommendations contained in the new Code can be found in the specific section of the Corporate Governance Report.

The upcoming reappointment of all the corporate officers and the future conduct of the new boards will comply with Emak's revised membership requirements of the STAR segment, as approved by CONSOB in its resolution 15786 of 27 February 2007. The newly appointed boards will be required to implement the recommendations of the new Code in the broadest possible sense.

* * * * * * *

The company updated its internal dealing code within the legal deadline in order to reflect the new rules and regulations contained in article 114.7 of the Securities Trading Act and articles 152-sexies *et seq.* of the Issuers Regulations which updated the former rules with effect from 1 April 2006.

The company also updated its procedures on handling price-sensitive and confidential information to incorporate the new rules on market abuse and has established the register required by article 115-bis of the Securities Trading Act and governed by articles 152-bis et *seq.* of the Issuers Regulations.

* * * * * * *

The shareholders' meeting called to approve this report will examine, discuss and approve in extraordinary session a number of amendments to the articles of association, mainly designed to comply with the provisions of the Investor Protection Act (Decree 262/2005 and Decree 303/2006) and therefore likely to improve the quality of corporate governance. The shareholders will also discuss other changes to the articles of association that they consider serve the same purpose.

* * * * * * *

In compliance with article 79 of the Issuers Regulations (CONSOB Resolution 11971 of 14 May 1999 and subsequent amendments thereto), the following table presents the equity interests held in Emak S.p.A. and its subsidiaries by directors, statutory auditors and general managers:

Full name	Shares held in	No. shares held on 01.01.2006	No. shares purchased	No. shares sold	No. shares held on 31.12.2006
Ivano Accorsi (Board of Directors)	Emak S.p.A.	2,000	-	-	2,000
Andrea Barilli (Board of Directors)	Emak S.p.A.	1,000	-	-	1,000
Carlo Baldi (Board of Directors)	Emak S.p.A.	19,000*	5,000*	10,000*	14,000*
Bellamico Fausto (Emak Chairman)	Emak S.p.A.	0	5,000	0	5,000
Luigi Bartoli (Board of Directors)	Emak S.p.A.	32,536	-	32,536	0
Andrea Magnanini (Board of Statutory Auditors)	Emak S.p.A.	2,000	3,000**	-	5,000
Martino Masini (Board of Statutory Auditors)	Emak S.p.A.	619	29,381	-	30,000

**Also includes shares not owned directly*
****** *This transaction took place in the first quarter of 2006*

The following table contains the information required by article 78 of the CONSOB Regulations approved in resolution 11971 of 14 May 1999, in relation to the emoluments paid to the directors, statutory auditors and general managers of Emak S.p.A. by the company itself as well as by its subsidiaries:

€/000		Term in office	Emoluments of office	Benefits in kind	Bonuses and other incentives	Other remuneration	
Giacomo Ferretti	Chairman and Executive Director	1.1.06-31.12.06	64	-	64	(a)(b)	211
Fausto Bellamico	General Manager and CEO	1.1.06-31.12.06	52	3	90	(a)	224
Aimone Burani	Deputy Chairman and Executive Director	1.1.06-31.12.06	23	3	51	(a)	191
Carlo Baldi	Director	1.1.06-31.12.06	1	-	-	(b)	45
Andrea Barilli	Director	1.1.06-31.12.06	8	-	-		-

Vilmo Spaggiari	Director	1.1.06-31.12.06	1	-	-	-
Guerrino Zambelli	Director	1.1.06-31.12.06	1	-	-	-
Paola Becchi	Director	1.1.06-31.12.06	1	-	-	-
Ivano Salsapariglia	Director	1.1.06-31.12.06	1	-	-	-
Giuliano Ferrari	Director	1.1.06-31.12.06	1	-	-	-
Luigi Bartoli	Director	1.1.06-31.12.06	1	-	-	-
Ivano Accorsi	Director	1.1.06-31.12.06	8	-	-	-
Andrea Ferrari	Director	1.1.06-31.12.06	15	-	-	-
Marco Montanari	Chairman of Board of Statutory Auditors	1.1.06-31.12.06	16	-	-	-
Andrea Magnanini	Acting auditor	1.1.06-31.12.06	10	-	-	(b) 12
Martino Masini	Acting auditor	1.1.06-31.12.06	10	-	-	-

(a) Remuneration as company employee and provision of related employee termination indemnity.
(b) Includes emoluments for other offices held in subsidiaries, other remuneration and consulting fees.

14. Outstanding disputes

There are no outstanding disputes other than those discussed in note 35 to the consolidated financial statements, to which the reader should refer.

15. Additional information

Obligations regarding personal data protection

In compliance with Appendix B to Decree 196/2003, we declare that we checked and revised the company's Security Plan on 31 January 2007.

16. Business outlook

The first quarter of the new year mostly features, as always, preseason sales of gardening machinery; the actual trend in demand can be seen only with the start of the spring season.
The particularly mild winter has not fostered the use of chainsaws in forestry activity, causing the sell out by resellers to slow down with a possible impact on end-of-season stocks.

17. Subsequent events

The industrial building in Brescello (Re) was sold on 26 March 2007 for €800 thousand. The capital gain, recognized in 2007, amounts to €531 thousand.

18. Proposed allocation of net profit for the year

Shareholders,

We are submitting for your approval the financial statements for the year ended 31 December 2006, which report a net profit of €9,022,872.
The Board of Directors is proposing that a dividend of €0.175 be distributed to every outstanding share.

We therefore invite you to adopt the following resolution:

a. to approve the financial statements for the year ended 31 December 2006 reporting a net profit of €9,022,872;

b. to allocate the net profit of €9,022,872 as follows:
   - to the shareholders, a dividend of €0.175 for each of the outstanding shares, gross of legally required withholdings, but not for the treasury shares held by the company itself, with the shares going ex-div on 4 June 2007 and the dividend paid on 7 June 2007;
   - the remainder to retained earnings, since the legal reserve has reached the maximum limit required by law.

Bagnolo in Piano (RE), 27 March 2007

on behalf of the Board of Directors

Chairman

Giacomo Ferretti

Emak Group – Consolidated financial statements at 31 December 2006

Consolidated income statement

€/000	Notes	Year 2006	Year 2005
Sales	9	208.402	183.381
Other operating income	9	1.575	1.629
Change in inventories		9.775	8.817
Raw and consumable materials and goods	10	(131.506)	(114.246)
Salaries and employee benefits	11	(27.865)	(25.763)
Other operating costs	12	(35.254)	(31.550)
Amortization, depreciation and impairment losses	13	(5.356)	(5.230)
Ebit		**19.771**	**17.038**
Financial income	14	540	658
Financial expenses	14	(2.085)	(1.419)
Exchange gains and losses	14	353	628
EBT		**18.579**	**16.905**
Income taxes	15	(7.275)	(7.300)
Net profit		**11.304**	**9.605**
(Profit)/loss attributable to minority interests		**(65)**	**(73)**
Net profit attributable to the group		**11.239**	**9.532**
Basic earnings per share	16	**0,407**	**0,345**
Diluted earnings per share	16	**0,407**	**0,345**

Consolidated balance sheet

ASSETS

€/000	Notes	31.12.2006	31.12.2005
Non-current assets			
Property, plant and equipment	17	35.535	32.557
Intangible assets	19	3.076	3.080
Goodwill	20	6.353	6.305
Investment property	18	361	399
Equity investments	21	224	223
Deferred tax assets	31	3.126	2.922
Other receivables	23	48	63
Total		**48.723**	**45.549**
Non-current assets held for sale			
Assets held for sale	25	269	269
Total		**269**	**269**
Current assets			
Inventories	24	68.302	59.840
Trade and other receivables	23	58.925	56.911
Current tax assets	31	2.238	3.525
Other financial assets		9	19
Derivative financial instruments	22		38
Marketable securities at fair value	26	5	99
Cash and cash equivalents	27	4.028	4.103
Total		**133.507**	**124.535**
TOTAL ASSETS		**182.499**	**170.353**

EQUITY AND LIABILITIES

€/000	Notes	31.12.2006	31.12.2005
Capital and reserves			
Share capital		7.190	7.190
Share premium		21.047	21.047
Treasury shares		(527)	(28)
Other reserves		30.223	30.354
Retained earnings		23.460	16.338
Total Group	28	**81.393**	**74.901**
Minority interests		**483**	**458**
Total equity		**81.876**	**75.359**
Non-current liabilities			
Loans and borrowings	30	6.105	7.174
Deferred tax liabilities	31	2.692	2.565
Post-employment benefits	32	5.796	5.985
Provisions	33	468	359
Other non-current liabilities	34	2.081	2.132
Total		**17.142**	**18.215**
Current liabilities			
Trade and other payables	29	45.146	50.430
Current tax liabilities	31	2.150	2.811
Loans and borrowings	30	35.572	22.921
Derivative financial instruments	22	229	0
Provisions	33	384	617
Total		**83.481**	**76.779**
TOTAL EQUITY AND LIABILITIES		**182.499**	**170.353**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY AT 31.12.2005 AND AT 31.12.2006

€/000	Share capital	Share premium	Treasury shares	OTHER RESERVES					RETAINED EARNINGS		TOTAL GROUP	EQUITY ATTRIBUTABLE TO MINORITY INTERESTS	TOTAL
				Legal reserve	Revaluation reserve	Reserves for hedging instruments	Cumulative translation adjustment	Other reserves	Retained earnings	Net profit for the period			
Balance at 31.12.2004	**7.190**	**21.047**	**(47)**	**1.438**	**1.138**	**(73)**	**(59)**	**23.799**	**5.880**	**8.741**	**69.054**	**446**	**69.500**
Change in translation reserve							199				**199**		**199**
Change in treasury shares (note 28)			19						31		**50**		**50**
Payment of dividends								3.839	892	(8.741)	**(4.010)**	(59)	**(4.069)**
Change arising from hedging transaction (note 28)						73					**73**		**73**
Other changes									3		**3**	(2)	**1**
Net profit for 2005										9.532	**9.532**	73	**9.605**
Balance at 31.12.2005	**7.190**	**21.047**	**(28)**	**1.438**	**1.138**	**0**	**140**	**27.638**	**6.806**	**9.532**	**74.901**	**458**	**75.359**
Change in translation reserve							(104)				**(104)**		**(104)**
Change in treasury shares (note 28)			(499)								**(499)**		**(499)**
Payment of dividends								226	5.162	(9.532)	**(4.144)**	(46)	**(4.190)**
Other changes								(253)	253		**0**	6	**6**
Net profit for 2006										11.239	**11.239**	65	**11.304**
Balance at 31.12.2006	**7.190**	**21.047**	**(527)**	**1.438**	**1.138**	**0**	**36**	**27.611**	**12.221**	**11.239**	**81.393**	**483**	**81.876**

Consolidated cash flow statement

€/000	Notes	2006	2005
Cash flow from operations			
Net profit for period		**11.304**	**9.605**
Amortization, depreciation and impairment losses	13	5.356	5.230
(Capital gains)/losses on disposal of property, plant and equipment		(188)	(17)
Decreases/increases in trade and other receivables		(936)	(5.601)
Decreases/increases in inventories		(8.721)	(7.243)
Decreases/increases in trade and other payables		(5.846)	5.500
Change in post-employment benefits		12	583
Decreases/increases in provision for liabilities	33	(124)	488
Decreases/increases in derivate financial instruments		266	(150)
Net cash generated by operations		**1.123**	**8.395**
Cash flow from investment activities			
Increases in property, plant and equipment and intangible assets		(8.792)	(7.517)
Increases and decreases in financial assets		104	182
Proceeds from disposal of property, plant and equipment		189	156
Business combinations	6	505	(6.751)
Net cash absorbed by investment activities		**(7.994)**	**(13.930)**
Cash flow from financial activities			
Change in equity		(493)	124
Change in short and long-term loans and borrowings		4.362	1.784
Change in finance leases		(536)	3.643
Dividends paid		(4.190)	(4.069)
Change in translation reserve		(104)	199
Net cash absorbed by financial activities		**(961)**	**1.681**
Net increase in cash and cash equivalents		**(7.832)**	**(3.854)**
Opening cash and cash equivalents		**(5.088)**	**(1.234)**
Closing cash and cash equivalents		**(12.920)**	**(5.088)**

ADDITIONAL INFORMATION ON THE CASH FLOW STATEMENT

€/000		2006	2005
Reconciliation of cash and cash equivalents			
Opening cash and cash equivalents, detailed as follows:	**27**	**(5.088)**	**(1.234)**
Cash and cash equivalents		4.103	5.205
Overdrafts		(9.191)	(6.439)
Closing cash and cash equivalents, detailed as follows:	**27**	**(12.920)**	**(5.088)**
Cash and cash equivalents		4.028	4.103
Overdrafts		(16.948)	(9.191)
Other information:			
Tax paid		(8.934)	(6.212)
Interest paid		(1.985)	(807)
Effects of exchange rate changes		5	67
Change in related party receivables and service transactions		117	284
Change in related party payables and service transactions		(805)	144

Explanatory notes to the consolidated financial statements of the Emak Group

Notes to the consolidated financial statements - Contents

1. General information

The Board of Directors approved the consolidated financial statements of Emak S.p.A. for the year ended 31 December 2006 on 27 March 2006 and authorized their immediate publication in a press release of the same date.

The Emak Group is one of Europe's leading producers of gardening and forestry machinery, such as chainsaws, brushcutters, lawnmowers, trimmers and a vast assortment of accessories.

The parent company is a public limited company, whose shares are listed on the Italian stock exchange. Its registered office is in Via Fermi 4, Bagnolo in Piano (Reggio Emilia), Italy.

The group has around 900 employees.

The following changes took place during 2006:

- the parent company Emak S.p.A. paid in the share capital of the newly-incorporated company Emak USA Inc, amounting to USD 50 thousand, as a result of which this company has now joined the scope of consolidation;

- the merger between the two Belgian companies Kens International SA and Emak Benelux N.V.: the new company has taken the name of Emak Benelux N.V. and is 99.9% controlled by Emak S.p.A.; Kens International N.V. has consequently no longer been consolidated at 31 December 2006;

- the parent company Emak S.p.A. subscribed and paid in, during February 2006, the capital increase by its subsidiary Victus Emak Sp. z o.o. for PLN 9,997,500 (or €2,627 thousand), meaning that the share capital of Victus Emak Sp. z o.o. is PLN 10,168,000 at 31 December 2006 (or €2,672 thousand);

- the parent company Emak S.p.A. paid €1,000 thousand to the subsidiary Comag S.r.l. in respect of future capital increases.

The Emak Group is under the governance and coordination of Yama S.p.A. as defined by article 2497 of the Italian Civil Code.

The Yama Group's main business is in the sectors of agricultural and gardening machinery and equipment, engine parts, finance and real estate.

The figures presented in the notes are expressed in thousands of euro, unless otherwise stated.

2. Summary of principal accounting policies

The principal accounting policies used for preparing these consolidated financial statements are discussed below, and unless otherwise indicated, have been uniformly applied to all years presented.

2.1 General methods of preparation

The consolidated financial statements have been prepared in accordance with the IFRS issued by the International Accounting Standards Board and adopted by the European Union at the date of preparing this report. The term IFRS also refers to all revised international accounting standards (IAS) and all interpretations by the International Financial Reporting Interpretations Committee (IFRIC), previously named the Standing Interpretations Committee (SIC).
The consolidated financial statements have been prepared under the historical cost method, except for those financial assets and liabilities (including derivative instruments) measured at fair value.

The group has adopted the following formats for its financial statements as required by IAS 1:
-Balance sheet: based on the distinction between current and non-current assets and current and non-current liabilities;
-Income statement: based on a classification of items of income and expense according to their nature;
-Cash flow statement: based on a presentation of cash flows using the indirect method.

The preparation of financial statements under IFRS requires management to make use of accounting estimates. The matters involving a high degree of judgement or complexity and the areas in which the assumptions and estimates could have a significant impact on the consolidated financial statements are discussed in note 4.

2.2 Methods of consolidation

The consolidated financial statements include the financial statements of Emak S.p.A. and the Italian and foreign companies over which Emak exercises direct or indirect control by governing their financial and operating policies and receiving the related benefits. The subsidiary Jiangmen Emak Outdoor Power Equipment Co. Ltd. has been consolidated as a wholly-owned subsidiary in view of the commitment to buy back the 49% interest held by Simest S.p.A.. Subsidiaries are consolidated line-by-line from the date that the group obtains control.

The acquisition of subsidiaries is accounted for using the purchase method. The cost of acquisition initially corresponds to the fair value of the assets acquired, the financial instruments issued and the liabilities at the date of acquisition, as increased for any directly attributable acquisition costs, and ignoring any minority interests. The excess of the cost of acquisition over the group's share of the fair value of the net assets acquired is recognized as goodwill. If the cost of acquisition is lower, the difference is directly expensed to income (see note 2.7).

Intragroup balances, transactions and unrealized gains are eliminated. Unrealized losses are also eliminated unless the cost of the asset transferred reports an impairment loss. The financial statements of consolidated companies are duly amended, where necessary, to make them consistent with the group's accounting policies.

The scope of consolidation at 31 December 2006 therefore includes the following companies:

Name	Head office	Share capital	Currency	% consolidated	Held by	% interest held
Emak S.p.A.	Bagnolo in Piano - RE (I)	7.189.910	€			
Emak Suministros Espana SA	Getafe-Madrid (E)	270.459	€	90,000	Emak S.p.A.	90,000
Comag S.r.l.	Pozzilli - IS (I)	1.850.000	€	99,442	Emak S.p.A.	99,442
Emak U.K. Ltd	Lichfield (UK)	17.350	GBP	100,000	Emak S.p.A.	100,000
Emak Deutschland Gmbh	Fellbach-Oeffingen (D)	553.218	€	100,000	Emak S.p.A.	100,000
Emak Benelux NV	Meer (B)	130.000	€	99,999	Emak S.p.A. Comag S.r.l.	99,800 0,200
Emak France SAS	Rixheim (F)	2.000.000	€	100,000	Emak S.p.A.	100,000
Jiangmen Emak Outdoor Power Equipment Co.Ltd (*)	Jiangmen (RPC)	18.171.788	RMB	100,000	Emak S.p.A.	100,000
Victus-Emak Eco Sp z o.o.	Poznan (PL)	10.168.000	PLN	100,000	Emak S.p.A.	100,000
Emak USA Inc.	Wooster-Ohio (USA)	50.000	USD	100,000	Emak S.p.A.	100,000

(*) The group's interest includes the 49% holding by Simest S.p.A.. Under the contract signed in December 2004 and subsequent additions thereto, the interest held by Simest S.p.A. is the subject of a binding agreement for repurchase by Emak S.p.A. on 30 June 2013.

2.3 Criteria for defining business segments

A business segment is a distinguishable component of an enterprise that is engaged in providing a group of products or services and that is subject to risks and returns that are different from those of other business segments.

A geographical sector is a distinguishable component of an enterprise 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 components operating in other economic environments.

2.4 Translation differences

(a) Functional currency and presentation currency
Transactions included in the financial statements of each group company are recorded using the currency of the primary economic environment in which the company operates (functional currency). The consolidated financial statements are presented in euro, the functional and presentation currency of the parent company.

(b) Transactions and balances
A foreign currency transaction is translated using the rate of exchange at the date of the transaction. Exchange gains and losses arising upon receipt and payment of the foreign currency amounts and upon translation at closing rates of monetary items denominated in a foreign currency are reported in profit or loss for the period. Gains and losses realized on cash flow hedges whose hedged items are still unrealized are deferred in equity.

(c) Group companies
The financial statements of all group companies whose functional currency differs to the presentation currency of the consolidated financial statements are translated as follows:
(i) assets and liabilities are translated at the closing rate on the balance sheet date;
(ii) income and expenses are translated at the average rate for the period;
(iii) all translation differences are recognized as a separate reserve under equity ("cumulative translation adjustment").

The exchange rates used to translate these financial statements are as follows:

Amount of currency corresponding to €1	2006 average	31.12.2006	2005 average	31.12.2005
Pounds sterling (GB)	0.68	0.67	0.68	0.69
Renminbi (China)	10.01	10.28	10.20	9.52
Zloty (Poland)	3.90	3.83	3.92 (*)	3.86
Dollars (USA)	1.28(**)	1.32		

(*): refers to the average in the last quarter of 2005
(**): refers to the average in the second half of 2006

2.5 Property, plant and equipment

Land and buildings largely comprise production facilities, warehouses and offices; they are stated at historical cost, plus any revaluations carried out by law in years prior to the first-time adoption of IAS/IFRS, less the accumulated depreciation of the buildings. Other assets are recorded at historical cost, less accumulated depreciation and impairment.
Historical cost includes all the directly attributable costs of purchasing the assets.

Subsequent expenditure is added to the carrying amount of the asset only when it is probable that this expenditure will generate future economic benefits and these costs can be measured reliably. Expenditure on other repairs and maintenance is expensed to income in the period incurred.

Land is not being depreciated. The other assets are being depreciated on a straight-line basis over their estimated useful lives as follows:

- buildings, 10-33 years;
- plant and machinery, 7-10 years;
- other, 4-8 years.

The residual value and useful life of assets is reviewed and amended, if necessary, at the end of each year.

If the carrying amount of any asset is higher than the estimated recoverable amount, it is immediately reduced to realizable value.

Leases for which the group has substantially all the risks plus the right of redemption are classified as finance leases. The related assets are recognized under property, plant and equipment at the value of the future lease payments.
The repayments of principal are recognized as financial liabilities. The finance cost is expensed to income so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Leases for which the lessor retains a significant portion of the risks and rewards incident to ownership are classified as operating leases, whose payments are recognized as an expense in the income statement over the lease term on a straight-line basis.

Government grants obtained for investments in buildings and machinery are treated as deferred income, which is recognized in the income statement over the period required to match these grants with the related costs.

2.6 Intangible assets

(a) Development costs
These are intangible assets with a finite life.
The development costs of new products are capitalized only if the following conditions are met:

- the costs can be measured reliably;
- the product's technical feasibility and expected price and market indicate that the costs incurred for development will generate future economic benefits.

Development costs include only that expenditure which can be attributed directly to the development process.
Capitalized development costs are amortized over 5 years, commencing from the start of production of the products developed.
All other development costs are expensed to income as incurred.

(b) Concessions, licences and trademarks
Trademarks and licences are valued at historical cost. Trademarks and licences have a finite useful life and are stated after deducting accumulated amortization. Amortization is calculated on a straight-line basis so as to spread the asset's cost over its estimated useful life.

(c) Other intangible assets
These are intangible assets with a finite life.
An intangible asset is recognized only if (i) it is identifiable, (ii) it is probable that it will generate future economic benefits and (iii) its cost can be measured reliably.

Intangible assets are recognized at purchase cost and amortized on a systematic basis over their estimated useful lives, which cannot exceed 10 years.

2.7 Goodwill

Goodwill relating to the purchase of subsidiaries is classified among the non-current assets and tested once a year for impairment. It is carried at cost less accumulated impairment losses.
Goodwill is allocated to the related cash-generating units for the purposes of identifying any impairment losses. Each of these cash-generating units represents the group's investment in each country of operation. The Emak Group considers goodwill to be an asset with an indefinite useful life.

2.8 Impairment of assets

Assets with an indefinite life are not amortized or depreciated but are tested annually for any impairment. Depreciable assets are tested for impairment every time that events or changes in circumstances indicate that their carrying value might not be recoverable. The impairment loss recognized is the amount by which the carrying amount of an asset exceeds its recoverable amount, corresponding to the higher of the asset's net selling price and its value in use. For the purposes of measuring impairment, assets are classified together into the smallest identifiable groups that generate cash inflows (cash-generating units).

2.9 Investment property

Property held for long-term capital appreciation and buildings held to earn rentals are measured at cost, less depreciation and any impairment losses.

2.10 Financial assets and investments

The group classifies financial assets and investments in the following categories: financial assets at fair value (with changes reported through the income statement), loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investment has been made. The classification is made upon the asset's initial recognition and is reviewed at every balance sheet date.

(a) Marketable financial assets at fair value (through the income statement)
This category include securities that have been acquired principally for the purpose of generating a profit from short-term fluctuations in price (or for temporarily investing surplus cash balances). This category is classified in current assets on the basis of the period-end price, with gains and losses recognized directly in the income statement.
Derivatives, that do not qualify for hedge accounting, are also classified as held for trading.

(b) Other financial assets
This balance includes loans given, securities held to maturity and other receivables deriving from financial activities. They are classified as non-current assets except those falling due within 12 months which are reclassified to current assets.

These financial assets feature determinable payments with fixed maturities, and the fact that the group has the intent and ability to hold them to maturity.
These assets are valued using the amortized cost method based on the effective rate of return, with gains recorded directly in the income statement.

(c) Equity investments
This category includes minority equity interests, which are measured at cost less any impairment.

(d) Available-for-sale financial assets
Available-for-sale financial assets is a residual category relating to those assets not belonging to the previous three categories. They are reported as non-current assets unless management intends selling them within 12 months of the balance sheet date.
Purchases and sales of these assets are recognized on the transaction date, which is the date on which the group commits to purchase or sell the asset.
Unrealized gains and losses arising on changes in the fair value of non-monetary securities classified as available for sale are recorded in equity. When these instruments are sold or written down, the cumulative fair value adjustments are reversed to income as gains or losses on investments in securities.

All investments in financial assets not recorded at fair value through the income statement are recognized initially at fair value plus the related transaction costs. An investment is derecognized when the right to its cash flows is extinguished or when the group has transferred substantially all the risks and rewards of its ownership to third parties.

The fair value of listed investments is determined with reference to the market price reported at the close of trading on the balance sheet date. In the absence of an active market for a financial asset or if the securities have been suspended from listing, the group establishes fair value using valuation techniques. These techniques include the use of recent arm's length transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models, bearing in mind the issuer's specific characteristics.

The group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists for the available-for-sale assets, the amount of the loss – measured as the difference between the asset's acquisition cost and current fair value less any impairment loss previously recognized in net profit or loss – is removed from equity and reported in the income statement. Impairment losses recognized in the income statement for equity instruments are not recovered through subsequent credits to the income statement.

2.11 Non-current assets held for sale

Assets held for sale are classified in this category when:

- the asset is available for immediate sale;
- the sale is highly probable within one year;
- management is committed to a plan to sell;
- a reasonable sales price is available;
- the plan for disposal is unlikely to change;
- a buyer is being actively sought.

These assets are measured at the lower of their carrying amount and fair value less costs to sell. Assets reclassified to this category cease to be depreciated.

2.12 Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. The cost of finished products and work in progress includes raw material costs, direct labour costs, general manufacturing costs and other direct and indirect costs incurred in bringing the inventories to their present location and condition.

Net realizable value is determined using prevailing selling prices less estimated costs of completion and sale.

2.13 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost, using the effective interest method, less any provisions for impairment.
A provision for the impairment of trade receivables is recognized when there is objective evidence that the group will be unable to collect all the amounts according to the original terms and conditions. The amount of the provision for such loss is charged to the income statement.

2.14 Trade payables

Trade and other payables, due under normal commercial terms, are not discounted but are recognized at cost (identified by their face value), representing the expenditure required for their settlement.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits with banks and short-term financial investments that are highly liquid and originally mature in three months or under, less bank overdrafts. Bank overdrafts are classified in the balance sheet in short-term loans and borrowings under current liabilities.

2.16 Share capital

Ordinary shares are classified under equity.

If a group company purchases shares in the parent company, the consideration paid, including any attributable transaction costs less the related tax, is deducted as treasury shares from the total equity pertaining to the group until such time as these shares are cancelled or sold. Any proceeds from their sale, less directly attributable transaction costs and the related tax, are recognized in equity pertaining to the group.

2.17 Financial liabilities

Loans and borrowings are recognized initially at fair value, less the related transaction costs. They are subsequently measured at amortized cost; the difference between the amount received, less transaction costs, and the amount repayable is recognized in the income statement over the term of the loan, using the effective interest method.

Loans and borrowings are classified as current liabilities if the group does not have an unconditional right to defer the extinguishment of the liability to at least 12 months after the balance sheet date.

2.18 Taxes

The income taxes reported in the income statement include all current and deferred taxes. Income taxes are generally recorded in the income statement and are booked to equity only when they refer to items that have been debited or credited to equity.

Taxes other than income taxes are classified as other operating costs.

Deferred tax assets are recognized on all temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.
The same principle applies to the recognition of deferred tax assets on utilizable tax losses.
The carrying amount of deferred tax assets is reviewed at each balance sheet date and possibly reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Any such reductions are reversed if the reasons for them no longer apply. As a general rule, apart from specific exceptions, deferred tax liabilities must always be recognized.
Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.
Current tax assets and liabilities are offset only if the company has a legally enforceable right to set off the recognized amounts and if it intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities may be offset only if the company is able to offset current tax assets against current tax liabilities and if the deferred taxes refer to income taxes levied by the same taxation authority.

2.19 Provision for employee termination indemnities

Employee termination indemnities fall into the category of defined benefit plans for valuation on an actuarial basis (using death rates, expected changes in remuneration etc.) and reflect the present value of the benefit, payable at the end of employment, which employees have matured at the balance sheet date.
The costs relating to the increase in the obligation's present value, arising as the time of payment approaches, are recorded as financial expenses. All other costs relating to the provision are reported as payroll costs in the income statement. Actuarial gains and losses are recognized in the period in which they occur.

2.20 Provisions for liabilities and charges

Provisions for liabilities and charges are recognized when (i) the group has a legal or constructive obligation as a result of past events, (ii) it is probable that a payment will be required to settle the obligation and (iii) a reliable estimate can be made of the related amount.

2.21 Revenues

Revenues are reported net of discounts, rebates, returns and allowances and are recognized as follows:

(a) Sale of goods
Sales of goods are recognized when a group company has delivered the goods to the customer, the customer has accepted the products and the associated receivable is reasonably certain to be collected.

(b) Sale of services
Sales of services are recognized in the period in which the service is rendered with reference to the stage of completion of the specific transaction, measured on the basis of the services performed to date as a percentage of total services to be performed.

2.22 Government grants

Government grants are recognized at fair value when there is reasonable assurance that the grants will be received and all the conditions attaching to them have been satisfied.
Government grants related to costs (eg. operating grants) are recognized as revenue on a systematic basis over a number of years so as to match the costs that the grant is intended to offset.
Government grants related to assets (eg. capital grants) are recorded in non-current liabilities and gradually released to income on a systematic basis over the useful life of the asset concerned.

2.23 Financial income and expenses

Financial income and expenses are recognized on an accrual basis using the effective interest rate and include exchange gains and losses and gains and losses on derivatives charged to the income statement.

2.24 Payment of dividends

Dividends on the parent company's ordinary shares are reported as liabilities in the financial statements in the year in which the shareholders approve their distribution.

2.25 Earnings per share

Basic earnings per share are calculated by dividing the group's net profit by the weighted average number of shares outstanding during the period, excluding treasury shares.
Emak S.p.A. does not have any potential ordinary shares.

2.26 Cash flow statement

The cash flow statement has been prepared using the indirect method.
Cash and cash equivalents included in the cash flow statement comprise the cash-related balances at the reporting date. Cash flows in foreign currency have been translated at the average rate for the period. Interest income and expense, dividends received and income taxes are included in cash flow generated by operations.

2.27 New accounting standards

Certain accounting standards and interpretations have been revised or issued, coming into effect as from 1 January 2006. The main changes are:

- Revisions to IAS 19 - employee benefits (alternative treatment of actuarial gains and losses); Emak has decided to carry on treating actuarial gains and losses in the same way as the year before.
- Revisions to IAS 21 – effects of changes in foreign exchange rates: the amendments have affected a number of paragraphs relating to investments in foreign operations; this has had no material consequences for the Emak Group.
- Revisions to IAS 39 - fair value option: this has been amended with reference to the option allowing financial assets and liabilities to be measured at fair value through profit or loss; this has not affected the valuation of the Emak Group's financial instruments.
- Revisions to IAS 39 - designation of forecast intragroup transactions: the amendment to IAS 39 allows a forecast intragroup transaction denominated in a foreign currency to be

designated, in certain circumstances, as a hedged item in the consolidated financial statements. This revision has no effect on the Emak Group.

- Revisions to IAS 39 and IFRS 4 – amendment of the accounting treatment of guarantees given: the amendments mostly relate to the treatment of "financial guarantee contracts". This revision has no effect on the Emak Group.
- IFRS 6 ("Exploration for and evaluation of mineral resources"): this standard does not apply to the Emak Group.
- IFRIC 4 ("Determining whether an arrangement contains a lease"): this interpretation establishes guidelines for identifying whether the substance of an arrangement represents a lease, meaning that it must be treated in accordance with IAS 17. This interpretation has had no material impact on the group's financial statements.
- IFRIC 5 ("Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds"): this interpretation does not apply to the Emak Group.
- IFRIC 6 ("Liabilities arising from participating in a specific market - waste electrical and electronic equipment") applicable as from 1 December 2005: this interpretation does not apply to the Emak Group.

Apart from the revisions discussed above, the following amendments to standards and interpretations have been published but are not applicable to financial year 2006 with the group deciding not to adopt them earlier than the required application date:

- IFRS 7 ("Financial instruments: disclosures") and complementary amendments to IAS 1 ("Presentation of financial statements - Information about capital") effective from 1 January 2007: IFRS 7 introduces additional disclosures to be made about financial instruments.
  The group is assessing the impact of the new requirements of IFRS 7 and IAS 1 which, based on a preliminary review, should involve additional disclosures about the management of financial risks, about hedging agreements and about share capital.
- IFRIC 7 ("Applying the restatement approach under IAS 29") applicable to annual financial reporting periods beginning on or after 1 March 2006; this refers to the standard applying to companies that operate in hyperinflationary economies, which is currently not the case for the Emak Group.
- IFRIC 8 ("Scope of IFRS 2"), applicable to annual financial reporting periods beginning on or after 1 May 2006; the interpretation specifies how share-based payments should be treated, which are not currently applicable to the group.
- IFRIC 9 ("Reassessment of embedded derivatives"), applicable to annual financial reporting periods beginning on or after 1 June 2006; although this interpretation is currently not applicable to the Emak Group, its potential impact will be evaluated.

3. Financial risk management

3.1 Financial risk factors

The group's business is exposed to a number of different financial risks: market risk (including currency risk, fair value risk and price risk), credit risk, liquidity risk and interest rate risk. The group's policies for managing and controlling financial risks focus on the unpredictability of financial markets and seek to minimize the potentially negative effects on the consolidated results. The group uses derivative financial instruments to hedge certain risks.
Hedging of the group's financial risks is managed by a head office function working in close collaboration with the individual operating units.

(a) Market risk

(i) Currency risk
The group conducts its business internationally and is exposed to exchange risk associated with the currencies used, chiefly US dollars, yen, pounds sterling, Chinese renminbi and Polish zloty. Currency risk derives from future commercial transactions, from recognized assets and liabilities and net investments in foreign enterprises.

Group companies mostly use forward contracts to hedge currency risk arising from future commercial transactions and recognized assets and liabilities.

Any changes in future exchange rates should not have a significant impact on future economic results and cash flows.

(ii) Price risk
The group is exposed to fluctuations in the price of raw materials. This exposure is mostly towards suppliers of parts since their price is generally tied by contract to the trend in market prices for raw materials. The group usually enters into medium-term supply contracts for the purpose of managing and limiting the risk of fluctuations in the price of its main raw materials such as aluminium, sheet metal, plastic and copper.

(b) Credit risk
The group does not have significant concentrations of credit risk and has adopted policies to ensure that products are sold to customers of proven creditworthiness. Derivatives and short-term investments are undertaken only with primary financial institutions. The group has policies that limit its credit exposure to any single financial institution.

(c) Liquidity risk
Prudent management of liquidity risk implies the maintenance of sufficient liquid funds and marketable securities, the availability of funding through adequate credit lines and the ability to close positions off-market. Given the dynamic nature of the group's business, its Treasury function seeks flexibility of funding by having sufficient credit lines.

(d) Interest rate risk
Since the group does not have significant interest-bearing assets, operating profits and cash flows are largely unaffected by changes in market interest rates. The group's interest rate risk relates to its long-term loans and borrowings. Variable rate loans expose the group to the cash flow risk associated with interest rates. Fixed rate loans expose the group to the fair value risk associated with interest rates.
The group's policy is based on constantly monitoring its level and structure of debt and on the trend in interest rates and macroeconomic variables that might directly influence them, with the goal of optimizing the cost of money. At 31 December 2006, the group’s bank loans and borrowings and finance leases all carried variable interest and no hedges had been taken out.

3.2 Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are used only for hedging purposes with the intent of reducing the risks of foreign currency fluctuation. As established by IAS 39, derivative financial instruments may qualify for special hedge accounting only if (i) at the inception of the hedge the hedging relationship is formally designated and documented, (ii) the hedge is expected to be highly effective and (iii) the effectiveness of the hedge can be measured reliably.

Derivatives are initially recognized at cost and adjusted to fair value at subsequent balance sheet dates.

Changes in the fair value of derivatives designated as cash flow hedges relating to the company's firm commitments are recognized directly in equity to the extent they relate to the effective portion of the hedge, while the ineffective portion is reported directly in the income statement. If a firm commitment or hedge of a forecast transaction results in the recognition of assets or liabilities, the associated gains or losses on the derivative that were recognized directly in equity are reclassified to the initial cost or carrying amount of the asset or liability.

If cash flow hedges do not result in the recognition of an asset or a liability, the amounts that were directly recorded in equity are reversed to income in the same period in which the firm commitment or hedged forecast transaction affects profit or loss.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognized in the income statement in the period in which they occur.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, or no longer meets the criteria for hedge accounting. In this case, the cumulative gain or loss on the hedging instrument recognized directly in equity remains separately in equity until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the cumulative gain or loss recognized directly in equity is transferred to profit or loss for the period.

3.3 Measurement of fair value

The fair value of financial instruments with a quoted market price in an active market (such as publicly traded derivatives and securities held for trading and for sale) is based on the market price at the balance sheet date. The market price used for the group's financial assets is the bid price; the market price for financial liabilities is the offer price.

The fair value of financial instruments not quoted in an active market (for example, derivatives quoted over the counter) is determined using valuation techniques. The group uses various methods and makes assumptions that are based on existing market conditions at the balance sheet date. Long-term payables are valued using quoted market or trading prices for the specific or similar instruments. Other methods, such as estimating the present value of future cash flows, are used to determine the fair value of the other financial instruments. The fair value of forward currency contracts is determined using the forward exchange rates expected at the balance sheet date.

It is assumed that the face value less estimated doubtful receivables approximates the fair value of trade receivables and payables. For the purposes of these notes, the fair value of financial liabilities is estimated by discounting contractual future cash flows at the current market rate available to the group for similar financial instruments.

4. Key accounting estimates and assumptions

The preparation of the consolidated financial statements and the related notes under IFRS has required management to make estimates and assumptions affecting the value of reported assets and liabilities and the disclosures relating to contingent assets and liabilities at the balance sheet date. Actual results could differ from these estimates. Estimates are used for recording provisions for doubtful accounts and inventory obsolescence, amortization and depreciation, writedowns to assets, post-employment benefits, taxes and other provisions. Estimates and assumptions are reviewed periodically and the effects of any change are immediately reflected in the income statement.

5. Segment information

5.1. Primary reporting format - Business segments

The group's sole business segment is that of producing machinery for gardens and other vegetation. Bearing in mind that the principal source of risks and rewards is associated with this activity and that the group's computer system is based on just one business segment, it is not necessary to provide additional details to those already reported in the financial statements.

5.2. Secondary reporting format – Geographical segments

The group operates on a worldwide basis.
Sales revenues by geographical area are analyzed by segment on the basis of the end customer's location. The value of assets and investments is analyzed by geographical segment based on the location of the assets themselves.

€/000	Sales		Total assets		Investment in fixed assets	
	FY 2006	FY 2005	31.12.2006	31.12.2005	FY 2006	FY 2005
Italy	40,872	40,435	113,109	109,872	5,450	3,609
Europe	134,763	114,796	55,033	53,665	626	564
Rest of world	32,767	28,150	14,357	6,816	2,917	3,072
Total	**208,402**	**183,381**	**182,499**	**170,353**	**8,993**	**7,245**

6. Significant non-recurring events and transactions

Emak S.p.A. entered into an agreement on 31 March, effective from 1 April 2006, for the sale of its plastic components manufacturing business.

The disposal to a specialized supplier is designed to improve service, efficiency and quality. The sale of this business involved the transfer of 16 members of staff.
The assets and liabilities transferred as a result of this transaction were as follows:

DESCRIPTION	€/000
Property, plant and equipment (note 17)	249
Inventories	259
Other receivables	1
Prepaid expenses	19
Employee benefits (termination indemnities) (note 32)	(201)
Accrued expenses (employees)	(23)
Total net assets sold	**304**
Capital gain	**201**
Disposal price	**505**

The consideration is payable as follows:
- €357 thousand by 31 December 2006;
- €64 thousand on 30 January 2007, the balance on 30 June 2007.

7. Balances or transactions arising from atypical and unusual operations

No atypical or unusual transactions took place during the course of 2006.

8. Net financial position

Details of the net financial position are summarized in the following table:

€/000	31.12.2006	31.12.2005
Cash and banks	4.028	4.103
Securities and derivative financial instruments	5	137
Other financial assets	9	19
Financial liabilities	(35.572)	(22.921)
Derivative financial instruments	(229)	0
Short-term net debt	**(31.759)**	**(18.662)**
Financial liabilities	(6.105)	(7.174)
Long-term net debt	**(6.105)**	**(7.174)**
Cash and banks	4.028	4.103
Securities and derivative financial instruments	5	137
Other financial assets	9	19
Financial liabilities	(41.677)	(30.095)
Derivative financial instruments	(229)	0
Total net debt	**(37.864)**	**(25.836)**

The net financial position does not contain any balances with related parties either at 31 December 2006 or at 31 December 2005.

9. Sales and other operating income

The group's sales revenues amount to €208,402 thousand, compared with €183,381 thousand in 2005. They are stated net of €1,297 thousand in returns, compared with €491 thousand in the prior year.

Details of sales are as follows:

€/000	FY 2006	FY 2005
Net sales revenues (net of discounts and rebates)	208,285	182,489
Revenues from recharged transport costs	1,414	1,383
Returns	(1,297)	(491)
Total	**208,402**	**183,381**

The increase in returns is due to the withdrawal of stocks of our products held by the US importer Tilton after terminating its distribution agreement.

Other operating income is analyzed as follows:

€/000	FY 2006	FY 2005
Capital gains on property, plant and equipment	316	39
Recovery of warranty costs	117	70
Insurance refunds	70	108
Advertising reimbursements	258	109
Rental income (note 18)	129	127
Grant under Law 488/92	159	261

Other operating revenues	526	915
Total	**1,575**	**1,629**

"Capital gains" include €201 thousand arising on the sale of the plastic components business, agreed on 31 March 2006 and effective 1 April 2006.

10. Cost of raw and consumable materials and goods

The cost of raw and consumable materials and goods is analyzed as follows:

€/000	FY 2006	FY 2005
Raw materials, semifinished products and goods	129,837	112,707
Other purchases	1,669	1,539
Total	**131,506**	**114,246**

11. Salaries and employee benefits

Details of these costs are as follows:

€/000	FY 2006	FY 2005
Wages and salaries	19,502	17,813
Social security charges	5,798	5,548
Employee termination indemnities (note 32)	699	1,236
Other costs	682	149
Directors' emoluments	382	177
Temporary staff	802	840
Total	**27,865**	**25,763**

Employees are broken down by grade as follows:

	31.12.2006		31.12.2005	
	(1)	(2)	(1)	(2)
Executives	23	23	22	23
Office staff	385	397	307	339
Factory workers	492	482	457	494
Total	**900**	**902**	**786**	**856**

(1) Average number of employees in year

(2) Number of employees at this date

Details of changes in staff numbers are provided in section 8 of the report on performance.

12. Other operating costs

Details of these costs are as follows:

€/000	**FY 2006**	**FY 2005**
Subcontract work	5,532	5,601
Maintenance	1,905	1,581
Transportation	9,129	7,171
Advertising and promotions	3,526	2,907
Commissions	2,569	2,368
Travel	1,124	1,028
Postage and telecommunications	567	535
Consulting fees	1,786	1,422
Other services	4,889	4,032
Services	**31,027**	**26,645**
Leases and rentals	**1,709**	**1,194**
Increases in provisions (note 33)	**353**	**710**
Bad debts	23	68
Increase in provision for doubtful accounts (note 23)	442	306
Capital losses on property, plant and equipment	128	22
Other taxes (not on income)	353	308
Other operating costs	1,219	2,297
Other costs	**2,165**	**3,001**
Total	**35,254**	**31,550**

13. Amortization, depreciation and impairment losses

Details of these amounts are as follows:

€/000	**FY 2006**	**FY 2005**
Amortization of intangible assets (note 19)	947	786
Depreciation of property, plant and equipment (note 17)	4,371	4,406
Depreciation of investment property (note 18)	38	38
Total	**5,356**	**5,230**

14. Finance income and expenses

Financial income is analyzed as follows:

€/000	FY 2006	FY 2005
Interest on trade receivables	167	123
Income from other securities held for trading	1	3
Interest on bank and post office accounts	133	116
Gains from discounting medium/long-term payables	0	229
Cash discounts received	206	163
Other financial income	33	24
Financial income	**540**	**658**

Financial expenses are analyzed as follows:

€/000	FY 2006	FY 2005
Interest on long-term bank loans and borrowings	247	282
Interest on short-term bank loans and borrowings	1,068	525
Financial charges from valuing employee termination indemnities (note 32)	119	107
Cash discounts given	377	303
Other financial costs	274	202
Financial expenses	**2,085**	**1,419**

Exchange gains and losses are analyzed as follows:

€/000	FY 2006	FY 2005
Exchange differences on trade transactions	32	316
Exchange differences on financial items	321	312
Exchange gains and losses	**353**	**628**

15. Income taxes

The estimated charge for current tax and changes in deferred tax assets and liabilities is €7,275 thousand in 2006 (€7,300 thousand in the prior year).

This amount is made up as follows:

€/000	FY 2006	FY 2005
Current income taxes	7,797	7,754
Taxes from prior years	(422)	(41)
Changes in deferred tax assets (note 31)	(227)	(740)
Changes in deferred tax liabilities (note 31)	127	327
Total	**7,275**	**7,300**

"Taxes from prior years" include €376 thousand recognized as deferred tax assets at 31 December 2005.

Current income taxes include €1,515 thousand in IRAP (Italy's regional business tax) compared with €1,496 thousand in 2005.

No income taxes were booked directly to equity in 2006 compared with €15 thousand in the prior year. These taxes referred to the capital gains realized on the sale of treasury shares (note 28).

The actual taxes calculated on pre-tax profit differ from the theoretical amount that would be determined using the tax rate currently in force in the country where the parent company is headquartered. The theoretical tax charge is reconciled to the effective one as follows:

€/000	FY 2006	% rate	FY 2005	% rate
Profit before taxes	**18,579**		**16,905**	
Theoretical tax charge	**6,921**	**37.25**	**6,297**	**37.25**
Effect of IRAP differences calculated on different tax base	907	4.9	890	5.3
Non-taxable income	(88)	(0.5)	(37)	(0.2)
Non-deductible costs	203	1.1	311	1.8
Differences in rates with other countries	(696)	(3.8)	(32)	(0.2)
Taxes from prior years	28	0.1	(129)	(0.8)
Effective tax charge	**7,275**	**39.1**	**7,300**	**43.2**

The effective tax rate of 39.1% is down from the one of 43.2% reported in 2005.

16. Earnings per share

"Basic" earnings per share are calculated by dividing the net profit for the period attributable to the parent company's shareholders by the weighted average number of ordinary shares outstanding during the period, excluding the average number of ordinary shares purchased or held by the parent company as treasury shares (see note 37). The parent company has only ordinary shares outstanding.

	FY 2006	FY 2005
Net profit attributable to ordinary shareholders in the parent company (€/000)	11,239	9,532
Weighted average number of ordinary shares outstanding	27,589,077	27,650,588
Basic earnings per share (€)	**0.407**	**0.345**

Diluted earnings per share are the same as basic earnings per share.

17. Property, plant and equipment

Changes in property, plant and equipment are shown below:

€/000	31.12.2004	Change in scope of consol-idation	Increases	Decreases	Purchase of business	Other changes	Exchange difference	31.12.2005
Land and buildings	24,480	21	2,427	(18)	0	22	0	26,932
Accumulated depreciation	(4,508)	(11)	(655)	4	0	0	0	(5,170)
Land and buildings	**19,972**	**10**	**1,772**	**(14)**	**0**	**22**	**0**	**21,762**
Plant and machinery	10,869	0	649	(87)	0	221	2	11,654
Accumulated depreciation	(6,514)	0	(1,062)	84	0	0	(1)	(7,493)
Plant and machinery	**4,355**	**0**	**(413)**	**(3)**	**0**	**221**	**1**	**4,161**
Other assets	37,555	17	2,504	(374)	191	(14)	21	39,900
Accumulated depreciation	(31,190)	(7)	(2,689)	337	0	2	(2)	(33,549)
Other assets	**6,365**	**10**	**(185)**	**(37)**	**191**	**(12)**	**19**	**6,351**
Advances	**260**	**0**	**473**	**(84)**	**0**	**(393)**	**27**	**283**
Cost	**73,164**	**38**	**6,053**	**(563)**	**191**	**(164)**	**50**	**78,769**
Accumulated depreciation (note 13)	**(42,212)**	**(18)**	**(4,406)**	**425**	**0**	**2**	**(3)**	**(46,212)**
Net book value	**30,952**	**20**	**1,647**	**(138)**	**191**	**(162)**	**47**	**32,557**

€/000	31.12.2005	Increases	Decreases	Sale of business (note 6)	Other changes	Exchange difference	31.12.2006
Land and buildings	26,932	3,249	-	-	(390)	(157)	29,634
Accumulated depreciation	(5,170)	(701)	-	-		4	(5,867)
Land and buildings	**21,762**	**2,548**	**0**	**0**	**(390)**	**(153)**	**23,767**
Plant and machinery	11,654	1,073	(30)	(421)	585	(37)	12,824
Accumulated depreciation	(7,493)	(1,096)	14	187		2	(8,386)
Plant and machinery	**4,161**	**(23)**	**(16)**	**(234)**	**585**	**(35)**	**4,438**
Other assets	39,900	2,449	(485)	(43)	686	(11)	42,496
Accumulated depreciation	(33,549)	(2,574)	299	28	-		(35,796)
Other assets	**6,351**	**(125)**	**(186)**	**(15)**	**686**	**(11)**	**6,700**
Advances	**283**	**1,249**	**-**	**-**	**(881)**	**(21)**	**630**
Cost	**78,769**	**8,020**	**(515)**	**(464)**	**0**	**(226)**	**85,584**
Accumulated depreciation (note 13)	**(46,212)**	**(4,371)**	**313**	**215**	**0**	**6**	**(50,049)**
Net book value	**32,557**	**3,649**	**(202)**	**(249)**	**0**	**(220)**	**35,535**

No evidence of impairment has been reported for property, plant and equipment.

The increase in land, buildings, plant and machinery includes €1,939 thousand for extending the factory of Comag S.r.l., €1,727 thousand for completing the new factory in China and the remainder for minor expenditure on the routine replacement of assets.

The increase in other assets refers to the purchase of moulds, the upgrade and purchase of electronic equipment, the purchase of production equipment, and other minor purchases.

The group has not capitalized any costs incurred internally or financial expenses.

The net amount of assets given as security against liabilities is €2,635 thousand.

Property, plant and equipment under construction has a book value of €2,075 thousand at 31 December 2006.

Details of the value of land and buildings under finance leases are as follows:

€/000	**31.12.2006**	**31.12.2005**
Gross value	4,981	4,981
Accumulated depreciation	(524)	(348)
Net book value	**4,457**	**4,633**

These finance leases refer to:

- the office building of Emak S.p.A. in Via Fermi 4 used as the company's head office, under an agreement made with Locat S.p.A. on 10 November 2005 which expires on 10 November 2013; the gross value of the asset is €3,659 thousand;

- the building used as the head office of the Spanish subsidiary Emak Suministros Espana SA, under an agreement made with Caja Duero Bank on 18 July 1997 which expires on 18 July 2007; the gross value of the asset is €1,322 thousand.

Comag S.r.l. has obtained capital grants under Law 488/92 for the following amounts:

- €1,615 thousand in 1998 for investments worth €4,532 thousand;

- €636 thousand in 2002 for investments made in 2001 and 2002 worth around €4,250 thousand.

These grants, which are reported under deferred income, are credited to income evenly over the useful economic lives of the assets concerned.

Comag S.r.l. presented a new application in 2004 to obtain grants worth around €2,400 thousand for investments of some €9,538 thousand.

18. Investment property

This refers to a building leased to a company in the Yama Group and to a farmhouse situated on a piece of land available for future expansion of production activities. Their cost at 31 December 2006 is €1,407 thousand (€1,407 thousand at the end of 2005), while the associated accumulated depreciation amounts to €1,046 thousand (€1,008 thousand at the end of 2005).

The rental income earned from these properties amounted to €129 thousand in 2006 (note 9) compared with €127 thousand the year before.

The fair value of investment properties amounts to around €2.5 million at 31 December 2006.

19. Intangible assets

Intangible assets report the following changes:

€/000	31.12.2004	Increases	Purchase of business	Other changes	Exchange difference	31.12.2005
Development costs	857	210	0	0	0	1,067
Accumulated amortization	(216)	(152)	0	0	0	(368)
Development costs	**641**	**58**	**0**	**0**	**0**	**699**
Patents and intellectual property rights	2,231	774	90	137	2	3,234
Accumulated amortization	(1,299)	(619)	0	(66)	0	(1,984)
Patents	**932**	**155**	**90**	**71**	**2**	**1,250**
Concessions, licences and trademarks	11	21	630	0	19	681
Accumulated amortization	(2)	(14)				(16)
Concessions, licences and trademarks	**9**	**7**	**630**	**0**	**19**	**665**
Other intangible assets	245	187	0	(8)	44	468
Accumulated amortization	(3)	(1)	0	2	0	(2)
Other intangible assets	**242**	**186**	**0**	**(6)**	**44**	**466**
Advances	**55**	**0**	**0**	**(55)**	**0**	**0**
Cost	**3,399**	**1,192**	**720**	**74**	**65**	**5,450**
Accumulated amortization (note13)	**(1,520)**	**(786)**	**0**	**(64)**	**0**	**(2,370)**
Net book value	**1,879**	**406**	**720**	**10**	**65**	**3,080**

€/000	31.12.2005	Increases	Decreases	Exchange difference	31.12.2006
Development costs	1,067	127	-	-	1,194
Accumulated amortization	(368)	(151)	-	-	(519)
Development costs	**699**	**(24)**	**0**	**0**	**675**
Patents and intellectual property rights	3,234	741	(4)	-	3,971
Accumulated amortization	(1,984)	(659)	4	-	(2,639)

Patents	**1,250**	**82**	**0**	**0**	**1,332**
Concessions, licences and trademarks	681	11	-	5	697
Accumulated amortization	(16)	(134)	-	-	(150)
Concessions, licences and trademarks	**665**	**(123)**	**0**	**5**	**547**
Other intangible assets	468	94	-	(35)	527
Accumulated amortization	(2)	(3)	-	-	(5)
Other intangible assets	**466**	**91**	**0**	**(35)**	**522**
Cost	**5,450**	**973**	**(4)**	**(30)**	**6,389**
Accumulated amortization (note 13)	**(2,370)**	**(947)**	**4**	**0**	**(3,313)**
Net book value	**3,080**	**26**	**0**	**(30)**	**3,076**

The increase in development costs refers to costs incurred in the year for studying innovative technology designed to reduce engine consumption and emissions.

The increase in patents and intellectual property rights refers to the purchase of new software programmes.

Investments in other intangible assets include €94 thousand for the first instalment (60%) of rights paid by the Chinese subsidiary Emak Outdoor Power Equipment Co Ltd. for the use of land next to the factory.

A total of €4,306 thousand in research and development costs were expensed to income in the year compared with €4,060 thousand the year before.

All the intangible assets have a finite residual life.

20. Goodwill

The goodwill of €6,353 thousand reported at 31 December 2006 can be separated into two parts as follows:

	31.12.2005	Exchange difference	31.12.2006
Goodwill on the purchase of Victus Eco Sp. z.o.o.	965	8	973
Goodwill on the purchase of the Victus IT business	5,340	40	5,380
Total	**6,305**	**48**	**6,353**

The goodwill of €6,353 thousand reported at 31 December 2006 can be separated into two parts as follows:

- goodwill arising on the purchase of Victus Emak Sp.z.o.o., amounting to €973 thousand, refers to the difference between the purchase price for 100% of Victus Emak Sp. z.o.o., a Polish company, and its equity at the date of acquisition;
- goodwill of €5,380 thousand arising on the purchase of the business of Victus International Trading SA.

The goodwill arising from the acquisition of Victus Emak Sp.z.o.o. (formerly Victus Eco Sp. z o.o.) and the business of Victus International Trading SA is attributable to the higher earnings that the group is expected to achieve on the Polish market in coming years as a result of increased sales and margins.

The group reviews the recoverability of goodwill at least once a year or more often if there are signs of impairment. The recoverable amount of the cash generating unit, to which the goodwill has been allocated, has been evaluated by determining its value in use.

The impairment test was carried out using the discounted cash flow method with reference to the date of 31 December 2006. Forecast future cash flows from operations are based on the group's budgets for the next three years and on estimated terminal value. Expected cash flows have been discounted using a weighted average cost of capital (WACC) of 8.2%.

The test supports a higher value of goodwill than that reported in the balance sheet, even when applying reasonably more prudent assumptions than those adopted.

21. Equity investments

The amount reported in the balance sheet is €224 thousand, which has not suffered any impairment; the risks and rewards of owning this investment are negligible.
The group owns a minority interest in Netribe S.r.l., a company operating in the IT sector. This investment is valued at its cost of €223 thousand since its fair value cannot be determined.
Emak S.p.A. holds a 10.42% interest in Netribe S.r.l..

22. Derivative financial instruments

The amounts reported in the balance sheet refer to changes in the fair value of financial instruments that hedge foreign currency purchases.

At 31 December 2006 there were outstanding forward currency agreements for the purchase of:

- €2,170 thousand maturing by end of September 2007 at an average exchange rate of GBP 1.471 (relating to hedges taken out by the UK subsidiary Emak UK Ltd.);
- €3,809 thousand maturing by end of June 2007 at an average exchange rate of PLN 3.895 (relating to hedges taken out by the Polish subsidiary Victus Emak Sp. z.o.o.);
- JPY 267,676 thousand maturing by end of June 2007 at an average exchange rate of €151.8 (relating to hedges taken out by the parent company Emak S.p.A. and by Emak France SAS);
- USD 60 thousand maturing by end of May 2007 at an average exchange rate of GBP 1.9546 (relating to hedges taken out by the UK subsidiary Emak UK Ltd.);
- USD 1,400 thousand maturing by end of May 2007 at an average exchange rate of €1.31 (relating to hedges taken out by the French subsidiary Emak France SAS);
- USD 1,218 thousand maturing by end of June 2007 at an average exchange rate of PLN 3.082 (relating to hedges taken out by the Polish subsidiary Victus Emak Sp.z.o.o.);
- GBP 175 thousand maturing by end of June 2007 at an average exchange rate of PLN 5.7527 (relating to hedges taken out by the Polish subsidiary Victus Emak Sp.z.o.o.).

These purchases, despite having the purpose and characteristics of currency hedges, do not satisfy the rules for hedge accounting; consequently, all the changes in their value are recognized in the income statement.

23. Trade and other receivables

Details of these amounts are as follows:

€/000	31.12.2006	31.12.2005
Trade receivables	58,652	56,001
Provision for doubtful accounts	(1,165)	(816)
Net trade receivables	**57,487**	**55,185**
Receivables due from related parties (note 38)	773	656
Prepaid expenses and accrued income	214	231
Other receivables	451	839
Total current portion	**58,925**	**56,911**
Other non-current receivables	48	63
Total non-current portion	**48**	**63**

Trade receivables include the following amounts in foreign currency:
- USD 9,165,234;
- JPY 16,144,774;
- PLN 2,919,170;
- GBP 1,273,226.

Trade receivables do not bear interest and generally fall due within 100 days.

All non-current receivables fall due within 5 years. There are no trade receivables falling due after more than one year.

Movements in the provision for doubtful accounts are as follows:

€/000	31.12.2006	31.12.2005
Opening balance	**816**	**1,584**
Increases (note 12)	442	306
Decreases	(93)	(1,099)
Change in scope of consolidation	0	25
Closing balance	**1,165**	**816**

The book value reported in the balance sheet corresponds to fair value.

24. Inventories

Inventories are detailed as follows:

€/000	31.12.2006	31.12.2005
Raw, ancillary and consumable materials	26,359	26,718
Work in progress and semifinished products	5,759	5,788
Finished products and goods for resale	36,184	27,334
Total	**68,302**	**59,840**

Inventories are stated net of a provision of €1,442 thousand at 31 December 2006 (€1,145 thousand at 31 December 2005). The purpose of this provision is to write down obsolete and slow-moving items to their estimated realizable value.

Details of changes in the provision for inventories are as follows:

€/000	FY 2006	FY 2005
Opening balance	1,145	957
Increases	578	528
Uses	(281)	(340)
Closing balance	**1,442**	**1,145**

Income recognized in the year for writebacks of goods sold in the period was not material.

None of the group's inventories at 31 December 2006 act as security against its liabilities.

25. Non-current assets held for sale

The entire balance of €269 thousand reported at 31 December 2006 refers to an industrial building in Brescello (RE), which is no longer used by the group, for which the sale process has started with the making of a preliminary agreement; in fact, the sale was completed in March 2007 (note 39).

26. Marketable securities at fair value

These amount to €5 thousand at 31 December 2006 compared with €99 thousand at the end of last year. The valuation of these securities at cost would not have been different from that at fair value.

27. Cash and cash equivalents

Cash and cash equivalents are detailed as follows:

€/000	31.12.2006	31.12.2005
Bank and post office deposits	4,021	4,089
Cash	7	14
Total	**4,028**	**4,103**

For the purposes of the cash flow statement, closing cash and cash equivalents comprise:

€/000	31.12.2006	31.12.2005
Cash and cash equivalents	4,028	4,103
Overdrafts (note 30)	(16,948)	(9,191)
Total	**(12,920)**	**(5,088)**

28. Equity

Share capital

Share capital is fully paid up at 31 December 2006 and amounts to €7,190 thousand, remaining unchanged since the end of 2005. It consists of 27,653,500 ordinary shares of par value €0.26 each.

Share premium reserve
The share premium reserve, which consists of the premium paid on new-issue shares, is €21,047 thousand at the end of 2006, staying unchanged since the prior year.

Treasury shares
The adjustment of €527 thousand to equity for the purchase of treasury shares represents the overall consideration paid on the market by Emak S.p.A. to buy the treasury shares held on 31 December 2006 (note 37).
The par value of these treasury shares is €28 thousand.

Other reserves:
The legal reserve is the same as a year earlier at €1,438 thousand.

The revaluation reserve at 31 December 2006 includes the reserves arising from revaluations under Law 72/83 for €371 thousand and under Law 413/91 for €767 thousand. No change has taken place in the period under review.

The extraordinary reserve amounts to €27,088 thousand at 31 December 2006, inclusive of all allocations of earnings in prior years.

The other reserves at 31 December 2006 also include:

- untaxed reserves of €129 thousand relating to tax-related provisions for grants and donations;
- merger surplus reserves of €394 thousand.

All these reserves have remained the same as at the end of 2005.

The cumulative translation adjustment of €36 thousand at 31 December 2006 is entirely due to differences arising on the translation of financial statements into the group's functional currency.

Details of the restrictions on distributing reserves are contained in the specific table in the notes to the financial statements of the parent company Emak S.p.A.

Of the "Retained earnings" reported in the consolidated financial statements, €748 thousand may not be distributed.

Gains (losses) recognized directly in equity
Details of and movements in income and expenses booked directly to equity are as follows:

- Reserves for hedging instruments:

€/000	**FY 2006**	**FY 2005**
Opening balance	**0**	**(73)**
Reclassification of opening balance to income statement	0	112
Reclassification of taxes to income statement	0	(39)
Closing balance	**0**	**0**

- **Retained earnings:**

€/000	FY 2006	FY 2005
Capital gains on sale of treasury shares	0	46
Taxes	0	(15)
Net profit on treasury shares	**0**	**31**

29. Trade and other payables

Details of trade and other payables are set out below:

€/000	31.12.2006	31.12.2005
Trade payables	35,434	39,800
Payables due to related parties (note 38)	4,297	5,102
Payables due to staff and social security institutions	3,699	3,985
Accrued expenses and deferred income	126	193
Other payables	1,590	1,350
Total	**45,146**	**50,430**

Trade payables do not generate interest and are usually settled after 85 days.

Trade payables include the following amounts in foreign currency:

- USD 9,550,927;
- JPY 284,554,329;
- PLN 1,512,297;
- GBP 102,359;
- CHF 20,861;
- TWD 4,238,625;
- RMB 15,118,657.

The book value reported in the balance sheet corresponds to fair value.

30. Financial liabilities

Financial liabilities include €2,465 thousand in bank loans secured against land and buildings.

Certain loans from financial institutions are secured against land and buildings. Payables for leases are secured by the lessor's right over the leased asset in the event of insolvency.

Details of short-term loans and borrowings are as follows:

€/000	31.12.2006	31.12.2005
Overdrafts (note 27)	16,948	9,191
Bank loans	17,959	13,076

Finance leases	519	555
Financial accrued expenses and deferred income	87	86
Other loans	59	13
Total current portion	**35,572**	**22,921**

Details of long-term loans and borrowings are as follows:

€/000	**31.12.2006**	**31.12.2005**
Bank loans	2,298	2,841
Finance leases	2,911	3,410
Financial accrued expenses and deferred income	0	27
Other loans	896	896
Total non-current portion	**6,105**	**7,174**

Other loans, totalling €896 thousand, refer to the interest subscribed by Simest S.p.A. in the subsidiary Jiangmen Emak Outdoor Power Equipment Co. Ltd. This company is treated as a wholly-owned subsidiary by virtue of the undertaking to buy back the 49% interest held by Simest S.p.A. on 30 June 2013. The loan's face value does not differ significantly from its fair value.

The amount that Emak S.p.A. must repay Simest S.p.A. in 2013 will be the higher of Simest's share of equity reported in the latest approved financial statements of the Chinese company Jiangmen Emak Outdoor Power Equipment Co. Ltd. and the amount of share capital subscribed by Simest S.p.A.

This transaction does not present any other significant risks for the group.

Long-term loans and borrowings are repayable as follows:

€/000	**Due within 2 years**	**Due within 3 years**	**Due within 4 years**	**Due within 5 years**	**Total due within 5 years**	**Due beyond 5 years**
Bank loans	617	617	607	382	**2,223**	**75**
Finance leases	940	487	497	512	**2,436**	**475**
Other loans	0	0	0	0	**0**	**896**
Total	**1,557**	**1,104**	**1,104**	**894**	**4,659**	**1,446**

The interest rates applied are as follows:

-bank loans: 3-6-9 month Euribor plus a spread varying from a minimum of 0.2% to a maximum of 0.9%;

- finance leases: 3-month Euribor plus a spread of 0.633% with quarterly indexation of the payments;

- SIMEST loan: in part at 6.75% per annum and in part at 3% per annum.

The following information is provided in relation to finance leases taken out to purchase assets:

€/000	31.12.2006	31.12.2005
Minimum future payments<1 year	607	660
Minimum future payments from 1 to 5 years	2,145	2,206
Minimum future payments beyond 5 years	1,011	1,542
Total minimum payments	**3,763**	**4,408**
Payables for future financial expenses	**(333)**	**(443)**
Present value	**3,430**	**3,965**
Interest rate	**3.6%**	**3.2%**

The book value of the amounts reported in the balance sheet corresponds to their fair value.

The group had around €75 million in undrawn credit lines at 31 December 2006.

31. Tax assets and liabilities

Deferred tax assets are detailed below:

€/000	31.12.05	Increases	Decreases	Exchange difference	31.12.06
Reversal of unrealized intercompany gains	796	1,510	(796)	(15)	1,495
Provision for inventory obsolescence	288	151	(105)	-	334
Impairment of assets	96	-	(60)	-	36
Carryforward tax losses	527	135	(110)	1	553
Provision for doubtful accounts	31	3	-	-	34
Costs deductible in future	376	-	(376)	-	-
Other deferred tax assets	808	116	(241)	(9)	674
Total (note 15)	**2,922**	**1,915**	**(1,688)**	**(23)**	**3,126**

A total of €1,745 thousand in deferred tax assets will reverse in the next 12 months.

There is no time limit on the use of carryforward tax losses.

Deferred tax liabilities are detailed below:

€/000	31.12.2005	Increases	Decreases	Exchange difference	31.12.2006
Buildings redeemed under finance lease IAS 17	1,762	0	(155)	0	1,607
Valuation of provision for employee termination indemnities under IAS 19	30	117	0	0	147
Other deferred tax liabilities	773	165	0	0	938
Total (note 15)	**2,565**	**282**	**(155)**	**0**	**2,692**

Other deferred tax liabilities mostly refer to revenue that will become taxable in future years.

A total of €352 thousand in deferred tax liabilities will reverse in the next 12 months.

No deferred taxes have been recognized on undistributed subsidiary company earnings. This is because the group is able to control when to distribute these reserves and because they are unlikely to be distributed in the foreseeable future. The total amount of such taxes is €655 thousand at 31 December 2006.

No deferred taxes have been recognized for the revaluation reserves, which are partly untaxed reserves. This is because it is unlikely that any operations will be undertaken that would give rise to their taxation. The total amount of such taxes is around €430 thousand at 31 December 2006.

Current tax assets amount to €2,238 thousand at 31 December 2006 compared with €3,525 thousand a year earlier. They refer to VAT credits, surplus payments on account of direct tax and other tax credits.
The decrease is due to the lower amount of VAT credits at 31 December 2006.

Current tax liabilities amount to €2,150 thousand at 31 December 2006 compared with €2,811 thousand a year earlier. They refer to payables for direct tax for the period, VAT and withholding taxes. The decrease reflects a lower amount of tax payable for the period.

32. Long-term post-employment benefits

The liabilities mainly refer to the present value of employee termination indemnities payable at the end of an employee's working life, amounting to €5,700 thousand at 31 December 2006. Had this provision been stated at face value, it would have amounted to €6,144 thousand at year end.

Movements in this liability are as follows:

€/000	**2006**	**2005**
Opening balance	**5,985**	**5,402**
Current service cost (note 11)	949	933
Actuarial (gains)/losses (note 11)	(250)	303
Interest cost on obligations (note 14)	119	107
Sale of Plastema business (note 6)	(201)	0
Disbursements	(806)	(760)
Closing balance	**5,796**	**5,985**

The principal economic and financial assumptions used are as follows:

	FY 2006	**FY 2005**
Annual inflation rate	2.1%	1.90%
Rising discount rate	3.9%	2.65%/3.25%
Rate of worker turnover: decreasing rate	7%/1%	7%/1%
Rate of office staff turnover: decreasing rate	8%/1%	8%/1%
Rate of executive turnover: constant rate	6%	6%

Death rates have been estimated using the most recent Italian population statistics published by ISTAT.

33. Provisions for liabilities and charges

Movements in these provisions are detailed below:

€/000	**31.12.2005**	**Increases**	**Decreases**	**31.12.2006**

Provision for agents' termination indemnity	359	109	0	468
Total non-current portion	**359**	**109**	**0**	**468**
Provision for product warranties	191	125	(72)	244
Other provisions	426	119	(405)	140
Total current portion	**617**	**244**	**(477)**	**384**

The provision for agents' termination indemnity is calculated with reference to the agency contracts in existence at year end and refers to the indemnity that is likely to be paid to agents.

The provision for product warranties refers to the future costs of repairing products under warranty that were sold in the year; this provision is calculated using estimates based on historical trends.

The decrease in other provisions mostly refers to the settlement of the following disputes with the tax authorities:

a) Appeal to Central Tax Commission regarding national and local corporate income tax and Vat (IRPEG-ILOR-VAT) for fiscal years 1984-1985 and 1985-1986
This dispute was settled during the year, with the company paying the tax agreed and resulting in the release of €80 thousand in excess provisions to income.

b) Partial tax audit of fiscal year 2002 with reference to national corporate income tax, regional business tax and Vat (IRPEG-IRAP-VAT). During 2006 this dispute was settled with the taxpayer's acceptance of the assessment carried out in the second half of 2005 (under Decree 218/97). The liability prudently estimated in the past amounted to €95 thousand, while the dispute was settled for €58 thousand, meaning that excess provisions of €37 thousand were released to income.

34. Other non-current liabilities

€/000	31.12.2006	31.12.2005
Deferred income - Law 488 grants	640	755
Social security payables	79	102
Payables due to sellers of Victus IT business	1,362	1,275
Total	**2,081**	**2,132**

The deferred income refers to the capital grant received by Comag under Law 488/92 which is being recognized over future years. The portion of the grant recognizable this year is classified under current liabilities as accrued expenses and deferred income (note 29) and amounts to €84 thousand (€114 thousand in 2005).

The payables due to sellers of the Victus IT business refer to the remaining purchase consideration due to be settled in 2008.

35. Contingent liabilities

At the date of 31 December 2006 the group does not have any disputes that could give rise to future liabilities that have not already been reflected in the balance sheet.

36. Commitments

Fixed asset purchases

The group has €633 thousand in commitments to purchase fixed assets at 31 December 2006 (€1,958 thousand at 31 December 2005).

Guarantees given

The group has €581 thousand in guarantees given to third parties at 31 December 2006 (€364 thousand at the end of 2005).

37. Ordinary shares, treasury shares and dividends

Share capital is fully paid up at 31 December 2006 and amounts to €7,190 thousand. It consists of 27,653,500 ordinary shares of par value €0.26 each.

	31.12.2006	**31.12.2005**
Number of ordinary shares	27,653,500	27,653,500
Treasury shares	(108,849)	(6,000)
Total outstanding shares	**27,544,651**	**27,647,500**

The dividends for 2005 approved by the shareholders on 5 May 2006, totalling €4,144 thousand, were paid during 2006.

In accordance with the related authorization by shareholders, Emak S.p.A. has purchased treasury shares on the market for the purpose of improving the stock's liquidity. Emak S.p.A. held 6,000 treasury shares at 31 December 2005. It purchased 102,849 treasury shares between 1 January 2006 and 31 December 2006, while selling none, meaning that it held 108,849 such shares at the end of December 2006.

38. Related party transactions

The effects on the balance sheet and income statement at 31 December 2006 of transactions by the Emak Group with ultimate parent companies, affiliated companies and any related parties are shown below.
Some of the companies belonging to the Yama Group supply the Emak Group with parts and materials, exploiting synergies associated with technological research. These are mostly strategically important parts, whose purchasing policy is based on factors of quality and cost.
The Emak Group supplies finished products to some of the trading companies within the Yama Group, allowing them to complete their product range.

All intercompany transactions, whether of a commercial or financial nature, are conducted on an arm's length basis.
No transactions were conducted with related parties of an atypical or unusual nature.

The main transactions with ultimate parent and affiliated companies during the year ended 31 December 2006 and the receivable and payable balances at that date are reported below:

Sale of goods and services and receivables

Companies controlled by Yama S.p.A. (€/000)	**Net sales**	**Other revenues**	**Total revenues**	**Receivables**
Comet S.p.A.	169	6	175	59

Garmec S.p.A.	215	-	215	41
Mac Sardegna S.r.l.	852	1	853	633
Sabart S.p.A.	134	1	135	32
Selettra S.r.l.	-	3	3	1
Tecomec S.p.A.	5	158	163	5
Unigreen S.p.A.	3	-	3	-
Bertolini S.p.A.	15	3	18	1
Fima S.p.A.	-	1	1	1
Total (note 23)	**1,393**	**173**	**1,566**	**773**

Purchase of goods and services and payables

Companies belonging to the Yama Group (€/000)	Purchase of raw materials and finished products	Other costs	Total costs	Payables
Comet France SAS	19	-	19	1
Comet S.p.A.	1,356	-	1,356	312
Fima S.p.A.	530	54	584	233
Garmec S.p.A.	14	1	15	2
Mac Sardegna S.r.l.		6	6	5
Sabart S.p.A.	167	-	167	23
Selettra S.r.l.	3,052	47	3,099	1,066
Speed France SAS	464	-	464	86
Tecnol S.p.A.	3,350	142	3,492	1,059
Tecomec S.p.A.	1,299	-	1,299	349
Unigreen S.p.A.	32	-	32	3
Bertolini S.p.A.	3,820	-	3,820	551
Yama Immobiliare S.r.l.	-	51	51	-
Yama S.p.A.	-	107	107	54
Tai Long	1,382	-	1,382	553
Total (note 29)	**15,485**	**408**	**15,893**	**4,297**

The emoluments received by the parent company's directors and statutory auditors from other group companies are as follows:

€/000	FY 2006	FY 2005
Emoluments of directors and statutory auditors	407	201
Benefits in kind	6	6
Wages and salaries	586	573
Employee termination indemnities	44	46
Consulting fees	57	30
Total	**1,100**	**856**

No dealings of a significant amount took place with other related parties.

39. Subsequent events

The industrial building in Brescello (Re) was sold on 26 March 2007 for €800 thousand. The capital gain, recognized in 2007, amounts to €531 thousand.

40. Reconciliation between equity and net profit of the parent company Emak S.p.A. and consolidated equity and net profit

€/000	**Equity 31.12.2006**	**Results for year ended 31.12.2006**	**Equity 31.12.2005**	**Results for year ended 31.12.2005**
Equity and results of Emak S.p.A.	73,765	9,023	69,385	7,834
Equity and results of consolidated subsidiaries	24,703	4,140	18,493	2,644
Total	**98,468**	**13,163**	**87,878**	**10,478**
Effect of eliminating book value of equity investments	(13,881)	-	(11,035)	-
Elimination of dividends	-	(416)	-	(528)
Elimination of intercompany balances and gains	(2,711)	(1,443)	(1,484)	(345)
Total as per consolidated financial statements	**81,876**	**11,304**	**75,359**	**9,605**
Minority interests	**(483)**	**(65)**	**(458)**	**(73)**
Equity and results attributable to the group	**81,393**	**11,239**	**74,901**	**9,532**

Emak Group
Independent Auditors' Report

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Auditors' report in accordance with article 156 of legislative decree n° 58 of 24 February 1998

To the Shareholders of
Emak S.p.A.

1. We have audited the consolidated financial statements of Emak S.p.A. and its subsidiaries (the "Emak Group"), which comprise the balance sheet, the statements of income, changes in shareholders' equity, cash flows and the related explanatory notes, as of and for the year ended December 31, 2006. These consolidated financial statements are the responsibility of Emak S.p.A.'s Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

   The consolidated financial statements present for comparative purposes the corresponding data for the prior year, for which reference should be made to our auditors' report dated April 12, 2006.

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3. In our opinion, the consolidated financial statements of Emak Group as of and for the year ended December 31, 2006 comply with the International Financial Reporting Standards as adopted by the European Union as well as the Italian regulations implementing article 9 of Legislative Decree of February 28, 2005 No. 38; therefore they are clearly stated and give a true and fair view of the financial position, the results of operations, the changes in shareholders' equity and the cash flows of Emak Group for the year then ended.

Reggio Emilia, April 11, 2007

AXIS S.r.l.

Signed by
Franco Marchini - Partner

This report has been translated into the English language solely for the convenience of international readers.

Emak S.p.A. – Financial statements at 31 December 2006

Emak S.p.A. - Income Statement

€/000	Notes	Year 2006	Year 2005
Sales	8	161.935.321	147.090.398
Other operating income	8	925.961	522.405
Change in inventories	23	3.397.380	3.326.784
Raw and consumable materials and goods	9	(107.945.619)	(95.321.002)
Salaries and employee benefits	10	(17.773.911)	(17.707.269)
Other operating costs	11	(21.672.765)	(21.507.561)
Amortization, depreciation and impairment losses	12	(3.299.562)	(3.493.670)
EBIT		**15.566.805**	**12.910.085**
Financial revenues	13	1.382.213	1.076.988
Financial costs	13	(1.064.280)	(693.584)
Exchange gains and losses	13	(400.529)	318.827
EBT		**15.484.209**	**13.612.316**
Income taxes	14	(6.461.337)	(5.778.534)
Net profit		**9.022.872**	**7.833.782**
Basic earnings per share	**15**	**0,327**	**0,283**
Diluted earnings per share	**15**	**0,327**	**0,283**

Emak S.p.A. – Balance Sheet

ASSETS

€/000	Notes	31.12.2006	31.12.2005
Non-current assets			
Property, plant and equipment	16	16.288.868	17.566.114
Intangible assets	18	1.667.548	1.585.212
Investment property	17	361.385	399.090
Equity investments	19	14.104.197	10.366.606
Deferred tax assets	29	870.547	1.394.158
Other financial assets	21	10.208.896	14.892.161
Other receivables	22	5.835	21.103
Total		**43.507.276**	**46.224.444**
Non-current assets held for sale			
Assets held for sale	24	268.969	268.969
Total		**268.969**	**268.969**
Current assets			
Inventories	23	40.143.723	37.004.985
Trade and other receivables	22	52.620.636	48.626.505
Current tax assets	29	624.257	1.459.442
Other financial assets	21	8.804	18.897
Cash and cash equivalents	25	827.465	1.077.025
Total		**94.224.885**	**88.186.854**
TOTAL ASSETS		**138.001.130**	**134.680.267**

EQUITY AND LIABILITIES

€/000	Notes	31.12.2006	31.12.2005
Capital and reserves			
Share capital	26	7.189.910	7.189.910
Share premium	26	21.047.079	21.047.079
Treasury shares	26	(527.589)	(28.318)
Other reserves	26	30.186.816	30.213.956
Retained earnings	26	15.868.386	10.962.299
Total		**73.764.602**	**69.384.926**
Non-current liabilities			
Loans and Borrowings	28	4.164.921	4.632.547
Deferred tax liabilities	29	2.389.723	2.317.045
Post-employment benefits	30	5.321.809	5.564.509
Provisions	31	468.369	358.932
Total		**12.344.822**	**12.873.033**
Current liabilities			
Trade and other payables	27	32.994.593	41.756.120
Current tax liabilities	29	942.709	1.245.181
Loans and borrowings	28	17.673.537	8.948.647
Derivative financial instruments	20	44.090	219
Provisions	31	236.777	472.141
Total		**51.891.706**	**52.422.308**
TOTAL EQUITY AND LIABILITIES		**138.001.130**	**134.680.267**

STATEMENT OF CHANGES IN THE EQUITY OF EMAK S.p.A. AT 31.12.2005 AND AT 31.12.2006

€/000	Share capital	Share premium	Treasury shares	OTHER RESERVES			RETAINED EARNINGS		TOTAL
				Legal reserve	Revaluation reserve	Other reserves	Retained earnings	Net profit for the period	
Total at 31.12.2004	**7.190**	**21.047**	**(47)**	**1.438**	**1.138**	**23.799**	**3.154**	**7.792**	**65.511**
Change in treasury shares			19				31		**50**
Payment of dividends								(4.010)	**(4.010)**
Reclassification of 2004 net profit						3.839	(57)	(3.782)	**0**
Net profit for 2005								7.834	**7.834**
Total at 31.12.2005	**7.190**	**21.047**	**(28)**	**1.438**	**1.138**	**27.638**	**3.128**	**7.834**	**69.385**
Change in treasury shares			(499)						**(499)**
Payments of dividends								(4.144)	**(4.144)**
Reclassification of 2005 net profit						226	3.464	(3.690)	**0**
Other changes						(253)	253		**0**
Net profit for 2006								9.023	**9.023**
Total at 31.12.2006	**7.190**	**21.047**	**(527)**	**1.438**	**1.138**	**27.611**	**6.845**	**9.023**	**73.765**

Emak S.p.A. - Cash flow statement

€/000	Notes	2006	2005
Cash flow from operations			
Net profit for the period		**9.023**	**7.834**
Amortization, depreciation and impairment losses	12	3.300	3.494
(Capital gains)/losses on disposal of property, plant and equipment		(204)	(22)
Reclassification of dividend receipts		(416)	(528)
Decreases/increases in trade and other receivables		(2.640)	(6.288)
Decreases/increases in inventories		(3.398)	(3.327)
Decreases/increases in trade and other payables		(8.968)	8.083
Change in post-employment benefits		(42)	458
Decreases/increases in provision for liabilities	31	(126)	421
Decreases/increases in hedging instruments		44	
Net cash generated by operations		**(3.427)**	**10.125**
Cash flow from investment activities			
Dividends received		416	528
Increases in property, plant and equipment and intangible assets		(2.458)	(3.075)
Increases and decreases in financial assets		956	(12.157)
Proceeds from disposal of property, plant and equipment		145	27
Business combinations	5	505	0
Net cash absorbed by investment activities		**(436)**	**(14.677)**
Cash flow from financing activities			
Changes in equity		(499)	50
Change in short and long-term loans and borrowings		1.658	9
Change in finance leases		(430)	3.765
Dividends paid		(4.144)	(4.010)
Net cash absorbed by financing activities		**(3.415)**	**(186)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(7.278)**	**(4.738)**
OPENING CASH AND CASH EQUIVALENTS		**(1.190)**	**3.548**
CLOSING CASH AND CASH EQUIVALENTS		**(8.468)**	**(1.190)**

ADDITIONAL INFORMATION ON THE CASH FLOW STATEMENT

€/000		2006	2005
RECONCILIATION OF CASH AND CASH EQUIVALENTS.			
Opening cash and cash equivalents, detailed as follows:	**25**	**(1.190)**	**3.548**
Cash and cash equivalents		1.077	3.656
Overdrafts		(2.267)	(108)
Closing cash and cash equivalents, detailed as follows:	**25**	**(8.468)**	**(1.190)**
Cash and cash equivalents		827	1.077
Overdrafts		(9.295)	(2.267)
Other information:			
Tax paid		(6.128)	(5.333)
Interest paid		(730)	(201)
Effects of exchange rate changes		1	38
Change in related party other financial assets		947	(12.182)
Change in related party receivables and service transactions		(2.985)	(3.734)
Change in related party payables and service transactions		(1.104)	3.657

Explanatory notes to the financial statements of Emak S.p.A.

Notes to the financial statements of Emak S.p.A. - Contents

1. General information

The Board of Directors approved the draft financial statements of Emak S.p.A. for the year ended 31 December 2006 on 27 March 2006 and authorized their immediate publication in a press release of the same date.

The financial statements are being submitted for the approval of shareholders, who have the power to make amendments.

Emak S.p.A. is one of Europe's leading producers of gardening and forestry machinery, such as chainsaws, brushcutters, lawnmowers, trimmers and a vast assortment of accessories.

Emak S.p.A. is a public limited company, whose shares are listed on the Italian stock exchange. Its registered office is in Via Fermi 4, Bagnolo in Piano (RE).

The company has around 400 employees.

The company is under the governance and coordination of Yama S.p.A. as defined by article 2497 of the Italian Civil Code. This company has its registered office in Via Del Marinaio 5, Reggio Emilia and its VAT number is 00638290353.
The Yama Group's main business is in the sectors of agricultural and gardening machinery and equipment, engine parts, finance and real estate.

The figures presented in the notes are expressed in thousands of euro, unless otherwise stated.

2. Summary of principal accounting policies

The principal accounting policies used for preparing these financial statements are discussed below, and unless otherwise indicated, have been uniformly applied to all years presented.

2.1 General methods of preparation

The financial statements have been prepared in accordance with the IFRS issued by the International Accounting Standards Board and adopted by the European Union at the date of preparing this report. The term IFRS also refers to all revised international accounting standards (IAS) and all interpretations by the International Financial Reporting Interpretations Committee (IFRIC), previously named the Standing Interpretations Committee (SIC).

The financial statements have been prepared under the historical cost method, except for those financial assets and liabilities (including derivative instruments) measured at fair value.

The company has adopted the following formats for its financial statements as required by IAS 1:

- Balance sheet: based on the distinction between current and non-current assets and current and non-current liabilities;
- Income statement: based on a classification of items of income and expense according to their nature;
- Cash flow statement: based on a presentation of cash flows using the indirect method.

The preparation of financial statements under IFRS requires management to make use of accounting estimates. The matters involving a high degree of judgement or complexity and the areas in which the assumptions and estimates could have a significant impact on the financial statements are discussed in note 4.

2.2 Presentation currency

(a) The financial statements are presented in euro.

(b) Transactions and balances
A foreign currency transaction is translated using the rate of exchange at the date of the transaction. Exchange gains and losses arising upon receipt and payment of the foreign currency amounts and upon translation at closing rates of monetary items denominated in a foreign currency are reported in profit or loss for the period. Gains and losses realized on cash flow hedges whose hedged items are still unrealized are deferred in equity.

2.3 Property, plant and equipment

Land and buildings largely comprise production facilities, warehouses and offices; they are stated at historical cost, plus any revaluations carried out by law in years prior to the first-time adoption of IAS/IFRS, less the accumulated depreciation of the buildings. Other assets are recorded at historical cost, less accumulated depreciation and impairment.
Historical cost includes all the directly attributable costs of purchasing the assets.

Subsequent expenditure is added to the carrying amount of the asset only when it is probable that this expenditure will generate future economic benefits and these costs can be measured reliably. Expenditure on other repairs and maintenance is expensed to income in the period incurred.

Land is not being depreciated. The other assets are being depreciated on a straight-line basis over their estimated useful lives as follows:

- buildings, 10-33 years;
- plant and machinery, 7-10 years;
- other, 4-8 years.

The residual value and useful life of assets is reviewed and amended, if necessary, at the end of each year.

If the carrying amount of any asset is higher than the estimated recoverable amount, it is immediately reduced to realizable value.

Leases for which the company has substantially all the risks plus the right of redemption are classified as finance leases. The related assets are recognized under property, plant and equipment at the value of the future lease payments.
The repayments of principal are recognized as financial liabilities. The finance cost is expensed to income so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Leases for which the lessor retains a significant portion of the risks and rewards incident to ownership are classified as operating leases, whose payments are recognized as an expense in the income statement over the lease term on a straight-line basis.

2.4 Intangible assets

(a) Development costs
These are intangible assets with a finite life.
The development costs of new products are capitalized only if the following conditions are met:
- the costs can be measured reliably;
- the product's technical feasibility and expected price and market indicate that the costs incurred for development will generate future economic benefits.

Development costs include only that expenditure which can be attributed directly to the development process.
Capitalized development costs are amortized over 5 years, commencing from the start of production of the products developed.
All other development costs are expensed to income as incurred.

(b) Concessions, licences and trademarks
Trademarks and licences are valued at historical cost. Trademarks and licences have a finite useful life and are stated after deducting accumulated amortization. Amortization is calculated on a straight-line basis so as to spread the asset's cost over its estimated useful life.

(c) Other intangible assets
These are intangible assets with a finite life.
An intangible asset is recognized only if (i) it is identifiable, (ii) it is probable that it will generate future economic benefits and (iii) its cost can be measured reliably.
Intangible assets are recognized at purchase cost and amortized on a systematic basis over their estimated useful lives, which cannot exceed 10 years.

2.5 Impairment of assets

Assets with an indefinite life are not amortized or depreciated but are tested annually for any impairment. Depreciable assets are tested for impairment every time that events or changes in circumstances indicate that their carrying value might not be recoverable. The impairment loss recognized is the amount by which the carrying amount of an asset exceeds its recoverable amount, corresponding to the higher of the asset's net selling price and its value in use. For the purposes of measuring impairment, assets are classified together into the smallest identifiable groups that generate cash inflows (cash-generating units).

2.6 Investment property

Property held for long-term capital appreciation and buildings held to earn rentals are measured at cost, less depreciation and any impairment losses.

2.7 Financial assets and investments

The company classifies financial assets and investments in the following categories: financial assets at fair value (with changes reported through the income statement), loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investment has been made. The classification is made upon the asset's initial recognition and is reviewed at every balance sheet date.

(a) Marketable financial assets at fair value (through the income statement)
This category include securities that have been acquired principally for the purpose of generating a profit from short-term fluctuations in price (or for temporarily investing surplus cash balances). This category is classified in current assets on the basis of the period-end price, with gains and losses recognized directly in the income statement.
Derivatives, that do not qualify for hedge accounting, are also classified as held for trading.

(b) Other financial assets
This balance includes loans given, securities held to maturity and other receivables deriving from financial activities. They are classified as non-current assets except those falling due within 12 months which are reclassified to current assets.
These financial assets feature determinable payments with fixed maturities, and the fact that the company has the intent and ability to hold them to maturity.
These assets are valued using the amortized cost method based on the effective rate of return, with gains recorded directly in the income statement.

(c) Equity investments

This category includes equity interests in subsidiaries and minority holdings, which are measured at cost less any impairment losses.

(d) Available-for-sale financial assets
Available-for-sale financial assets is a residual category relating to those assets not belonging to the previous three categories. They are reported as non-current assets unless management intends selling them within 12 months of the balance sheet date.
Purchases and sales of these assets are recognized on the transaction date, which is the date on which the company commits to purchase or sell the asset.
Unrealized gains and losses arising on changes in the fair value of non-monetary securities classified as available for sale are recorded in equity. When these instruments are sold or written down, the cumulative fair value adjustments are reversed to income as gains or losses on investments in securities.

All investments in financial assets not recorded at fair value through the income statement are recognized initially at fair value plus the related transaction costs. An investment is derecognized when the right to its cash flows is extinguished or when the company has transferred substantially all the risks and rewards of its ownership to third parties.

The fair value of listed investments is determined with reference to the market price reported at the close of trading on the balance sheet date. In the absence of an active market for a financial asset or if the securities have been suspended from listing, the company establishes fair value using valuation techniques. These techniques include the use of recent arm's length transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models, bearing in mind the issuer's specific characteristics.

The company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists for the available-for-sale assets, the amount of the loss – measured as the difference between the asset's acquisition cost and current fair value less any impairment loss previously recognized in net profit or loss – is removed from equity and reported in the income statement. Impairment losses recognized in the income statement for equity instruments are not recovered through subsequent credits to the income statement.

2.8 Non-current assets held for sale

Assets held for sale are classified in this category when:
- the asset is available for immediate sale;
- the sale is highly probable within one year;
- management is committed to a plan to sell;
- a reasonable sales price is available;
- the plan for disposal is unlikely to change;
- a buyer is being actively sought.

These assets are measured at the lower of their carrying amount and fair value less costs to sell. Assets reclassified to this category cease to be depreciated.

2.9 Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. The cost of finished products and work in progress includes raw material costs, direct labour costs, general manufacturing costs and other direct and indirect costs incurred in bringing the inventories to their present location and condition. Net realizable value is determined using prevailing selling prices less estimated costs of completion and sale.

2.10 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost, using the effective interest method, less any provisions for impairment.
A provision for the impairment of trade receivables is recognized when there is objective evidence that the company will be unable to collect all the amounts according to the original terms and conditions. The amount of the provision for such loss is charged to the income statement.

2.11 Trade payables

Trade and other payables, due under normal commercial terms, are not discounted but are recognized at cost (identified by their face value), representing the expenditure required for their settlement.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits with banks and short-term financial investments that are highly liquid and originally mature in three months or under, less bank overdrafts. Bank overdrafts are classified in the balance sheet in short-term loans and borrowings under current liabilities.

2.13 Share capital

Ordinary shares are classified under equity.

Any proceeds from their sale, less directly attributable transaction costs and the related tax, are recognized in equity.

2.14 Financial liabilities

Loans and borrowings are recognized initially at fair value, less the related transaction costs. They are subsequently measured at amortized cost; the difference between the amount received, less transaction costs, and the amount repayable is recognized in the income statement over the term of the loan, using the effective interest method.

Loans and borrowings are classified as current liabilities if the company does not have an unconditional right to defer the extinguishment of the liability to at least 12 months after the balance sheet date.

2.15 Taxes

The income taxes reported in the income statement include all current and deferred taxes. Income taxes are generally recorded in the income statement and are booked to equity only when they refer to items that have been debited or credited to equity.
Taxes other than income taxes are classified as other operating costs.

Deferred tax assets are recognized on all temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.
The same principle applies to the recognition of deferred tax assets on utilizable tax losses.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and possibly reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Any such reductions are reversed if the reasons for them no longer apply. As a general rule, apart from specific exceptions, deferred tax liabilities must always be recognized.
Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.
Current tax assets and liabilities are offset only if the company has a legally enforceable right to set off the recognized amounts and if it intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities may be offset only if the company is able to offset current tax assets against current tax liabilities and if the deferred taxes refer to income taxes levied by the same taxation authority.

2.16 Provision for employee termination indemnities

Employee termination indemnities fall into the category of defined benefit plans for valuation on an actuarial basis (death rates, expected changes in remuneration etc.) and reflect the present value of the benefit, payable at the end of employment, which employees have matured at the balance sheet date.
The costs relating to the increase in the obligation's present value, arising as the time of payment approaches, are recorded as financial expenses. All other costs relating to the provision are reported as payroll costs in the income statement. All actuarial gains and losses are recognized in the period in which they occur.

2.17 Provisions for liabilities and charges

Provisions for liabilities and charges are recognized when (i) the company has a legal or constructive obligation as a result of past events, (ii) it is probable that a payment will be required to settle the obligation and (iii) a reliable estimate can be made of the related amount.

2.18 Revenues

Revenues are reported net of discounts, rebates, returns and allowances and are recognized as follows:

(a) Sale of goods
Sales of goods are recognized when the company has delivered the goods to the customer, the customer has accepted the products and the associated receivable is reasonably certain to be collected.

(b) Sale of services
Sales of services are recognized in the period in which the service is rendered with reference to the stage of completion of the specific transaction, measured on the basis of the services performed to date as a percentage of total services to be performed.

2.19 Financial income and expenses

Financial income and expenses are recognized on an accrual basis using the effective interest rate and include dividends received from subsidiaries, exchange gains and losses and gains and losses on derivatives charged to the income statement.

2.20 Payment of dividends

Dividends on ordinary shares are reported as liabilities in the financial statements in the year in which the shareholders approve their distribution.

2.21 Earnings per share

Basic earnings per share are calculated by dividing the company's net profit by the weighted average number of shares outstanding during the period, excluding treasury shares.
The company does not have any potential ordinary shares.

2.22 Cash flow statement

The cash flow statement has been prepared using the indirect method.
Cash and cash equivalents included in the cash flow statement comprise the cash-related balances at the reporting date. Cash flows in foreign currency have been translated at the average rate for the period. Interest income and expense, dividends received and income taxes are included in cash flow generated by operations.

2.23 New accounting standards

Certain accounting standards and interpretations have been revised or issued, coming into effect as from 1 January 2006. The main changes are:

- Revisions to IAS 19 - employee benefits (alternative treatment of actuarial gains and losses); Emak S.p.A. has decided to carry on treating actuarial gains and losses in the same way as the year before.
- Revisions to IAS 21 – effects of changes in foreign exchange rates: the amendments have affected a number of paragraphs relating to investments in foreign operations; this has had no material consequences for Emak S.p.A..
- Revisions to IAS 39 - fair value option: this has been amended with reference to the option allowing financial assets and liabilities to be measured at fair value through profit or loss; this has not affected the valuation of Emak S.p.A.'s financial instruments.
- Revisions to IAS 39 and IFRS 4 – amendment of the accounting treatment of guarantees given: the amendments mostly relate to the treatment of "financial guarantee contracts". This revision has no effect on Emak S.p.A..
- IFRS 6 ("Exploration for and evaluation of mineral resources"): this standard does not apply to Emak S.p.A..
- IFRIC 4 ("Determining whether an arrangement contains a lease"): this interpretation establishes guidelines for identifying whether the substance of an arrangement represents a lease, meaning that it must be treated in accordance with IAS 17. This interpretation has had no material impact on the company's financial statements.
- IFRIC 5 ("Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds"): this interpretation does not apply to Emak S.p.A..
- IFRIC 6 ("Liabilities arising from participating in a specific market - waste electrical and electronic equipment") applicable as from 1 December 2005: this interpretation does not apply to Emak S.p.A..

Apart from the revisions discussed above, the following amendments to standards and interpretations have been published but are not applicable to financial year 2006 with the company deciding not to adopt them earlier than the required application date:

- IFRS 7 ("Financial instruments: disclosures") and complementary amendments to IAS 1 ("Presentation of financial statements - Information about capital") effective from 1 January 2007: IFRS 7 introduces additional disclosures to be made about financial instruments.

The company is assessing the impact of the new requirements of IFRS 7 and IAS 1 which, based on a preliminary review, should involve additional disclosures about the management of financial risks, about hedging agreements and about share capital.

- IFRIC 7 ("Applying the restatement approach under IAS 29") applicable to annual financial reporting periods beginning on or after 1 March 2006; this refers to the standard applying to companies that operate in hyperinflationary economies, which is currently not the case for Emak S.p.A..
- IFRIC 8 ("Scope of IFRS 2"), applicable to annual financial reporting periods beginning on or after 1 May 2006: the interpretation specifies how share-based payments should be treated, which are not currently applicable to the company.
- IFRIC 9 ("Reassessment of embedded derivatives"), applicable to annual financial reporting periods beginning on or after 1 June 2006; although this interpretation is currently not applicable to Emak S.p.A., its potential impact will be evaluated.

3. Financial risk management

3.1 Financial risk factors

The business of Emak S.p.A. is exposed to a number of different financial risks: market risk (including currency risk, fair value risk and price risk), credit risk, liquidity risk and interest rate risk. The company's policies for managing and controlling financial risks focus on the unpredictability of financial markets and seek to minimize the potentially negative effects on its results. The company uses derivative financial instruments to hedge certain risks.
Hedging of financial risks is managed by a head office function working in close collaboration with the individual operating units.

(a) Market risk

(i) Currency risk
The company conducts its business internationally and is exposed to exchange risk associated with the currencies used, chiefly US dollars, yen and Polish zloty. Currency risk derives from future commercial transactions, from recognized assets and liabilities and net investments in foreign enterprises.
The company mostly uses forward contracts to hedge currency risk arising from future commercial transactions and recognized assets and liabilities.
Any changes in future exchange rates should not have a significant impact on future economic results and cash flows.

(ii) Price risk
Emak S.p.A. is exposed to fluctuations in the price of raw materials. This exposure is mostly towards suppliers of parts since their price is generally tied by contract to the trend in market prices for raw materials. The company usually enters into medium-term supplier contracts for the purpose of managing and limiting the risk of fluctuations in the price of its main raw materials such as aluminium, sheet metal, plastic and copper.

(b) Credit risk
The company does not have significant concentrations of credit risk and has adopted policies to ensure that products are sold to customers of proven creditworthiness. Derivatives and short-term investments are undertaken only with primary financial institutions.
The company has policies that limit its credit exposure to any single financial institution.

(c) Liquidity risk
Prudent management of liquidity risk implies the maintenance of sufficient liquid funds and marketable securities, the availability of funding through adequate credit lines and the ability to close positions off-market. Given the dynamic nature of the company's business, its Treasury function seeks flexibility of funding by having sufficient credit lines.

(d) Interest rate risk
Since the company does not have significant interest-bearing assets, operating profits and cash flows are largely unaffected by changes in market interest rates. The company's interest rate risk relates to its long-term loans and borrowings. Variable rate loans expose the company to the cash flow risk associated with interest rates. Fixed rate loans expose the company to the fair value risk associated with interest rates.
The company's policy is based on constantly monitoring its level and structure of debt and on the trend in interest rates and macroeconomic variables that might directly influence them, with the goal of optimizing the cost of money. At 31 December 2006, the company's bank loans and borrowings and finance leases all carried variable interest and no hedges had been taken out.

3.2 Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are used for hedging purposes with the intent of reducing the risks of foreign currency fluctuation. As established by IAS 39, derivative financial instruments may qualify for special hedge accounting only if (i) at the inception of the hedge the hedging relationship is formally designated and documented, (ii) the hedge is expected to be highly effective and (iii) the effectiveness of the hedge can be measured reliably.
Derivatives are initially recognized at cost and adjusted to fair value at subsequent balance sheet dates.

Changes in the fair value of derivatives designated as cash flow hedges relating to the company's firm commitments are recognized directly in equity to the extent they relate to the effective portion of the hedge, while the ineffective portion is reported directly in the income statement. If a firm commitment or hedge of a forecast transaction results in the recognition of assets or liabilities, the associated gains or losses on the derivative that were recognized directly in equity are reclassified to the initial cost or carrying amount of the asset or liability.

If cash flow hedges do not result in the recognition of an asset or a liability, the amounts that were directly recorded in equity are reversed to income in the same period in which the firm commitment or hedged forecast transaction affects profit or loss.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognized in the income statement in the period in which they occur.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, or no longer meets the criteria for hedge accounting. In this case, the cumulative gain or loss on the hedging instrument recognized directly in equity remains separately in equity until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the cumulative gain or loss recognized directly in equity is transferred to profit or loss for the period.

3.3 Measurement of fair value

The fair value of financial instruments with a quoted market price in an active market (such as publicly traded derivatives and securities held for trading and for sale) is based on the market price at the balance sheet date. The market price used for the company's financial assets is the bid price; the market price for financial liabilities is the offer price.

The fair value of financial instruments not quoted in an active market (for example, derivatives quoted over the counter) is determined using valuation techniques. The company uses various methods and makes assumptions that are based on existing market conditions at the balance sheet date. Long-term payables are valued using quoted market or trading prices for the specific or similar instruments. Other methods, such as estimating the present value of future cash flows, are used to determine the fair value of the other financial instruments. The fair value of forward currency contracts is determined using the forward exchange rates expected at the balance sheet date.

It is assumed that the face value less estimated doubtful receivables approximates the fair value of trade receivables and payables. For the purposes of these notes, the fair value of financial liabilities is estimated by discounting contractual future cash flows at the current market rate available to the company for similar financial instruments.

4. Key accounting estimates and assumptions

The preparation of the financial statements and the related notes under IFRS has required management to make estimates and assumptions affecting the value of reported assets and liabilities and the disclosures relating to contingent assets and liabilities at the balance sheet date. Actual results could differ from these estimates. Estimates are used for recording provisions for doubtful accounts and inventory obsolescence, amortization and depreciation, writedowns to assets, post-employment benefits, taxes and other provisions. Estimates and assumptions are reviewed periodically and the effects of any change are immediately reflected in the income statement.

5. Significant non-recurring events and transactions

Emak S.p.A. entered into an agreement on 31 March, effective from 1 April 2006, for the sale of its plastic components manufacturing business.

The disposal to a specialized supplier is designed to improve service, efficiency and quality. The sale of this business involved the transfer of 16 members of staff.
The assets and liabilities transferred as a result of this transaction were as follows:

DESCRIPTION	**€/000**
Property, plant and equipment (note 16)	249
Inventories (note 23)	259
Other receivables	1
Prepaid expenses	19
Employee benefits (termination indemnities) (note 30)	(201)
Accrued expenses (employees)	(23)
Total net assets sold	**304**
Capital gain	**201**
Disposal price	**505**

The consideration is payable as follows:
- €357 thousand by 31 December 2006;
- €64 thousand on 30 January 2007, the balance on 30 June 2007.

6. Balances or transactions arising from atypical and unusual operations

No atypical or unusual transactions took place during the course of 2006.

7. Net financial position

Details of the net financial position are summarized in the following table:

€/000	31.12.2006	31.12.2005
Cash and banks	827	1.077
Other financial assets	9	19
Financial liabilities	(17.673)	(8.949)
Derivative financial instruments	(44)	0
Short-term net debt	**(16.881)**	**(7.853)**
Other financial assets	10.209	14.892
Financial liabilities	(4.165)	(4.632)
Long-term net debt	**6.044**	**10.260**
Cash and banks	827	1.077
Other financial assets	10.218	14.911
Financial liabilities	(21.838)	(13.581)
Derivative financial instruments	(44)	0
Total net debt	**(10.837)**	**2.407**

Long-term "Other financial assets" at 31 December 2006 refer entirely to loans given to subsidiaries.

8. Sales and other operating income

Sales revenues amount to €161,935 thousand, compared with €147,090 thousand in the prior year. They are stated net of €1,297 thousand in returns, compared with €481 thousand in the prior year.
The increase in returns is due to the withdrawal of stocks of our products held by the US importer Tilton Equipment Co. after terminating its distribution agreement.

Details of sales are as follows:

€/000	FY 2006	FY 2005
Net sales revenues (net of discounts and rebates)	161,946	146,378
Revenues from recharged transport costs	1,286	1,193
Returns	(1,297)	(481)
Total	**161,935**	**147,090**

Other operating income is analyzed as follows:

€/000	FY 2006	FY 2005
Capital gains on property, plant and equipment	301	22
Insurance refunds	44	103
Out-of-period income	337	164
Rental income (note 17)	129	127
Other	115	106

Total	**926**	**522**

"Capital gains" include €201 thousand arising on the sale of the plastic components business, agreed on 31 March 2006 and effective 1 April 2006.

9. Cost of raw and consumable materials and goods

€/000	**FY 2006**	**FY 2005**
Raw materials	61,662	70,154
Consumable materials	244	228
Finished products	44,521	23,334
Other purchases	1,519	1,605
Total	**107,946**	**95,321**

The decrease in "raw materials" and the increase in "finished products" are mainly the result of the start of production by the factory in China which supplies the parent company with finished products.

10. Salaries and employee benefits

Details of these costs are as follows:

€/000	**FY 2006**	**FY 2005**
Wages and salaries	12,253	11,986
Social security charges	3,906	3,918
Employee termination indemnities (note 30)	566	1,069
Other costs	180	49
Directors' emoluments	371	165
Temporary staff	498	520
Total	**17,774**	**17,707**

Employees are broken down by grade as follows:

	FY 2006		**FY 2005**	
	(1)	(2)	(1)	(2)
Executives	12	12	12	13
Office staff	158	156	154	155
Factory workers	239	210	258	237
Total	**409**	**378**	**424**	**405**

(1) Average number of employees in year
(2) Number of employees at this date

11. Other operating costs

Details of these costs are as follows:

€/000	FY 2006	FY 2005
Subcontract work	4,469	4,655
Maintenance	1,352	1,361
Transportation	4,881	3,744
Advertising and promotions	2,203	1,994
Commissions	1,662	2,016
Other services	5,051	4,456
Services	**19,618**	**18,226**
Leases and rentals	**613**	**485**
Increases in provisions (note 31)	**325**	**563**
Increase in provision for doubtful accounts (note 22)	251	229
Capital losses on property, plant and equipment	97	-
Other taxes (not on income)	131	145
Other operating costs	638	1,860
Other costs	**1,117**	**2,234**
Total	**21,673**	**21,508**

The increase in "Transportation" costs is mainly due to the cost of importing goods produced at the factory in China.

12. Amortization, depreciation and impairment losses

Details of these amounts are as follows:

€/000	FY 2006	FY 2005
Amortization of intangible assets (note 18)	637	642
Depreciation of property, plant and equipment (note 16)	2,625	2,814
Depreciation of investment property (note 17)	38	38
Total	**3,300**	**3,494**

13. Finance income and expenses

These amounts are analyzed as follows:

€/000	FY 2006	FY 2005
Dividends from subsidiaries	416	528
Interest on trade receivables	167	119
Interest on loans to subsidiaries (note 35)	562	180
Interest on bank and post office accounts	31	87
Cash discounts received	206	163
Financial income	**1,382**	**1,077**

€/000	FY 2006	FY 2005
Interest on long-term bank loans and borrowings	145	182
Interest on short-term bank loans and borrowings	324	19
Financial charges from valuing employee termination indemnities (note 30)	112	102
Cash discounts given	323	303
Other financial costs	160	88
Financial expenses	**1,064**	**694**

€/000	FY 2006	FY 2005
Realized exchange gains	623	409
Unrealized gains	(392)	377
Realized exchange losses	(632)	(467)
Exchange gains and losses	**(401)**	**319**

14. Income taxes

The estimated charge for current tax and changes in deferred tax assets and liabilities in 2006 is €6,461 thousand, (€5,779 thousand in the prior year).

This amount is made up as follows:

€/000	FY 2006	FY 2005
Current income taxes	6,287	6,295
Taxes from prior years	(422)	(41)
Changes in deferred tax liabilities (note 29)	73	297
Changes in deferred tax assets (note 29)	523	(772)
Total	**6,461**	**5,779**

"Taxes from prior years" include €376 thousand recognized as deferred tax assets at 31 December 2005.

Current income taxes include €1,357 thousand in IRAP (Italy's regional business tax) compared with €1,323 thousand in 2005.
No current income taxes were booked directly to equity in 2006 compared with €15 thousand in the prior year. These taxes referred to the capital gains realized on the sale of treasury shares (note 26).

The theoretical tax charge, calculated using the ordinary rate of 37.25% , is reconciled to the effective tax charge as follows:

€/000	FY 2006	% rate	FY 2005	% rate
Profit before taxes	**15,484**		**13,612**	
Theoretical tax charge	**5,768**	**37.25**	**5,071**	**37.25**

Effect of IRAP differences calculated on different tax base	741	4.8	716	5.3
Non-taxable income	(68)	(0.4)	-	-
Dividends	(130)	(0.9)	(165)	(1.2)
Non-deductible costs	171	1.1	259	1,9
Other differences	(21)	(0.1)	(102)	(0.8)
Effective tax charge	**6,461**	**41.7**	**5,779**	**42.5**

The effective tax rate of 41.7% is down from the one of 42.5% reported in 2005.

15. Earnings per share

"Basic" earnings per share are calculated by dividing the net profit for the period attributable to the company's shareholders by the weighted average number of ordinary shares outstanding during the period, excluding the average number of ordinary shares held as treasury shares (see note 34).

The company has only ordinary shares outstanding.

	FY 2006	**FY 2005**
Net profit attributable to ordinary shareholders (€/000)	9,023	7,834
Weighted average number of ordinary shares outstanding	27,589,077	27,650,588
Basic earnings per share (€)	**0.327**	**0.283**

Diluted earnings per share are the same as basic earnings per share.

16. Property, plant and equipment

Changes in property, plant and equipment are shown below:

€/000	31.12.2004	Increases	Decreases	Other changes	31.12.2005
Land and buildings	14,481	47	-	(154)	14,374
Accumulated depreciation	(3,240)	(329)	-	-	(3,569)
Land and buildings	**11,241**	**(282)**	**-**	**(154)**	**10,805**
Plant and machinery	6,516	254	(86)	-	6,684
Accumulated depreciation	(4,499)	(415)	86	-	(4,828)
Plant and machinery	**2,017**	**(161)**	**-**	**-**	**1,856**
Other property, plant and equipment	33,234	1,853	(272)	-	34,815
Accumulated depreciation	(28,106)	(2,071)	267	-	(29,910)
Other assets	**5,128**	**(218)**	**(5)**	**-**	**4,905**
Cost	**54,231**	**2,154**	**(358)**	**(154)**	**55,873**
Accumulated depreciation (note12)	**(35,845)**	**(2,815)**	**353**	**-**	**(38,307)**
Net book value	**18,386**	**(661)**	**(5)**	**(154)**	**17,566**

€/000	31.12.2005	Increases	Decreases	Sale of business (note 5)	31.12.2006
Land and buildings	14,374	58	-	-	14,432
Accumulated depreciation	(3,569)	(334)	-	-	(3,903)
Land and buildings	**10,805**	**(276)**	-	-	**10,529**
Plant and machinery	6,684	381	(31)	(421)	6,613
Accumulated depreciation	(4,828)	(393)	15	187	(5,019)
Plant and machinery	**1,856**	**(12)**	**(16)**	**(234**)	**1,594**
Other property, plant and equipment	34,815	1,301	(293)	(43)	35,780
Accumulated depreciation	(29,910)	(1,898)	166	28	(31,614)
Other assets	**4,905**	**(597)**	**(127)**	**(15)**	**4,166**
Cost	**55,873**	**1,740**	**(324)**	**(464)**	**56,825**
Accumulated depreciation (note 12)	**(38,307)**	**(2,625)**	**181**	**215**	**(40,536)**
Net book value	**17,566**	**(885)**	**(143)**	**(249)**	**16,289**

No evidence of impairment has been reported for property, plant and equipment.

The increase in plant and machinery refers to investments in the routine replacement of assets.

The increase in other assets includes €906 thousand for the purchase of moulding equipment, €32 thousand for buying office furniture, €176 thousand for purchasing electronic machinery, €175 thousand for purchasing testing and control equipment and the remainder for buying sundry equipment.

The company has not capitalized any costs incurred internally or financial expenses.

Emak S.p.A. does not have any assets whose ownership title is restricted except for those under finance lease.

Property, plant and equipment under construction has a book value of €193 thousand at 31 December 2006.

Details of the assets held under finance lease, included in "land and buildings" are as follows:

€/000	**31.12.2006**	**31.12.2005**
Gross value	3,659	3,659
Accumulated depreciation	(220)	(110)
Net book value	**3,439**	**3,549**

This amount refers to a finance lease for the office building of Emak S.p.A. in Via Fermi 4 used as the company's head office. The lease agreement was made with Locat S.p.A. on 10 November 2005 and expires on 10 November 2013.

17. Investment property

This refers to a building leased to a company in the Yama Group and to a farmhouse situated on a piece of land available for future expansion of production activities. Their cost at 31 December 2006 is €1,407 thousand (the same as at the end of 2005), while the associated accumulated depreciation amounts to €1,046 thousand (€1,008 thousand at the end of 2005).

The rental income earned from these properties amounted to €129 thousand in 2006 (note 8) compared with €127 thousand the year before.

The fair value of investment properties amounts to around €2.5 million at 31 December 2006.

18. Intangible assets

Intangible assets report the following changes:

€/000	31.12.2004	Increases	Decreases	31.12.2005
Development costs	857	210		1,067
Accumulated amortization	(216)	(152)		(368)
Development costs	**641**	**58**	-	**699**
Patents and intellectual property rights	1,780	692		2,472
Accumulated amortization	(1,125)	(488)		(1,613)
Patents	**655**	**204**	-	**859**
Concessions, licences and trademarks	11	21		32
Accumulated amortization	(3)	(2)		(5)
Concessions, licences and trademarks	**8**	**19**	-	**27**
Cost	**2,648**	**923**	-	**3,571**
Accumulated amortization (note 12)	**(1,344)**	**(642)**	-	**(1,986)**
Net book value	**1,304**	**281**	-	**1,585**

€/000	31.12.2005	Increases	Decreases	31.12.2006
Development costs	1,067	127		1,194
Accumulated amortization	(368)	(151)		(519)
Development costs	**699**	**(24)**	-	**675**
Patents and intellectual property rights	2,472	580	(4)	3,048
Accumulated amortization	(1,613)	(482)	4	(2,091)
Patents	**859**	**98**	-	**957**
Concessions, licences and trademarks	32	12		44
Accumulated amortization	(5)	(4)		(9)
Concessions, licences and trademarks	**27**	**8**	-	**35**
Cost	**3,571**	**719**	**(4)**	**4,286**
Accumulated amortization (note 12)	**(1,986)**	**(637)**	**4**	**(2,619)**
Net book value	**1,585**	**82**	-	**1,667**

The increase in development costs refers to costs incurred in the year for studying innovative technology designed to reduce engine consumption and emissions.
The increase in patents and intellectual property rights refers to the purchase of new software programmes.

All the intangible assets have a finite residual life and are amortized on a straight-line basis over the following periods:

- Development costs	5 years
- Intellectual property rights	3 years
- Concessions, licences, trademarks and similar rights	10 years

The company expensed a total of €4,306 thousand in R&D costs to income during the year (€4,060 thousand in 2005).

19. Equity investments

Details of equity investments are as follows:

€/000	31.12.2006	31.12.2005
Equity investments		
- in subsidiary companies	13,880	10,144
- in other companies	224	223
TOTAL	**14,104**	**10,367**

Equity investments in subsidiary companies amount to €13,880 thousand, having increased by €3,736 thousand since the end of 2005 as follows:

- €2,627 thousand (or PLN 9,998 thousand) in Victus Emak Sp. z o.o. headquartered in Poznan (Poland), for the capital increase approved by its shareholders on 24 January 2006;
- €41 thousand (or USD 50 thousand) to incorporate and pay in the share capital of EMAK USA Inc., a wholly-owned subsidiary of Emak S.p.A., headquartered in Wooster, Ohio; the company was incorporated on 12 April 2006 and started operations in July 2006;
- €1,000 thousand paid in the last quarter of 2006 to the subsidiary Comag S.r.l. in respect of future capital increases;
- €68 thousand paid in December 2006 to the subsidiary Emak Benelux N.V. for the capital increase approved in the same month.

Appendices 1 and 2 provide details of the value of equity investments in subsidiary companies.

Jiangmen Emak Outdoor Power Equipment Co. Ltd. is a wholly-owned subsidiary by virtue of the undertaking to buy back the 49% interest held by Simest S.p.A. on 30 June 2013.
The interest subscribed by Simest S.p.A. in this Chinese company amounts to €896 thousand and is matched by a corresponding liability reported under financial payables (note 25).

Equity investments in other companies relate to:

- a minority interest (10.42%) in Netribe S.r.l., a company operating in the IT sector. This investment is valued at its cost of €223 thousand since its fair value cannot be determined.

- one share for membership of the ECOPED Consortium as required by Decree 151/2005, with a value of €1 thousand.

20. Derivative financial instruments

This amount refers to losses realized on the fair value measurement of financial instruments that hedge foreign currency purchases.

At 31 December 2006 there were outstanding forward agreements for the purchase of JPY 157,676,472 maturing by end of June 2007 at an average exchange rate of 149.30.
These purchases, despite having the purpose and characteristics of currency hedges, do not satisfy the rules for hedge accounting; consequently, all the changes in their value are recognized in the income statement.

21. Other financial assets

Other non-current financial assets of €10,209 thousand, compared with €14,892 thousand at the end of the prior year, all refer to loans given to subsidiary companies.

These loans carry a rate of 3-month Euribor + 1 percentage point, except for the loan to Victus Emak Sp. z o.o., whose rate is 3-month Wibor + 1 percentage point and the loans to EMAK USA Inc. and Jiangmen Emak Outdoor Power Equipment Co. Ltd., whose rate is 3-month Libor + 1 percentage point.

The current portion, amounting to €9 thousand compared with €19 thousand in the prior year, refers to accrued income and prepaid expenses of a financial nature.

22. Trade and other receivables

Details of these amounts are as follows:

€/000	**31.12.2006**	**31.12.2005**
Trade receivables	39,221	38,076
Provision for doubtful accounts	(599)	(405)
Net trade receivables	**38,622**	**37,671**
Receivables due from related parties (note 35)	13,658	10,673
Prepaid expenses and accrued income	63	92
Other receivables	278	191
Total non-current portion	**52,621**	**48,627**
Other non-current receivables	6	21
Total non-current portion	**6**	**21**

Trade receivables include the following amounts in foreign currency:
- USD 9,164,259;
- JPY 15,948,263;
- PLN 26,315.

Trade receivables do not bear interest and generally fall due within 100 days.

All non-current receivables fall due within 5 years. There are no trade receivables falling due after more than one year.

"Trade receivables" are analyzed by geographical area as follows:

€/000	**Italy**	**Europe**	**Rest of world**	**Total**
Trade receivables	17,367	14,630	6,625	**38,622**
Receivables due from related parties	838	8,042	4,778	**13,658**

Movements in the provision for doubtful accounts are as follows:

€/000	31.12.2006	31.12.2005
Opening balance	**405**	**1,126**
Increases (note 11)	251	229
Decreases	(57)	(950)
Closing balance	**599**	**405**

The book value of this balance approximates its fair value.

23. Inventories

Inventories are detailed as follows:

€/000	31.12.2006	31.12.2005	Change
Raw, ancillary and consumable materials	19,342	20,844	(1,502)
Work in progress and semifinished products	4,816	5,075	(259)
Finished products and goods for resale	15,986	11,086	4,900
Total	**40,144**	**37,005**	**3,139**

The change in inventories reported in the company's income statement is an increase of €3,397 thousand, of which €259 thousand referred to inventory transferred with the sale of the plastic components business (note 5).

Inventories are stated net of a provision of €739 thousand at 31 December 2006 (€647 thousand at 31 December 2005). The purpose of this provision is to write down obsolete and slow-moving items to their estimated realizable value.

Details of changes in the provision for inventories are as follows:

€/000	FY 2006	FY 2005
Opening balance	647	480
Increases	359	438
Uses	(267)	(271)
Closing balance	**739**	**647**

Income recognized in the year for writebacks of goods sold in the period was not material.

None of the company's inventories at 31 December 2006 act as security against its liabilities.

24. Non-current assets held for sale

The entire balance of €269 thousand reported at 31 December 2006 refers to an industrial building in Brescello (RE), which is no longer used by the company, for which the sale process has started with the making of a preliminary agreement; in fact, the sale was completed in March 2007 (note 36).

25. Cash and cash equivalents

Cash and cash equivalents are detailed as follows:

€/000	31.12.2006	31.12.2005
Bank and post office deposits	826	1,074
Cash	1	3
Total	**827**	**1,077**

For the purposes of the cash flow statement, closing cash and cash equivalents comprise:

€/000	31.12.2006	31.12.2005
Cash and banks	827	1,077
Overdrafts (note 28)	(9,295)	(2,267)
Total	**(8,468)**	**(1,190)**

26. Equity

Share capital
Share capital is fully paid up at 31 December 2006 and amounts to €7,190 thousand, remaining unchanged since the end of 2005. It consists of 27,653,500 ordinary shares of par value €0.26 each.

Share premium reserve
The share premium reserve, which consists of the premium paid on new-issue shares, is €21,047 thousand at the end of 2006, staying unchanged since the prior year.

Treasury shares
The adjustment of €528 thousand to equity for the purchase of treasury shares represents the overall consideration paid on the market by Emak S.p.A. to buy the treasury shares held on 31 December 2006 (note 34).
The par value of these treasury shares is €28 thousand.

Other reserves:
The legal reserve is the same as a year earlier at €1,438 thousand.

The revaluation reserve at 31 December 2006 includes the reserves arising from revaluations under Law 72/83 for €371 thousand and under Law 413/91 for €767 thousand. No change has taken place in the period under review.

The extraordinary reserve amounts to €27,088 thousand at 31 December 2006, inclusive of all allocations of earnings in prior years.

At 31 December 2006, the full amount of the reserve for unrealized exchange gains of €253 thousand was reclassified to retained earnings.

At 31 December 2006, the untaxed reserves refer to €129 thousand in tax-related provisions for grants and donations and €394 thousand in merger surplus reserves. All these reserves have remained the same as at the end of 2005.

The following table analyzes equity according to its origin, its possible uses and distribution:

				Summary of uses in past three years	
Nature/Description (€/000)	**Amount**	**Possible use**	**Distributable portion**	**Coverage of losses**	**Other reasons**
Share capital	**7,190**				

Treasury shares	**(527)**				
Capital reserves					
Share premium reserve	21,047	A – B - C	21,047	-	-
Revaluation reserve under Law 72/83	371	A – B – C	371	-	-
Revaluation reserve under Law 413/91	767	A – B – C	767	-	-
Merger surplus reserve	394	A – B – C	394	-	-
Reserves formed from earnings					
Legal reserve	1,438	B	-	-	-
Extraordinary reserve	27,088	A – B – C	27,088	-	-
Untaxed reserves	129	A – B – C	129	-	-
Reserve for unrealized exchange gains	4,419	A – B – C	4,419		
IAS adjustments	2,426	A – B – C	2,426	-	-
Net profit for the period	9,023	A – B – C	9,023	-	-
Total	**73,765**		**65,664**	-	-
Undistributable portion(*)			**1,106**	-	-
Distributable balance			**64,558**	-	-

A: for share capital increases
B: for covering losses
C: for distribution to shareholders

(*): This represents the undistributable portion due to: the part restricted for unamortized deferred costs under article 2426.5 of the Italian Civil Code (€675 thousand) and the estimated taxes on the distribution of the revaluation reserves and merger surplus reserve (€431 thousand).

Gains recognized directly in equity
Details of and movements in income and expenses booked directly to equity are as follows:

€/000	FY 2006	FY 2005
Capital gains on sale of treasury shares	-	46
Taxes	-	(15)
Net profit on treasury shares	**-**	**31**

27. Trade and other payables

Details of these amounts are as follows:

€/000	31.12.2006	31.12.2005
Trade payables	20,745	28,330
Payables due to related parties (note 35)	9,510	10,614
Payables due to staff and social security institutions	2,273	2,622
Other payables	467	190
Total	**32,995**	**41,756**

Trade payables do not generate interest and are usually settled after 85 days. This balance includes the following amounts in foreign currency:

- USD 2,506,297;
- JPY 171,566,710;
- CHF 17,666;
- TWD 4,238,625.

"Trade payables" and "Payables due to related parties" are analyzed by geographical area below:

€/000	Italy	Europe	Rest of world	Total
Trade payables	14,487	1,183	5,075	**20,745**
Payables due to related parties	7,719	341	1,450	**9,510**

The book value reported in the balance sheet corresponds to fair value.

28. Financial liabilities

Financial liabilities at 31 December 2006 do not include any secured payables, except for finance leases which are secured by the lessor's right over the leased buildings.

Details of short-term loans and borrowings are as follows:

€/000	31.12.2006	31.12.2005
Overdrafts (note 25)	9,295	2,267
Bank loans	7,800	6,176
Finance leases	443	430
Financial accrued expenses and deferred income	77	63
Other loans	59	13
Total non-current portion	**17,674**	**8,949**

Details of long-term loans and borrowings are as follows:

€/000	31.12.2006	31.12.2005
Bank loans	376	376
Finance leases	2,892	3,335
Financial accrued expenses and deferred income	1	26
Other loans	896	896
Total non-current portion	**4,165**	**4,633**

Short-term bank loans are repayable by the end of August 2007.

Other loans, totalling €896 thousand, refer to the interest subscribed by Simest S.p.A. in the subsidiary Jiangmen Emak Outdoor Power Equipment Co. Ltd. This company is treated as a wholly-owned subsidiary by virtue of the undertaking to buy back the 49% interest held by Simest S.p.A. on 30 June 2013. The loan's face value does not differ significantly from its fair value.

The amount that Emak S.p.A. must repay Simest S.p.A. in 2013 will be the higher of Simest's share of equity reported in the latest approved financial statements of the Chinese company

Jiangmen Emak Outdoor Power Equipment Co. Ltd. and the amount of share capital subscribed by Simest S.p.A..

This transaction does not present any other significant risks for Emak S.p.A..

Long-term loans and borrowings are repayable as follows:

€/000	Due within 2 years	Due within 3 years	Due within 4 years	Due within 5 years	Total due within 5 years	Due beyond 5 years
Bank loans	75	75	75	75	301	75
Finance leases	925	483	497	512	2,417	475
Other loans	-	-	-	-	-	896
Total	**1,000**	**558**	**572**	**587**	**2,718**	**1,446**

The interest rates applied are as follows:
- bank loans: -bank loans: 3-6-9 month Euribor plus a spread varying from a minimum of 0.20% to a maximum of 0.625%;
- finance leases: 3-month Euribor plus a spread of 0.633% with quarterly indexation of the payments;
- SIMEST loan: in part at 6.75% per annum and in part at 3% per annum.

The following information is provided in relation to finance obtained in 2005 to purchase assets under lease:

€/000	31.12.2006	31.12.2005
Minimum future payments<1 year	531	531
Minimum future payments from 1 to 5 years	2,126	2,126
Minimum future payments beyond 5 years	1,011	1,542
Total minimum payments	**3,668**	**4,199**
Payables for future financial expenses	**(333)**	**(434)**
Present value	**3,335**	**3,765**
Interest rate	**3.6%**	**3.2%**

The company had around €56 million in undrawn credit lines at 31 December 2006.

Financial liabilities are analyzed by geographical area as follows:

€/000	Italy	Europe	Rest of world	Total
Bank loans and overdrafts	17,471	-	-	**17,471**
Finance leases	3,335	-	-	**3,335**
Other loans	955	-	-	**955**

29. Tax assets and liabilities

Deferred tax assets are detailed below:

€/000	31.12.2005	Increases	Decreases	31.12.2006
Costs deductible in future	376	-	(376)	-

Provision for inventory obsolescence	241	133	(99)	275
Impairment of assets	96	-	(60)	36
Provision for doubtful accounts	31	-	-	31
Other deferred tax assets	650	-	(121)	529
Total (note 14)	**1,394**	**133**	**(656)**	**871**

A total of €210 thousand in deferred tax assets will reverse in the next 12 months.

Deferred tax liabilities are detailed below:

€/000	31.12.2005	Increases	Decreases	31.12.2006
Capital gains on fixed asset disposals	32	-	(15)	17
Valuation of provision for employee termination indemnities under IAS 19	25	105	-	130
Buildings redeemed under finance lease IAS 17	1,762	-	(155)	1,607
Other deferred tax liabilities	498	138		636
Total	**2,317**	**243**	**(170)**	**2,390**

A total of €250 thousand in deferred tax liabilities will reverse in the next 12 months.

No deferred taxes have been recognized for revaluation reserves, which are partly untaxed reserves. This is because it is unlikely that any operations will be undertaken that would give rise to their taxation. The total amount of such taxes is around €430 thousand at 31 December 2006.

Current tax assets amount to €624 thousand at 31 December 2006 compared with €1,459 thousand a year earlier. They refer to VAT credits and other minor tax credits.

Current tax liabilities amount to €943 thousand at 31 December 2006 compared with €1,245 thousand a year earlier. They refer to payables for direct tax for the period and withholding taxes.

30. Long-term post-employment benefits

The liability mainly refers to the present value of employee termination indemnities payable at the end of an employee's working life, amounting to €5,322 thousand at 31 December 2005. Had this provision been stated at face value, it would have amounted to €4,929 thousand at year end.

Movements in this liability are as follows:

€/000	2006	2005
Opening balance	**5,565**	**5,107**
Current service cost (note 10)	791	845
Actuarial (gains)/ losses (note 10)	(225)	224
Interest cost on obligations (note 13)	112	102
Sale of Plastema business (note 5)	(201)	-
Disbursements	(720)	(713)
Closing balance	**5,322**	**5,565**

The principal economic and financial assumptions used are as follows:

	FY 2006	FY 2005
Annual inflation rate	2.1%	1.90%
Rising discount rate	3.9%	2.65 %/3.25%
Rate of worker turnover: decreasing rate	7%/1%	7%/1%
Rate of office staff turnover: decreasing rate	8%/1%	8%/1%
Rate of executive turnover: constant rate	6%	6%

Death rates have been estimated using the most recent Italian population statistics published by ISTAT.

31. Provisions for liabilities and charges

Movements in this balance are analyzed below:

€/000	31.12.2005	Increases	Decreases	31.12.2006
Provision for agents' termination indemnity	359	109	-	468
Total non-current portion	**359**	**109**	**-**	**468**
Provision for product warranties	71	97	(71)	97
Other provisions	401	119	(380)	140
Total non-current portion	**472**	**216**	**(451)**	**237**

The provision for agents' termination indemnity is calculated with reference to the agency contracts in existence at year end and refers to the indemnity that is likely to be paid to agents.

The provision for product warranties of €97 thousand refers to expected replacement or repair costs, calculated using estimates based on historical trends.

Other provisions amount to €140 thousand and consist of €21 thousand for the uninsured risks provisions to cover exemptions on product liability claims and €119 thousand for commitments associated with customer rebates.

The decrease in other provisions mostly refers to the settlement of the following disputes with the tax authorities:

a) Appeal to Central Tax Commission regarding national and local corporate income tax and VAT (IRPEG-ILOR-VAT) for fiscal years 1984-1985 and 1985-1986
This dispute was settled during the year, with the company paying the tax agreed and resulting in the release of €80 thousand in excess provisions to income.

b) Partial tax audit of fiscal year 2002 with reference to national corporate income tax, regional business tax and Vat (IRPEG-IRAP-VAT). During 2006 this dispute was settled with the taxpayer's acceptance of the assessment carried out in the second half of 2005 (under Decree 218/97). The liability prudently estimated in the past amounted to €95 thousand, while the dispute was settled for €58 thousand, meaning that excess provisions of €37 thousand were released to income.

32. Contingent liabilities

At the date of 31 December 2006 the company does not have any disputes that could give rise to future liabilities that have not already been reflected in the balance sheet.

33. Commitments

Fixed asset purchases

The company has €415 thousand in unrecorded commitments to purchase fixed assets at 31 December 2006 (€661 thousand at 31 December 2005). These commitments mostly refer to the purchase of equipment, plant and machinery.

Guarantees given

to third parties:

These amount to €581 thousand as follows:

- €33 thousand for sureties to the Ministry of Industry in respect of prize competitions;
- €275 thousand for a surety to the Naples Customs Office as security against customs duties;
- €273 thousand for securities to the Municipality of Bagnolo in Piano to cover the proper performance of primary urban development work under the urban development plan for Via Fermi.

on behalf of subsidiary companies:

These amount to €26 thousand and refer to a surety given to AXUS Italiana S.r.l. for vehicle lease payments by the subsidiary Comag S.r.l.

letters of patronage to subsidiary companies:

These amount to €20,043 thousand as follows:
- €3,500 thousand for credit lines given to the subsidiary Comag S.r.l.;
- €2,850 thousand for credit lines given to the subsidiary Emak Deutschland Gmbh;
- €1,600 thousand for credit lines given to the subsidiary Emak France SAS;
- €5,268 thousand (GBP 3,537,500) for credit lines given to the subsidiary Emak UK Ltd;
- €6,825 thousand (USD 8,213,307 and RMB 6,051,290) for credit lines given to the subsidiary Jiangmen Emak Outdoor Power Equipment Co..

34. Ordinary shares, treasury shares and dividends

Share capital is fully paid up at 31 December 2006 and amounts to €7,190 thousand. It consists of 27,653,500 ordinary shares of par value €0.26 each.

	31.12.2006	**31.12.2005**
Number of ordinary shares	27,653,500	27,653,500
Treasury shares	(108,849)	(6,000)
Total outstanding shares	**27,544,651**	**27,647,500**

The dividends for 2005 approved by the shareholders on 5 May 2006, totalling €4,144 thousand, were paid during 2006.

In accordance with the related authorization by shareholders, Emak S.p.A. has purchased treasury shares on the market for the purpose of improving the stock's liquidity. Emak S.p.A. held 6,000 treasury shares at 31 December 2005. It purchased 102,849 treasury shares between 1 January 2006 and 31 December 2006, while selling none, meaning that it held 108,849 such shares at the end of December 2006.

35. Related party transactions

The effects on the balance sheet and income statement at 31 December 2006 of transactions by Emak S.p.A. with subsidiaries, affiliated companies and any related parties are shown below.
Some of the companies belonging to the Yama Group supply Emak S.p.A. with parts and materials, exploiting synergies associated with technological research. These are mostly strategically important parts, whose purchasing policy is based on factors of quality and cost.

Emak S.p.A. supplies finished products mainly to its subsidiaries and to some of the trading companies within the Yama Group, allowing them to complete their product range.
All intercompany transactions, whether of a commercial or financial nature, are conducted on an arm's length basis.
No transactions were conducted with related parties of an atypical or unusual nature.

The main transactions with subsidiary and affiliated companies during the year ended 31 December 2006 and the receivable and payable balances at that date are reported below:

Receivables for loans and interest:

Companies controlled by Emak S.p.A. (€/000)	**Interest**	**Loans given**
Emak Benelux N.V.	34	795
Emak Deutschland Gmbh	20	504
Emak UK Ltd	21	516
Emak France SAS	106	2,645
Victus Emak Sp. z.o.o.	359	5,221
Jiangmen Emak Outdoor Power Equipment Co. Ltd	16	357
Emak USA Inc.	6	171
Total (note 21 and note 13)	**562**	**10,209**

Sale of goods and services and receivables**:**

Companies controlled by Emak S.p.A. (€/000)	Net sales	Dividends	Total	Receivables
Emak Suministros Espana SA	5,017	416	**5,433**	**800**
Comag S.r.l.	113	-	**113**	**72**
Emak Benelux N.V.	1,968	-	**1,968**	**447**
Emak Deutschland Gmbh	3,464	-	**3,464**	**2,505**
Emak UK Ltd	3,409	-	**3,409**	**949**
Emak France SAS	10,963	-	**10,963**	**2,815**
Jiangmen Emak Outdoor Power Equipment Co. Ltd	2,753	-	**2,753**	**2,782**
Victus Emak Sp. z.o.o.	5,486	-	**5,486**	**526**
Emak USA Inc.	2,059	-	**2,059**	**1,996**
Total	**35,232**	**416**	**35,648**	**12,892**
Total A	**35,232**	**416**	**35,648**	**12,892**

Companies controlled by Yama S.p.A. (€/000)	Net sales	Rental income	Total revenues	Receivables
Comet S.p.A.	169	-	**169**	**52**
Fima S.p.A	-	1	**1**	**1**
Garmec S.p.A.	215	-	**215**	**41**
Mac Sardegna S.r.l.	852	1	**853**	**633**
Sabart S.p.A.	134	1	**135**	**32**
Selettra S.r.l.	-	3	**3**	**1**
Tecomec S.p.A.	5	158	**163**	**5**
Unigreen S.p.A.	3	-	**3**	**-**
Bertolini S.p.A.	14	-	**14**	**1**
Total	**1,392**	**164**	**1,556**	**766**

Total B	**1,392**	**164**	**1,556**	**766**

Total A+B (note 22)	**36,624**	**580**	**37,204**	**13,658**

Purchase of goods and services and payables:

Companies controlled by Emak S.p.A. (€/000)	**Purchase of raw materials and finished products**	**Other costs**	**Total costs**	**Payables**
Emak Suministros Espana SA	27	170	**197**	**76**
Comag S.r.l.	20,993	-	**20,993**	**4,671**
Emak Benelux N.V.	-	65	**65**	**1**
Emak Deutschland Gmbh	30	281	**311**	**31**
Emak UK Ltd	-	182	**182**	**30**
Emak France SAS	14	416	**430**	**103**
Emak USA	-	71	**71**	**30**
Jiangmen Emak Outdoor Power Equipment Co. Ltd	15,712	-	**15,712**	**1,420**
Victus Emak Sp. z.o.o.	**-**	179	**179**	**43**
Total	**36,776**	**1,364**	**38,140**	**6,405**
Total A	**36,776**	**1,364**	**38,140**	**6,405**

Companies controlled by Yama S.p.A. (€/000)	**Purchase of raw materials and finished products**	**Other costs**	**Total costs**	**Payables**
Comet S.p.A.	674	-	**674**	**236**
Fima S.p.A.	530	54	**584**	**233**
Garmec S.p.A.	12	1	**13**	**2**
Mac Sardegna S.r.l.	-	6	**6**	**5**
Sabart S.p.A.	9	-	**9**	**2**
Selettra S.r.l.	3,052	47	**3,099**	**1,066**
Speed France S.a.r.l.	332	-	**332**	**57**
Tecnol S.p.A.	3,350	142	**3,492**	**1,059**
Tecomec S.p.A.	1,053	-	**1,053**	**306**
Bertolini S.p.A.	757	-	**757**	**84**
Unigreen S.p.A.	1	-	**1**	**1**
Yama Immobiliare S.r.l.	-	51	**51**	**-**
Total	**9,770**	**301**	**10,071**	**3,051**
Total B	**9,770**	**301**	**10,071**	**3,051**
Total A+B (note 27)	**46,546**	**1,665**	**48,211**	**9,456**

Ultimate parent company (€/000)	**Other costs**	**Total**	**Payables**
Yama S.p.A.	107	**107**	**54**
Total (note 27)	**107**	**107**	**54**

The emoluments accruing to directors and statutory auditors during 2006 were as follows:

€/000	FY 2006	FY 2005
Emoluments of directors and statutory auditors	407	201
Benefits in kind	6	6
Wages and salaries	586	573
Employee termination indemnities	44	46
Consulting fees	57	30
Total	**1,100**	**856**

No dealings of a significant amount took place with other related parties.

36. Subsequent events

The industrial building in Brescello (Re) was sold on 26 March 2007 for €800 thousand. The capital gain, recognized in 2007, amounts to €531 thousand.

Supplementary schedules

The following schedules, forming an integral part of the explanatory notes to the financial statements, are provided as appendices:

1. CHANGES IN EQUITY INVESTMENTS IN SUBSIDIARY COMPANIES

2. DETAILS OF EQUITY INVESTMENTS IN SUBSIDIARY COMPANIES

3. FINANCIAL HIGHLIGHTS OF THE ULTIMATE PARENT COMPANY

Appendix 1

Changes in equity investments

	31.12.2005				Changes	31.12.2006			
	Number of shares	Book value (€/000)	% total interest	of which direct	Sub-scriptions and purchases	Number of shares	Book value (€/000)	% total interest	of which direct
Italy									
Comag S.r.l.	1 share	3,535	99.44	99.44	1,000	1 share	4,535	99.44	99.44
Spain									
Emak Suministros Espana SA	405	572	90	90	-	405	572	90	90
Germany									
Emak Deutschland Gmbh	10,820	525	100	100	-	10,820	525	100	100
Great Britain									
Emak UK Ltd	17,350	691	100	100	-	17,350	691	100	100
Belgium									
Emak Benelux N.V.	499	59	99.99	99.8	68	499	127	99.99	99.8
France									
Emak France SAS	2,000,000	2,049	100	100	-	2,000,000	2,049	100	100
China									
Jiangmen Emak Outdoor Power Equipment Co. Ltd	-	1,735	100	100	-	-	1,735	100	100
Poland									
Victus Emak Sp. z.o.o.	550	978	100	100	2,627	32,800	3,605	100	100
USA									
Emak USA Inc.	-	-	-	-	41	1 share	41	100	100
Total subsidiary companies		**10,144**			**3,736**		**13,880**		

Appendix 2

Details of equity investments

€/000	Registered office	Book value	% interest	Share capital	Equity		Net profit/ (loss) for the year
					Total	attributable to group	
Comag S.r.l.	Pozzilli (IS)	4,535	99.44	1,850	8,185	8,139	578
Emak Suministros Espana SA	Madrid	572	90	270	4,385	3,947	621
Emak Deutschland Gmbh	Fellbach-Oeffingen	525	100	553	812	812	81
Emak UK Ltd	Stafford	691	100	26	902	902	164
Emak Benelux N.V.	Meer-Hoogstraten	127	99.8	130	48	48	18
Emak France SAS	Rixheim	2,049	100	2,000	3,683	3,683	836
Jiangmen Emak Outdoor Power Equipment Co. Ltd	Jiangmen	1,735	100	1,735	2,754	2,754	1,315
Victus Emak Sp. z.o.o.	Poznan	3,605	100	2,672	4,093	4,093	733
Emak USA Inc.	Wooster- Ohio	41	100	41	(159)	(159)	(206)
Total equity investments in subsidiary companies		**13,880**					

Appendix 3

Highlights from the latest financial statements of the ultimate parent company Yama S.p.A.

€/000		
BALANCE SHEET	**31.12.2005**	**31.12.2004**
Assets		
A) Receivables for uncalled share capital		-
B) Fixed assets	50,811	42,491
C) Current assets	4,641	12,462
D) Prepaid expenses and accrued income	10	22
Total assets	**55,462**	**54,975**
Liabilities		
A) Equity:		
Share capital	16,858	16,858
Reserves	17,120	16,303
Net profit for the year	2,850	2,274
B) Provisions for liabilities and charges	1	3
C) Provision for employee termination indemnities	12	9
D) Payables	18,609	19,495
E) Accrued expenses and deferred income	12	33
Total equity and liabilities	**55,462**	**54,975**
Guarantees, commitments and other risks		19,397

INCOME STATEMENT	**31.12.2005**	**31.12.2004**
A) Value of production	1,038	994
B) Cost of production	(1,305)	(1,020)
C) Financial income and expenses	4,522	3,734
D) Adjustments to financial assets	(1,700)	(1,450)
E) Extraordinary income and expenses	(33)	
Profit (loss) before taxes	**2,522**	**2,258**
Income taxes for the year	328	16
Net profit for the year	**2,850**	**2,274**

Emak S.p.A.
Independent Auditors' Report

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Auditors' report in accordance with article 156 of legislative decree n° 58 of 24 February 1998

To the Shareholders of
Emak S.p.A.

1. We have audited the financial statements of Emak S.p.A., which comprise the balance sheet, the statements of income, changes in shareholders' equity, cash flows and the related explanatory notes, as of and for the year ended December 31, 2006. These financial statements are the responsibility of Emak S.p.A.'s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

   The financial statements present for comparative purposes the corresponding data for the prior year, for which reference should be made to our auditors' report dated April 12, 2006.

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3. In our opinion, the financial statements of Emak S.p.A. as of and for the year ended December 31, 2006 comply with the International Financial Reporting Standards as adopted by the European Union as well as the Italian regulations implementing article 9 of Legislative Decree of February 28, 2005 No. 38; therefore they are clearly stated and give a true and fair view of the financial position, the results of operations, the changes in shareholders' equity and the cash flows of Emak S.p.A. for the year then ended.

Reggio Emilia, April 11, 2007

AXIS S.r.l.

Signed by
Franco Marchini - Partner

This report has been translated into the English language solely for the convenience of international readers.