

## Quarterly Report at 31.03.2011

## Emak Group Financial Highlights

### Income statement (€/000)

Year 2010		1Q 2011	1Q 2010
206.785	Net sales	65.915	63.117
23.509	EBITDA (1)	10.143	11.624
16.131	EBIT	8.359	9.817
11.619	Net profit	4.692	7.084

### Investment and free cash flow (€/000)

Year 2010		1Q 2011	1Q 2010
2.832	Investment in property, plant and equipment	558	478
1.297	Investment in intangible assets	157	111
18.997	Free cash flow from operations (2)	6.476	8.891

### Balance sheet (€/000)

31.12.2010		31.03.11	31.03.10
141.425	Net capital employed	163.290	159.450
(27.395)	Net debt	(45.616)	(46.148)
114.030	Total equity	117.675	113.302

### Other statistics

Year 2010		1Q 2011	1Q 2010
11,4%	EBITDA / Net revenues (%)	15,4%	18,4%
7,8%	EBIT / Net revenues (%)	12,7%	15,6%
5,6%	Net profit / Net revenues (%)	7,1%	11,2%
11,4%	EBIT/ Net capital employed (%)	5,1%	6,2%
0,24	Debt / Equity	0,39	0,41
916	Number of employees at period end	925	891

(1) "Ebit" plus "Amortization, depreciation and impairment losses"

(2) "Net Profit" plus "Amortization, depreciation and impairment losses"

## Consolidated financial statements

### Income statement

FY 2010	€/000	1Q 2011	1Q 2010
206.785	Sales	65.915	63.117
3.765	Other operating incomes	327	2.564
227	Change in inventories	3.490	1.809
(117.926)	Raw and consumable materials and goods	(40.315)	(36.948)
(32.467)	Salaries and employee benefits	(9.146)	(8.926)
(36.875)	Other operating costs	(10.128)	(9.992)
(7.378)	Amortization, depreciation and impairment losses	(1.784)	(1.807)
<b>16.131</b>	<b>Ebit</b>	<b>8.359</b>	<b>9.817</b>
535	Financial income	213	303
(1.756)	Financial expenses	(325)	(698)
1.648	Exchange gains and losses	(1.278)	558
<b>16.558</b>	<b>EBT</b>	<b>6.969</b>	<b>9.980</b>
(4.939)	Income taxes	(2.277)	(2.896)
<b>11.619</b>	<b>Net profit</b>	<b>4.692</b>	<b>7.084</b>
(49)	(Profit)/loss attributable to minority interests	(16)	(14)
<b>11.570</b>	<b>Net profit attributable to the group</b>	<b>4.676</b>	<b>7.070</b>
<b>0,424</b>	<b>Basic earnings pe share</b>	<b>0,172</b>	<b>0,259</b>
<b>0,424</b>	<b>Diluted earnings per share</b>	<b>0,172</b>	<b>0,259</b>

### Comprehensive income statement

FY 2010	€/000	1Q 2011	1Q 2010
<b>11.619</b>	<b>Net profit (A)</b>	<b>4.692</b>	<b>7.084</b>
1.898	Profits/(losses) deriving from the conversion of foreign company accounts	(1.047)	1.587
1.898	<b>Total other components to be included in the comprehensive income statement (B):</b>	<b>(1.047)</b>	<b>1.587</b>
<b>13.517</b>	<b>Comprehensive net profit (A)+(B)</b>	<b>3.645</b>	<b>8.671</b>
(49)	<b>Comprehensive net profit attributable to minority interests</b>	<b>(16)</b>	<b>(14)</b>
<b>13.468</b>	<b>Comprehensive net profit attributable to the Group</b>	<b>3.629</b>	<b>8.657</b>

## Schedule showing consolidated assets-liabilities-financial situation

## ASSETS

31.12.2010	€/000	31.03.2011	31.03.2010
	<b>Non-current assets</b>		
50.019	Property, plant and equipment	48.370	52.135
3.363	Intangible assets other than goodwill	3.253	2.937
10.573	Goodwill	10.400	10.653
0	Investment property	0	0
224	Equity investments	224	224
3.137	Deferred tax assets	3.481	3.130
906	Other receivables	907	907
<b>68.222</b>	<b>Total</b>	<b>66.635</b>	<b>69.986</b>
	<b>Current assets</b>		
70.665	Inventories	73.648	72.035
58.210	Trade and other receivables	89.598	86.326
1.918	Current tax assets	1.442	1.123
0	Other financial assets	0	0
639	Derivative financial instruments	24	584
7.339	Cash and cash equivalents	5.018	4.598
<b>138.771</b>	<b>Total</b>	<b>169.730</b>	<b>164.666</b>
<b>206.993</b>	<b>TOTAL ASSETS</b>	<b>236.365</b>	<b>234.652</b>

## EQUITY AND LIABILITIES

31.12.2010	€/000	31.03.2011	31.03.2010
	<b>Capital and reserves</b>		
113.475	Total Group	117.104	112.750
555	Non-controlling interest	571	552
<b>114.030</b>	<b>Total equity</b>	<b>117.675</b>	<b>113.302</b>
	<b>Non-current liabilities</b>		
22.741	Loans and borrowings	15.868	30.053
3.445	Deferred tax liabilities	3.145	3.456
4.902	Provisions for employee benefits	4.927	4.851
682	Provisions	712	688
1.516	Other non-current liabilities	1.459	1.735
<b>33.286</b>	<b>Total</b>	<b>26.111</b>	<b>40.783</b>
	<b>Current liabilities</b>		
44.269	Trade and other payables	51.554	55.664
2.055	Current tax liabilities	5.514	3.259
12.330	Loans and borrowings	34.114	20.296
302	Derivative financial instruments	676	981
721	Provisions	721	367
<b>59.677</b>	<b>Total</b>	<b>92.579</b>	<b>80.567</b>
<b>206.993</b>	<b>TOTAL EQUITY AND LIABILITIES</b>	<b>236.365</b>	<b>234.652</b>

## Consolidated net debt

( €/000)	31.03.2011	31.12.2010	31.03.2010	31.12.2009
Cash and banks	5.018	7.339	4.598	7.331
Securities and derivative financial instruments	24	639	584	433
Other financial assets	0	0	0	1
Financial liabilities	(34.114)	(12.330)	(20.296)	(13.754)
Derivative financial instruments	(676)	(302)	(981)	(529)
<b>Short-term net debt</b>	<b>(29.748)</b>	<b>(4.654)</b>	<b>(16.095)</b>	<b>(6.518)</b>
Financial liabilities	(15.868)	(22.741)	(30.053)	(31.432)
<b>Long-term net debt</b>	<b>(15.868)</b>	<b>(22.741)</b>	<b>(30.053)</b>	<b>(31.432)</b>
Cash and banks	5.018	7.339	4.598	7.331
Securities and derivative financial instruments	24	639	584	433
Other financial assets	0	0	0	1
Financial liabilities	(49.982)	(35.071)	(50.349)	(45.186)
Derivative financial instruments	(676)	(302)	(981)	(529)
<b>Total net debt</b>	<b>(45.616)</b>	<b>(27.395)</b>	<b>(46.148)</b>	<b>(37.950)</b>

## Changes in consolidated equity

The following table reports changes in consolidated equity between 31<sup>st</sup> December 2009 and 31<sup>st</sup> March 2011.

€/000	Share capital	Share premium	OTHER RESERVES				RETAINED EARNINGS		TOTAL GROUP	EQUITY ATTRIBUTABLE TO MINORITY INTERESTS	TOTAL
			Legal reserve	Revaluation reserve	Cumulative translation adjustment	Other reserves	Retained earnings	Net profit of the period			
Balance at 31.12.2009	5.161	21.047	1.438	1.138	(296)	27.733	38.489	9.383	104.093	538	104.631
Change in treasury shares									0		0
Payment of dividends							5.295	(9.383)	(4.088)	(31)	(4.119)
Other changes							2		2	(1)	1
Net profit for the period					1.898			11.570	13.468	49	13.517
Balance at 31.12.2010	5.161	21.047	1.438	1.138	1.602	27.733	43.786	11.570	113.475	555	114.030
Change in treasury shares									0		0
Profit reclassification							11.570	(11.570)	0		0
Other changes									0		0
Net profit					(1.047)			4.676	3.629	16	3.645
Balance at 31.03.2011	5.161	21.047	1.438	1.138	555	27.733	55.356	4.676	117.104	571	117.675

## **Comments on the financial statements**

This quarterly consolidated report has been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with article 154-*ter* ("Financial Reports") of the Consolidated Finance Act, introduced by legislative decree 195/2007.

The accounting standards and policies adopted by the group for preparing the quarterly consolidated financial statements are the same as those used for the consolidated financial statements at 31 December 2010.

It should be noted that:

- when it has not been possible to obtain invoices from suppliers for the provision of consulting and other services, a reasonable estimate of these costs has been made on the basis of the stage of completion of the work;
- current and deferred taxes have been calculated using the tax rates applied in the current year in the individual countries of operation;
- the quarterly report is not subject to audit;
- all amounts are expressed in thousands of euros, unless otherwise specified.

### **Scope of consolidation**

There has been no variation in the scope of consolidation. compared to 31 December 2010 and 31 March 2011.

### **Significant, non-recurring transactions or atypical, unusual transactions**

During the first quarter 2011 there have been of such nature.

### **Treasury shares**

At 31.12.2010 Emak S.p.A. held 397,233 treasury shares, worth € 2,029 thousand.

From 01.01.2011 to 31.03.2011 no treasury shares were purchased or sold by Emak S.p.A., and therefore its total holding and the relative value are unchanged compared to 31 December 2010.

## DIRECTORS' REPORT

### Income Statement

#### 1. Sales

The gradual recovery in demand starting from 2010 has continued in the first quarter of 2011.

1Q consolidated sales amounted to € 65,914 thousand compared to € 63,117 thousand in the same period of last year, an increase of 4.4%.

The following table shows the breakdown by segment of the sales in the first quarter 2011 and in the same period of the previous year.

€/000	31.03.2011	%	31.03.2010	%	% Change
Agriculture & Forestry	19.135	29,0%	17.907	28,4%	6,9%
Construction & Industry	3.232	4,6%	2.937	2,2%	10,0%
Lawn & Garden	35.400	53,7%	35.660	56,5%	-0,7%
Spare parts & Accessories	8.148	12,4%	6.613	10,5%	23,2%
<b>Total</b>	<b>65.915</b>	<b>100%</b>	<b>63.117</b>	<b>98%</b>	<b>4,4%</b>

The good results achieved on the market by products recently introduced into the range have led to a positive growth trend in the *Agriculture and Forestry* and the *Construction and Industry* lines.

Revenues in the *Gardening* line have slightly decreased in comparison with the first quarter of 2010, due to the tendency of the distribution network to keep stock levels down in the pre-season period.

A good sales trend can be seen in the *Spare Parts and Accessories* line of products thanks both to the increase in demand and to the difficulties encountered in the first quarter of 2010 associated with the start-up of the new logistics centre.

The geographical breakdown of sales is shown in the following table for both 1Q 2011 and 1Q 2010:

€/000	31.03.2011	%	31.03.2010	%	% Change
Italy	11.318	17,2%	12.115	19,2%	-6,6%
Europe	40.956	62,1%	39.299	62,3%	4,2%
Rest of world	13.641	20,7%	11.703	18,5%	16,6%
<b>Total</b>	<b>65.915</b>	<b>100%</b>	<b>63.117</b>	<b>100%</b>	<b>4,4%</b>

The decrease in sales in the Italian market, characterised in the first quarter by pre-seasonal sales, was caused by the tendency of the sales network to keep stocks low and to push back purchase orders nearer to sell out.

The performance achieved in Europe can be mainly attributed to the positive sales trend in Eastern countries, particularly in Russia and Ukraine.

Sales in the Rest of the World have been driven by the good result achieved in the Turkish market, while results have been mixed in the other markets.

## 2. EBITDA

EBITDA for 1Q 2011 amounts to € 10,143 thousand compared with € 11,624 thousand in the corresponding quarter of last year, a decrease of 12.7% (an increase of 7.8% excluding the capital gain from the sale of property of the first quarter 2010).

The figure for the period has been boosted by:

- the increase in volumes;
- the increase in sales prices.

The following factors had a negative effect on the figure:

- the increase in raw materials costs;
- the increase in personnel costs, caused mainly by the updating of salaries.

The Group's average number of employees, including temporary workers, was 1,083 compared to 1,127 in the same period of last year.

Ebitda as a percentage of revenues passed from 18.4% at 31 March 2010 (14.9% excluding the capital gain from the sale of property) to 15.4% at 31 March 2011.

## 3. EBIT

EBIT in 1Q 2011 amounted to € 8,359 thousand, against € 9,817 thousand in 1Q 2010, a decrease of 14.9% (an increase of 10% not considering the capital gain from the sale of property).

Depreciation and amortization are € 1,784 thousand, in line with the first quarter 2010.

EBIT as a percentage of sales goes from 15.6% (12% excluding the capital gain from the sale of property) of the first quarter 2010 to 12.7% of the first quarter 2011.

Non-annualized EBIT as a percentage of net invested capital has gone from to 6.2% at 31 March 2010 (4.8% excluding the capital gain from the sale of property) to 5.1% at 31 March 2011.

## 4. Net profit

Net profit in 1Q 2011 amounts to € 4,692 thousand compared to € 7,084 of the corresponding period of last year, a decrease of 33.8% (a decrease of 15.7% excluding the capital gain from the sale of property).

Financial management (income and expenditure) has improved compared to the same period in the previous financial year, mainly as a result of the MTM valuation of hedging instruments for interest rate risks in force at the closing date.

Foreign exchange management has performed less well compared to the same period in the previous financial year, mainly as a result of the valuation of hedging instruments in force at the closing date.

The average tax rate of 32.7% has increased compared to 29% for the same period in the previous financial year, due to the different distribution of taxable income between Group companies.



## Balance sheet and financial position

### 1. Net non-current assets

During 1Q 2011 Emak Group invested € 715 thousand in property, plant and equipment and intangible assets, as follows:

- € 364 thousand for product innovation;
- € 144 thousand for adjustment of production capacity and for process innovation;
- € 181 thousand for upgrading the computer network;
- € 12 thousand for adjustment of industrial buildings;
- € 14 thousand for other managerial working investments.

Investments broken down by geographical area are as follows:

- € 549 thousand in Italy;
- € 7 thousand in Europe;
- € 95 thousand in the Rest of the World.

### 2. Net working capital

Net working capital was € 23,150 thousand higher than at the end of December 2010, up from € 83,747 thousand to € 106,897 thousand, in line with the seasonal nature of sales. The following movements are shown in detail below:

€/000	1Q 2011	1Q 2010
<b>Net working capital at 01 January</b>	<b>83.747</b>	<b>82.881</b>
increase/(decrease) in inventories	2.983	2.646
increase in trade receivables	30.699	28.026
increase in trade payables	(7.108)	(10.834)
other changes	(3.424)	(2.524)
<b>Net working capital at 31 March</b>	<b>106.897</b>	<b>100.195</b>

The trend in net working capital compared to the same period of the previous financial year is explained by the increase in sales.

### 3. Equity

Total equity amounts to € 117,675 thousand compared with € 114,030 thousand at 31<sup>st</sup> December 2010. Earnings per share for the first quarter 2011 are € 0.172, against € 0.259 for the same period of last year.

### 4. Net financial position

Net debt increased from € 27,395 thousand at 31.12.2010 to € 45,616 thousand at 31.03.2011. The increase is mainly attributable to the increase of the net working capital.

Free cash flow from operations was € 6,476 thousand after tax, compared with € 8,891 thousand (including the capital gain from the sale of property) in the same period of last year.

Long-term financial payables include not only the non-current portion of loan principal repayments but also the portion of finance leases falling due after more than 12 months.

Short-term financial payables mainly consist of:

- overdrafts;
- loan repayments falling due by 31.03.2012;
- amounts due to other providers of finance falling due by 31.03.2012.

## Business Outlook

The economic recovery is gaining in strength at a macro-economic level, despite the fact that financial conditions are still fragile in the advanced economies. Private demand, however, is gradually on the rise again, reducing fears of a new recession due to the absence of government-backed stimuli. Growth is rapid and robust in the emerging economies.

In EMAK's reference market there was a generalised recovery in demand in the first quarter

Given the results achieved in the first three months and the considerable number of new products that will be launched on the market during the year, the Group confirms for 2011 its growth forecast in turnover of around 5%.

The risks that could hinder the achievement of these results are mainly external factors, such as the general economic trend, rises in raw material costs, currency trends and weather conditions.

## Subsequent events

On April 29th, 2011, the parent company Emak S.p.A. has signed the final agreement for the acquisition of the 61% shareholding of **Epicenter LLC** (Ukraine), a company with registered office in Kiev, Ukraine, the distributor of Oleo-Mac trademark products in the Ukrainian market since 2000, for a consideration of about € 1.2 million.

The deal is subjected to the suspensive condition of the authorization by the Ukrainian antitrust authorities.

Epicenter LLC closed 2010 financial year with a sales turnover of about € 5.1 million and a net profit of about € 0.54 million.

The operation is in line with the Group's policy of development through external means in markets with high growth potential. With this acquisition, Emak aims to attain greater penetration in a market with high potential such as the Ukrainian market, where it already has a significant market presence.

The contract also provides for EMAK's right of a call option for the acquisition of a further 14% stake to be exercised by 2013, with the possibility, therefore, of bringing its total stake to 75%.

Bagnolo in Piano (RE), 13 May 2011

On behalf of the Board of Directors

Chairman

**Fausto Bellamico**

STATEMENT

Subject: Quarterly report at 31<sup>st</sup> March 2011.

I, the undersigned, Aimone Burani, the executive in charge of preparing the accounting statements of EMAK S.p.A. hereby

CERTIFY,

in accordance with the second paragraph of Art. 154-bis, of Italian Legislative Decree No. 58 of 24 February 1998

that, to the best of my knowledge, the Quarterly Report at 31<sup>st</sup> March 2011, examined and approved today by the Board of Directors of the company, corresponds with the accounting documents, ledgers and records,

Yours faithfully,

Bagnolo in Piano (RE), 13 May 2011

Aimone Burani  
executive in charge  
of preparing the accounting statements