



## **Quarterly report on performance at 30.09.2005**

### **Emak S.p.A.**

#### Headquarter

42011 Bagnolo in Piano (RE), Via E. Fermi 4 - Italia

Stock capital: euro 7.189.910

Registro delle Imprese di Reggio Emilia C.F. 00130010358

The report was approved by the Board of Directors at 14th November 2005

Data of approval: 14th November 2005

The quarterly report is available on the web site: [www.emak.it](http://www.emak.it)

## Consolidated financial highlights

### Income statements (€/'000)

FY 2004		III Q 2005	III Q 2004	nine months 2005	nine months 2004
162.785	Net sales	35.494	29.328	142.785	123.377
22.095	Ebitda	3.626	2.710	19.985	17.998
16.570	EBIT	2.312	1.348	16.170	13.990
8.832	Net profit	1.192	714	9.094	7.802

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

FY 2004		III Q 2005	III Q 2004	nine months 2005	nine months 2004
6.779	Investment in property, plant and equipment	1.246	1.823	3.898	5.420
933	Investment in intangible assets	237	187	741	819
14.357	Free cash flow from operations	2.506	2.076	12.909	11.810

### Balance sheet (€/'000)

31.12.2004		30.09.2005	30.09.2004
86.022	Net capital employed	83.756	77.540
(16.522)	Net debt	(8.913)	(8.924)
69.500	Total equity	74.843	68.616

### Other statistics

FY 2004		III Q 2005	III Q 2004	nine months 2005	nine months 2004
13,6%	EBITDA / Net sales (%)	10,2%	9,2%	14,0%	14,6%
10,2%	EBIT / Net sales%	6,5%	4,6%	11,3%	11,3%
5,4%	Net profit / Net sales (%)	3,4%	2,4%	6,4%	6,3%
19,3%	EBIT / Net capital employed (%)			19,3%	18,0%
0,24	Debt /Equity			0,12	0,13
634	Number of employees at period end			711	616

## Segment information

€/000	Sales		Total assets		Investment in fixed assets	
	Nine months	Nine months	30.09.2005	31.12.2004	Nine months	Nine months
	2005	2004			2005	2004
Italy	30.137	27.149	106.768	108.555	2.437	5.864
Europe	92.568	77.802	35.941	36.643	455	267
Rest of the world	20.080	18.426	4.655	1.397	1.747	108
<b>Total</b>	<b>142.785</b>	<b>123.377</b>	<b>147.364</b>	<b>146.595</b>	<b>4.639</b>	<b>6.239</b>

## Emak Group – Consolidated financial statements at September 30<sup>th</sup> 2005

### ASSETS

31.12.2004	€/000	30.09.2005	30.09.2004
<b>Non-current assets</b>			
30.952	Property, plant and equipment	31.594	31.139
1.879	Intangible assets	2.114	2.047
287	Investment property	410	296
223	Equity investments	223	223
2.178	Deferred income tax assets	2.004	1.748
19	Other financial assets	4	22
111	Trade and other receivables	76	140
<b>35.649</b>	<b>Total</b>	<b>36.425</b>	<b>35.615</b>
<b>Non-current assets held for sale</b>			
267	Assets held for sale	250	0
<b>267</b>	<b>Total</b>	<b>250</b>	<b>0</b>
<b>Current assets</b>			
50.623	Inventories	51.825	46.349
52.795	Trade and other receivables	44.986	39.380
1.775	Current income tax assets	409	540
25	Other financial assets	21	43
256	Marketable securities at fair value	29	450
5.205	cash and banks	13.419	12.106
<b>110.679</b>	<b>Total</b>	<b>110.689</b>	<b>98.868</b>
<b>146.595</b>	<b>Total assets</b>	<b>147.364</b>	<b>134.483</b>

**EQUITY AND LIABILITIES**

<b>31.12.2004</b>	<b>€/000</b>	<b>30.09.2005</b>	<b>30.09.2004</b>
<b>Capital and reserves</b>			
7.190	Issued capital	7.190	7.190
21.047	Share premium	21.047	21.047
(47)	Treasury shares	0	(43)
26.243	Other reserves	30.325	26.381
14.621	Retained earnings (accumulated losses)	15.830	13.569
<b>69.054</b>	<b>Total</b>	<b>74.392</b>	<b>68.144</b>
<b>446</b>	<b>Minority interests</b>	<b>451</b>	<b>472</b>
<b>69.500</b>	<b>Total equity</b>	<b>74.843</b>	<b>68.616</b>
<b>Non-current liabilities</b>			
9.454	long-term loans and borrowings	3.871	9.672
2.243	deferred income tax liabilities	2.229	1.630
5.402	Employee benefits	5.638	4.934
247	Provisions for liabilities and charges	304	311
995	Othe non-current liabilities	897	1.232
<b>18.341</b>	<b>Total</b>	<b>12.939</b>	<b>17.779</b>
<b>Current liabilities</b>			
44.401	Trade and other payables	35.725	32.013
1.539	Current income tax liabilities	4.897	4.003
12.461	Short-term loan and borrowings	18.507	11.873
112	Short-term derivative financial instruments	9	0
241	Provisions for liabilities and charges	444	199
<b>58.754</b>	<b>Total</b>	<b>59.582</b>	<b>48.088</b>
<b>146.595</b>	<b>TOTAL LIABILITIES</b>	<b>147.364</b>	<b>134.483</b>

## Consolidated income statements

FY 2004	€/000	3Q 2005	3Q 2004	9M 2005	9M 2005
162.785	Revenues	35.494	29.328	142.785	123.377
1.355	Other operating revenues	317	138	990	685
4.422	Change in inventories	(1.462)	(341)	1.041	45
(97.926)	Raw and consumable materials	(18.323)	(15.462)	(83.396)	(70.282)
(22.720)	Payroll costs	(5.672)	(5.122)	(18.794)	(16.593)
(25.821)	Other operating costs	(6.728)	(5.831)	(22.641)	(19.234)
(5.525)	Amortization, depreciation and impairment losses	(1.314)	(1.362)	(3.815)	(4.008)
<b>16.570</b>	<b>EBIT</b>	<b>2.312</b>	<b>1.348</b>	<b>16.170</b>	<b>13.990</b>
427	Financial income	100	64	299	331
(1.403)	Financial expenses	(272)	(272)	(968)	(1.017)
(169)	Exchange gains and losses	161	54	36	(51)
<b>15.425</b>	<b>Profit before taxes</b>	<b>2.301</b>	<b>1.194</b>	<b>15.537</b>	<b>13.253</b>
(6.593)	Income taxes	(1.109)	(480)	(6.443)	(5.451)
<b>8.832</b>	<b>Net Profit</b>	<b>1.192</b>	<b>714</b>	<b>9.094</b>	<b>7.802</b>
(91)	Profit/loss attributable to minority interest	(10)	(23)	(64)	(111)
<b>8.741</b>	<b>Net profit attributable to the group</b>	<b>1.182</b>	<b>691</b>	<b>9.030</b>	<b>7.691</b>
<b>0,32</b>	<b>Basic earnings per share</b>	<b>0,04</b>	<b>0,03</b>	<b>0,33</b>	<b>0,28</b>

## Consolidated net financial position

31.12.2004	€/000	30.09.2005			30.09.2004		
		short	medium/long	Total	short	medium/long	Total
<b>5.205</b>	Cash and banks	13.419		<b>13.419</b>	12.106		<b>12.106</b>
<b>256</b>	Financial credit	30		<b>30</b>	450		<b>450</b>
<b>44</b>	Other financial credit	21	4	<b>25</b>	43	22	<b>65</b>
<b>(21.915)</b>	Financial debt	(18.507)	(3.871)	<b>(22.378)</b>	(11.873)	(9.672)	<b>(21.545)</b>
<b>(112)</b>	Other financial debt	(9)		<b>(9)</b>			<b>0</b>
<b>(16.522)</b>	<b>Net financial position</b>	<b>(5.046)</b>	<b>(3.867)</b>	<b>(8.913)</b>	<b>726</b>	<b>(9.650)</b>	<b>(8.924)</b>

## Changes in consolidated equity

€/000	Share capital	Share Premium	Treasury Shares	Other Reserves					Retained earnings/accumulated losses		Total Group	Equity attributable to minority interest	TOTAL
				Legal reserve	Revaluation reserve	Reserve for hedging instruments	Cumulative translation adjustment	Other reserves	Retained earnings/accumulated losses	Net profit for the period			
Saldo al 31.12.2003	7.190	21.047	(72)	1.438	1.138	(121)	4	19.704	13.864		64.192	674	64.866
Changes in translation reserve							(63)				(63)		(63)
Sale of treasury shares			25						19		44		44
Distribution of dividends									(4.006)		(4.006)	(52)	(4.058)
Changes arising from hedging transactions						46					46		46
Other changes								100			100	(267)	(167)
Net profit for 2004								3.997	(3.997)	8.741	8.741	91	8.832
Total at 31.12.2004	7.190	21.047	(47)	1.438	1.138	(75)	(59)	23.801	5.880	8.741	69.054	446	69.500
Changes in translation reserve							179				179		179
Sale of treasury shares			47						29		76		76
Distribution of dividends								3.839	892	(8.741)	(4.010)	(59)	(4.069)
Changes arising from hedging transactions						66					66		66
Other changes								(2)	(1)		(3)		(3)
Net profit for first nine months 2005										9.030	9.030	64	9.094
Total at 30.09.2005	7.190	21.047	0	1.438	1.138	(9)	120	27.638	6.800	9.030	74.392	451	74.843

## Emak at September 30<sup>th</sup> 2005

### Report on performance

Sales in the 2005 third quarter was equal to €35,494 thousand compared to €29,328 thousand of the same period of the previous year, with an increase of 21%.

Sales in the first nine months increased of 15.7%, from €123,377 thousand to €142,785 thousand.

Sales are broken down by product as follows:

€/000	30.09.2005	%	30.09.2004	%	Change %
Brushcutter	25,652	18%	23,796	19.3%	7.8%
Chainsaw	27,423	19.2%	24,242	19.6%	13.1%
Lawnmowers	24,353	17.1%	17,623	14.3%	38.2%
Garden tractors	12,239	8.6%	10,188	8.3%	20.1%
Spare part and accessories	15,271	10.6%	14,948	12.1%	2.2%
Other products and services	37,847	26.5%	32,580	26.4%	16.2%
<b>Totale</b>	<b>142,785</b>	<b>100%</b>	<b>123,377</b>	<b>100%</b>	<b>15.7%</b>

All principal product ranger showed a general increased due to products innovation and competitiveness. Lawnmowers and garden tractors benefited from a prolonged period of good weather, longer than usual, in most European countries.

Chainsaws, typical forestry product, continued to enjoy good health also thanks to oil petrol elevates prices.

Sales are broken down by geographical area as follows:

€/000	30.09.2005	%	30.09.2004	%	Change %
Italy	30,137	21.1%	27,147	22%	11%
Europe	92,568	64.8%	77,802	63.1%	19%
Rest of world	20,080	14.1%	18,428	14.9%	9%
<b>Total</b>	<b>142,785</b>	<b>100%</b>	<b>123,377</b>	<b>100%</b>	<b>15,7%</b>

Sales in Italy were up 11% at €30,137 thousand, compared to the same period of the previous year.

Sales in Europe, where Emak has own direct commercial branches, have risen especially in France and Germany thank to the investments for the commercial network; the demand in the Eastern European markets continue to increase.

Sales in the rest of the world grew, at a lower rate than the others, thanks to the liveliness of several markets like Turkey and Oceania. Sales in South America had a recovery.

### Buy back of Emak S.p.A. shares

Following the Shareholders' authorisation given in the meeting, Emak S.p.A. purchased and sold out its own shares on the market in order to improve stock's liquidity. At 31.12.2004 Emak S.p.A. held 36,468

treasury shares in the stock portfolio; at September, 30<sup>th</sup>, 2005 the company didn't have any share in portfolio.

From 01.01.2005 until 31.10.2005 a total of 4,000 treasury stock shares were sold out and 22,968 treasury stock shares were purchased so at 31.10.2005 there were 3,000 treasury shares in portfolio.

## Notes to the accounts

As required by article 82 of CONSOB resolution 11971/99, as modified by CONSOB resolution 14490 at April, 14<sup>th</sup>, 2005, the quarterly report has been prepared in accordance with IAS 34, (Interim financial reports), applied following the article 6 of (EC) Regulation 1606/2002.

Emak Group adopted the International Accounting and Reporting Standards IAS/IFRS in the financial statements at June 30<sup>th</sup> 2005.

Compared to September 31<sup>st</sup>, 2004, the reconciliation of equity, called for by the first adoption of International Accounting and Reporting Standards are showed in the appendix of the present quarterly report.

The appendix of 2005 Half-Year Report contains the reconciliation of equity and net profit at the start and closed of 2004.

The quarterly statement is not subject to auditing.

Compared to December, 31<sup>st</sup>, 2004 there are no changes in the consolidation area.

## Notes to the financial statements

### 1. Property, plant and equipment

In the 2005 first nine months the Emak Group investments in property, plant and equipment and intangible assets amounted to €4,639 thousand. They related to:

- €1,102 thousand for product innovation (mainly analyses, research and equipment for new products);
- €651 thousand for boosting production capacity and for process innovation;
- €741 thousand for upgrading the computer network and other investment in management infrastructure;
- €2,145 thousand for modernizing existing buildings and constructing the new production plant in China.

### 2. Net working capital

Net working capital decreased by €2,860 thousand, compared to the December 31<sup>st</sup>, 2004, and it passed from €59,012 thousand to €56,152 thousand. Below we summarise the main differences:

- |                          |                   |
|--------------------------|-------------------|
| - change in inventories  | +€1,202 thousand  |
| - change in receivables  | - €7,809 thousand |
| - change of tax payables | - €4,725 thousand |
| - change of payables     | + €8,675 thousand |

- change risk and charge founds - €203 thousand

Change in receivables was in relation with the normal seasonal trend in sales; payables reflected the seasonality of purchases.

### 3. Net equity

Consolidated net equity was equal to €74,843 thousand compared to €69,500 thousand at December, 31st 2004. At September 30<sup>th</sup> 2005, earnings per share was €0,33 compared to €0,28 of the same period of the preceding year.

### 4. Net financial debt

Net financial debt decreased from €16,522 thousand at 31.12.2004 to €8,913 thousand at 30.09.2005 thanks to the solid level of cash flow generated, investments excluded.

During the first nine months free cash flow from operations, after taxes, was equal to €12,909 thousand compared to €11,810 thousand of the same period of the preceding year.

As well as loan instalments, medium/long-term financial liabilities also include capital portions with due dates beyond 12 months and the residual capital debt of financial leasing agreements (accounted in accordance with the reference international accounting principle I.A.S. n. 17).

Short-term financial payables chiefly include:

- overdrawn current accounts;
- loan instalments with due date within 30.09.2006;
- payables to other sources of finance falling due within 30.09.06.

## Notes to economic data

### 1. Earning before interest, taxes and depreciation

Revenues for the first nine months of 2005 totalled €142,785 thousand, compared to €123,377 thousand for the same period in the preceding year, rising by 15.7%. Revenues in the 2005 3<sup>rd</sup> Quarter amounted to €35,494 thousand compared to €29,328 thousand of the same period in the preceding year, up 21%.

The gross operating margin for the nine months was €19,985 thousand, up 11%, compared to €17,998 thousand of the same 2004 period. The gross operating margin in the 2005 3<sup>rd</sup> Quarter amounted to €3,626 thousand, up 33.8%, compared to €2,710 thousand of the same period in the preceding year. In value the EBITDA increased of €1,987 thousand, 14% on sales, in the first nine months of 2005 while it was the 14.6% on sales the previous year.

The 9 months profits benefited from the upturn in sales while market/product/channel mix was worth.

The following factors negatively affected the profits:

- increase in the price of the principal raw materials, partially offset by an efficient policy of purchase marketing, with relevant consequences on the price of the components;
- growth in payroll costs due to the rise in wages and increase in average number of employees;
- start of production in China;



- growth in transportation costs and commercial cost as a result of higher production volumes.

The number of employees at 30th September 2005 was 711 compared to 611 units at 30th September 2004 and to 634 units at 31<sup>st</sup> December 2004.

## **2. Earnings before interests and taxes**

The 2005 nine months EBIT amounted to €16,170 thousand, 11.3% on sales, compared to €13,990, 11.3% on sales, of the same period of the previous year.

In 2005 3Q EBIT was €2,312 thousand, 6.5% on sales, compared to €1,348 thousand, 4.6% on sales, of 2004 3Q.

The decrease of depreciation and impairment losses cost favoured a better operative income.

## **3. Net Profit**

The 2005 nine months net profit was €9,094 thousand, 6.4% on sales, compared to €7,802 thousand, 6.3% on sales in the same period of the previous year; in the 2005 3<sup>rd</sup> Quarter the net profit was €1,192 thousand, 3.4% on sales, compared to €714 thousand, 2.4% on sales, of the 2004 3<sup>rd</sup> Quarter.

The financial activities were better compared to the same period of the previous year. Tax rate on profit before taxes was confirmed around 41%.

## **Subsequent events**

### Victus acquisition

Following to signed agreements, on 11.10.2005, Emak S.p.A. acquired the 100% of Polish Victus-Eco Sp ZO.O, based in Poznan, Poland, for an amount of Sloty 3,000,000.

Victus-Eco Sp ZO.O acquired, within the end of this year, the business of Victus International Trading Sa (PL) a company that operates in the gardening and forestry sector and has reported turnover of around €15 million for the 2004/2005 season.

The value of the acquisition has been defined in about €9.6 million, included the acquisition of the stake in Victus Eco above mentioned.

## **Business outlook**

The positive performance of sales in the third quarter (up 21% compared to the same period 2004) benefited from a prolonged period of good weather in most European countries. At the season end stock is at a normal level.

Forecasts for the last quarter of the year, normally characterized by pre-season sales, are in line with the sales of the same period of the last year; this brings us to estimate a close of 2005 with a growth in sales of more than 10%.

Bagnolo in Piano (RE), 14th November 2005

On behalf of The Board of Directors

The Chairman

**Giacomo Ferretti**