# Annual report 2010

These financial statements were approved by the Board of Directors on 16 March 2011.

This report is available on the Internet at the address www.emak.it

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## Corporate Officers

On 15 April 2010 the Ordinary General Meeting of the Shareholders of the Parent Company, Emak S.p.A., resolved to appoint the Board of Directors for the financial years 2010-2012; in the same meeting the Board of Auditors was appointed for the same duration.

**Board of Directors**

| | |
|---|---|
| Chairman and Chief Executive Officer | Fausto Bellamico |
| Deputy Chairman | Aimone Burani |
| Executive Directors | Stefano Slanzi |
| | Luigi Bartoli |
| Independent Directors | Ivano Accorsi |
| | Andrea Barilli |
| | Gian Luigi Basini |
| Directors | Carlo Baldi |
| | Paola Becchi |
| | Giuliano Ferrari |
| | Giacomo Ferretti |
| | Vilmo Spaggiari |
| | Guerrino Zambelli |

***Audit Committee and Remuneration Committee***

| | |
|---|---|
| Chairman | Andrea Barilli |
| | Ivano Accorsi |
| | Gian Luigi Basini |

**Board of Statutory Auditors**

| | |
|---|---|
| Chairman | Marco Montanari |
| Acting auditors | Paolo Caselli |
| | Martino Masini |
| Alternate auditors | Mario Venezia |
| | Eugenio Poletti |

| | |
|---|---|
| **Independent Auditors** | Fidital Revisione S.r.l. |
| **Financial Reporting Officer** | Aimone Burani |

**Supervisory Body as per Legislative Decree 231/01**

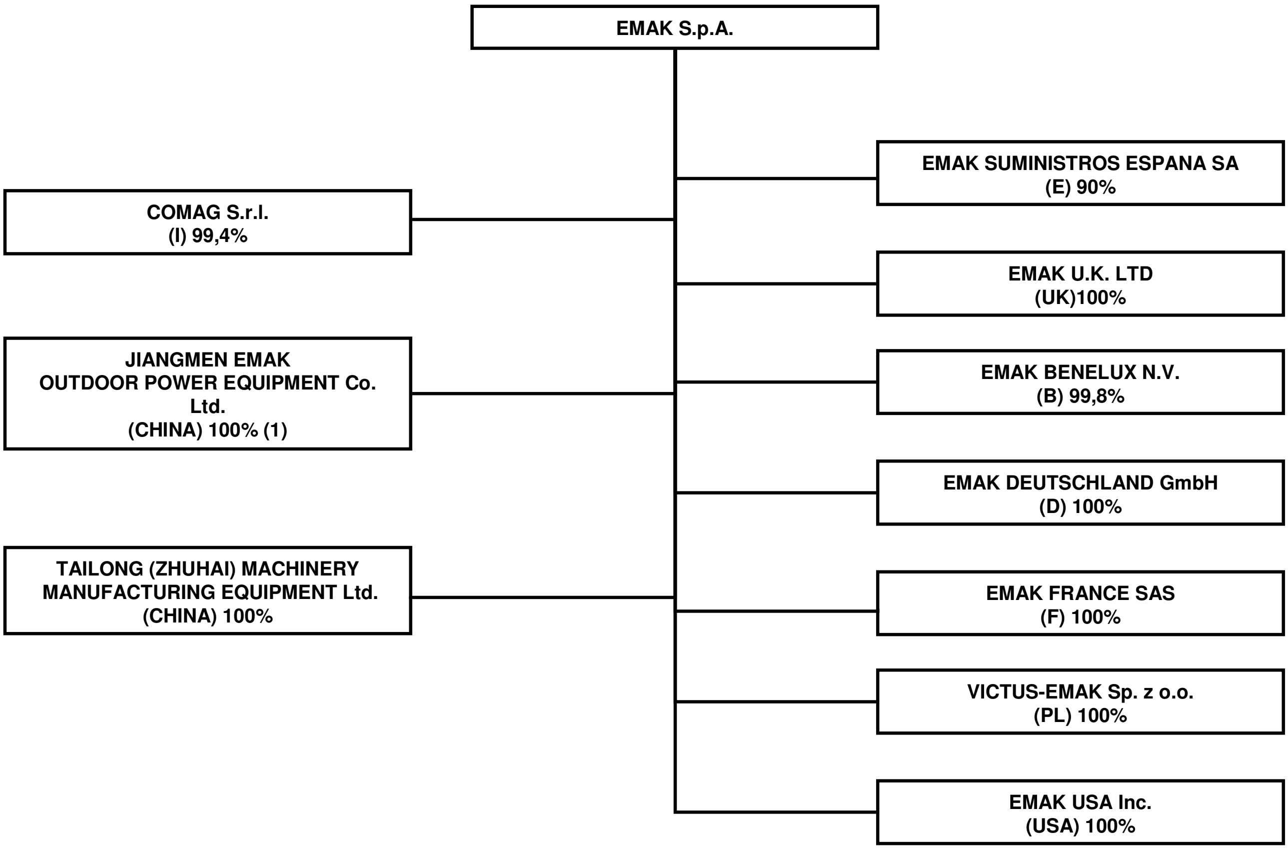
| | |
|---|---|
| Chairman | Francesca Baldi |
| Acting members | Roberto Bertuzzi |
| | Guido Ghinazzi |

## Group Structure

The Emak Group is one of the top European operators in the manufacture and distribution of outdoor power equipment for gardening, forestry, agriculture and construction, such as brush cutters, lawnmowers, chainsaws, motor hoes and power cutters.
The Group directly manages distribution in the Italian market and in another 8 foreign markets (the United States, France, Germany, the UK, Spain, Poland, Benelux and China) through its commercial subsidiaries.
The Group achieves more than 50% of its total turnover in these markets and directly supplies more than 5,000 retailers.
The main objectives of the commercial subsidiaries are: to promote sales and increase market share through marketing investments in the sales network; the creation of value in terms of profitability achieved on sales; assuring management autonomy and independence while complying with strategic lines and company objectives; the maximisation of client satisfaction in the respective markets and optimising key aspects for success.

The Group’s current production structure comprises four factories. Two are situated in Italy, in Bagnolo in Piano (Reggio Emilia) and in Pozzilli (Isernia); the first manufactures hand-held products for the premium segment, including rotavators, mowing machines and transporters; the second manufactures lawn-mowers and motor hoes. The other two factories are situated in China, one at Jiangmen, which produces hand-held and electric products aimed at the price-sensitive segment, and the other at Zhuahi, which produces cylinders.

The Emak Group is structured as follows at 31 December 2010.

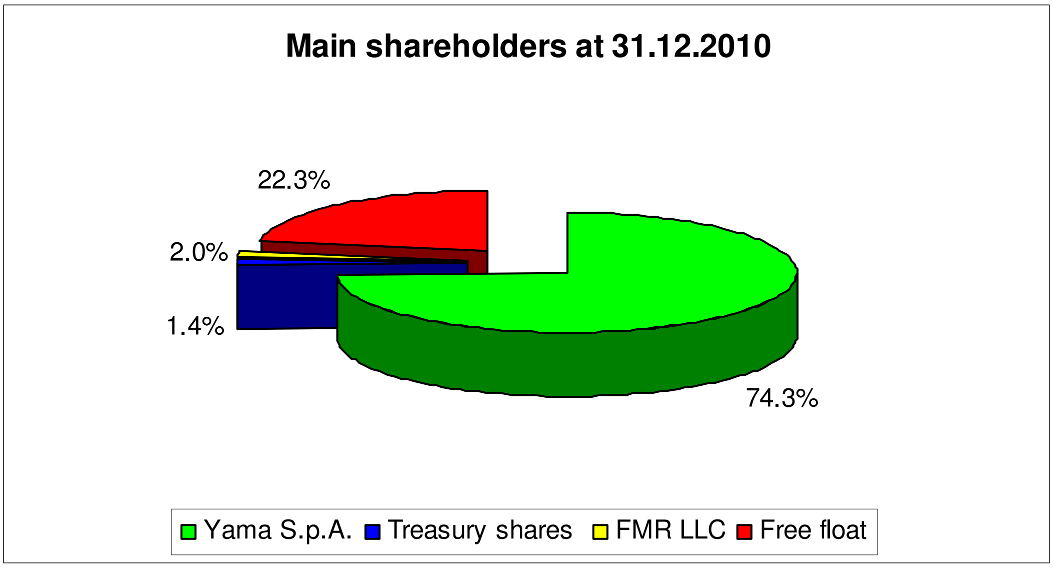



(1) The group's interest in Jiangmen Emak Outdoor Power Equipment Co. Ltd. includes the 49% interest held by Simest S.p.A.. Under the contract signed in December 2004 and subsequent additions thereto, the interest held by Simest S.p.A. is the subject of a binding agreement for repurchase by Emak S.p.A.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

## Main shareholders of Emak S.p.A.

The list of shareholders of Emak S.p.A. at 31 December 2010 is set out 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. In September 2001 the company's stock was assigned to the STAR segment of the market, which has higher standards in terms of reporting, stock liquidity and corporate governance.

| Main shareholders | Number of shares | % |
|---|---|---|
| Yama S.p.A. | 20,542,500 | 74.3% |
| Treasury shares held at 31.12.2010 | 397,233 | 1.4% |
| FMR LLC | 553,715 | 2.0% |
| Free float | 6,160,052 | 22.3% |
| Total number of shares | 27,653,500 | 100.0% |



# Key data (main economic and financial figures for the Group)

**Income statement (€/000)**

| | 2010 | 2009 |
|---|---|---|
| Net sales | 206,785 | 194,925 |
| EBITDA (1) | 23,509 | 21,655 |
| EBIT | 16,131 | 14,855 |
| Net profit | 11,619 | 9,426 |

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

| | 2010 | 2009 |
|---|---|---|
| Investment in property, plant and equipment | 2,832 | 7,920 |
| Investment in intangible assets | 1,297 | 524 |
| Free cash flow from operations (2) | 18,997 | 16,226 |

**Balance sheet (€/000)**

| | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Net capital employed | 141,425 | 142,581 |
| Net debt | (27,395) | (37,950) |
| Total equity | 114,030 | 104,631 |

**Other statistics**

| | 2010 | 2009 |
|---|---|---|
| EBITDA / Net sales (%) | 11.4% | 11.1% |
| EBIT/ Net sales (%) | 7.8% | 7.6% |
| Net profit / Net sales (%) | 5.6% | 4.8% |
| EBIT / Net capital employed (%) | 11.4% | 10.4% |
| Debt / Equity | 0.24 | 0.36 |
| Number of employees at period end | 916 | 908 |

**Share information and prices**

| | 2010 | 2009 |
|---|---|---|
| Earnings per share (€) | 0.424 | 0.344 |
| Equity per share (€) (3) | 4.18 | 3.84 |
| Official price (€) | 4.41 | 3.49 |
| Maximum share price in period (€) | 4.54 | 4.11 |
| Minimum share price in period (€) | 3.54 | 3.00 |
| Stockmarket capitalization (€/million) | 122 | 96 |
| Average number of oustanding shares | 27,256,267 | 27,260,353 |
| Number of shares comprising share capital | 27,653,500 | 27,653,500 |
| Cash flow per share: net profit + amortization/depreciation (€) (4) | 0.70 | 0,60 |
| Dividend per share (€) | 0.160 | 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"

# Directors’report

Dear Shareholders,

Emak's consolidated financial statements at 31 December 2010 closed with a net profit of € 11,619 thousand compared with € 9,426 thousand in 2009, representing an increase of 23.3%.

The Group's share of net profit was € 11, thousand compared with € 9,383 thousand in 2009.
Net sales in 2010 reached € 206,785 thousand, an increase of 6.1% compared to 2009.

EBITDA was € 23,509thousand compared with € 21,655thousand in 2009, representing a growth of 8.6%.

EBIT was € 16,131 thousand compared with € 14,855 thousand in 2009, representing an increase of 8.6%.

Net debt improves, standing at € 27,935 thousand at the end of 2010 compared to € 37,950 thousand at the end of 2009.

The financial statements of Emak S.p.A., the Group's parent company, closed with a net profit of € 6,308 thousand at 31 December 2009 compared with € 7,808 thousand in 2009, representing a decrease of 19.2%.

## 1. Economic situation

World GDP grew by 5% during 2010. The recovery in the world’s economy occurred at two different speeds: the growth was modest in the industrialised world (+3%) (with the difficulties of peripheral countries in the Eurozone contributing to increasing economic risks), while emerging economies (+7.1%) were the real driving force of the world economy.
A global growth of 4.4% is expected in 2011. The emerging and developing economies, with an expected growth of 6.5%, will once more drive this growth. China is confirmed as the world’s economic locomotive, with a GDP expanding by 9.6%, followed by India, with an expected growth of 8.4%. In the advanced economies, where GDP will rise by 2.5%, the United States will achieve the best performance, with a forecast growth of 3%. GDP in the euro zone will increase, on the other hand, by 1.5%, with Germany acting at the area’s locomotive (+2.2%) and forecasts are for the Italian GDP to grow by 1%.

## 2. Industry performance

It is estimated that in 2010 global demand for Emak’s reference products increased by 5% compared to 2009. 64% of this demand comes from markets where the Group has an operating presence.
This market recovery occurred principally in North America, the Far East and South America, while in Western Europe the trend was stable.

The value of the Group’s reference market in 2010 is estimated at € 11-13 billion.

In general, besides weather conditions, the demand for the Group’s products is influenced by the general economic climate, by pro-capita income and by the strength of the local “gardening culture”.

In the industrialised countries demand predominantly relates to the replacement of machinery; 75% of the demand is concentrated in North America and Europe. In the Rest of the World the most important areas in terms of demand are the Far East and South America.
Around 90% of world demand in quantity terms is met through Modern Organised Distribution and Traditional Retailers, while the traditional channel accounts for 60% of the market in terms of value. The remaining 10% of the market demand is met through alternative channels, especially the ironmonger channel (Mediterranean Europe, South America, the Middle East) and, typical only in western Europe, garden centres, farm cooperatives and group purchasing organizations.

## 3. Strategy

**“State-of-the-art solutions with improved value for the customer”**

*We intend to be one of Europe's leaders in the forestry and gardening equipment sector and one of the benchmark players at a global level in the supply of technological solutions and a state-of-the-art service. The aim is to make the work of our professional customers and consumers both efficient and pleasant, guaranteeing them the best value for money*.
The principle goals of the company’s mission are **to satisfy final customers,** anticipating and exceeding their expectations and **to create value** both for the benefit of shareholders and of stakeholders (employees, suppliers, dealers, the community and the financial system).

Emak’s identity is expressed in its values and mission. They direct its business approach, its strategic choices and its day-to-day policies.
These values represent the company’s moral commitment towards its stakeholders and towards society as a whole, and form guiding principles for those working in the company in their day-to day actions and conduct.

- ***Correctness***: compliance with regulations, transparency, the safeguarding of people’s rights and of the environment.
- ***Expertise and know-how***: investments in training and continuous learning, the development of professionalism.
- ***Team spirit***: working in a team in order to achieve common goals, the respect of designated roles, trust in others.
- ***Innovative spirit***: new and challenging goals, innovative solutions, new ideas, and openness to change.

In order to achieve the objective of creating value, the Group follows a growth strategy through internal and external means. The first is based on five principle *Fattori critici di successo (FCS)* (critical factors for success): *Product quality and innovation; Level of service; Competiveness; Strengthening the distribution network, and the Development of human resources and customer relations.*
Growth in a mature market is an ambitious goal. It’s also essential to adopt a development strategy by external means, which must be guided by pre-defined selective criteria, such as:

- distribution synergies with the Emak network;
- extension of the product range;
- relevance to the sectors in which the Group currently operates: gardening, forestry, agriculture, industry and construction;
- observance of pre-defined financial and balance sheet parameters;
- direct control of the distribution network in countries with significant development potential;
- companies with well-known brands that facilitate the Group’s entry into certain markets / specific areas.

The values and development objectives must be compatible with **Corporate Responsibility,** Emak’s explicit commitment to measure, manage and integrate the environmental, social and economic impact of the company’s activities, convinced that only responsible choices will guarantee the company and the wider community sustainable development over time.
Well aware of its role in the wider social and economic context, Emak S.p.A. seeks to develop through the creation of value to the benefit of the company and to all interested parties, combining:

- **economic sustainability;** that is, the commitment to invest in the growth of the company and of the Group, ensuring continuity over time through a detailed strategic plan based on the fundamental critical factors for success;
- **social sustainability,** understood as the intention to take into account the legitimate expectations of stakeholders and to redistribute the value created in the common interest;
- **environmental sustainability,** through the identification, regulation, control and gradual reduction of environmental impacts deriving directly or indirectly from the company’s activities.

In line with its principles and mission, Emak S.p.A. has set about this course of action by formalising an integrated quality, ethical and environmental policy and by implementing a management system incorporating three major international standards: ISO 9001:2000, ISO 14000:2004 and SA 8000:2001

## 4. Market segmentation and the Emak brands

Emak, founded in 1992 from the merger between OLEO-MAC and EFCO, is one of the top European operators in the manufacture and distribution of outdoor power equipment for gardening, forestry, agriculture and construction, with products such as brush cutters, lawnmowers, chainsaws, motor hoes and power cutters.

Emak's reference market for its products can be differentiated according to two different criteria: the final customer and the distribution channel. On the basis of the use made of Emak's machines, the final customer can be classified as a consumer/private customer (who uses the products for their own gardening purposes), a semi-professional consumer/farmer (who works larger plots of land compared to the private consumer), and a professional (whose business activity is trading in the products). The distribution channel, on the other hand, includes large-scale organised distribution serving general consumers, and specialised dealers (or the traditional distribution channel) serving all types of clientele that demand a high level of pre and post-sale service.

With regards to sales distribution channels, Modern Distribution (DIY) accounts for almost 40% of global demand (in volume terms). The figure is largely influenced by the North American market, where the DIY channel accounts for about 2/3 of the demand. The traditional channel absorbs almost 50% of the global volumes. Alternative channels represent 10% of the market: ironmongers (Mediterranean Europe, South America and the Middle East) and, typically only in Western Europe, garden centres, farm cooperatives and group purchasing organizations
The breakdown in terms of value rewards even more the traditional channel with almost 60% of the global demand.
In this scenario, Emak achieves almost all of its sales in the traditional channel.

The Group operates on the market with the following brands: Oleo-Mac; Efco; Victus; Bertolini; Nibbi and Staub.

Oleo-Mac and Efco are the Group's two brands intended for the specialized-dealer channel. The core offer is represented by gardening and forestry products, although the progressive widening of the offer has also allowed the two brands to penetrate synergic segments (in terms of the distribution channel) such as small-scale agriculture and open-space cleaning.
Bertolini and Nibbi are the Group's two brands intended for medium-scale agriculture, again through the specialized-dealer channel. In most cases there is some overlapping with the distribution of the Oleo-Mac and Efco brands, even though a part of the sales is directed towards more specialized agricultural dealers (i.e. dealers in farming machines and tractors).

Staub (distributed in France) is a historic brand in the land cultivation sector (with more than 100 years' tradition) for products like motor hoes and tillers. The brand is sold by specialized dealers that sell small/medium agriculture, gardening and forestry products.

## 5. Research and development

In 2010 Research and Development continued in line with the Business Plan which sees product innovation as the main driving factor for the Group's growth. In the period in question Research and Development related to all the main product families. Among the new products launched on the market in 2010, the most important were a chainsaw aimed at the consumer segment, a sprayer aimed at the Far East market, and a new rotovator model.
Several new products are planned to be launched also in the 2011 financial year. Among the most important worth mentioning there is the restyling of the steel deck lawnmowers, focused on significant improvement in design, comfort and functionality; a new chainsaw aimed at the professional segment in emerging markets; a new chainsaw with E-Jet technology (an Emak Group world exclusive) which ensures a significant reduction in both energy consumption and emissions.
Signals from the market confirm interest in the launch of these new products with particular reference to their competiveness and innovation (focued on lower consumption, lower emissions, and better ergonomic design). It should be noted that the contribution of the new products launched on the market in the last 24 months exceeds 30% of the turnover and represent a good benchmark of the company's level of innovation.
Research costs directly charged to the income statement amount to € 4,834 thousand, plus a further € 85 thousand which, in accordance with their nature, have been capitalised as development costs.

## 6. Human resources

The breakdown of employees by country at 31.12.2010 is shown in the following table:

| Employees at the end of the period | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Italy | 487 | 493 |
| France | 37 | 40 |
| Belgium | 4 | 4 |
| UK | 12 | 14 |
| Spain | 20 | 20 |
| Germany | 20 | 20 |
| Poland | 49 | 49 |
| China | 279 | 260 |
| Usa | 8 | 8 |
| **Total** | **916** | **908** |

The number of employees at 31 December 2010 was 916, compared to 908 at 31 December 2009.

At Group level, 2010 was characterised by a recovery in production volumes, leading to a growth in employment, primarily through the introduction of personnel with fixed contracts in the production areas. In 2010 3,105 hours of specialised training were carried out in Emak SpA., involving 117 people.
12,000 hours-worth of temporary lay-offs were applied in Comag srl in 2010 as a result of the prolonged slowdown in sales of products manufactured on site. At the same time, however, the factory structure was strengthened in the quality and technologies area in order to fully implement the new product development projects.
Action was taken in 2010 aimed at improving and strengthening the organisational structure of the Group's subsidiaries.
On 28 June 2010 the *Accordo Integrativo Aziendale* (Integrated Company Agreement) with reference to the group parent company was renewed for the period 2010 – 2013 (without trade union opposition), with the objective of recuperating the costs deriving from its application through increases in productivity and greater efficiency in company processes.
The SA 8000 ethical certification was also renewed in line with 2008 standards.

## 7. Significant events in the year and balances or transactions arising from atypical and unusual, significant and non recurring operations.

The following significant events occurred during the financial year:

### 7.1 Sale of a property

- On 29 January 2010 the deed of sale was signed with third paries for the sale of a property situated in Bagnolo in Piano (RE), for a consideration of € 2,400 thousand, giving rise to a capital gain of € 2,215 thousand. The property was previoysely rented to a company of the Yama Group.

### 7.2 Increases in share capital

- On 22 March 2010 the parent company, Emak S.p.a., converted trade receivables due from the subsidiary, Emak USA Inc., into advance payments for future increases in share capital for US$ 500,000, equivalent to € 371 thousand;

- On 30 April 2010 the subsidiary Emak U.K. Ltd. resolved an increase in Share Capital of 324,740 pounds sterling through the full use of the reserve for future increases in share capital already set up in previous financial periods.

### 7.3 Acquisition of shareholdings

On 23 December 2010 the parent company, Emak S.p.A. undersigned an agreement for the acquisition of 61% of the share capital of Epicenter LTD, a company with registered office in Ukraine in Kiev, a distributor of products with the Oleo-Mac trademark operating in the Ukrainian market since 2000. Epicenter LTD closed the 2009 financial year with a turnover of around € 5 million and a net profit of around € 0.2 million. The operation is in line with the Group's development policy 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 provides for the transfer of 61% of the share capital to Emak by April 2011, at a price of between € 1.4 and 1.7 million. The consideration for the operation will be established with the method of market multiples on the basis of the outcome of the due diligence carried out on Epicenter. The agreement 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%. The acquisition on the part of Emak will be financed with the use of already available credit lines. The inclusion of the target company in EMAK's scope of consolidation will take effect from the effective date of acquisition of control of the company.

## 8. Emak Group – Overview of results

### Summary of economic results

| €/000 | FY 2010 | % | FY 2009 | % | Change |
|---|---|---|---|---|---|
| Net sales | 206,785 | 100.0 | 194,925 | 100.0 | 6.1% |
| EBITDA | 23,509 | 11.4 | 21,655 | 11.1 | 8.6% |
| EBIT | 16,131 | 7.8 | 14,855 | 7.6 | 8.6% |
| Profit before taxes | 16,558 | 8.0 | 12,766 | 6.5 | 29.7% |
| Net porfit | 11,619 | 5.6 | 9,426 | 4.8 | 23.3% |

### Analysis of sales trends

The table below shows sales in 2010, broken down by product line, compared with the previous financial year:

| €/000 | 31.12.2010 | % | 31.12.2009 | % | % Change |
|---|---|---|---|---|---|
| Agriculture & Forestry | 65,886 | 31.9% | 60,128 | 30.8% | 9.6% |
| Construction & Industry | 10,405 | 5.0% | 5,081 | 2.6% | 104.8% |
| Lawn & Garden | 98,586 | 47.7% | 99,683 | 51.1% | -1.1% |
| Spare parts & Accessories | 31,908 | 15.4% | 30,033 | 15.4% | 6.2% |
| **Total** | **206,785** | **100%** | **194,925** | **100%** | **6.1%** |

Note: With respect to the consolidated report 2009, € 2,800 thousand of sales has been reclassified from the *Agriculture and Forestry* segment to the *Gardening* segment.

Sales of the line *Agricolture&Forestery* registered a good growth rate both for products for forestry use, also thanks to the introduction of new chainsaws' models, and for land farming products
The postive performance of the *Construction&Industry* line was determined by the success of the new products launched on the market at the and of 2009 and by the recovery of the market as a whole
*Lawn&Garden* line sales, which are concentrated mainly in the first half of the year, were affected by the late start of the season, but registered a recovery in the last quarter of the year. Among the products, it has to be pointed out the good performance of hand-held products (especially brushcutters) and a decrease of wheel products (lawnmowers and garden tractors).
The increase in sales in the *Spare parts and Accessories* line is linked to the growth in use of the products.

The geographical breakdown of sales in 2010, and comparisons with the previous year, is shown in the following table:

| €/000 | 31.12.2010 | % | 31.12.2009 | % | % Change |
|---|---|---|---|---|---|
| Italy | 39,802 | 19.2% | 42,074 | 21.6% | -5.4% |
| Europe | 125,685 | 60.8% | 122,643 | 65.3% | 2.5% |
| Rest of world | 41,298 | 20.0% | 30,208 | 15.5% | 36.7% |
| **Total** | **206,785** | **100%** | **194,925** | **102%** | **6.1%** |

Sales the Italian market were influenced by the transfer of an OEM business, while core products registered a slight increase compared to 2009. In Europe, growth was driven by the Russian and German market, which compensate the lacklustre register in most of Western Countries and the decrease in the other countries in Eastern Europe. The increase of sales in the Rest of the World has to be assigned mainly to the Turkish market and to the good performance registered in Asian Countries

**Profit analysis**

**EBITDA**

Ebitda for 2010 amounts to € 23,509 thousand, against € 21,555 thousand of last year, an increase of 8.6% (a decrease of 1.7% excluding the capital gain from the sale of property described in notes 7 and 8 of the consolidated financial statements).

The following factors had positive effects on the result for the period:
- the increase in sales volumes;
- the product mix;
- the increase in sales prices;
- property capital gains.

The following factors had negative effects:
- the increase of raw material costs concentrated in the second half of the year;
- the increase in operating costs related to higher sales and production volumes;
- the increase in staff costs, caused by by the different geographical distribution of the most-used production plants and by the higher production volumes. The Group's average number of employees and temporary workers in 2010 was 1,057, while it was 1,048 last year;
- the overall trend of foreign currencies.

Ebitda as a percentage of sales has moved from 11.1% at 31 December 2009, to 11.4% at 31 December 2010 (10.3% excluding the capital gain from the sale of property).

**EBIT**

Ebit for the year amounted to € 16,131 thousand against € 14,855 thousand in the last financial year, an increase of 8.6% (a decrease of 6.3% excluding the capital gain from the sale of property).

Amortisation and depreciation costs have increased compared to the previous year due to the coming on-stream of factories completed at the end of the previous financial year.

Ebit as a percentage of sales has moved from 7.6% at 2009, to 7.8% at 2010 (6.7% excluding the capital gain from the sale of property).).

Ebit as a percentage of net invested capital has moved from 10.4% at 2009, to 11.4% at 2010 (9.8% excluding the capital gain from the sale of property).

**Net profit**

Net profit for the year was € 11,619 thousand compared to € 9,426 thousand in 2009, an increase of 23.3% (an improvement of 7.1% excluding the capital gain from the sale of property).

The financial result has improved due to the lower interests mainly related to the decrease in the net passive financial position, and to positive currency management.

The tax rate in the financial year was 29.8% compared to 26.2% of last year due to the different distribution of taxable income among Group companies.

**Highlights from the consolidated balance sheet**

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Net non-current assets | 57,678 | 59,700 |
| Net working capital | 83,747 | 82,881 |
| **Total net capital employed** | **141,425** | **142,581** |
| Equity attributable to the group | 113,475 | 104,093 |
| Equity attributable to minority interests | 555 | 538 |
| Net debt | (27,395) | (37,950) |

**Net non-current assets**
During 2010 Emak Group invested € 4,129 thousand in property, plant and equipment and intangible assets as follows:

- € 1,888 thousand for product innovation;
- € 751 thousand for adjustment of production capacity and for process innovation;
- 923 thousand for upgrading the computer network system;
- € 344 thousand for finishing and adjustment of industrial buildings;
- € 223 thousand for other managerial working investments.

Investments broken down by geographical area are as follows:
- € 3,254 thousand in Italy;
- € 320 thousand in Europe;
- € 555 thousand in the Rest of the World.

**Net working capital**

Net working capital was € 866 thousand higher than at the end of December 2009, moving from € 82,881 thousand to € 83,747 thousand.

The chart below shows the changes in net working capital in 2010 compared to the previous year:

| €/000 | Esercizio 2010 | Esercizio 2009 |
|---|---|---|
| **Net working capital at 01 January** | **82.881** | **103.199** |
| increase/(decrease) in inventories | 1.276 | (19.869) |
| increase/(decreases) in trade receivables | 386 | (13.383) |
| (increase)/decreases in trade payables | (490) | 14.013 |
| other changes | (306) | (1.079) |
| **Net working capital at 31 December** | **83.747** | **82.881** |

The trend in working capital and its components reflects the economic cycle of the company's business. The level of working capital as a proportion of turnover has improved, standing at 40.5% compared to 42.5% in the previous financial period.

**Equity**
Total equity amounts to € 114,030 thousand compared with € 104,631 thousand at 31st December 2009. Earnings per share for the year are € 0.424, against € 0.344 of last year.

**Net financial position**

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Cash and banks | 7,339 | 7,331 |
| Securities and derivative financial instruments | 639 | 433 |
| Other financial assets | 0 | 1 |
| Financial liabilities | (12,330) | (13,754) |
| Derivative financial instruments | (302) | (529) |
| **Short-term net debt** | **(4,654)** | **(6,518)** |
| Financial liabilities | (22,741) | (31,432) |
| **Long-term net debt** | **(22,741)** | **(31,432)** |
| Cash and banks | 7,339 | 7,331 |
| Securities and derivative financial instruments | 639 | 433 |
| Other financial assets | 0 | 1 |
| Financial liabilities | (35,071) | (45,186) |
| Derivative financial instruments | (302) | (529) |
| **Total net debt** | **(27,395)** | **(37,950)** |

The net negative financial position improves standing at € 27,395 thousand at 31.12.2010 compared to € 37,950 thousand at 31 December 2009.

The reconciliation of the variation in the net financial position is shown in the table below:

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| **Opening net financial position** | **(37,950)** | **(61,806)** |
| Cash flow from operations, excl. Changes in operating assets and liabilities | 16,786 | 15,977 |
| Changes in operating assets and liabilities | (529) | 19,702 |
| **Cash flow from operations** | **16,257** | **35,679** |
| **Cash flow from investments and disinvestments excl. acquisitions** | **(3,482)** | **(7,621)** |
| **Changes in equity** | **(2,220)** | **(4,202)** |
| **Closing net financialposition** | **(27,395)** | **(37,950)** |

Besides the capital portions of loan repayments, long-term financial payables include finance lease instalments falling due after more than 12 months.
Short-term financial payables mainly consist of:
- overdrafts;
- loan repayments falling due by 31st December 2011;
- amounts due to other providers of finance falling due by 31st December 2011.

The net financial position does not contain any balances with related parties either at 31st December 2009 or at 31st December 2010.

**9. Performance of Group subsidiaries**

The figures reported are taken from the financial statements of subsidiaries drawn up in accordance with international IAS/IFRS standards.

**Emak S.p.A.**
The most significant economic indicators are shown in the following table:

| €/000 | FY 2010 | % | FY 2009 | % | % Change |
|---|---|---|---|---|---|
| Net sales | 158,951 | 100 | 145,709 | 100 | 9.1 |
| EBITDA | 14,379 | 9.0 | 11,161 | 7.7 | 28.8 |
| EBIT | 10,214 | 6.4 | 7,974 | 5.5 | 28.1 |
| Profit before taxes | 9,997 | 6.3 | 9,857 | 6.8 | 1.4 |
| Net profit | 6,308 | 4.0 | 7,808 | 5.4 | (19.2) |

The following factors had a positive effect on Ebitda in the period:
- the increase in sales volumes;
- the improved product mix;
- the increase in sales prices
- real estate capital gains.

The following factors have, on the other hand, had a negative influence:
- the increase in the costs of raw materials in the second half-year;
- the increase in operating costs linked to the greater volumes of sales and production;
- the increase in staff costs linked to salary trends, to the greater number of hours worked, as well as to the lower use of temporary state lay-off funds.

Financial management was affected by the fall in dividends distributed by subsidiaries.

The tax rate was 36.9% against 20.8% for the 2009 financial period due to lower tax benefits and the lower level of dividends as a proportion of taxable income.

The company's balance sheet and financial position at 31st December 2010 are summarized as follows:

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Net non-current assets | 42,313 | 43,891 |
| Net working capital | 58,667 | 61,369 |
| **Total net capital employed** | **100,980** | **105,260** |
| Equity | 85,592 | 83,372 |
| Net cash (debt) | (15,388) | (21,888) |

The decrease in net working capital is mainly linked to the fall in trade receivables.

The net passive financial position has improved as a result of the positive operating cash flow trend.

With regards to the reconciliation between the income statement and balance sheet of the Parent company and those of the Group, reference should be made to paragraph 18 of this Directors' Report.

**Emak France SAS**

The company made a profit of € 405 thousand, against € 451thousand in 2009. Turnover was € 30,351 thousand, against € 31,008 thousand in 2009, a decrease of 2.1%.
The slight decrease in sales is linked to the general stagnation in demand during 2010. Measures to contain operating and personnel costs, and the fall in interest rates related to the lower net passive financial position, have made it possible to maintain good level of profitability.
The company distributes Emak products in France.

**Jiangmen Emak Outdoor Power Equipment Co. Ltd.**

The company made a profit of € 2,786 thousand, against € 3,320 thousand in 2009. Turnover was € 32,210 thousand, against € 29,657 thousand in 2009. The increase of 8.6% in turnover is attributable to higher production volumes.

The trend in the RMB currency in 2010 affected negatively the contribution margin; the lower margin was compensated by the profit deriving from hedging policies.

**Victus Emak Sp. z o.o.**

The company made a profit of € 916 thousand, against € 1,584 thousand in 2009. Turnover was € 15,437 thousand, against € 16,868 thousand in 2009, a decrease of 8.5%.

The deterioration in economic performance is due to the fall in sales, also further to the exceptional meteorological events in 2010. There was a positive trend in the local currency against the euro.

The company distributes Emak products in the Polish market.

**Comag S.r.l.**

The company made a profit of € 73 thousand, against a loss of € 256 thousand in 2009. Turnover was € 14,750 thousand, against € 13,973 thousand in 2009. The increase of 5.6% in turnover compared to last year and careful management of structural costs generated an improvement in the result.

**Emak Deutschland GmbH**

The company made a loss of € 66 thousand, against a profit of € 113 thousand in 2009.
Turnover was € 13,999 thousand, against € 11,601 thousand in 2009, an increase of 20.7%.

The result was affected by the fall in the industrial margin as a result of the greater level of variable costs as a proportion of sales, together with the occurrence of a number of "non-recurring" costs relating to the write-down of stocks.

The company distributes Emak products in Germany.

**Emak Suministros España SA**

The company made a net profit of € 499 thousand, against € 443 thousand in 2009. Turnover was € 7,292 thousand, compared to € 8,165 thousand in 2009, a decrease of 10.7% due to the strong crisis of the local market.

The net profit increased in 2010 thanks to the improvement in financial management.

The company distributes Emak products in Spain

**Emak U.K. LTD**

The company made a loss of € 119 thousand, against a loss of € 170 thousand in 2009. Turnover was €3,244 thousand, a decrease of 11% compared to the turnover of € 3,645 thousand in 2009.

The company's performance has been affected by sales decrease despite the improvement in product marginality.

The company distributes Emak products in Great Britain.

**Emak Benelux N.V.**

Emak Benelux N.V. made a profit of € 2 thousand, against a loss of € 7 thousand in 2009.
Turnover was € 2,263 thousand, an increase of 7.4% from the 2009 turnover of € 2,106 thousand.

The relust is determined by the sales increase.

The company distributes Emak products in the Belgian and Dutch markets.

**Emak USA Inc.**

The company made a loss of € 196 thousand, against a loss of € 355 thousand in the previous financial year.
Turnover was € 2,965 thousand, compared to € 2,735 thousand in 2009.

The increase in sales is down to initial benefits deriving from the implementation of the plan for the reorganisation of the distribution network and the extension of the product range.

The company distributes Emak products in the North American market.

**Tailong (Zhuhai) Machinery Manufacturing Equipment Ltd.**

The company closed with a profit of € 786 thousand, against a loss of € 125 thousand in 2009. Turnover was € 5,554 against € 3,355 in 2009, an increase of 65.6%

The net result for the 2010 financial year is due both to the increase in production volumes (cylinders division) and to the positive trend in trading activities in the Chinese market.

## 10. Related party transactions

Please refer to note 37 to the consolidated financial statements and note 35 to the individual financial statements for information about related party transactions.

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

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

On 15 April 2010 the Shareholders Meeting renewed authorisation of the buy-back program for the purposes it defined. During the first half 2010 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 2009

In January and February 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.

## 12. Corporate governance and other information required by Issuers Regulations

Emak S.p.A. complies with the Self-disciplinary Code, approved by the Committee set up by Borsa Italiana s.p.a. and reviewed by the latter in March 2006. The Code is available to the public at the Italian Stock Exchange's official website under the section "Documents" and subsequently "Publications".
Emak S.p.A. complies with the Self-disciplinary requirements according to the terms and details set out in the special report on corporate governance as per arts. 123-bis of Legislative Decree 58/1998 and 89-bis of the Issuers Regulations approved through Consob resolution no. 11971/1999.
The report is available to the public in the prescribed terms at the company's registered office, at the offices of Borsa Italiana S.p.A. and on the website: www.emak.it under the section "Investor Relations" and subsequently "Documentazione societaria".

* * * * * *

With reference to the provisions of art. 78 of the Issuers Regulations, with regards to remunerations paid, also by subsidiary companies, to Directors and Auditors, as well as to the Managing Director of Emak S.p.A., are shown in the following table.

| €/000 | | Term in office | Emoluments of office | | Benefits in kind | Bonuses and other incentives | Other emoluments | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Attendance fees | Emoluments | | (*) | for other offices held in subsidiaries | as company employee | employee termination indemnity | Others |
| Giacomo Ferretti | Chairman and executive director | 01.01.10-14.04.10 | - | 39 | - | - | 4 | - | - | - |
| Fausto Bellamico | General Manager and CEO<br>Chairman and CEO | 01.01.10-14.04.10-15.04.10-31.12.10 | - | 86 | 3 | 79 | 3 | 204 | - | 3 |
| Aimone Burani | Deputy Chairman<br>And Executive Director | 01.01.10-31.12.10 | - | 42 | 3 | 54 | 11 | 173 | - | 1 |
| Stefano Slanzi | Vice General Manager and executive director | 1.01.10<br>31.12.10 | - | 18 | 2 | 58 | 11 | 193 | - | 5 |
| Luigi Bartoli | Executive director | 01.01.10-31.12.10 | - | 15 | 2 | 13 | - | 92 | - | 1 |
| Carlo Baldi | Director | 01.01.10-31.12.10 | 3 | - | - | - | - | - | - | 21 |
| Andrea Barilli | Director | 01.01.10-31.12.10 | - | 23 (#) | - | - | - | - | - | - |
| Vilmo Spaggiari | Director | 01.01.10-31.12.10 | 3 | - | - | - | - | - | - | - |
| Guerrino Zambelli | Director | 01.01.10-31.12.10 | 3 | - | - | - | - | - | - | - |
| Paola Becchi | Director | 01.01.10-31.12.10 | 3 | - | - | - | - | - | - | - |
| Giuliano Ferrari | Director | 01.01.10-31.12.10 | 3 | - | - | - | - | - | - | - |
| Ivano Accorsi | Director | 01.01.10-31.12.10 | - | 13 (#) | - | - | - | - | - | - |
| Gianluigi Basini | Director | 01.01.10-31.12.10 | - | 13 (#) | - | - | - | - | - | - |
| Marco Montanari | Chairman of Board of Statutory Auditors | 01.01.10-31.12.10 | - | 23 | - | - | - | - | - | - |
| Claudia Catellani | Acting auditor | 01.01.10-16.03.10 | - | 3 | - | - | - | - | - | 21 |
| Paolo Caselli | Acting auditor | 15.04.10-31.12.10 | - | 12 | - | - | - | - | - | - |
| Eugenio Poletti | Acting auditor | 16.03.10-15.04.10 | - | 1 | - | - | - | - | - | - |
| Martino Masini | Acting auditor | 01.01.10-31.12.10 | - | 15 | - | - | - | - | - | - |

(*) Matured but not payed during the year
(#) Including remuneration for Committees attendance

* * * * * * *

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 01.01.2010 | No. Shares purchased | No. Shares sold | No. Shares held on 31.12.2010 |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Fausto Bellamico | Emak S.p.A. | 10,000 | 10,000 | - | 20,000 |
| Aimone Burani | Emak S.p.A. | 5,000 | - | - | 5,000 |
| Giacomo Ferretti | Emak S.p.A. | 30,499 | - | - | 30,499 |
| Ivano Accorsi | Emak S.p.A. | 2,000 | - | - | 2,000 |
| Andrea Barilli | Emak S.p.A. | 1,000 | - | - | 1,000 |
| **Board of Staturory Auditors** | | | | | |
| Martino Masini | Emak S.p.A. | 17,000 | - | - | 17,000 |
| Eugenio Poletti | Emak S.p.A. | 1,000 | - | - | 1,000 |

* * * * * * *

## The Internal Control System and control bodies

Emak Group's system of control is made up of a series of organisational structures, procedures and regulations which are aimed at preventing/limiting the consequences of unexpected events (through an appropriate process of identification, measurement, management and monitoring of the main risks). They are also aimed at guaranteeing (with a reasonable degree of certainty) the achievement of both strategic and operating business objectives (through the effectiveness and efficiency of operating activities and the safeguarding of company assets) and of information management objectives (the correct and transparent internal and external management of information) and finally, at conformity with laws and regulations applicable to the company.

The management of the structure and proper functioning of the internal control System is carried out by the following internal and external bodies:
- The Board of Directors
- The Director responsible for the internal control system
- The Internal Control Committee
- The Internal Control system and audit staff
- The manager responsible for the preparation of the company's accounting documents
- The officers co-responsible for the control system within their respective departments
- The Supervisory Committee as per Law 231
- The Board of Auditors

The Audit firm also plays an important role in the internal control system, working in mutual collaboration and cooperation with all the above bodies.

In particular, Emak's Board of Directors (with the assistance of the Internal Control Committee) has its own role with regards to the internal control system, taking appropriate consideration of reference models and best national and international practices

The Managing Director supervises the planning, implementation and management of the internal control system (in application of the policy lines established by the Board of Directors) assessing, on a constant basis, its overall suitability, effectiveness and efficiency. He/she also deals with the adjustment of this system according to changing operating conditions and to the legislative and regulatory scenario.

The activities carried out by the internal control system involve the provision (in an independent and objective way) of consultancy and assurance services structures with a view to providing added value and improving the effectiveness and efficiency of the Group's activities, through collaboration with company managers at various levels. Its function, also carried out through internal auditing activities, is aimed at obtaining an understanding and analysis of the control environment, at a critical and selective evaluation of the suitability of company risk monitoring, at an assessment of the efficient and effective application of established control procedures and at the formulation of proposals for their improvement.

The **Organisation, Management and Control Model** aims at preventing the offences referred to in Legislative Decree 231/01. It aims to ensure the proper prevention of irregularities and forms an integral part of the internal control system. It is systematically updated to take account of all extensions in the scope of legal provisions periodically introduced by the legislator. For a description of the model implemented and of the procedures set up to comply with the relevant legislation herein referred to, reference may be made to the www.emak.it website within the "Investor Relations" area in the appropriate section of the site.

The Organisational Model, pursuant to art. 6 of Legislative Decree 231/01 is completed with the Supervisory Committee, which is furnished with autonomous powers of action and control. This body's task is to monitor the proper functioning of, and compliance with, the Organisational Model.

Emak has implemented an **Ethical Code**, in which the company's chosen ethical principles are set out and which the Directors, Auditors, Employees, Consultants and Partners are required to follow. This document is widely available. It is also available on the www.emak.it website

**13. 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.

**14. Other information**

Pursuant to Attachment B) of Leg. Dec. 196/2003 (Privacy Code), the directors declare that the company applies the minimum security measures as provided for by the aforementioned legislation.
Specifically, in accordance with point 26 of the aforementioned Attachment B), the company has regularly prepared the Security Plan for the year 2011, which has been lodged at the company's registered office and which can be consulted by authorised persons and/or by the competent control Authorities.

In accordance with the provisions of arts. 36 and 39 of Market Regulations,- Consob Resolution n° 16191- Emak S.p.A. makes it known that it currently holds a controlling interest in two companies of a significant size, incorporated and regulated by the laws of a state which is not a member of the European Union, both regulated by legislation in force in the People's Republic of China:

- Jiangmen Emak Outdoor Power Equipment Co. Ltd;
- Tailong (Zhuhai) Machinery Manufacturing Equipment Ltd.

With regards to both companies, Emak S.p.A. complies with the aforementioned legislative provisions.

On 14 June 2010 Emak S.p.A. exercised the option, together with Comag S.r.l., for the IRES taxation of Group ("national consolidated tax"), artt. 117 e segg., D.P.R. 917/86, with effects on the tax period 2010 – 2012.

**15. Business outlook, principle risks and elements of uncertainty.**

After the economic crisis in 2009, Emak's reference market experienced growth of around 5% in 2010. At a global level in 2011 there are contrasting signals for different geographical areas. A slight increase in demand is expected in Europe, with the exception of areas where there are still pockets of difficulties (Spain, Portugal, Ireland and Greece). Stronger signs of recovery should come from the USA and most of all from emerging countries. World growth in the market in 2011 is expected to be between 4% and 6%.
In this context, for 2011 Emak forecasts a turnover growth of the order of 5%, in line with the market.

The main factors that may influence achievement of the Group's objectives are external in nature and include the general economic climate, the trend in the prices of raw materials and of currencies, weather conditions and the competitive scenario.

With regards to an analysis of the impact of risks of a financial nature, reference should be made to the relative paragraphs in the notes to the consolidated accounts.

## 16. Subsequent events

There are no significant subsequent events.

## 17. Reconciliation of the equity and result of the parent company, Emak S.p.A., with the consolidated equity and result.

| €/000 | Equity at 31.12.2010 | Result for the year ending 31.12.2010 | Equity at 31.12.2009 | Result for the year ending 31.12.2009 |
|---|---|---|---|---|
| Equity and result of Emak S.p.A. | 85.592 | 6.308 | 83.372 | 7.808 |
| Equity and result of consolidated subsidiaries | 53.460 | 5.088 | 46.447 | 4.993 |
| **Total** | **139.052** | **11.396** | **129.819** | **12.801** |
| Effect of the elimination of the accounting value of shareholdings | (21.650) | 398 | (21.678) | - |
| Elimination of dividends | - | (279) | - | (3.151) |
| Elimination of other intergroup items and profits | (3.372) | 104 | (3.510) | (224) |
| **Total consolidated amount** | **114.030** | **11.619** | **104.631** | **9.426** |
| **Minority interest** | **(555)** | **(49)** | **(538)** | **(43)** |
| **Equity and result attributable to the Group** | **113.475** | **11.570** | **104.093** | **9.383** |

## 18. Proposed allocation of net profit for the year

Shareholders,

We are submitting for your approval the financial statements for the year ended 31st December 2010, which report a net profit of € 6,308,113.
The Board of Directors is proposing that a dividend of € 0.16 be distributed to every outstanding share.

We therefore invite you to adopt the following resolution:

<<The AGM of Shareholders of Emak S.p.A.

resolves

a. to approve the financial statements for the year ended 31st December 2010 reporting a net profit of €6,308,113;

b. to allocate the net profit of € 6,308,113as follows:
   - to the shareholders, a dividend of € 0.16 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 becoming ex-div on 6th June 2011 and the dividend paid on 9th June 2011;
   - the remainder to retained earnings, as the legal reserve has reached the maximum limit required by law.

Bagnolo in Piano (RE), 16 March 2011

on behalf of the Board of Directors
Chairman
Fausto Bellamico

## Emak Group – Consolidated financial statements at 31 December 2010

### Consolidated financial statements

### Consolidated income statement

| €/000 | Notes | Year 2010 | Year 2009 |
|---|---|---|---|
| Sales | 10 | 206,785 | 194,925 |
| Other operating incomes | 10 | 3,765 | 1,934 |
| Change in inventories | | 227 | (19,997) |
| Raw and consumable materials and goods | 11 | (117,926) | (93,457) |
| Salaries and employee benefits | 12 | (32,467) | (29,790) |
| Other operating costs | 13 | (36,875) | (31,960) |
| Amortization, depreciation and impairment losses | 14 | (7,378) | (6,800) |
| **Ebit** | | **16,131** | **14,855** |
| Financial income | 15 | 535 | 499 |
| Financial expenses | 15 | (1,756) | (2,739) |
| Exchange gains and losses | 15 | 1,648 | 151 |
| **EBT** | | **16,558** | **12,766** |
| Income taxes | 16 | (4,939) | (3,340) |
| **Net profit** | | **11,619** | **9,426** |
| **(Profit)/loss attributable to minority interests** | | **(49)** | **(43)** |
| **Net profit attributable to the group** | | **11,570** | **9,383** |
| **Basic earnings per share** | 17 | **0.424** | **0.344** |
| **Diluted earnings per share** | 17 | **0.424** | **0.344** |

### Comprehensive income statement

| Figures in thousands of euros | Notes | Year 2010 | Year 2009 |
|---|---|---|---|
| **Net profit (A)** | | **11,619** | **9,426** |
| Profits/(losses) deriving from the conversion of foreign company accounts | | **1,898** | **(163)** |
| **Total other components to be included in the comprehensive income statement (B):** | | **1,898** | **(163)** |
| **Comprehensive net profit (A)+(B)** | | **13,517** | **9,263** |
| **Comprehensive net profit attributable to minority interests** | | **(49)** | **(43)** |
| **Comprehensive net profit attributable to the group** | | **13,468** | **9,220** |

## Schedule showing consolidated assets-liabilities-financial situation

### ASSETS

| €/000 | Notes | 31.12.2010 | 31.12.2009 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 18 | 50,019 | 52,437 |
| Intangible assets other than goodwill | 19 | 3,363 | 2,954 |
| Goodwill | 20 | 10,573 | 10,139 |
| Equity investments | 21 | 224 | 224 |
| Deferred tax assets | 29 | 3,137 | 3,231 |
| Other receivables | 23 | 906 | 904 |
| **Total** | | **68,222** | **69,889** |
| | | - | - |
| **Non-current assets held for sale** | 7 | 0 | 108 |
| **Total** | | **0** | **108** |
| **Current assets** | | **-** | **-** |
| Inventories | 24 | 70,665 | 69,389 |
| Trade and other receivables | 23 | 58,210 | 57,710 |
| Current tax assets | 29 | 1,918 | 2,940 |
| Other financial assets | | 0 | 1 |
| Derivative financial instruments | 22 | 639 | 433 |
| Cash and cash equivalents | 25 | 7,339 | 7,331 |
| **Total** | | **138,771** | **137,804** |
| | | **-** | **-** |
| **TOTAL ASSETS** | | **206,993** | **207,801** |

### EQUITY AND LIABILITIES

| €/000 | | 31.12.2010 | 31.12.2009 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Total Group | 26 | 113,475 | 104,093 |
| Non-controlling interest | | 555 | 538 |
| **Total equity** | | **114,030** | **104,631** |
| **Non-current liabilities** | | | |
| Loans and borrowings | 28 | 22,741 | 31,432 |
| Deferred tax liabilities | 29 | 3,445 | 2,912 |
| Provisions for employee benefits | 30 | 4,902 | 4,902 |
| Provisions | 31 | 682 | 671 |
| Other non-current liabilities | 32 | 1,516 | 1,813 |
| **Total** | | **33,286** | **41,730** |
| **Current liabilities** | | | |
| Trade and other payables | 27 | 44,269 | 44,991 |
| Current tax liabilities | 29 | 2,055 | 1,822 |
| Loans and borrowings | 28 | 12,330 | 13,754 |
| Derivative financial instruments | 22 | 302 | 529 |
| Provisions | 31 | 721 | 344 |
| **Total** | | **59,677** | **61,440** |
| **TOTAL EQUITY AND LIABILITIES** | | **206,993** | **207,801** |

our power, your passion

## Statement of changes in consolidated equity for the Emak Group at 31.12.2009 and at 31.12.2010

| €/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 31.12.2008** | **5,211** | **21,047** | **1,438** | **1,138** | **(133)** | **27,611** | **27,747** | **14,822** | **98,881** | **526** | **99,407** |
| Change in treasury shares | (50) | | | | | | | | **(50)** | | **(50)** |
| Payment of dividends | | | | | | | 10,733 | (14,822) | **(4,089)** | (31) | **(4,120)** |
| Other changes | | | | | | 122 | 9 | | **131** | | **131** |
| Net profit for 2008 | | | | | (163) | | | 9,383 | **9,220** | 43 | **9,263** |
| **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** |
| Profit reclassification | | | | | | | 5,295 | (9,383) | **(4,088)** | (31) | **(4,119)** |
| Other changes | | | | | | | 2 | | **2** | (1) | **1** |
| Net profit | | | | | 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** |

*the share capital at 31.12.10 of € 7,190 is shown net of treasury shares of a value of € 2,029

## Consolidated cash flow statement

| €/000 | Notes | 2010 | 2009 |
|---|---|---|---|
| **Cash flow from operations** | | | |
| **Net profit for period** | | **11,619** | **9,426** |
| Amortization, depreciation and impairment losses | 14 | 7,378 | 6,800 |
| Capital (gains)/losses on disposal of property, plant and equipment | | (2,213) | (249) |
| Decreases/(increases) in trade and other receivables | | 615 | 15,724 |
| Decreases/(increases) in inventories | | (1,276) | 19,869 |
| (Decreases)/increases in trade and other payables | | (250) | (15,803) |
| Change in provision for employee benefits | 30 | 0 | (115) |
| Decreases/increases in provision for liabilities | 31 | 388 | 49 |
| Decreases/increases in derivate financial instruments | | (433) | 274 |
| **Net cash generated by operations** | | **15,828** | **35,975** |
| **Cash flow from investment activities** | | | |
| Increases in property, plant and equipment and intangible assets | | (6,060) | (8,328) |
| (Increases) and decreases in financial assets | | 2 | 23 |
| Proceeds from disposal of property, plant and equipment | | 2,576 | 684 |
| Bertolini merger | | 0 | 0 |
| Change in scope of consolidation | | 0 | 0 |
| **Net cash absorbed by investment activities** | | **(3,482)** | **(7,621)** |
| **Cash flow from financial activities** | | | |
| Change in equity | | 1 | 81 |
| Change in short and long-term loans and borrowings | | (8,168) | (3,765) |
| Change in finance leases | | (483) | (469) |
| Dividends paid | | (4,119) | (4,120) |
| Change in translation reserve | | 1,898 | (163) |
| **Net cash absorbed by financial activities** | | **(10,871)** | **(8,436)** |
| **Net increase in cash and cash equivalents** | | **1,475** | **19,918** |
| **Opening cash and cash equivalents** | | **4,586** | **(15,332)** |
| **Closing cash and cash equivalents** | | **6,061** | **4,586** |

**ADDITIONAL INFORMATION ON THE CASH FLOW STATEMENT**

| €/000 | | 2010 | 2009 |
|---|---|---|---|
| **Reconciliation of cash and cash equivalents** | | | |
| **Opening cash and cash equivalents, detailed as follows:** | 25 | **4,586** | **(15,332)** |
| Cash and cash equivalents | | 7,331 | 4,306 |
| Overdrafts | | (2,745) | (19,638) |
| **Closing cash and cash equivalents, detailed as follows:** | 25 | **6,061** | **4,586** |
| Cash and cash equivalents | | 7,339 | 7,331 |
| Overdrafts | | (1,278) | (2,745) |
| **Other information:** | | | |
| Tax paid | | (2,995) | (3,827) |
| Interest income | | 179 | 349 |
| Interest paid | | (1,353) | (1,774) |
| Change in related party receivables and service transactions | | (622) | 711 |
| Change in related party payables and service transactions | | (452) | (915) |

**Explanatory notes to the consolidated financial statements of Emak Group**

**Notes to the consolidated financial statements - Contents**

## 1. General information

On 16 March 2011 the Board of Directors of Emak S.p.A. submitted the Financial Statements and the Consolidated Financial Statements for the financial year to 31 December 2010, together with the reports required by law and, pursuant to art. 154-*ter*, paragraph 1-*ter* of the Consolidated Finance Law, immediately made them available to the Board of Auditors and to the appointed Auditing firm in order for them to carry out their relative duties. At the same time, the company issued an appropriate press release containing summary figures and information regarding the proposed dividend resolved by the General Meeting of Shareholders.

Emak S.p.A. (hereinafter referred to as "Emak" or the parent company) is a public company, whose shares are listed on the Italian stock exchange. Its registered office is in Via Fermi 4, Bagnolo in Piano (Reggio Emilia), Italy. It is one of Europe's leading producers of gardening, forestry and small-scale agricultural machinery, such as chainsaws, brushcutters, lawnmowers, trimmers, rotavators and croppers and a vast assortment of accessories.

EMAK is controlled by YAMA S.p.A., an industrial holding company, which holds the majority of its share capital on a permanent basis and, in accordance with the law and with the articles of association, appoints the majority of its corporate Bodies. The Group of companies held by Yama mainly operates in sectors involving the production and marketing of small machinery for agriculture, gardening, construction and industry and forestry. Emak S.p.A., nonetheless, is not subject to management or coordination on the part of Yama and its Board of Directors, and makes its own strategic and operating choices in complete autonomy.

In accordance with legal requirements, EMAK S.p.A. has set up specific procedures for regulating decisions that place certain Directors in positions of conflict of interest and for the carrying out of related party transactions. These procedures are aimed at an improved safeguarding of the company and of its assets. Reference is also made to them in paragraph 37 below.

Values shown in these notes are in thousands of euros, 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.

On the basis of information available and of the current and foreseeable income and financial situation, the directors have drawn up the financial statements according to the going concern assumption.
On the basis of factors known to us, that is, the current situation and future forecasts of key economic, balance sheet and financial figures for the Group, and of an analysis of the Group’s risks, there are no significant uncertainties that may compromise the Group’s status as a going concern.

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.
- Statement of Changes in Equity

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 5.

### 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 2010 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) | 342,090 | 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.<br>Comag S.r.l. | 99,800<br>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) | 25.533.285 | RMB | 100,000 | Emak S.p.A. | 100,000 |
| Victus-Emak 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 |
| Tai Long (Zhuhai) machinery Manufacturing Ltd. | Zhuhai (RPC) | 16.353.001 | RMB | 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 Segmental reporting criteria

IFRS 8 provides for information to be given for certain items in the financial statements on the basis of the operational segments of the company.

An operating segment is a component of a company:

(a) that carries on business activities generating costs and revenues;
(b) whose operating results are reviewed on a periodic basis at the highest executive levels for the purpose of taking decisions about resources to be allocated to the sector and for the evaluation of results; and
(c) for which separate reporting information is available.

IFRS 8 is based on the so-called "management approach", which defines sectors exclusively on the basis of the internal organisational and reporting structure used to assess performance and allocate resources.

On the basis of the new criteria for the definition of the operating segments introduced by IFRS 8, the Group identified, following the "management approach" a single segment of activity: production and distribution of agriculture, forestry and gardening machinery.

**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").

Goodwill amounts arising from business combinations are treated as assets of the acquired company.

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

| **Amount of currency corresponding to €1** | **Avg. 2010** | **31.12.2010** | **Avg. 2009** | **31.12.2009** |
|---|---|---|---|---|
| Pounds sterling (UK) | 0.86 | 0.86 | 0.89 | 0.89 |
| Renminbi (China) | 8.97 | 8.81 | 9.53 | 9.80 |
| Zloty (Poland) | 3.99 | 3.98 | 4.33 | 4.10 |
| Dollars (USA) | 1.33 | 1.34 | 1.39 | 1.44 |

**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 depreciated. Other assets are 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 principal element of repayments to be made is recorded as financial liabilities. The interest element is charged to the income statement 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 it is identifiable, it is probable that it will generate future economic benefits and 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 reviewed 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 reviewed annually for any impairment. Depreciable assets are reviewed 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 financial assets held for sale. 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 (with the value of fluctuations posted in the income statement)
This category includes 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.
Unless they qualify for hedge accounting, derivatives 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) Financial assets available-for-sale
Financial assets available-for-sale 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 eliminated from the accounting records 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.
Obsolete or slow-moving stocks are devalued on the basis of the presumed possibility of their use or of their future realisable value, by creating an appropriate provision that has the effect of reducing the inventories value.

### 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.

In the consolidated cash flow cash and cash equivalents have been shown net of bank overdrafts at the closing date.

## 2.16 Share capital

Ordinary shares are classified under equity.

If a company of the Group 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 all or part of the 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.

Sales of goods are accounted for when the significant risks and benefits arising from ownership of the goods are transferred and the company ceases to exercise both effective control and normal activities associated with ownership of the goods. This situation usually occurs upon delivery and acceptance of the goods on the part of the customer.

(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. facility 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

**New accounting standards, interpretations and changes with possible effects on the 2010 financial year and/or on previous financial periods and which had not been adopted by the Group in advance.**

The following changes in IFRSs are applicable to the Emak Group starting from the financial year ending on 31 December 2010. It should be noted that none of these changes has had a significant impact on the Group's financial statements. It should also be noted, moreover, that many changes to IFRSs are not applicable since they govern activities and transactions not relevant to the Emak Group.

*Improvements to IFRS issued in 2009*
These improvements refer to a group of amendments issued in April 2009 involving a series of IFRSs/IASs and interpretations that became applicable from 2010 and which had not been pre-applied by the Emak Group in previous financial periods. The changes have not had any significant effects for the Emak Group. The Standards and Interpretations affected by the changes are:

- *IFRS 2 – Share-based payment*
- *IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations*
- *IFRS 7 – Financial instruments: Disclosures*
- *IFRS 8 – Operating Segments*
- *IAS 1 – Presentation of Financial Statements*
- *IAS 7 – Cash Flow Statements*
- *IAS 17 - Leases*
- *IAS 18 - Revenue*
- *IAS 36 – Impairment of Assets*
- *IAS 38 – Intangible Assets*
- *IAS 39 – Financial Instruments: Recognition and Measurement*
- *IFRIC 9 – Reassessment of Embedded Derivatives*
- *IFRIC 16 – Hedges of Net Investment in a Foreign Operation*

IFRS 3 *(Revised in 2008) – Business Combinations*
On 6 May 2010 the IASB published improvements to IFRS 3 which introduced changes regarding principally: (i) the regulation of business combinations achieved in stages; (ii) the right to value at fair value any equity interests belonging to third parties acquired in a partial acquisition; (iii) the allocation of all costs connected with the business combination and the recognition at the date of acquisition of liabilities for conditional payments. The accounting standard is not applicable to the financial year ending 31 December 2010.

IAS 27 *(Revised in 2008) – Consolidated and Separate Financial Statements*

IAS 27 has been changed with reference to accounting for transactions and events that result in a change in a Group's interest in its subsidiaries and the attribution of a subsidiary's losses to non-controlling interests. IAS 27 establishes that once control has been obtained, further transactions whereby the parent entity acquires or disposes of additional minority share interests without modifying its control of the subsidiary are considered as transactions with the owners and therefore shall be accounted for as equity transactions. The modifications described in this paragraph are not applicable to the financial year ending 31 December 2010.

IAS 28 – *Investments in Associates and IAS 31-Interests in Joint Ventures.*
The change is a consequence of the new version of IAS 27 (described above) and establishes how the adjustments arising from loss of control of a subsidiary should be accounted for. This accounting standard is not applicable to the financial year ending 31 December 2010.

*Amendment of IFRS 1*- First-time Adoption of International Financial Reporting Standards, issued July 2009
Refers to certain exemptions for companies operating in the "oil and gas" sector, and therefore do not apply to the Emak Group.

*Amendment to IFRS 2* – Share-based payment, issued in June 2009
Refers to a number of modifications to cash-settled share-based payments. This amendment is not applicable to the Emak Group since no share-based payments have been made.

*Amendment to IFRS 5* - Non-current Assets Held for Sale and Discontinued Operations
Included in the Improvements to IFRSs issued in 2008. Not applicable to the Emak Group.

*Amendment to IAS 39* - Financial Instruments: Recognition and Measurement, issued in July 2008
This amendment refers to a number of changes regarding financial hedging operations, not applicable to the Emak Group.

IFRIC 17 – *Distributions of Non-Cash Assets to Owners*
This interpretation clarifies accounting treatment regarding distribution to the shareholders of assets other than cash. Not applicable to the Emak Group.

IFRIC 18 – *Transfers of Assets from Customers*
This interpretation clarifies the accounting treatment of transfers of tangible assets, particularly for companies operating in the utilities sector. Not applicable to the Emak Group.

**Accounting standards, amendments and interpretations not yet applicable and not adopted in advance by the Group.**

*Improvements to IFRSs issued in 2010*
These improvements refer to a group of amendments issued in May 2010 involving a series of IFRSs/IASs and interpretations that will not become applicable before 2011 and which have not been pre-applied by the Emak Group in 2010, where permitted. The changes should not have any significant effects for the Emak Group. The Standards and Interpretations affected by the changes are:

- *IFRS 1- First-time Adoption of International Financial Reporting Standards*
- *IFRS 3 – Business Combinations*
- *IFRS 7 - Financial instruments: Disclosures*
- *IAS 1 - Presentation of Financial Statements*
- *IAS 27 - Consolidated and Separate Financial Statements*
- *IAS 34 – Interim Financial Reporting*
- *IFRIC 16 – Hedges of a Net Investment in a Foreign Operation*

*Amendment to IFRS 1- First-time Adoption of International Financial Reporting Standards issued in December 2010*
Refers to a number of exemptions in the event of preparing financial statements in hyper-inflationary economies and certain changes to fixed dates for first-time adopters. This amendment is not applicable since the Emak Group is not a first-time adopter.

*Amendment to IFRS 1- First-time Adoption of International Financial Reporting Standards issued in January 2010*
Refers to exemptions from comparative IFRS 7 disclosures for first-time adopters of IFRSs. This amendment is not applicable since the Emak Group is not a first-time adopter.

*Amendment to IFRS 7 - Financial instruments: Disclosures*
Published by the IASB in October 2010, the amendments to IFRS 7 are applicable for accounting periods beginning on or after 1st July 2011. The amendments have been issued with the aim of improving understanding of transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets. This amendment will mainly affect financial institutions and consequently no relevant changes in disclosure requirements are expected for the Emak Group.

*IFRS 9-Financial instruments, covering classification and measurements of financial assets*
This is a new standard published by the IASB in November 2009 and which will be applicable from 1st January 2013. This publication is the first part of a process in stages which has the aim of completely replacing IAS 39. The new standard uses a single approach based on how financial instruments are managed and on the characteristics of the contractual cash flows of the financial instruments in order to determine the valuation criteria, replacing the different rules provided for in IAS 39. In addition, the new standard provides for a unique method of calculating losses in value of financial assets.

*Amendment to IAS 12 – Income Taxes*
In December 2010 the IASB issued a minor amendment to IAS 12 – Income Taxes, which requires the entity to value deferred taxes assets deriving from an asset depending on the way in which the accounting value of this asset will be recovered (through continuous use or through sale). As a result of this amendment SIC-21 – Income Taxes – (Recovery of Revalued Non-Depreciable Assets) will no longer be applicable. The amendment is applicable from 1st January 2012. This amendment is not relevant to the Emak Group.

*IAS 24 Revised in 2009 - Disclosure of Related Party Transactions for State-Controlled Entities*
The changes made refer to the quantity of information to disclose for companies that have significant dealings with government entities. This amendment is not applicable to the Emak Group.

*IAS 32-Financial Instruments: Presentation*
This is a modification published by the IASB in October 2009 and refers to the classification of rights issues (rights, options or warrants) denominated in a currency other than the functional currency of the issuer. Previously such rights were accounted for as liabilities from derived financial instruments: the amendment, on the other hand, requires that, in certain conditions, such rights should be classified in equity regardless of the currency in which their exercise price is denominated. The amendment in question is applicable from 1st January 2011 retrospectively. It is believed that the coming into force of the standards provided for by this amendment will not have any significant effects on the financial statements of the company or of the Group. This amendment is not applicable to the Emak Group.

*Amendment to IFRIC 14 issued in November 2009*
Refers to the accounting treatment of certain obligations with reference to pension schemes. This amendment is not applicable to the Emak Group.

*IFRIC 19-Extinguishing Financial Liabilities with Equity Instruments*
The Interpretation issued by the IFRIC in November 2009 gives guidelines regarding the accounting treatment of transactions involving the extinction of financial liabilities through the issue of equity instruments. The interpretation establishes that if an entity renegotiates the extinction conditions for a financial liability and its creditor accepts to extinguish it by means of the issue of the entity's shares, the issued shares become part of the price paid for the extinction of the financial liability and they must be valued at fair value. The difference between the carrying amount of the extinguished financial liability and the initial value of the equity instruments issued must be allocated to the income statement in the period according to the accruals basis. The interpretation is applicable from 1st January 2011. This interpretation is not applicable to the Emak Group.

### 3. Capital management

The group's objectives for managing capital are:

- to safeguard the ability to continue operating as a going concern and
- to provide an adequate return for shareholders.

The group manages capital structure in proportion to the risk. In order to maintain or adjust its capital structure, the group may vary the amount of dividends paid to shareholders and the return on capital to shareholders, and it may issue new shares, or sell assets to reduce the level of debt.
During recent years the group's dividend policy has been to pay out around 40% of net profit attributable to the group reported in the consolidated financial statements.

The group monitors its capital on the basis of the ratio between net financial position and equity.
As in past years, the group's strategy has been to maintain the debt-equity ratio at no more than 1, in order to ensure access to low-cost finance by keeping its credit rating at a maximum level.

The debt-equity ratios at 31 December 2010 and 31 December 2009 were as follows:

| | **31 Dec. 10 €/000** | **31 Dec. 09 €/000** |
|---|---|---|
| Net financial position (note 9)) | 27,395 | 37,950 |
| Total equity | 114,030 | 104,631 |
| **Debt-equity ratio** | **0.24** | **0.36** |

### 4. Financial risk management

#### 4.1 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) 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 2010, financings with banking institutions and financial leasing companies are at variable rates.
During the year the company has set up hedging operations aimed at limiting the effects of interest rate fluctuations.

(ii) 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.

(iii) 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 contracts with certain suppliers 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 as well as semi-finished products, such as motors.

(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 and that certain types of receivable are insured. 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.
Despite the difficult situation in the financial markets, the Emak Group has maintained the credibility ratings assigned by credit institutes and Analysts. As the result, there have been no significant changes in the available lines of credit, which already far exceeded requirements.

**4.2 Accounting for derivative financial instruments and hedging activities**

Derivative financial instruments are used exclusively for hedging purposes with the intent of reducing the risks of foreign currency and interest rate fluctuation. In line with its risk management policy, in fact, the Group does not carry out derivative operations for speculative purposes.
When such operations are not accounted for as hedging operations they are recorded as trading operations.
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.

On the basis of the above, and of stipulated contracts, the accounting methods adopted are as follows:
1. fair value hedge: the fair value variations of the hedging instrument are posted to the Income Statement together with variations in the fair value of the hedged transactions.
2. cash flow hedge: the variations in fair value which are intended and proved to be effective for hedging future cash flows are posted to the Comprehensive Income Statement, while the ineffective portion is posted immediately to the Income Statement. If contractual commitments or planned hedging operations lead to the creation of an asset or liability, when this occurs the profits or losses on the derivative which have been posted directly to the Comprehensive Income Statement adjust the opening cost of acquisition or holding value of the asset or liability. For financial cash flow hedgings that do not lead to the creation of an asset or liability, the amounts which have been posted directly to the Comprehensive Income Statement are to be transferred to the Income Statement in the same period in which the contractual commitment or planned hedging operation are posted to the Income Statement.
3. derived financial instruments not defined as hedging instruments: the variations in fair value are posted to the Income Statement.

The accounting method adopted for a hedge is applied until it expires, is sold, terminates, is exercised or is no longer defined as a hedge. Accumulated profits or losses from the hedging instrument recorded directly in the Statement of Comprehensive Income are maintained until the related operation effectively occurs. If the operation to which the hedge relates is no longer expected to occur, the accumulated profits or losses recorded directly in the Statement of Comprehensive Income are transferred to the Income Statement for the relevant period.

### 4.3 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.

## 5. 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, write-downs 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.

## 6. Segment information

On the basis of the new criteria introduced by IFRS 8 for the definition of operating segments, as described in note 2.3, the Group has identified a unique operating sector according to the “management approach”, that of the production and sale of machines for agriculture, forestry and the tending of parks and gardens.

## 7. Significant non-recurring events and transactions

The following operations occurred during the year:

### 7.1 Sales of industrial building

- On 29 January 2010 the deed of sale was signed eith third parties for the sale of a property situated in Bagnolo in Piano (RE), for a consideration of € 2,400 thousand, giving rise to a capital gain of € 2,215 thousand. The builging was previously leased to a company in the Yama Group.

### 7.2 Increase in share capital

- On 22 March 2010 the parent company, Emak S.p.A., converted trade receivables due from the subsidiary, Emak USA Inc., into advance payments for future increases in share capital for US$ 500,000, equivalent to € 371 thousand.

- On 30 April 2010 the subsidiary Emak U.K. Ltd. resolved an increase in Share Capital of 324,740 pounds sterling through the full use of the reserve for future increases in share capital already set up in previous financial periods

### 7.3 Acquisition of shareholdings

On 23 December 2010 the parent company, Emak S.p.A. undersigned an agreement for the acquisition of 61% of the share capital of Epicenter LTD, a company with registered office in Ukraine in Kiev, distributor of products with the Oleo-Mac trademark operating in the Ukrainian market since 2000. Epicenter LTD closed the 2009 financial year with a turnover of around € 5 million and a net profit of around € 0.2 million. The operation is in line with the Group's development policy 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 provides for the transfer of 61% of the share capital to Emak by April 2011, at a price of between € 1.4 and 1.7 million. The consideration for the operation shall be established with the method of market multiples, on the basis of the out come of the due diligence carried out on the Epicenter. The agreement 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%. The acquisition on the part of Emak shall be financed with the use of already available credit lines. The inclusion of the target company in EMAK's scope of consolidation will take effect from the effective date of acquisition of control of the company.

## 8. Balances or transactions arising from atypical and unusual operations

No atypical or unusual transactions took place during the course of 2010.

## 9. Net financial position

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

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Cash and banks | 7,339 | 7,331 |
| Securities and derivative financial instruments | 639 | 433 |
| Other financial assets | 0 | 1 |
| Financial liabilities | (12,330) | (13,754) |
| Derivative financial instruments | (302) | (529) |
| **Short-term net debt** | **(4,654)** | **(6,518)** |
| Financial liabilities | (22,741) | (31,432) |
| **Long-term net debt** | **(22,741)** | **(31,432)** |
| Cash and banks | 7,339 | 7,331 |
| Securities and derivative financial instruments | 639 | 433 |
| Other financial assets | 0 | 1 |
| Financial liabilities | (35,071) | (45,186) |
| Derivative financial instruments | (302) | (529) |
| **Total net debt** | **(27,395)** | **(37,950)** |

The net financial position does not contain any balances with related parties either at 31 December 2010 or at 31 December 2009.

## 10. Sales and other operating income

Revenues of the Group of € 206,785 thousand, against € 194,925 thousand in the previous year, are shown net of returns for € 433 thousand compared to € 586 thousand in the previous year.

Details of sales are as follows

| €/000 | FY 2010 | FY 2009 |
|---|---|---|
| Net sales revenues (net of discounts and rebates) | 205,524 | 193,767 |
| Revenues from recharged transport costs | 1,694 | 1,744 |
| Returns | (433) | (586) |
| **Total** | **206,785** | **194,925** |

Other operating income is analyzed as follows:

| €/000 | FY 2010 | FY 2009 |
|---|---|---|
| Capital gains on property, plant and equipment | 113 | 261 |
| Capital gains on disp. of fixed assets available for sale (note 7)) | 2,215 | - |
| Recovery of warranty costs | 188 | 113 |
| Insurance refunds | 36 | 24 |
| Advertising reimbursements | 283 | 339 |
| Rental income | - | 135 |
| Government grants | 515 | 568 |
| Other operating income | 415 | 494 |
| **Total** | **3,765** | **1,934** |

## 11. Cost of raw and consumable materials and goods

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

| €/000 | FY 2010 | FY 2009 |
|---|---|---|
| Raw materials, semi-finished products and goods | 115,952 | 91,690 |
| Other purchases | 1,974 | 1,767 |
| **Total** | **117,926** | **93,457** |

The increase in the heading “Raw materials, semi-finished products and goods” is mainly attributable to the increase in production volumes.

## 12. Salaries and employee benefits

Details of these costs are as follows:

| €/000 | FY 2010 | FY 2009 |
|---|---|---|
| Wages and salaries | 22,160 | 20,867 |
| Social security charges | 6,413 | 6,039 |
| Employee termination indemnities | 1,208 | 1,105 |
| Adjustment of termination indemnity for actuarial losses/(profits) (note 30) | 182 | 31 |
| Other costs | 872 | 763 |
| Directors' emoluments | 362 | 291 |
| Temporary staff | 1,270 | 694 |
| **Total** | **32,467** | **29,790** |

Details of changes in staff numbers are provided in section 6 of the directors' report.

The increase in staff costs is due to:
- the increase in hours worked (linked to the increase in the average number of employees), the greater use of temporary labour and the lower use of welfare support systems;
- the different geographical distribution of the more extensively used production sites

**13. Other operating costs**

Details of these costs are as follows:

| €/000 | FY 2010 | FY 2009 |
|---|---|---|
| Subcontract work | 5,312 | 3,900 |
| Maintenance | 1,951 | 1,691 |
| Transportation | 10,183 | 7,831 |
| Advertising and promotions | 2,828 | 2,950 |
| Commissions | 2,147 | 2,255 |
| Travel | 1,159 | 903 |
| Postage and telecommunications | 569 | 571 |
| Consulting fees | 2,039 | 1,472 |
| Other services | 5,135 | 4,971 |
| **Services** | **31,323** | **26,544** |
| | | |
| **Rents, rentals and the enjoyment of third party assets** | **2,861** | **3,222** |
| | | |
| **Increases in provisions** (note 31) | **561** | **100** |
| | | |
| Bad debts | 150 | 163 |
| Increase in provision for doubtful accounts (nota 23) | 362 | 562 |
| Capital losses on property, plant and equipment | 115 | 12 |
| Other taxes (not on income) | 370 | 406 |
| Other operating costs | 1,133 | 951 |
| **Other costs** | **2,130** | **2,094** |
| **Total** | **36,875** | **31,960** |

External processing, transport, travel and maintenance costs have increased as a result of the increase in production volumes. The increase in consultancy fees is attributable to a number of projects for improving management efficiency and to M&A activities.

Rental and hire costs and costs for the enjoyment of third party goods have fallen due to the reorganisation of the production sites, while the different composition of the turnover mix has led to a fall in commission costs.

## 14. Amortization and depreciation

Details of these amounts are as follows:

| €/000 | FY 2010 | FY 2009 |
|---|---|---|
| Amortization of intangible assets (nota 19) | 918 | 869 |
| Depreciation of property, plant and equipment (nota 18) | 6,460 | 5,903 |
| Depreciation of investment property | - | 28 |
| **Total** | **7,378** | **6,800** |

## 15. Finance income and expenses

Financial income is analyzed as follows:

| €/000 | FY 2010 | FY 2009 |
|---|---|---|
| Interest on trade receivables | 123 | 364 |
| Interest on bank and postal current accounts | 70 | 53 |
| Proventi da adeguamento al fair value degli strumenti derivati per copertura rischio tasso di interesse | 307 | 70 |
| Other financial income | 35 | 12 |
| **Financial income** | **535** | **499** |

Financial expenses are analyzed as follows:

| €/000 | FY 2010 | FY 2009 |
|---|---|---|
| Interest on medium-term bank loans and borrowings | 683 | 947 |
| Interest on short-term bank loans and borrowings | 148 | 775 |
| Financial charges from valuing employee termination indemnities (note 30) | 148 | 166 |
| Proceeds from adjustment to fair value of derived instruments for hedging interest rate risk | 250 | 350 |
| Cash discounts given | - | 305 |
| Other financial costs | 527 | 196 |
| **Financial expenses** | **1,756** | **2,739** |

The decrease in interest payable was caused by the reduction in the net passive financial position and from the fall in interest rates in the first half-year.

In 2010 the heading “Cash discounts given”, relating to collections from customers, was recorded as a reduction of sales revenues. In consideration of the limited impact of the change, the reclassification of the comparative figures has not been deemed necessary.

The instruments for hedgings interest rate risks are adjusted to fair value every quarter, giving rise to costs and proceeds depending on the periodic fluctuation in rates. As a result, the net positive effect on the financial year is € 57 thousand, against the negative effect of € 280 thousand in the previous financial year.

The increase in other financial costs is linked to the higher amounts of interest effectively paid regarding the interest-rate spread on hedging contracts.

Exchange gains and losses are analysed as follows:

| €/000 | FY 2010 | FY 2009 |
|---|---|---|
| Exchange differences on trade transactions | 1,587 | 263 |
| Exchange differences on financial items | 61 | (112) |
| **Exchange gains and losses** | **1,648** | **151** |

**16. Income taxes**

The estimated charge for current tax and changes in deferred tax assets and liabilities is € 4,939 thousand in 2010 (€ 3,340 thousand in the previous year).

This amount is made up as follows:

| €/000 | FY 2010 | FY 2009 |
|---|---|---|
| Current income taxes | 4,314 | 3,708 |
| Taxes from prior years | (9) | (257) |
| Changes in deferred tax assets (nota 29) | 125 | 19 |
| Changes in deferred tax liabilities (nota 29) | 509 | (130) |
| **Total** | **4,939** | **3,340** |

The current income taxes figure includes the cost for IRAP (regional company tax) for € 1,069 thousand, against € 833thousand in 2009.

No amounts for income taxes have been posted directly in movements in equity during 2010, as during last year.

Effective 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 for the following reasons:

| €/000 | FY 2010 | % rate | FY 2009 | % rate |
|---|---|---|---|---|
| **Profit before taxes** | **16,558** | | **12,766** | |
| **Theoretical tax charge** | **5,200** | **31.4** | **4,009** | **31.4** |
| Effect of IRAP differences calculated on different tax base | 614 | 3.7 | 614 | 4.8 |
| Non-taxable income | (259) | (1.5) | (457) | (3.6) |
| Non-deductible costs | 277 | 1.7 | 268 | 2.1 |
| Differences in rates with other countries | (871) | (5.3) | (908) | (7.1) |
| Taxes from prior years | 6 | 0 | (256) | (2) |
| Other differences | (28) | (0.2) | 70 | 0.6 |
| **Effective tax charge** | **4,939** | **29.8** | **3,340** | **26.2** |

The effective tax rate of 29.8% is up from the one of 26.2% reported in 2009.

This increase is mainly due to the following elements:

- the reduced benefit from the “Tremonti-Ter” tax break (art. 5, Leg. Dec. no. 78/2009 converted by Law 102/2009), which introduced a tax reduction of 50% for investments in machinery and equipment, compared to the previous financial year. The benefit with relation to the parent company is a tax saving of € 33 thousand, against a saving of € 292 thousand in the 2009 financial year;
- the different distribution of taxable income among Group companies.

## 17. 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 36). The parent company has only ordinary shares outstanding.

| | FY 2010 | FY 2009 |
|---|---|---|
| Net profit attributable to ordinary shareholders in the parent company (€/000) | 11,570 | 9,383 |
| Weighted average number of ordinary shares outstanding | 27,256,267 | 27,260,353 |
| **Basic earnings per share (€)** | **0.424** | **0.344** |

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

## 18. Property, plant and equipment

Changes in property, plant and equipment are shown below:

| **€/000** | **31.12.2008** | **Increases** | Decreases | **Other changes** | **Exchange difference** | **31.12.2009** |
|---|---|---|---|---|---|---|
| Land and buildings | 34,518 | 3,159 | (16) | 3,636 | (76) | 41,221 |
| Accumulated depreciation | (7,569) | (948) | 1 | - | 6 | (8,510) |
| **Land and buildings** | **26,949** | **2,211** | **(15)** | **3,636** | **(70)** | **32.,11** |
| Plant and machinery | 18,291 | 2,560 | (586) | 770 | (50) | 20,985 |
| Accumulated depreciation | (10,037) | (1,471) | 480 | - | 20 | (11,008) |
| **Plant and machinery** | **8,254** | **1,089** | **(106)** | **770** | **(30)** | **9,977** |
| Other assets | 52,814 | 1,982 | (1,385) | 403 | (34) | 53,780 |
| Accumulated depreciation | (42,116) | (3,484) | 1,089 | | 22 | (44,489) |
| **Other assets** | **10,698** | **(1,502)** | **(296)** | **403** | **(12)** | **9,291** |
| **Advances and fixed assets in progress** | **5,090** | **219** | **(18)** | **(4,833)** | **-** | **458** |
| **Cost** | **110,713** | **7,920** | **(2,005)** | **(24)** | **(160)** | **116,444** |
| **Accumulated depreciation (note 14)** | **(59,722)** | **(5,903)** | **1,570** | **-** | **48** | **(64,007)** |
| **Net book value** | **50,991** | **2,017** | **(435)** | **(24)** | **(112)** | **52,437** |

| €/000 | 31.12.2009 | Increases | Decreases | Other changes | Exch. difference | Riclass. | 31.12.2010 |
|---|---|---|---|---|---|---|---|
| Land and buildings | 41.221 | 148 | (28) | - | 831 | | 42.172 |
| Accumulated depreciation | (8.510) | (1.160) | 27 | - | (43) | - | (9.686) |
| **Land and buildings** | **32.711** | **(1.012)** | **(1)** | **-** | **788** | **-** | **32.486** |
| Plant and machinery | 20.985 | 334 | (885) | - | 455 | 3 | 20.892 |
| Accumulated depreciation | (11.008) | (1.790) | 737 | - | (148) | | (12.209) |
| **Plant and machinery** | **9.977** | **(1.456)** | **(148)** | **-** | **307** | **3** | **8.683** |
| Other assets | 53.780 | 1.995 | (1.157) | - | 428 | 239 | 55.285 |
| Accumulated depreciation | (44.489) | (3.510) | 1.062 | - | (218) | 51 | (47.104) |
| **Other assets** | **9.291** | **(1.515)** | **(95)** | **-** | **210** | **290** | **8.181** |
| **Advances and fixed assets in progress** | **458** | **355** | **(6)** | **152** | **0** | **(290)** | **669** |
| **Cost** | **116.444** | **2.832** | **(2.076)** | **152** | **1.714** | **(48)** | **119.018** |
| **Accumulated depreciation (note 14)** | **(64.007)** | **(6.460)** | **1.826** | **-** | **(409)** | **51** | **(68.999)** |
| **Net book value** | **52.437** | **(3.628)** | **(250)** | **152** | **1.305** | **3** | **50.019** |

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

The increases relate to:
- the buildings category further to restructuring work on a number of offices and departments;
- the plant and machinery category, mainly due to the completion of a number of plant in the new spare parts distribution centre;

- the "other assets" category refers to the purchase of equipment and dies, means of transport, electronic machines and various other equipment.

The decreases relate mainly to the replacement of obsolete dies and machines following organisational changes in the financial year.

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

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Gross value | 3,659 | 3,659 |
| Accumulated depreciation | (659) | (550) |
| **Net book value** | **3,000** | **3,109** |

The financial leasing contract in force relates to Emak S.p.A.'s office building situated in Via Fermi 4 used as the company's registered office. The contract was entered into with Locat S.p.A. on 10.11.2005 and expires on 10.11.2013, with a gross value of the fixed asset of € 3,659 thousand. At the termination of the contract Emak S.p.A will have the right to a redemption option on the fixed asset for a value of € 215 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

During 2004, moreover, Comag S.r.l. submitted a new request for grants amounting to € 2,401 thousand, against investments of around € 9,538 thousand. The request for these grants was accepted and the relative credit was accounted for, according to the scheme of investments made, under other receivables falling due within 1 year for €1,601 thousand and under other receivables falling due after more than one year for €800 thousand (note 23). This allocation is based on expected collections as deduced from the final documentation received further to the investment entered into by the company at the end of 2008.

The amount of the grant is subject to the risk of modification in the event that the conditions provided for in the investment plan are not complied with. In relation to this risk, a provision for € 280 thousand was set aside during the 2010 financial year in the light of a probable reduction of the requested grant (note 31).

These grants are recorded progressively to the income statement, in relation to the residual possibility of use of the fixed assets to which they refer, and are recorded in the balance sheet under deferred income.

No fixed assets are subject to restrictions as a result of collateral provided.

## 19. Intangible assets

Intangible assets report the following changes:

| €/000 | 31.12.2008 | Increases. | Other changes | Exc. difference | 31.12.2009 |
|---|---|---|---|---|---|
| Development costs | 1.301 | - | - | - | 1.301 |
| Accumulated amortization | (828) | (56) | - | - | (884) |
| **Development costs** | **473** | **(56)** | **-** | **-** | **417** |
| Patents and intellectual property rights | 5.546 | 346 | 67 | (6) | 5.953 |
| Accumulated amortization | (4.280) | (602) | - | 3 | (4.879) |
| **Patents** | **1.266** | **(256)** | **67** | **(3)** | **1.074** |
| Concessions, licences and trademarks | 676 | 4 | - | 7 | 687 |
| Accumulated amortization | (392) | (123) | - | (10) | (525) |
| **Concessions, licences and trademarks** | **284** | **(119)** | **-** | **(3)** | **162** |
| Other intangible assets | 2.916 | 17 | - | (15) | 2.918 |
| Accumulated amortization | (1.961) | (88) | - | 4 | (2.045) |
| **Other intangible assets** | **955** | **(71)** | **-** | **(11)** | **873** |
| **Advanced payments and fixed assets in progress** | **340** | **157** | **(69)** | **-** | **428** |
| **Cost** | **10.779** | **524** | **(2)** | **(14)** | **11.287** |
| **Accumulated amortization (note 14)** | **(7.461)** | **(869)** | | **(3)** | **(8.333)** |
| **Net book value** | **3.318** | **(345)** | **(2)** | **(17)** | **2.954** |

| €/000 | 31.12.2009 | Incr. | Decr. | Other changes | Exch. difference | Riclass. | 31.12.2010 |
|---|---|---|---|---|---|---|---|
| Development costs | 1.301 | 85 | - | - | - | 332 | 1.718 |
| Accumulated amortization | (884) | (62) | - | - | - | | (946) |
| **Development costs** | **417** | **23** | **-** | **-** | **-** | **332** | **772** |
| Patents and intellectual property rights | 5.953 | 594 | (5) | - | 62 | - | 6.604 |
| Accumulated amortization | (4.879) | (601) | - | 2 | (31) | - | (5.509) |
| **Patents** | **1.074** | **(7)** | **(5)** | **2** | **31** | **-** | **1.095** |
| Concessions, licences and trademarks | 687 | 4 | - | - | 19 | - | 710 |
| Accumulated amortization | (525) | (122) | - | - | (17) | - | (664) |
| **Concessions, licences and trademarks** | **162** | **(118)** | **-** | **-** | **2** | **-** | **46** |
| Other intangible assets | 2.918 | 608 | - | (3) | 121 | (1.711) | 1.933 |
| Accumulated amortization | (2.045) | (133) | - | 3 | (25) | 1.711 | (489) |
| **Other intangible assets** | **873** | **475** | **-** | **-** | **96** | **-** | **1.444** |
| **Advanced payments and fixed assets in progress** | **428** | **6** | **-** | **(96)** | **-** | **(332)** | **6** |
| **Cost** | **11.287** | **1.297** | **(5)** | **(99)** | **202** | **(1.711)** | **10.971** |
| **Accumulated amortization (note 14)** | **(8.333)** | **(918)** | **-** | **5** | **(73)** | **1.711** | **(7.608)** |
| **Net book value** | **2.954** | **379** | **(5)** | **(94)** | **129** | **-** | **3.363** |

Investments in the year relate mainly to:

- the purchase of new application software for improving the efficiency of company processes for € 480 thousand;
- external design work for a new product for € 191 thousand;
- the multi-year use of production equipment for € 441 thousand.

Research and development costs directly recorded in the Group's income statement amount to € 4,834 thousand.

All intangible fixed assets have a defined residual life and are amortised at constant rates on the basis of their remaining useful life.

### 20. Goodwill

The goodwill of €10,537 thousand reported at 31 December 2010 can be separated into two parts as follows:

| | 31.12.2009 | Exchange difference | 31.12.2010 |
|---|---|---|---|
| Goodwill on the purchase of Victus Eco Sp. Z.o.o. | 908 | 30 | 938 |
| Goodwill on the purchase of the Victus IT business | 5.022 | 162 | 5.184 |
| Goodwill from the merger of Bertolini S.p.A. | 2.074 | 0 | 2.074 |
| Goodwill from the acq. of Tailong Machinery Ltd. | 2.135 | 242 | 2.377 |
| **Total** | **10.139** | **434** | **10.573** |

- Goodwill on the purchase of Victus-Emak Sp. z.o.o. for € 938 thousand relates to the difference between the acquisition price for 100% of the company regulated by Polish law, Victus-Emak Sp. z.o.o., and its equity at the date of acquisition, while an amount of € 5,184 thousand relates to the acquisition of the company branch of Victus International Trading SA.

- the amount of €2,074 thousand refers to the positive difference arising further to the absorption of the company Bertolini S.p.A into Emak S.p.A.;

- the amount of € 2,377 thousand refers to the higher value arising from the acquisition of 100% of the company regulated by Chinese law, Tailong (Zhuhai) Machinery Manufacturing Equipment Ltd.

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 2010. The forecast of future operating cash flows is based on the budgets prepared by the Group for 2011 taking account of current market uncertainties, assuming a situation of reasonable growth for the two following years and considering the estimation of the final value. Expected cash flows have been discounted on the basis of a gross WACC (weighted average cost of capital) of 14.2% for the goodwill relating to Victus-Emak Sp Z.o.o., 10.1% for Tailong (Zhuhai) Machinery Manufacturing Equipment Ltd. and 11.1% for Bertolini S.p.A..

The elements taken into consideration for calculating cash flows are income indicators such as turnover and EBITDA, balance sheet indicators such as movements in net working capital and investments.

The indicators are taken from the budgets and from the three-year plans approved by company Management; these are in turn analysed in all the phases of the management planning process.

The cash flows used in the tests cover a time period of three years. For subsequent years a discounted flow of perpetual income has been estimated assuming zero growth of the last cash flow measured.
The sensitivity tests carried out justify the values of goodwill recorded in the financial statements, even when applying reasonably more prudent assumptions than those adopted.

**21. Equity investments**

The amount reported in the balance sheet is €224 thousand, unchanged compared to last year. Investments have 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 financial statements values relate to changes in the fair value of financial instruments for:
-hedging purchases in foreign currency;
-hedging the risk of changes in interest rates.

All derivative financial instruments belonging to this heading are valued at fair value at the second hierarchical level, that is, the estimate of their fair value has been carried out using variables other than Prices quoted in active markets and which are observable (on the market) either directly (prices) or indirectly (derived from prices).

In the case in point, the fair value recorded is equal to the “market to market” estimation provided by the bank, which represents the current market value of each contract calculated at the date at the closing date of the Financial Statements.

At 31 December 2010 there were outstanding forward currency agreements for the purchase of:

- € 900 thousand expiring by September 2011 at an average exchange rate of 0.86 Pounds Sterling (regarding hedging operations carried out by the U.K. subsidiary Emak U.K. Ltd.);
- € 3,400 thousand expiring by June 2011 at an average exchange rate of 4 Zloty (regarding hedging operations carried out by the Polish. subsidiary Victus Emak Sp. z.o.o.);
- 30,000 thousand yen expiring by May 2011 at an average exchange rate of 114 yen per euro (regarding hedging operations carried out by the French subsidiary Emak France Sas);
- 900 thousand dollars expiring by December 2011 at an average exchange rate of 1.33 dollars per euro (regarding hedging operations carried out by the parent company Emak S.p.A);
- 1,720 thousand dollars expiring by May 2011 at an average exchange rate of 2.95 Zloty (regarding hedging operations carried out by Victus Emak Sp. z.o.o.);
- 130 thousand pounds sterling expiring by June 2011 at an average exchange rate of 4.56 Zloty (regarding hedging operations carried out by Victus Emak Sp. z.o.o);

At the same date there were outstanding forward currency operations for the sale of:

- € 21,950 thousand expiring by August 2011 at an average exchange rate of 8.99 Renmimbi (regarding hedging operations carried out by the Chinese subsidiary Jiangmen Emak Outdoor Power Equipment Co. Ltd.)
- 450 thousand dollars expiring by March 2011 at an average exchange rate of 1.32 dollars per euro (regarding hedging operations carried out by the parent company Emak S.p.A);

The Parent company, Emak S.p.A., has also underwritten a number of IRS contracts and options on interest rate, with the objective of hedging the risk of changes in interest rates on financings for a notional amount of € 18,675 thousand.

The expiry of the instruments is as follows:

-€ 2,000 thousand in the 2011 financial year;
-€ 8,000 thousand will be amortised in financial years up to 2013;
-€ 6,675 thousand will be amortised in financial years up to 2014;
-€ 2,000 thousand in the 2016 financial year;

The average interest rate of the instruments is 3.09%

All the contracts, while having the purpose and characteristics of hedging operations, do not formally comply with the rules for being accounted for as such. For this reason all the changes in fair value have been recorded in the income statement in the relevant financial period on the accruals basis.

## 23. Trade and other receivables

Details of these amounts are as follows:

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Trade receivables | 55.987 | 56.067 |
| Provision for doubtful accounts | (1.960) | (1.804) |
| **Net trade receivables** | **54.027** | **54.263** |
| Receivables due from related parties (note 37) | 1.619 | 907 |
| Prepaid expenses and accrued income | 542 | 189 |
| Other receivables | 2.022 | 2.351 |
| **Total current portion** | **58.210** | **57.710** |
| Other non-current receivables | 906 | 904 |
| **Total non-current portion** | **906** | **904** |

The heading “Other receivables” includes;

- € 1,601 thousand receivable regarding the Law 488 contribution granted to the subsidiary, Comag, which is expected to be collected in 2011.

- € 206 thousand relating to advance payments to suppliers for the manufacture of dies and equipment the ownership of which will be subsequently transferred to a customer as part of a specific new product development project. At 31 December 2009 this type of advance payments amounted to around € 155 thousand.

The heading “Other non-current receivables” includes the credit relating to the Law 488 grant which will be collected after 31 December 2011, amounting to around € 800 thousand.

A provision for € 280 thousand was set aside during the 2010 financial year regarding amounts receivable with relation to the Law 488 grant (note 31).

Trade receivables are non-interest-bearing and generally fall due after around 100 days.

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

The movement in the provision for bad debts is as follows:

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| **Opening balance** | **1.804** | **1.585** |
| Increases (note 13) | 362 | 562 |
| Decreases | (208) | (343) |
| Exchange difference | 2 | - |
| **Closing balance** | **1.960** | **1.804** |

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

## 24. Inventories

Inventories are detailed as follows:

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Raw, ancillary and consumable materials | 31.558 | 30.035 |
| Work in progress and semi-finished products | 7.784 | 8.335 |
| Finished products and goods for resale | 31.323 | 31.019 |
| **Total** | **70.665** | **69.389** |

Inventories are stated net of a provision of €1,657 thousand at 31 December 2010 (€1,765 thousand at 31 December 2009). 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 | Esercizio 2010 | Esercizio 2009 |
|---|---|---|
| **Opening balance** | 1.765 | 1.683 |
| Increases | 138 | 512 |
| Effect of exchange differences | 16 | 3 |
| Uses | (262) | (433) |
| **Closing balance** | **1.657** | **1.765** |

The decreases in the provision refer to obsolete material disposed of during the year.

None of the group's inventories at 31 December 2010 act as security against its liabilities.

## 25. . Cash and cash equivalents

Cash and cash equivalents are detailed as follows:

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Bank and post office deposits | 7.308 | 7.315 |
| Cash | 31 | 16 |
| **Total** | **7.339** | **7.331** |

For the purpose of preparing the cash-flow statement, cash and cash equivalents at the end of the financial year include:

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Cash and cash equivalents | 7.339 | 7.331 |
| Overdrafts (note 28) | (1.278) | (2.745) |
| **Total** | **6.061** | **4.586** |

## 26. Equity

**Share capital**
Share capital is fully paid up at 31 December 2010 and amounts to € 7,190 thousand, remaining unchanged during the year under examination. It consists of 27,653,500 ordinary shares of par value €0.26 each.

**Treasury shares**
The adjustment of share capital for purchase of treasury shares, equal to € 2,029 thousand, is the overall exchange value paid by Emak S.p.A. for the acquisition on the market of treasury shares held at 31 December 2010 (note 36).
The nominal value of these treasury shares is € 104 thousand.

**Share Premium reserve**
At 31 December 2010, the share premium reserve of € 21,047 thousand, unchanged compared to the previous financial year, is composed of premiums on newly issued shares.

**Other reserves:**
The legal reserve at 31 December 2010 of € 1,438 thousand is the same as the previous year.

The revaluation reserve, at € 1,138 thousand, includes reserves deriving from the revaluation pursuant to Law 72/83 for € 371 thousand and Law 413/91 for € 767 thousand. No variation occurred during the financial year in question.

The extraordinary reserve, included amongst other reserves, amounts to € 27,088 thousand at 31 December 2010, inclusive of all allocations of earnings in prior years.

At 31 December 2010 other reserves also include:

- reserves qualifying for tax relief, referring to tax provisions for grants and donations for € 129 thousand;
- reserves for merger surpluses for € 394 thousand;
- reserves from capital grants deriving from the merger of Bertolini S.p.A. for € 122 thousand.

At 31 December 2010 the reserve for conversion differences for a positive amount of € 1,062 thousand is entirely attributable to the differences generated from the translation of balances into the Group's reporting currency.

Details of the restrictions and distributability of reserves are contained in the specific table in the notes to the financial statements of the parent company Emak S.p.A.
In addition, there is a restriction regarding the distribution of the "Profits brought forward" heading in the consolidated balance sheet amounting to € 5,831 thousand.

## 27. Trade and other payables

Details of trade and other payables are set out below:

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Trade payables | 36.776 | 35.833 |
| Payables due to related parties (note 37) | 1.753 | 2.205 |
| Payables due to staff and social security institutions | 4.401 | 4.041 |
| Accrued expenses and deferred income (note 32) | 505 | 355 |
| Other payables | 834 | 2.557 |
| **Total** | **44.269** | **44.991** |

The decrease in the "Other payables" heading compared to 2009 is mainly attributable to the payment of Directors' fees for € 762 thousand and to the reduction in advance payments received from customers for the supply of finished goods.

Trade payables do not generate interest and are usually settled after around 80 days

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

## 28. Financial liabilities

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

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Overdrafts (note 26) | 1.278 | 2.745 |
| Bank loans | 10.340 | 10.247 |
| Finance leases | 497 | 483 |
| Financial accrued expenses and deferred income | 88 | 82 |
| Other loans | 127 | 197 |
| **Total current portion** | **12.330** | **13.754** |

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

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Bank loans | 20.494 | 28.688 |
| Finance leases | 987 | 1.484 |
| Other loans | 1.260 | 1.260 |
| **Total non-current portion** | **22.741** | **31.432** |

Amounts payable for leasing in the event of insolvency are guaranteed by the lessor's right on the leased asset.

Other loans, totalling € 1,260 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 between 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.

Any greater value will be recognised by Emak S.p.A. as payable to Simest only up to the amount of € 514 thousand increased by 6% (which refers to the stake subscribed by Simest in accordance with Law 100/90 in the form of a shareholding) and € 746 thousand increased by 8% (which refers to the stake subscribed by Simest in accordance with Law 100/90 in execution of the "Fund" contract.) This clause limiting the maximum repayment at the termination of the contract has been inserted into the original contract by means of a modification signed by the parties in 2009.

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 | 11.804 | 5.189 | 2.835 | 333 | **20.161** | **333** |
| Finance leases | 512 | 475 | - | - | **987** | **-** |
| Other loans | - | 1.260 | - | - | **1.260** | **-** |
| **Total** | **12.316** | **6.924** | **2.835** | **333** | **22.408** | **333** |

The interest rates applied are as follows:

- for bank loans in Euro, the Euribor rate is applied plus a variable spread from a minimum of 0.30% to a maximum of 1.75%;

- for bank loans in Pound Sterling, the “base rate” Bank of Enagland is applied plus a maximum spread of 2%;

-for loans in Renminbi, the reference interest rate communicated by the People’s Bank of China is applied, discounted/increased by 10%;

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

- Other loans:
relates to the Simest shareholding, as referred to above, the consideration for which is calculated as follows:
-Simest shareholding: fixed rate of 6.25% and a variable rate depending on the profits of the subsidiary with a Cap of 7%;
- Fund amount: interest rate of 2.5%.

With regards to amounts payable for financings obtained for the purchase of assets under leasing agreements, the following information is provided:

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Minimum future payments<1 year | 531 | 531 |
| Minimum future payments from 1 to 5 years | 1.011 | 1.542 |
| Minimum future payments beyond 5 years | - | - |
| **Total minimum payments** | **1.542** | **2.073** |
| **Payables for future financial expenses** | **(58)** | **(106)** |
| **Present value** | **1.484** | **1.967** |
| **Interest rate** | **1,5%** | **2,5%** |

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

## 29. Tax assets and liabilities

**Deferred tax assets** are detailed below:

| €/000 | 31.12.2009 | Increase | Decrease | Reclassifications | Exchange Difference | 31.12.2010 |
|---|---|---|---|---|---|---|
| Reversal of unrealized intercompany gains | 1.406 | 5 | - | - | 2 | 1.413 |
| Provision for inventory obsolescence | 289 | 29 | (42) | - | - | 276 |
| Losses in past financial periods | 860 | 129 | (90) | - | 25 | 924 |
| Provisions for bad debts | 46 | 6 | (31) | - | | 21 |
| Other deferred tax assets | 630 | 112 | (243) | - | 4 | 503 |
| **Total (note 16)** | **3.231** | **281** | **(406)** | **-** | **31** | **3.137** |

The portion of taxes which are expected to reverse within the following 12 months amount to € 1,717 thousand.

The utilisation of losses in past financial periods has no time restriction except for the subsidiary Emak Usa Inc., for which the benefits deriving from the tax credit will start to be lost from the financial year 2026.

**Deferred tax liabilities** are detailed below:

| €/000 | 31.12.2009 | Increase. | Decrease. | Exchange difference | 31.12.2010 |
|---|---|---|---|---|---|
| Buildings redeemed under finance lease (IAS 17) | 1.552 | - | (35) | - | 1.517 |
| Valuation of provision for employee termination indemnities under IAS 19 | 216 | - | (45) | - | 171 |
| Taxation on capital gains divided into instalments | - | 668 | - | - | 668 |
| Other deferred tax liabilities | 1.144 | 376 | (455) | 24 | 1.089 |
| **Total (note 16)** | **2.912** | **1.044** | **(535)** | **24** | **3.445** |

"Other deferred tax liabilities" refers mainly to revenues that will be fiscally recognised in future financial periods.

A total of €244 thousand in deferred tax liabilities will reverse in the next 12 months.

Hypothetical tax liabilities which could arise if dividends are paid further to distribution from the "Profits brought forward" or "Profit for the financial period" reserves on the part of subsidiaries, amounts at 31 December 2010 to € 1,179 thousand.

It should be noted, moreover, that deferred taxes relating to the revaluation reserves (which are reserves in partial tax suspension) have not been allocated since it is unlikely that there will be any operations carried out giving rise to taxation. The total amount of these taxes at 31 December 2010 is around € 408 thousand.

Current tax assets amount to € 1,918 thousand at 31 December 2010 compared with € 2,940 thousand a year earlier. They refer to VAT credits, surplus payments on account of direct tax and other tax credits

Current tax liabilities amount to € 2,055 thousand at 31 December 2010 compared with € 1,822 thousand a year earlier. They refer to payables for direct tax for the period, VAT and withholding taxes.

### 30. Long-term post-employment benefits

At 31 December 2010 such benefits refer principally to the discounted liability for employment termination indemnity payable at the end of an employee's working life, amounting to € 4,668 thousand against € 4,768 thousand at 31 December 2009. The valuation of the indemnity leaving fund (TFR) at the closing date, carried out according to the nominal debt method in force would be € 5,278 thousand against € 5,552 at 31 December 2009.

Movements in this liability are as follows:

| €/000 | 2010 | 2009 |
|---|---|---|
| **Opening balance** | **4.902** | **5.017** |
| Current service cost and other provisions | 100 | 15 |
| Actuarial (gains)/losses (note 12) | 182 | 31 |
| Interest cost on obligations (note 15) | 148 | 166 |
| Disbursements | (430) | (327) |
| **Closing balance** | **4.902** | **4.902** |

The principal economic and financial assumptions used are as follows:

| | FY 2010 | FY 2009 |
|---|---|---|
| Annual inflation rate | 2,0% | 2,0% |
| Rising discount rate | 3% | 3,2% |
| Rate of dismissal | 3% | 3% |

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

In the 2011 financial year, payments are expected to be in line with 2009.

### 31. Provisions for liabilities and charges

Movements in these provisions are detailed below:

| Dati in migliaia di euro | 31.12.2009 | Increase. | Decrease. | Exchange difference | 31.12.2010 |
|---|---|---|---|---|---|
| Provision for agents' termination indemnity | 648 | 48 | (37) | - | 659 |
| Other provisions | 23 | - | - | - | 23 |
| **Total non-current portion** | **671** | **48** | **(37)** | **-** | **682** |
| Provision for product warranties | 296 | - | (106) | 1 | 191 |
| Other provisions | 48 | 513 | (31) | - | 530 |
| **Total current portion** | **344** | **513** | **(137)** | **1** | **721** |

The provision for agents' termination indemnity is calculated on the basis of agency relationships in force at the close of the financial year. It refers to the probable indemnity which will have to be paid to the agents.

Other non-current provisions relate to future costs to be incurred, equal to € 23 thousand, have been allocated in respect of a dispute for IRES, IRAP and VAT taxes for the financial years 1999-2006, for a total disputed amount of € 376 thousand all-inclusive (including taxes, interests and sanctions). The disputes are currently at different stages of legal proceedings . All the sentences so far passed by the relevant Tribunal Commissions (the last one on 24/1/2011 passed by the Provincial Tax Commission of Reggio Emilia) have been in favour of Emak S.p.A. and it is expected that the out come of the proceedings will be favourable also in the last resort.
Last year, a provision has been allocated in case the Judge, whilst recognising the company's just position, orders compensation for costs.

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 "Other current provisions" heading refers to the best possible estimation of probable liabilities taking into consideration:

- a number of claims relating to disputes arising during the financial year for around € 123 thousand;
- costs that may be requested from the Group in the future for around € 81 thousand
- the reimbursement of excess amounts on civil liability accidents for € 46 thousand;
- adjustments of the value of capital grants accounted for in previous financial years, for around € 280 thousand.

### 32. Other non-current liabilities

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Deferred income - Law 488 grants | 1.516 | 1.803 |
| Social security payables | - | 10 |
| **Total** | **1.516** | **1.813** |

The deferred income refers to the capital grant received by Comag under Law 488/92 which will be recognized over future years. The portion of the grant recognizable this year is classified under current liabilities as accrued expenses and deferred income (note 27) and amounts to € 235 thousand (€ 324 thousand in 2009).

### 33. Contingent liabilities

On 31 December 2010 the Group had no disputes in progress other than those already referred to in these notes. In the Director's opinion, at the closing date there were no reasonable grounds for the occurrence of additional future liabilities with respect to those already provided for in the accounts.

### 34. I Information on financial risks

The Group is exposed to a variety of financial risks associated with its business activities:
- credit risk, regarding both normal commercial relations and to financing activities;
- liquidity risk, with particular reference to the availability of financial resources and to access to the credit market;
- market risks, with particular reference to exchange and interest rates, since the Group operates at an international level in different currencies and uses financial instruments that generate interest.

As described in the section "Management of financial risk", the Emak Group constantly monitors the financial risks to which it is exposed, so as to minimise potential negative effects on financial results.

Qualitative and quantitative information is given below regarding the nature of such risks for the Emak Group.
The quantitative figures shown below have no value for forecasting purposes. Specifically, the *sensitivity analysis* on market risks are unable to reflect the complexity and associated reactions of the market as a result of each change hypothesised.

**Credit risk**
The maximum theoretical exposure to credit risk for the Group at 31 December 2010 is the accounting value of financial activities shown in the financial statements.

It should be pointed out that the credit granted to dealers and distributors involves specific assessments of solvency. Generally the Group obtains guarantees, both financial and otherwise, against credits granted for the supply of products. Certain categories of credits to foreign customers are also covered by insurance with SACE.

Credit positions are subject to constant analysis and possible individual devaluation in the case of singularly significant positions that are in a condition of partial or total insolvency.

The total devaluation is estimated on the basis of recoverable flows, from relative collection data, from the costs and expenses of future recovery, as well as possible guarantees in force. For those credits that are not subject to individual devaluation, bad debt provisions are allocated on an overall basis, taking account of historical experience and statistical data.

At 31 December 2010 there were no significant positions of insolvency subject to individual devaluation. Allocation to the bad debt provision was made on the basis of a constant analysis of outstanding amounts as a whole.

At December 2010 "Trade receivables and Other receivables", equal to € 58,210 thousand (€ 57,710 thousand at 31 December 2009), include € 2,667 thousand (€ 6,350 thousand at 31 December 2009) outstanding by more than 3 months.

The maximum exposure to credit risk deriving from trade receivables at the end of the financial period, broken down by geographical area (using the Sace reclassification) is as follows:

| €/000 | 2010 | 2009 |
|---|---|---|
| Trade receivables due from customers with SACE 1 rating | 42.192 | 42.738 |
| Trade receivables due from customers with SACE 2 and 3 rating | 13.592 | 13.285 |
| Trade receivables due from customers with non-insurable SACE rating | 203 | 44 |
| **Total (Note 23)** | **55.987** | **56.067** |

Countries with SACE 1 rating are those for which insurance covers 90% of the amounts receivable. Countries with SACE 2 rating are those for which insurance covers 85% of the amounts receivable, and for those with SACE 3 rating, 80%. SACE provides no coverage for non-insurable or suspended countries.

The value of amounts receivable covered by SACE insurance or by other guarantees at 31 December 2010 is € 23,927 thousand.

At 31 December 2010 the first 10 customers account for 32.9% of total trade receivables, while the top customer represents 9.6% of the total.

**Liquidity risk**

Liquidity problems can occur as a result of the inability to obtain financial resources necessary for the Group's operations at acceptable conditions.

The two main factors determining the Group's liquidity situation are, on the one hand, the resources generated or absorbed in its operating and activities and by investment, and on the other hand, by the expiry or renewal of debt or by the liquidity of financial commitments and market conditions.

As described under the "Management of financial risk" heading, the Group reduces liquidity risk and optimises the management of financial resources through:

- maintaining a suitable level of liquid funds;
- obtaining appropriate lines of credit;
- monitoring future cash flows, taking account of the company's planning process.

The characteristics and nature of the expiry of debts and of the Group's financial activities are set out in Notes 25 and 28 relating respectively to Cash and Cash Equivalents and Financial Liabilities.

The management considers that currently unused funds and credit lines, amounting to € 124 million, as well as those which will be generated from operating and financial activities, will allow the Group to meet its requirements deriving from investment activities, the management of working capital and the repayment of debts at their natural maturity dates.

**Exchange risk**

The Group is exposed to risks deriving from fluctuations in exchange rates, which may affect the economic result and value of equity.

Specifically:

- in cases in which the companies in the Group incur costs expressed in different currencies from those of their respective revenues, the fluctuation of exchange rates may affect the operating result of such companies.

  In the 2010 financial period, the overall amount of revenues directly exposed to exchange risk represented around 15.3% of the Group's aggregate turnover (13% in the 2009 financial period), while the amount of costs exposed to exchange risk is equal to 13.3% of aggregate Group turnover (13.3% in the 2009 financial period).

  The net balances at 31 December 2010 for which the Group is exposed to exchange rate risk as a result of the use of a currency different from Group companies' local reporting currency are as follows:

| | |
|---|---|
| Debt position in US Dollars | 6,202,272 |
| Debt position in Yen | 109,741,062 |
| Debt position in Sterling | 31,635 |
| Debt position in Swiss Francs | 40,800 |
| Debt position in Taiwanese dollars | 730,951 |
| Credit position in Euros | 1,167,787 |

The main currency exchanges to which the Group is exposed are the following:
- EUR/USD, relating to sales in dollars made in the North American market and in other markets in which the dollar is the reference currency for commercial exchanges, and to production/purchases in the Euro zone;
- EUR/GBP, essentially in relation to sales in the UK market;
- EUR/RMB, in relation to Chinese production activities and to relative import/export flows;
- EUR/YEN, relating to purchases in the Japanese market and to sales in other markets;
- EUR/PLN, relating to sales in the Polish market.

There are no significant commercial flows with regards to other currencies.

The Group's policy is to cover net currency flows, typically through the use of forward contracts, evaluating the amounts and expiry dates according to market conditions and net future exposure, with the objective of minimising the impact of possible variations in future exchange rates.

- With regards to commercial activities, the companies in the Group are able to hold commercial credits and debits expressed in currencies which are different from the currency in which they keep their accounts and the variation in exchange rates may result in the realisation or ascertainment of exchange risks.
  The Group's policy is to partly cover, after appropriate evaluation of exchange rate trends, exposed positions resulting from credits and debits expressed in a currency different from that in which the company keeps its accounts.

- A number of subsidiary companies in the Group are located in countries which are not members of the European Monetary Union, in particular, the United States, the United Kingdom, Poland and China. Since the reference currency for the Group is the Euro, the income statements for these companies are converted into Euro at the average exchange rate for the period and variations in exchange rates may affect the equivalent value of revenues, costs and results in Euro.

- Assets and liabilities of subsidiary companies in the Group, whose accounting currency is different from the Euro, may have different equivalent values in Euro depending on the trend in exchange rates. As provided for by the accounting principles adopted, the effects of such variations are recorded directly in equity, under the heading "Translation reserve (see Note 26).
  At the balance sheet date there was no hedging in force with regards to these exposures for conversion exchange risk.

**Sensitivity analysis**
The potential loss of fair value of the net balance of financial assets/liabilities subject to the risk of variation in exchange rates held by the Group at 31 December 2010, as a result of a hypothetical unfavourable and immediate variation of 10% in all relevant single exchange rates, would amount to around € 241 thousand (€ 56 thousand at 31 December 2009).

**Interest rate risk**
The companies in the Group utilise external financial resources in the form of debt and invest liquid funds in monetary and financial market instruments. Variations in market interest rates influence the cost and return of the various forms of financing and utilisation, affecting the level of the Group's financial expenditure and income.

The Group uses derivative financial instruments to cover interest rate risk.

**Sensitivity analysis**
The possible effects of variations in interest rates are analysed for their potential impact in terms of cash flows, since almost all the Group's financial assets and liabilities accrue variable interest.

A hypothetical, instantaneous and unfavourable negative variation of one base point in annual interest rates in force at 31 December 2010 applicable to financial liabilities at a variable interest rate would result in a greater net cost, on an annual basis, of around € 194 thousand (€ 229 thousand at 31 December 2009). The above calculation takes into consideration the total amounts of financial liabilities net of the total amount of IRS operations carried out for hedging purposes.

This analysis is based on the assumption of a general and instantaneous variation of one base point on reference interest rates.

**Other risks on derivative financial instruments**
As described in Note 22, the Group holds a number of derivative financial instruments whose value is linked to the trend in exchange rates (forward currency purchase operations) and the trend in interest rates.

Although these operations have been entered into for hedging purposes, accounting principles do not permit their treatment using hedge accounting. As a result, changes in underlying values may affect the economic results of the Group.

**Sensitivity analysis**
The potential loss of fair value of derivative financial instruments held by the Group at 31 December 2010 as a result of a hypothetical unfavourable and immediate variation of 10% in underlying values would amount to around € 1,936 thousand (€ 1,587 thousand at 31 December 2009).

## 35. Commitments

**Fixed asset purchases**
The group has commitments for purchases of fixed assets not accounted for in the financial statements at 31 December 2010 for an amount of € 545 thousand (€ 342 thousand at 31 December 2009). These commitments relate to the purchase of equipment, plant and machinery.

**Guarantees granted**
The group has € 1,125 thousand in guarantees granted to third parties at 31 December 2010 (€ 659 thousand at the end of 2009).

## 36. Ordinary shares, treasury shares and dividends

Share capital is fully paid up at 31 December 2010 and amounts to €7,190 thousand. It consists of 27,653,500 ordinary shares of par value €0.26 each.

| | **31.12.2010** | **31.12.2009** |
|---|---|---|
| Number of ordinary shares | 27.653.500 | 27.653.500 |
| Treasury shares | (397.233) | (397.233) |
| **Total outstanding shares** | **27.256.267** | **27.256.267** |

The dividends for 2009 approved by the shareholders on 15 April 2010, totalling € 4,088 thousand, were paid during 2010.

At 31.12.2009 the company held in portfolio 397,233 treasury shares for a value of € 2,029 thousand.

During 2010 no treasury shares were purchased or sold by Emak S.p.A..
Therefore, at 31.12.2010 the company held 397,233 treasury shares in portfolio for a value of € 2,029 thousand.

In January and February 2011 no treasury shares were acquired or sold by Emak S.p.A.. As a result, the holding and value of treasury shares is unchanged with respect to 31 December 2010.

**37. Related party transactions**

Emak S.p.A. has many dealings with related parties, carried out in the ordinary exercise of its business activities and conducted at arm's length. In the planning, approval process, in the carrying out and in the control of the execution of such operations, the company complies with the provisions of the Self-Disciplinary Code approved by *Borsa Italiana* and is in the process of "fine-tuning" its procedures in order to bring them fully in line with regulations issued by *Consob,* through resolutions no. 17221 of 12/3/2010 and no. 17389 of 26/6/2010.

No operations of an extraordinary nature, and in any case of an atypical or unusual nature, have been carried out with related parties in the financial year

* * * * * * *

The YAMA Group.

It should be noted that EMAK belongs to a larger group of companies under the control of YAMA S.p.A., its parent company. Significant transactions have been carried out throughout the financial period with the parent company and with other companies controlled by it. All such transactions form part of EMAK's typical ordinary operations.

It should also be noted that the Yama Group mainly operates in the following sectors: machines and equipment for agriculture and gardening, engine components and real estate. A number 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, for which the purchasing policy is based on factors of quality and cost. On the other hand, a number of the companies belonging to the Yama Group purchase from the Emak Group products that complete their respective product range.

Also with regards to dealings with YAMA and with the other companies in its Group, all operations are of an ordinary nature and are conducted at arm's length. They are regulated by specific and analytical procedures formalised in programmatic documents, and systematically updated with the approval of the Board of Directors, with the support of independent Directors making up the Internal Control Committee. The results of operations are periodically and systematically examined on an overall basis by the Board of Directors.

Sale of goods and services and receivables

| Companies controlled by Yama S.p.A. (€/000) | Net sales | Other revenues | Total revenues | Receivables |
|---|---|---|---|---|
| Agro D.o.o. | 94 | 1 | 95 | 24 |
| Comet S.p.A. | 115 | 38 | 153 | 44 |
| Euro Reflex D.o.o. | 307 | - | 307 | 680 |
| Garmec S.p.A. | 202 | 1 | 203 | 9 |
| Mac Sardegna S.r.l. | 851 | 8 | 859 | 446 |
| Ningbo Tecomec manufacturing Co.Ltd | 854 | - | 854 | 352 |
| Sabart S.p.A. | 155 | 23 | 178 | 40 |
| Selettra S.r.l. | 20 | - | 20 | - |
| Tecomec S.r.l. | 17 | 2 | 19 | 7 |
| Unigreen S.p.A. | 12 | - | 12 | 17 |
| **Total (note 23)** | **2.627** | **73** | **2.700** | **1.619** |

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 |
|---|---|---|---|---|
| Cofima S.r.l. | 682 | - | 682 | 338 |
| Comet S.p.A. | 1.307 | - | 1.307 | 398 |
| Comet France SAS | 30 | - | 30 | 1 |
| Euro Reflex D.o.o. | 817 | - | 817 | 82 |
| Garmec S.p.A. | 1 | 1 | 2 | - |
| Mac Sardegna S.r.l. | - | 3 | 3 | 5 |
| Netribe S.r.l. | 1 | - | 1 | - |
| Sabart S.p.A. | 179 | - | 179 | 45 |
| Selettra S.r.l. | 1.096 | - | 1.096 | 431 |
| Speed France SAS | 839 | - | 839 | 117 |
| Tecomec S.r.l. | 984 | - | 984 | 322 |
| Unigreen S.p.A. | 70 | - | 70 | 14 |
| Yama S.p.A. | - | 2 | 2 | - |
| **Total (note 27)** | **6.006** | **6** | **6.012** | **1.753** |

The emoluments for the 2010 financial year payable on the part of the companies in the Group to the directors and auditors of the parent company are set out in note no. 35 of Emak S.p.A.'s separate financial statements.

Total amounts payable for the emoluments of the directors and auditors of the parent company at 31 December 2010 amount to € 166thousand.

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

### 38. Subsequent events

There have been no subsequent events of a significant nature requiring disclosure.

**Emak S.p.A. – Financial statements at 31 December 2010**

## Financial statements

### Emak S.p.A. - Income Statement

| *€/000* | Notes | Year 2010 | Year 2009 |
|---|---|---|---|
| Sales | 8 | 158,951,237 | 145,709,489 |
| Other operating income | 8 | 2,759,805 | 865,867 |
| Change in inventories | | 2,582,443 | (12,113,044) |
| Raw and consumable materials and goods | 9 | (104,984,848) | (84,387,171) |
| Salaries and employee benefits | 10 | (20,816,485) | (18,658,590) |
| Other operating costs | 11 | (24,113,401) | (20,255,481) |
| Amortization, depreciation and impairment losses | 12 | (4,164,419) | (3,187,219) |
| **EBIT** | | **10,214,332** | **7,973,851** |
| Financial revenues | 13 | 905,905 | 3,818,839 |
| Financial costs | 13 | (1,296,610) | (1,739,709) |
| Exchange gains and losses | 13 | 173,777 | (196,261) |
| **EBT** | | **9,997,404** | **9,856,720** |
| Income taxes | 14 | (3,689,291) | (2,048,759) |
| **Net profit** | | **6,308,113** | **7,807,961** |
| **Basic earnings per share** | **15** | **0.231** | **0.286** |
| **Diluted earnings per share** | **15** | **0.231** | **0.286** |

### Comprehensive income statement

| **Figures in thousands of euros** | **Notes** | **Year 2010** | **Year 2009** |
|---|---|---|---|
| **Net profit (A)** | | **6,308,113** | **7,807,961** |
| **Total other components to be included in the comprehensive income statement (B):** | | **0** | **0** |
| **Comprehensive net profit (A)+(B)** | | **6,308,113** | **7,807,961** |

## Schedule showing consolidated assets-liabilities-financial situation

### ASSETS

| €/000 | Notes | 31.12.2010 | 31.12.2009 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | 23,076,458 | 24,629,940 |
| Intangible assets other than goodwill | 17 | 2,063,017 | 1,556,625 |
| Goodwill | 18 | 2,074,305 | 2,074,305 |
| Investment property | 19 | 21,874,332 | 21,901,164 |
| Equity investments | 28 | 654,241 | 842,830 |
| Deferred tax assets | 21 | 8,081,822 | 5,446,281 |
| Other non current financial assets | 22 | 13,308 | 10,845 |
| **Total** | | **57,837,483** | **56,461,990** |
| **Non-current assets held for sale** | 5 | 0 | 107,980 |
| **Total** | | **0** | **107,980** |
| **Current assets** | | | |
| Inventories | 23 | 45,961,540 | 43,379,096 |
| Trade and other receivables | 22 | 48,810,699 | 53,436,032 |
| Current tax assets | 28 | 710,029 | 2,045,933 |
| Other financial assets | | 0 | 679 |
| Derivative financial instruments | | 14,840 | 46,064 |
| Cash and cash equivalents | 24 | 2,662,663 | 3,305,421 |
| **Total** | | **98,159,771** | **102,213,225** |
| **TOTAL ASSETS** | | **155,997,254** | **158,783,195** |

### EQUITY AND LIABILITIES

| €/000 | Nota | 31.12.2010 | 31.12.2009 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Issued capital | | 5,161,240 | 5,161,240 |
| Share premium | | 21,047,079 | 21,047,079 |
| Other reserves | | 30,308,400 | 30,308,400 |
| Retained earnings | | 29,075,074 | 26,855,400 |
| **Total equity** | **25** | **85,591,793** | **83,372,119** |
| **Non-current liabilities** | | | |
| Loans and borrowings | 27 | 19,660,355 | 24,643,043 |
| Deferred tax liabilities | 28 | 2,386,677 | 2,079,730 |
| Provisions for employee benefits | 29 | 4,373,954 | 4,481,407 |
| Provisions | 30 | 682,038 | 671,419 |
| **Total** | | **27,103,024** | **31,875,599** |
| **Current liabilities** | | | |
| Trade and other payables | 26 | 35,388,580 | 36,650,767 |
| Current tax liabilities | 28 | 1,218,237 | 718,865 |
| Loans and borrowings | 27 | 6,185,268 | 5,659,708 |
| Derivative financial instruments | 20 | 301,730 | 384,037 |
| Provisions | 30 | 208,622 | 122,100 |
| **Total** | | **43,302,437** | **43,535,477** |
| **TOTAL EQUITY AND LIABILITIES** | | **155,997,254** | **158,783,195** |

## Statement of changes in equity for Emak S.p.A. at 31.12.2009 and at 31.12.2010

| €/000 | Share capital | Share premium | OTHER RESERVES | | | RETAINED EARNINGS | | TOTAL |
|---|---|---|---|---|---|---|---|---|
| | | | Legal reserve | Revaluation reserve | Other reserves | Retained earnings | Net profit for the period | |
| | | | | | | | | |
| **Total at 31.12.2008** | **5.211** | **21.047** | **1.438** | **1.138** | **27.611** | **14.874** | **8.384** | **79.703** |
| | | | | | | | | |
| Change in treasury shares | (50) | | | | | | | **(50)** |
| Payment of dividends | | | | | | | (4.089) | **(4.089)** |
| Reclassification of 2008 net profit | | | | | | 4.295 | (4.295) | **0** |
| Other changes | | | | | 122 | | | **122** |
| Net profit for 2009 | | | | | | | 7.808 | **7.808** |
| | | | | | | | | |
| **Total at 31.12.2009** | **5.161** | **21.047** | **1.438** | **1.138** | **27.733** | **19.169** | **7.808** | **83.494** |
| | | | | | | | | |
| Change in treasury shares | | | | | | | | **0** |
| Payments of dividends | | | | | | | (4.088) | **(4.088)** |
| Reclassification of 2009 net profit | | | | | | 3.720 | (3.720) | **0** |
| Others | | | | | | | | **0** |
| Net profit for 2010 | | | | | | | 6.308 | **6.308** |
| | | | | | | | | |
| **Total at 31.12.2010** | **5.161** | **21.047** | **1.438** | **1.138** | **27.733** | **22.889** | **6.308** | **85.714** |

*the share capital at 31.12.10 of € 7,190 is shown net of treasury shares of a value of € 2,029

## Emak S.p.A. Cash flow statement

| €/000 | Notes | 2010 | 2009 |
|---|---|---|---|
| **Cash flow from operations** | | | |
| **Net profit for period** | | **6,308** | **7,808** |
| Amortization, depreciation and impairment losses | 12 | 4,164 | 3,187 |
| Capital (gains)/losses on disposal of property, plant and equipment | | (2,221) | (241) |
| Dividends income | | (279) | (3,185) |
| Decreases/(increases) in trade and other receivables | | 6,147 | 10,968 |
| Decreases/(increases) in inventories | | (2,582) | 12,113 |
| (Decreases)/increases in trade and other payables | | (456) | (10,383) |
| Change in provisions for employee benefits | 29 | (107) | (106) |
| (Decreases)/increases in provision for liabilities | 30 | 98 | 43 |
| Decreases/increases in derivate financial instruments | | (51) | 230 |
| **Net cash generated by operations** | | **11,021** | **20,434** |
| | | | |
| **Cash flow from investment activities** | | | |
| Dividend income | | 279 | 3,185 |
| Increases in property, plant and equipment and intangible assets | | (3,314) | (4,992) |
| (Increases) and decreases in financial assets | | (2,608) | 873 |
| Proceeds from disposal of property, plant and equipment | | 2,524 | 265 |
| **Net cash absorbed by investment activities** | | **(3,119)** | **(669)** |
| | | | |
| **Cash flow from financial activities** | | | |
| Change in equity | | 0 | (50) |
| Change in short and long-term loans and borrowings | | (3,941) | (430) |
| Change in finance leases | | (483) | (469) |
| Dividends paid | | (4,088) | (4,089) |
| **Net cash absorbed by financial activities** | | **(8,512)** | **(5,038)** |
| | | | |
| **Net increase in cash and cash equivalents** | | **(610)** | **14,727** |
| | | | |
| **Opening cash and cash equivalents** | | **3,270** | **(11,457)** |
| **Closing cash and cash equivalents** | | **2,660** | **3,270** |

### ADDITIONAL INFORMATION ON THE CASH FLOW STATEMENT

| €/000 | | 2010 | 2009 |
|---|---|---|---|
| **Reconciliation of cash and cash equivalents** | | | |
| **Opening cash and cash equivalents, detailed as follows:** | 24 | **3,270** | **(11,457)** |
| Cash and cash equivalents | | 3,305 | 808 |
| Overdrafts | | (35) | (12,265) |
| | | | |
| **Closing cash and cash equivalents, detailed as follows:** | 24 | **2,660** | **3,270** |
| Cash and cash equivalents | | 2,662 | 3,305 |
| Overdrafts | | (2) | (35) |
| | | | |
| **Other information:** | | | |
| Tax paid | | (1,862) | (2,854) |
| Interest paid | | (926) | (1,116) |
| Interest receiveable on financings to subsidiary companies | | 198 | 195 |
| Interest receiveable on bank account | | 13 | 3 |
| Interest receiveable on trade receivables | | 95 | 266 |
| Effects of exchange rate changes | | (14) | (6) |
| Change in related party financial assets transactions | | (27) | 1,871 |
| Change in related party receivables and service transactions | | (4,331) | (2,297) |
| Change in related party payables and service transactions | | (1,352) | (1,592) |

**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

On 16 March 2011 the Board of Directors of Emak S.p.A. submitted the Financial Statements and the Consolidated Financial Statements for the financial year to 31 December 2010, together with the reports required by law and, pursuant to art. 154-*ter*, paragraph 1-*ter* of the Consolidated Finance Law, immediately made them available to the Board of Auditors and to the appointed Auditing firm in order for them to carry out their relative duties. At the same time, the company issued an appropriate press release containing summary figures and information regarding the proposed dividend resolved by the General Meeting of Shareholders.

Emak S.p.A. (hereinafter referred to as "Emak" or the parent company) is a public company, whose shares are listed on the Italian stock exchange. Its registered office is in Via Fermi 4, Bagnolo in Piano (Reggio Emilia), Italy. It is one of Europe's leading producers of gardening, forestry and small-scale agricultural machinery, such as chainsaws, brushcutters, lawnmowers, trimmers, rotavators and croppers and a vast assortment of accessories.

The financial statements will be submitted for approval by the General Meeting of Shareholders (which has the power to make changes), to be held 22-26 April 2011.

EMAK S.p.A. is controlled by YAMA S.p.A., an industrial holding company, which holds the majority of its share capital on a permanent basis and, in accordance with the law and with the articles of association, appoints the majority of its corporate Bodies. The Group of companies held by Yama mainly operates in sectors involving the production and marketing of small machinery for agriculture, gardening, construction and industry and forestry. Emak S.p.A., nonetheless, is not subject to management or coordination on the part of Yama and its Board of Directors, and makes its own strategic and operating choices in complete autonomy.

In accordance with legal requirements, EMAK S.p.A. has set up specific procedures for regulating decisions that place certain Directors in positions of conflict of interest and for the carrying out of related party transactions. These procedures are aimed at an improved safeguarding of the company and of its assets. Reference is also made to them in paragraph 37 below.

Values shown in these notes are in thousands of euros, 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.

On the basis of information available and of the current and foreseeable income and financial situation, the directors have drawn up the financial statements according to the going concern assumption.
On the basis of factors known to us, that is, the current situation and future forecasts of key economic, balance sheet and financial figures for the Group, and of an analysis of the Group's risks, there are no significant uncertainties that may compromise the Group's status as a going concern

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 and Comprehensive Income Statement: based on a classification of items according to their nature;

- Cash flow Statement: based on a presentation of cash flows using the indirect method;
-Statement of Changes in Equity.

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 euros.

(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 or is accounted for as a separate 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 depreciated. Other assets are 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 principal element of repayments to be made is recorded as financial liabilities. The interest element is charged to the income statement 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. Costs for internal requirements are not capitalised.
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, which for this category is 3 financial years.

(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 reviewed annually for any impairment. Depreciable assets are reviewed 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 (with the value of fluctuations posted in the income statement)
This category includes 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.
Unless they qualify for hedge accounting, derivatives 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 eliminated from the accounting records 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.
Obsolete or slow-moving stocks are devalued on the basis of the presumed possibility of their use or of their future realisable value, by creating an appropriate provision that has the effect of reducing the inventories value

### 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.

In the consolidated cash flow cash and cash equivalents have been shown net of bank overdrafts at the closing date.

### 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 all or part 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.

During the 2010 financial year, EMAK opted for consolidated IRES taxation (Italian corporate income tax) for the three-year period 2010-2012 with its subsidiary COMAG. The tax assets and liabilities entries acquired from COMAG by virtue of the consolidation converge with the corresponding balances recorded by the consolidating company EMAK in relation to its position with the Inland Revenue. The reciprocal accounting entries between EMAK and COMAG are regulated in compliance with the consolidation agreements, executed on 10 June 2010.

### 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.

Sales of goods are accounted for when the significant risks and benefits arising from ownership of the goods are transferred and the company ceases to exercise both effective control and normal activities associated with ownership of the goods. This situation usually occurs upon delivery and acceptance of the goods on the part of the customer

### 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

Reference should be made to note 2.27 in the consolidated accounts.

# 3. Financial risk management

## 3.1 Risk factors of a financial nature

The Company's business is exposed to a number of different financial risks: market risk (including currency risk, fair value risk and market price risk), credit risk and liquidity 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 the financial results. The Company uses derivative financial instruments to hedge certain risks.
Hedging of the Company's financial risks is managed by a head office function working in close collaboration with the individual operating units.

(a) Market risk

(i) 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 2010, the Company's bank loans and borrowings and finance leases all carried variable interest.
The company has set up hedging operations during 2010 aimed at limiting the effects of interest rate fluctuations.

(ii) Currency risk
The Company 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.
The Company mostly uses forward contracts to hedge currency risk arising from future commercial transactions and recognized assets and liabilities.

(iii) Price risk
The Company 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 contracts with certain suppliers 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, as well as semi-finished products such as motors.

(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 and that certain types of receivable are insured. 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 credit lines available.

Emak S.p.A. has maintained its high creditworthiness ratings assigned by credit institutes and analysts, also in the light of the difficult situation regarding financial markets. As a result, there have been no reductions in available credit lines, which already amply exceeded the requirements

**3.2 Accounting for derivative financial instruments and hedging activities**

Derivative financial instruments are used exclusively for hedging purposes with the intent of reducing the risks of foreign currency fluctuation. In line with its risk management policy, in fact, the Group does not carry out derivative operations for speculative purposes.
When such operations are not accounted for as hedging operations they are recorded as trading operations
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
When such operations are not accounted for as hedging operations they are recorded as trading operations.
Derivatives are initially recognized at cost and adjusted to fair value at subsequent balance sheet dates.

On the basis of the above, and of stipulated contracts, the accounting methods adopted are as follows:

1. fair value hedge: the fair value variations of the hedging instrument are posted to the Income Statement together with variations in the fair value of the hedged transactions.

2. cash flow hedge: the variations in fair value which are intended and proved to be effective for hedging future cash flows are posted to the Comprehensive Income Statement, while the ineffective portion is posted immediately to the Income Statement. If contractual commitments or planned hedging operations lead to the creation of an asset or liability, when this occurs the profits or losses on the derivative which have been posted directly to the Comprehensive Income Statement adjust the opening cost of acquisition or holding value of the asset or liability. For financial cash flow hedgings that do not lead to the creation of an asset or liability, the amounts which have been posted directly to the Comprehensive Income Statement are to be transferred to the Income Statement in the same period in which the contractual commitment or planned hedging operation are posted to the Income Statement.

3. derived financial instruments not defined as hedging instruments: the variations in fair value are posted to the Income Statement.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, or no longer meets the criteria for hedge accounting. The cumulative gains or losses on the hedging instrument recognized directly in the Comprehensive Income Statement remain until the forecast transaction effectively occurs. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognized directly in Comprehensive Income Statement are transferred to the Income Statement 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, write-downs of 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**

The following operations occurred during the year.

**5.1 Sale of an industrial property**

On 29 January 2010 the deed of sale was signed with third parties for the sale of a property situated in Bagnolo in Piano (RE), for a consideration of € 2,400 thousand, giving rise to a capital gain of € 2,215 thousand. The building was previously leased to a company in the Yama Group.

**7.3 5.2 Increase in share capital**

- On 22 March 2010 the parent company, Emak S.p.A., converted trade receivables due from the subsidiary, Emak USA Inc., into advance payments for future increases in share capital for US$ 500,000, equivalent to € 371 thousand.

- On 30 April 2010 the subsidiary Emak U.K. Ltd. resolved an increase in Share Capital of 324,740 pounds sterling through the full use of the reserve for future increases in share capital already set up in previous financial periods

**5.3 Acquisition of shareholdings**

- On 23 December 2010 the parent company, Emak S.p.A. undersigned an agreement for the acquisition of 61% of the share capital of Epicenter LTD, a company with registered office in Ukraine in Kiev, distributor of products with the Oleo-Mac trademark operating in the Ukrainian market since 2000. Epicenter LTD closed the 2009 financial year with a turnover of around € 5 million and a net profit of around € 0.2 million. The operation is in line with the Group's development policy 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 provides for the transfer of 61% of the share capital to Emak by April 2011, at a price of between € 1.4 and 1.7 million. The consideration for the operation shall be established with the method of market multiples, on the basis of the out come of the due diligence carried out on the Epicenter. The agreement 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%. The acquisition on the part of Emak shall be financed with the use of already available credit lines. The inclusion of the target company in EMAK's scope of consolidation will take effect from the effective date of acquisition of control of the company.

**6. Balances or transactions arising from atypical and unusual operations**

No atypical or unusual transactions took place during the course of 2009.

## 7. Net financial position

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

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Cash and banks | 2,663 | 3,305 |
| Securities and derivative financial instruments (assets) | 15 | 46 |
| Other financial assets | 0 | 1 |
| Financial liabilities | (6,185) | (5,659) |
| Derivative financial instruments | (302) | (384) |
| **Short-term net debt** | **(3,809)** | **(2,691)** |
| | | |
| Other financial assets | 8,082 | 5,446 |
| Financial liabilities | (19,661) | (24,643) |
| **Long-term net debt** | **(11,579)** | **(19,197)** |
| | | |
| Cash and banks | 2,663 | 3,305 |
| Securities and derivative financial instruments (assets) | 15 | 46 |
| Other financial assets | 8,082 | 5,447 |
| Financial liabilities | (25,846) | (30,302) |
| Derivative financial instruments | (302) | (384) |
| **Total net debt** | **(15,388)** | **(21,888)** |

At 31 December 2010 the amount of € 8,082 thousand under medium-term “Other financial assets” refers to loans granted by Emak S.p.A to its subsidiaries.

## 8. Sales and other operating income

Sales revenues amount to €158,951 thousand, compared with €145,709 thousand in the prior year. They are stated net of €433 thousand in returns, compared with €586 thousand in the prior year.

Details of sales are as follows:

| €/000 | FY 2010 | FY 2009 |
|---|---|---|
| Net sales revenues (net of discounts and rebates) | 158,002 | 144,912 |
| Revenues from recharged transport costs | 1,382 | 1,383 |
| Returns | (433) | (586) |
| **Total** | **158,951** | **145,709** |

Other operating income is analyzed as follows:

| €/000 | FY 2010 | FY 2009 |
|---|---|---|
| Subsidies for operations | 192 | 219 |
| Capital gains on tangible fixed assets | 110 | 243 |
| Capital gains on disp. of fixed assets available for sale | 2,215 | - |
| Insurance refunds | 1 | 8 |
| Out-of-period income | 126 | 144 |
| Rental income | - | 135 |
| Other | 116 | 117 |
| **Total** | **2,760** | **866** |

The heading “Subsidies for operations” includes:
- Tax credit for € 167 thousand, for costs incurred by the company for industrial research and competitive development activities in accordance with Law 27 December 2006 no. 296;
- The “Fondimpresa” subsidy for € 12 thousand for costs incurred by the company for training its staff.

The “Capital gains on tangible fixed assets” heading refers mainly to the disposal of industrial equipment.

The heading “Capital gains on assets held for sale” refers to the sale to third parties of the property situated in Bagnolo in Piano Via Secchi 2 (note 5).

**9. Cost of raw and consumable materials and goods**

The heading is analysed as follows:

| €/000 | FY 2010 | FY 2009 |
|---|---|---|
| Raw materials | 51,192 | 37,622 |
| Consumable materials | 219 | 156 |
| Finished products | 52,105 | 45,314 |
| Other purchases | 1,469 | 1,295 |
| **Total** | **104,985** | **84,387** |

The increase in these costs is mainly attributable to the raise in production volumes.

**10. Salaries and employee benefits**

Details of these costs are as follows:

| €/000 | FY 2010 | FY 2009 |
|---|---|---|
| Wages and salaries | 14,179 | 13,145 |
| Social security charges | 4,449 | 4,137 |
| Employee termination indemnity | 998 | 969 |
| Adjustment of termination indemnity fund for actuarial losses/(gains) (29) | 172 | 28 |
| Other costs | 68 | 75 |
| Directors' emoluments | 342 | 271 |
| Temporary staff | 609 | 34 |
| **Total** | **20,817** | **18,659** |

The increase in staff costs compared to the previous financial year relates both to the company’s staff remuneration policy (paragraph 6 of the Directors’ Report) and the increase in hours worked, which has led to a greater use of temporary labour and an end to the use of welfare support systems.

Employees are broken down by grade as follows:

| | 31 dicembre 2010 | | 31 dicembre 2009 | |
|---|---|---|---|---|
| | (1) | (2) | (1) | (2) |
| Executives | 16 | 15 | 17 | 16 |
| Office staff | 175 | 174 | 172 | 170 |
| Factory workers | 224 | 218 | 233 | 229 |
| **Total** | **415** | **407** | **422** | **415** |

(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 2010 | FY 2009 |
|---|---|---|
| Subcontract work | 4,850 | 3,521 |
| Maintenance | 1,333 | 1,174 |
| Transportation | 6,357 | 4,379 |
| Advertising and promotions | 1,852 | 1,909 |
| Commissions | 1,471 | 1,696 |
| Travel | 348 | 221 |
| Postage and telecommunications | 260 | 245 |
| Consulting fees | 1,568 | 1,209 |
| Other services | 3,213 | 2,916 |
| **Services** | **21,252** | **17,270** |
| | | |
| **Rents, rentals and the enjoyment of third party assets** | **1,614** | **1,970** |
| | | |
| **Increases in provisions** (note 30) | **158** | **93** |
| | | |
| Increase in provision for doubtful accounts (note 22) | 153 | 182 |
| Capital losses on property, plant and equipment | 104 | 3 |
| Other taxes (not on income) | 133 | 149 |
| Other operating costs | 699 | 588 |
| **Other costs** | **1,089** | **922** |
| **Total** | **24,113** | **20,255** |

External processing, transport, travel and maintenance costs have increased as a result of the increase in production volumes. The increase in consultancy fees is attributable to a number of projects for improving management efficiency and to M&A activities.

Rental and hire costs and costs for the enjoyment of third party goods have fallen due to the reorganisation of the production sites, while the different composition of the turnover mix has led to a fall in commission costs.

## 12. Amortization and depreciation

Details of these amounts are as follows:

| €/000 | FY 2010 | FY 2009 |
|---|---|---|
| Depreciationof participation in subsidiaries (note 19) | 398 | - |
| Amortization of intangible assets (note 17) | 581 | 531 |
| Depreciation of property, plant and equipment (note 16) | 3,185 | 2,628 |
| Depreciation of investment property | - | 28 |
| **Total** | **4,164** | **3,187** |

### 13. Finance income and expenses

Details of these amounts are as follows:

| €/000 | FY 2010 | FY 2009 |
|---|---|---|
| Dividends from subsidiaries | 279 | 3,185 |
| Interest on trade receivables | 96 | 356 |
| Interest on loans to subsidiaries (note 35) | 198 | 195 |
| Interest on bank and post office accounts | 13 | 3 |
| Costs from adjustment to fair value and closure of derived instruments for hedging interest rate risk | 307 | 70 |
| Other financial income | 13 | 10 |
| **Financial income** | **906** | **3,819** |

The heading “Dividends from shareholdings in subsidiaries” refers entirely to the dividends received from Emak Suministros Espana S.A., a lower amount since last year’s figure also included dividends received from the subsidiary Jiangmen Emak Outdoor Power Equipment Co. Ltd

Details of these amounts are as follows:

| €/000 | FY 2010 | FY 2009 |
|---|---|---|
| Interest on long-term bank loans and borrowings | 374 | 521 |
| Interest on short-term bank loans and borrowings | 14 | 270 |
| Financial charges from valuing employee termination indemnities (note 29) | 139 | 157 |
| Costs from adjustment to fair value and closure of derived instruments for hedging interest rate risk. | 250 | 350 |
| Cash discounts given | - | 253 |
| Other financial costs | 520 | 189 |
| **Financial expenses** | **1,297** | **1,740** |

The decrease in interest payable was caused by the reduction in the net passive financial position and from the fall in interest rates in the first half-year.

In 2010 the heading “Cash discounts given”, relating to collections from customers, was recorded as a reduction of sales revenues. In consideration of the limited impact of the change, the reclassification of the comparative figures has not been deemed necessary.

The instruments for hedgings interest rate risks are adjusted to fair value every quarter, giving rise to costs and proceeds depending on the periodic fluctuation in rates. As a result, the net positive effect on the financial year is € 57 thousand, against the negative effect of € 280 thousand in the previous financial year.

The increase in other financial costs is linked to the higher amounts of interest effectively paid regarding the interest-rate spread on hedging contracts.

| €/000 | FY 2010 | FY 2009 |
|---|---|---|
| Realized exchange gains | 631 | 531 |
| Unrealized gains/(losses) | 272 | (215) |
| Realized exchange losses | (729) | (512) |
| **Exchange gains and losses** | **174** | **(196)** |

## 14. Income taxes

The estimated charge for current, deferred and advance taxes in the financial 2010 is € 3,689 thousand compared to € 2,049 thousand in the previous year).

This amount is made up as follows:

| €/000 | FY 2010 | FY 2009 |
|---|---|---|
| Current income taxes | 3,188 | 2,517 |
| Taxes from prior years | 6 | (221) |
| Changes in deferred tax liabilities (note 28) | 307 | (279) |
| Changes in deferred tax assets (note 28) | 188 | 32 |
| **Total** | **3,689** | **2,049** |

Current tax includes the cost for IRAP (regional tax on productive activities) for € 966 thousand, against €783 thousand in 2009.

As in the previous financial year, also in 2010 no amounts for income taxes were been posted directly to movements in equity.

The theoretical tax charge, calculated using the ordinary rate of 31.40%, is reconciled to the effective tax charge as follows:

| €/000 | FY 2010 | % rate | FY 2009 | % rate |
|---|---|---|---|---|
| **Profit before taxes** | **9,997** | | **9,857** | |
| **Theoretical tax charge** | **3,139** | **31.4** | **3,095** | **31.4** |
| Effect of IRAP differences calculated on different tax base | 554 | 5.6 | 554 | 5.6 |
| Non-taxable income | (90) | (0.9) | (402) | (4.1) |
| Dividends | (69) | (0.7) | (950) | (9.6) |
| Non-deductible costs | 216 | 2.2 | 141 | 1.4 |
| Previous period tax | 6 | 0 | (221) | (2.2) |
| Other differences | (67) | (0.7) | (168) | (1.7) |
| **Effective tax charge** | **3,689** | **36.9** | **2,049** | **20.8** |

The effective tax rate of 36.9% is up from the one of 20.8 % reported in 2009.

This increase is mainly down to two factors:

- the reduced benefit from the “Tremonti-Ter” tax break (art. 5, Leg. Dec. no. 78/2009 converted by Law 102/2009), which introduced a tax reduction of 50% for investments in machinery and equipment, compared to the previous financial year. The benefit is a tax saving of € 33 thousand, against a saving of € 282 thousand in the 2009 financial year;
- the lower amount of dividends received from subsidiaries (which have the benefit of 95% exemption) compared to the previous financial year.

## 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 35).

The company has only ordinary shares outstanding.

| | FY 2010 | FY 2009 |
|---|---|---|
| Net profit attributable to ordinary shareholders (€/000) | 6,308 | 7,808 |
| Weighted average number of ordinary shares outstanding | 27,256,267 | 27,260,353 |
| **Basic earnings per share (€)** | **0.231** | **0.286** |

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 | 31.12.2008 | Increases | Decreases | Other changes | 31.12.2009 |
|---|---|---|---|---|---|
| Land and buildings | 14,731 | 937 | - | 3,635 | 19,303 |
| Accumulated depreciation | (4,575) | (340) | - | - | (4,915) |
| **Land and buildings** | **10,156** | **597** | **-** | **3,635** | **14,388** |
| Plant and machinery | 7,644 | 2,247 | (460) | 770 | 10,201 |
| Accumulated depreciation | (4,802) | (543) | 446 | - | (4,899) |
| **Plant and machinery** | **2,842** | **1,704** | **(14)** | **770** | **5,302** |
| Other assets | 40,517 | 1,214 | (1,043) | 353 | 41,041 |
| Accumulated depreciation | (35,837) | (1,745) | 1,035 | - | (36,547) |
| **Other assets** | **4,680** | **(531)** | **(8)** | **353** | **4,494** |
| **Advances** | **5,018** | **211** | **-** | **(4,783)** | **446** |
| **Cost** | **67,910** | **4,609** | **(1,503)** | **(25)** | **70,991** |
| **Accumulated depreciation (note 12)** | **(45,214)** | **(2,628)** | **1,481** | **-** | **(46,361)** |
| **Net book value** | **22,696** | **1,981** | **(22)** | **(25)** | **24,630** |

| €/000 | 31.12.2009 | Increases | Decreases | Other changes | Riclass. | 31.12.2010 |
|---|---|---|---|---|---|---|
| Land and buildings | 19,303 | 108 | (28) | - | | 19,383 |
| Accumulated depreciation | (4,915) | (478) | 27 | - | - | (5,366) |
| **Land and buildings** | **14,388** | **(370)** | **(1)** | **-** | **-** | **14,017** |
| Plant and machinery | 10,201 | 187 | (855) | - | - | 9,533 |
| Accumulated depreciation | (4,899) | (925) | 723 | - | - | (5,101) |
| **Plant and machinery** | **5,302** | **(738)** | **(132)** | **-** | **-** | **4,432** |
| Other assets | 41,041 | 1.328 | (1,060) | - | 239 | 41,548 |
| Accumulated depreciation | (36,547) | (1.782) | 998 | - | 52 | (37,279) |
| **Other assets** | **4,494** | **(454)** | **(62)** | **-** | **291** | **4,269** |
| **Advances** | **446** | **203** | **-** | **-** | **(291)** | **358** |
| **Cost** | **70,991** | **1,826** | **(1,943)** | **-** | **(52)** | **70,822** |
| **Accumulated depreciation (note 12)** | **(46,361)** | **(3,185)** | **1,748** | **-** | **52** | **(47,746)** |
| **Net book value** | **24,630** | **(1,359)** | **(195)** | **-** | **-** | **23,076** |

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

The increases relate to:
- the buildings category further to restructuring work on a number of offices and departments;
- the plant and machinery category, mainly due to the completion of a number of plant in the new spare parts distribution centre;

The "other assets" category refers mainly to:
- the purchase of equipment and dies for € 1,233 thousand;
- the purchase of internal means of transport for € 65 thousand;
- the purchase of electronic machines for € 127 thousand.

The decreases relate mainly to the replacement of obsolete dies and machines following organisational changes in the financial year.

The company does not have any assets whose ownership title is restricted except for those under finance lease.

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

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Gross value | 3,659 | 3,659 |
| Accumulated depreciation | (659) | (550) |
| **Net book value** | **3,000** | **3,109** |

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. At the termination of the contract Emak S.p.A will have the right to a redemption option on the fixed asset for a value of € 215 thousand.

## 17. Intangible assets

Intangible assets report the following changes:

| €/000 | 31.12.2008 | Increases | Decreases | Other changes | 31.12.2009 |
|---|---|---|---|---|---|
| Development costs | 1,301 | - | - | - | 1,301 |
| Accumulated amortization | (828) | (56) | - | - | (884) |
| **Development costs** | **473** | **(56)** | **-** | **-** | **417** |
| Patents and intellectual property rights | 4,107 | 249 | - | 67 | 4,423 |
| Accumulated amortization | (3,326) | (445) | - | - | (3,771) |
| **Patents** | **781** | **(196)** | **-** | **67** | **652** |
| Concessions, licences and trademarks | 73 | 4 | - | - | 77 |
| Accumulated amortization | (20) | (7) | - | - | (27) |
| **Concessions, licences and trademarks** | **53** | **(3)** | **-** | **-** | **50** |
| Other intangible assets | 1,838 | - | - | - | 1,838 |
| Accumulated amortization | (1,806) | (23) | - | - | (1,829) |
| **Other intangible assets** | **32** | **(23)** | **-** | **-** | **9** |
| **Advances** | **340** | **156** | **-** | **(67)** | **429** |
| **Cost** | **7,659** | **410** | **-** | **-** | **8,068** |
| **Accumulated amortization (note 12)** | **(5,980)** | **(531)** | **-** | **-** | **(6,511)** |
| **Net book value** | **1,679** | **(121)** | **-** | **-** | **1,557** |

| €/000 | 31.12.2009 | Increases | Decreases | Riclass. | Other changes | 31.12.2010 |
|---|---|---|---|---|---|---|
| Development costs | 1,301 | 85 | - | 332 | - | 1,718 |
| Accumulated amortization | (884) | (62) | - | - | - | (946) |
| **Development costs** | **417** | **23** | **-** | **332** | **-** | **772** |
| Patents and intellectual property rights | 4,423 | 481 | (2) | - | - | 4,902 |
| Accumulated amortization | (3,771) | (450) | - | - | 2 | (4,219) |
| **Patents** | **652** | **32** | **(2)** | **-** | **2** | **684** |
| Concessions, licences and trademarks | 77 | 4 | - | - | - | 81 |
| Accumulated amortization | (27) | (7) | - | - | - | (34) |
| **Concessions, licences and trademarks** | **50** | **(3)** | **-** | **-** | **-** | **47** |
| Other intangible assets | 1,838 | 608 | - | (1,711) | - | 735 |
| Accumulated amortization | (1,829) | (62) | - | 1,711 | - | (180) |
| **Other intangible assets** | **9** | **546** | **-** | **-** | **-** | **555** |
| **Advances** | **429** | **6** | **-** | **(332)** | **(97)** | **6** |
| **Cost** | **8,068** | **1,184** | **(2)** | **(1,711)** | **(97)** | **7,442** |
| **Accumulated amortization (note 12)** | **(6,511)** | **(581)** | **-** | **1,711** | **2** | **(5,379)** |
| **Net book value** | **1,557** | **603** | **(2)** | **-** | **(95)** | **2,063** |

Investments in the year relate mainly to:
- the purchase of new application software for improving the efficiency of company processes for € 480 thousand;
- external design work for a new product for € 191 thousand;
- the multi-year use of production equipment for € 441 thousand.

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 | 10/15 years |

Research and development costs directly recorded in the income statement amount to € 4,613 thousand.

**18. Goodwill**

The amount of €2,074 thousand refers to the positive difference arising further to the absorption of the company Bertolini S.p.A into Emak S.p.A..

Goodwill has been subject to an impairment test according to the methods described in note 21 of the consolidated financial statements.

**19. Equity investments**

Details of equity investments are as follows:

| €/000 | 31.12.2009 | Incr. | Decr. | 31.12.2010 |
|---|---|---|---|---|
| **Equity investments** | | | | |
| - in subsidiary companies | 21,677 | 371 | (398) | 21,650 |
| - in other companies | 224 | | | 224 |
| **TOTAL** | **21,901** | **371** | **(398)** | **21,874** |

Shareholdings in **Subsidiary companies** amount to € 21,650 thousand with an increase of € 371 thousand relating to the payment made to the subsidiary Emak Usa Inc. for a future share capital increase and a decrease of € 398 thousand for the write-down of the same shareholding.

On 30 April 2010 Emak Uk resolved an increase in Share Capital for £ 324,740 by means of the full use of the reserve already set up in previous financial periods. The corresponding value of € 516 had already been included in the Shareholdings heading in the previous financial year.

The details of values of shareholdings in subsidiaries are shown in enclosures 1 and 2.

The company assesses the recoverability of the cost if there are indications of loss of value. The recoverable value of the cash-generating unit is evaluated by determining the value of use.

The impairment test was carried out using the Discounted Cash Flow method with reference to 31 December 2010 on companies for which there are indications of possible posses of value.

The forecast of future operating cash flows is taken from the budgets drawn up by the Group for 2011and the 2012-2013 Business Plan taking account of current market uncertainties. The final value is calculated by discounting the cash flow of the final year of the Plan.

The elements taken into consideration for calculating cash flows are income indicators such as turnover and EBITDA, balance sheet indicators such as movements in net working capital and investments.

Further to this analysis, is has been decided to write-down the share holding in Emak Usa Inc. by € 398 thousand (note 12). The write-down was carried out further to indications of long-term losses in value. It was decided to make the adjustment to the shareholding value in order to take account of past losses made and of the longer time period required to achieve a positive cash flow situation for the subsidiary. The positive development plans for the Business Unit are nevertheless confirmed, with expectations of a return to profitability in the forthcoming financial periods.

The tests carried out on other shareholdings in subsidiaries justify the values recorded in the financial statements, also applying more prudent scenarios than that actually used.

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**

The financial statements values relate to changes in the fair value of financial instruments for:
-hedging purchases in foreign currency;
-hedging the risk of changes in interest rates.

All derivative financial instruments belonging to this heading are valued at fair value at the second hierarchical level, that is, the estimate of their fair value has been carried out using variables other than Prices quoted in active markets and which are observable (on the market) either directly (prices) or indirectly (derived from prices).

In the case in point, the fair value recorded is equal to the “market to market” estimation provided by the bank, which represents the current market value of each contract calculated at the date at the closing date of the Financial Statements.

At 31 December 2010 there were outstanding forward currency agreements for the purchase of USD 1,450 expiring by May 2011 at an average exchange rate of 1.32 dollars to the euro.

Emak S.p.A., has also underwritten a number of IRS contracts and options on interest rate, with the objective of hedging the risk of changes in interest rates on financings for a notional amount of € 23,597 thousand.

The expiry of the instruments is as follows:
- € 2,000 thousand in the 2011 financial year;
- € 8,000 thousand will be amortised in financial years up to 2013;
- € 6,675 thousand will be amortised in financial years up to 2014.
- € 2,000 thousand in the 2016 financial year;

The average interest rate of the instruments is 3.09%

All the contracts, while having the purpose and characteristics of hedging operations, do not formally comply with the rules for being accounted for as such. For this reason all the changes in fair value have been recorded in the income statement in the relevant financial period on the accruals basis.

**21. Other financial assets**

Other non-current financial assets amount to € 8,082 thousand (against € 5,446 thousand in the previous year), and refer to loans granted to subsidiaries.

Loans are granted at the twelve-month Euribor rate + 1.5 percentage point, except for the the loans to the companies Emak USA Inc., Jiangmen Emak Outdoor Power Equipment Co. Ltd. and Tailong (Zhuhai)

Machinery Manufacturing Equipment Ltd., for which the reference rate is the twelve-month Libor Dollar USA rate + 1.5 percentage point.

There are no other current financial assets. The value for the previous financial period was € 1 thousand and referred to prepayments of a financial nature.

## 22. Trade and other receivables

Details of these amounts are as follows:

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Trade receivables | 40,566 | 41,020 |
| Provision for doubtful credits | (976) | (970) |
| **Net trade receivables** | **39,590** | **40,050** |
| Receivables due from related parties(note 35) | 8,825 | 13,066 |
| Prepaid expenses and accrued income | 120 | 76 |
| Other receivables | 276 | 244 |
| **Total current portion** | **48,811** | **53,436** |
| Other non-current receivables | 13 | 11 |
| **Total non-current portion** | **13** | **11** |

Trade receivables include the following amounts in foreign currency:
- USD 9,629,996;
- JPY 53,563;

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

The "Other receivables" heading includes €206 thousand relating to advance payments to suppliers for the manufacture of moulds and equipment, the ownership of which will subsequently be transferred to a customer as part of a specific new product development project. At 31 December 2006 these down payments amounted to around € 155 thousand.

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 the World | Total |
|---|---|---|---|---|
| Trade receivables | 14,400 | 13,073 | 12,117 | **39,590** |
| Receivables due from related parties | 577 | 5,662 | 2,586 | **8,825** |

The movement in the provision for bad debts is as follows:

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| **Opening balance** | **970** | **964** |
| Increases (note 11) | 153 | 182 |
| Decreases | (147) | (176) |
| **Closing balance** | **976** | **970** |

The book value of this balance approximates its fair value.

## 23. Inventories

Inventories are detailed as follows:

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Raw, ancillary and consumable materials | 23,205 | 21,815 |
| Work in progress and semi-finished products | 6,896 | 7,255 |
| Finished products and goods for resale | 15,860 | 14,309 |
| **Total** | **45,961** | **43,379** |

Inventories are stated net of a provision of €923 thousand at 31 December 2010 (€915 thousand at 31 December 2009). The purpose of this provision is to align obsolete and slow-moving items to their estimated realizable value.

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

| €/000 | FY 2010 | FY 2009 |
|---|---|---|
| **Opening balance** | 915 | 937 |
| Increases | 86 | 401 |
| Uses | (78) | (423) |
| **Closing balance** | **923** | **915** |

The decreases in the provision refer to obsolete material disposed of during the 2010 financial year.

None of the company's inventories at 31 December 2010 act as security against its liabilities.

## 24. Cash and cash equivalents

Cash and cash equivalents are detailed as follows:

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Bank and postal deposits | 2,660 | 3,302 |
| Cash | 3 | 3 |
| **Total** | **2,663** | **3,305** |

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

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Cash and banks | 2,662 | 3,305 |
| Overdrafts (note 27) | (2) | (35) |
| **Total** | **2,660** | **3,270** |

## 25. Equity

**Share capital**
Share capital is fully paid up at 31 December 2010 and amounts to €7,190 thousand, remaining unchanged during the financial year under examination. It consists of 27,653,500 ordinary shares of par value €0.26 each.

**Treasury shares**
The adjustment of €2,029 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 2010 (note 34).
The par value of these treasury shares is € 104 thousand.

**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 2010, remaining unchanged since the prior year.

**Altre riserve:**

The legal reserve at 31 December 2010 is the same as a year earlier at €1,438 thousand.

The revaluation reserve at 31 December 2010 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 2010, inclusive of all allocations of earnings in prior years.

At 31 December 2010 other reserves also include:

- reserves qualifying for tax relief, referring to tax provisions for grants and donations for € 129 thousand;
- reserves for merger surpluses for € 394 thousand;
- reserves from capital grants deriving from the merger of Bertolini S.p.A. for € 122 thousand.

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** | **Available portion** | **Coverage of losses** | **Other reasons** |
| **Share capital** | **7,190** | | | | |
| **Treasury shares** | **(2,029)** | | | | |
| **Capital reserves** | | | | | |
| Share premium reserve | 21,047 | A-B-C | 19,018 | - | - |
| 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 | - | - |
| Other untaxed reserves (#) | 122 | A-B-C | 122 | - | - |
| **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 | - | - |
| Profits brought forward in FTA | 3.127 | A-B | 3,127 | - | - |
| Profits brought forward | 19,640 | A-B-C | 19,640 | - | - |
| **Total** | **74,123** | | **70,656** | - | - |
| **Undistributable portion (*)** | | | **(3,127)** | - | - |
| **Distributable balance** | | | **67,529** | - | - |
| Net profit for the period (**) | 6,308 | | 6,308 | - | - |
| Total equity | 85,592 | | | | |

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

(*): Represents the amount of FTA (First Time Adoption) reserves.
(**) includes the part restricted for unamortized deferred costs under article 2426 C.C. no. 5 (€ 922 thousand).
(#) subject to tax payable by the company in the event of distribution.

## 26. Trade and other payables

Details of these amounts are as follows:

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Trade payables | 23,940 | 23,204 |
| Payables due to related parties (note 35) | 8,094 | 9,446 |
| Payables due to staff and social security institutions | 2,716 | 2,362 |
| Other payables | 639 | 1,639 |
| **Total** | **35,389** | **36,651** |

The heading “Other payables” includes € 80 thousand relating to the bonus incentive scheme for Directors and € 335 thousand relating to advance payments received from customers for the development of a specific new product project.

The decrease in “Other payables” is mainly attributable to the payment of Directors’ fees for € 762 thousand and to the reduction in advance payments received from customers for the supply of finished goods.

Trade payables do not generate interest and are usually settled after 80 days.
This balance includes the following amounts in foreign currency:
- USD 2,280,978;
- JPY 109,511,365;
- CHF 40,800;
- TWD 730,951;

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

| €/000 | Italy | Europe | Rest of world | Total |
|---|---|---|---|---|
| Trade payables | 15,913 | 1,469 | 6,558 | **23,940** |
| Payables due to related parties | 4,808 | 416 | 2,870 | **8,094** |

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

## 27. Financial liabilities

Financial liabilities at 31 December 2010 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 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Overdrafts (note 24) | 2 | 35 |
| Bank loans | 5,471 | 4,862 |
| Finance leases | 497 | 483 |
| Financial accrued expenses and deferred income | 88 | 82 |
| Other loans | 127 | 197 |
| **Total current portion** | **6,185** | **5,659** |

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

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Bank loans | 17,413 | 21,899 |
| Finance leases | 987 | 1,484 |
| Financial accrued expenses and deferred income | 1,260 | 1,260 |
| **Total non-current portion** | **19,660** | **24,643** |

Other loans, totalling € 1,260 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..

Any greater value will be recognised by Emak S.p.A. as payable to Simest only up to the amount of € 514 thousand increased by 6% (which refers to the stake subscribed by Simest in accordance with Law 100/90 in the form of a shareholding) and € 746 thousand increased by 8% (which refers to the stake subscribed by Simest in accordance with Law 100/90 in execution of the "Fund" contract.) This clause limiting the maximum repayment at the termination of the contract has been inserted into the original contract by means of a modification undersigned by the parties in 2009.

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

Short-term loans and borrowings are repayable as follows:

| **€/000** | **Due within 6 months** | **Due between 6 and 12 months** | **Total** |
|---|---|---|---|
| Bank loans | 5,471 | - | 5,471 |
| Finance leases | 247 | 250 | 497 |
| Guarantees received | 127 | - | 127 |
| **Total** | **5,845** | **250** | **6,095** |

Long and medium-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 | 9,437 | 4,475 | 2,835 | 333 | 17,080 | 333 |
| Finance leases | 512 | 475 | - | - | 987 | - |
| Other loans | - | 1,260 | - | - | 1,260 | - |
| **Total** | **9,949** | **6,210** | **2,835** | **333** | **19,327** | **333** |

The interest rates applied are as follows:

- bank loans: 1-3-6-month Euribor plus a variable spread from a minimum of 0.40% to a maximum of 1.15%;

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

- Other loans:
relates to the Simest shareholding, as referred to above, the consideration for which is calculated as follows:
-Simest shareholding: fixed rate of 6.25% and a variable rate depending on the profits of the subsidiary with a Cap of 7%;
- Fund amount: interest rate of 2.5%.

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

| €/000 | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Minimum future payments<1 year | 531 | 531 |
| Minimum future payments from 1 to 5 years | 1,011 | 1,542 |
| Minimum future payments beyond 5 years | - | - |
| **Total minimum payments** | **1,542** | **2,073** |
| **Payables for future financial expenses** | **(58)** | **(106)** |
| **Present value** | **1,484** | **1,967** |
| **Interest rate** | **1.5%** | **2.5%** |

### 28. Tax assets and liabilities

**Deferred tax assets** are detailed below:

| €/000 | 31.12.2009 | Increase | Decrease | 31.12.2010 |
|---|---|---|---|---|
| Provision for inventory obsolescence | 261 | 1 | - | 262 |
| Provision for doubtful accounts | 38 | - | (23) | 15 |
| Other deferred tax assets | 544 | 2 | (169) | 377 |
| **Total (note 14)** | **843** | **3** | **(192)** | **654** |

A total of €303 thousand in deferred tax assets will reverse in the next 12 months.

**Deferred tax liabilities** are detailed below:

| €/000 | 31.12.2009 | Increase | Decrease | 31.12.2010 |
|---|---|---|---|---|
| Capital gains on fixed asset disposals | 261 | 407 | - | 668 |
| Valuation of provision for employee termination indemnities under IAS 19 | 203 | - | (45) | 158 |
| Buildings redeemed under finance lease IAS 17 | 1.552 | - | (35) | 1.517 |
| Other deferred tax liabilities | 64 | - | (20) | 44 |
| **Total (note 14)** | **2.080** | **407** | **(100)** | **2.387** |

A total of € 244 thousand in deferred tax liabilities will reverse in the next 12 months.

It should be noted, moreover, that deferred taxes relating to the revaluation reserves (which are reserves in partial tax suspension) have not been allocated since it is unlikely that there will be any operations carried out giving rise to taxation. The total amount of these taxes at 31 December 2010 is € 408 thousand.

Tax assets at 31 December 2010 amount to € 710 thousand, compared to € 2,046 thousand in the previous financial year, and refer to:
- VAT credits for € 514 thousand;
- other minor tax credits for € 196 thousand.

Tax liabilities at 31 December 2010 amount to € 1,218 thousand compared to € 719 thousand in the previous financial period and refer to:
- liabilities for tax on income for € 401 thousand
- withholding taxes payable for € 789 thousand;
- other liabilities for € 28 thousand.

## 29. Long-term post-employment benefits

The liability refers to the time-discounted debt for termination indemnity due at the end of an employee's working life, amounting to €4,374 thousand. The amount of termination indemnity calculated according to the nominal debt method in force at the closing date would be € 4,946 thousand.

Movements in this liability are as follows:

| €/000 | 2010 | 2009 |
|---|---|---|
| **Opening balance** | **4,481** | **4,587** |
| Actuarial (gains)/ losses (note 10) | 172 | 28 |
| Interest cost on obligations (note 13) | 139 | 157 |
| Disbursements | (418) | (291) |
| **Closing balance** | **4,374** | **4,481** |

The principal economic and financial assumptions used are as follows:

| | FY 2010 | FY 2009 |
|---|---|---|
| Annual inflation rate | 2.0% | 2.0% |
| Rising discount rate | 3% | 3.2% |
| Rate of dismissal (average overall rate) | 3% | 3% |

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

Payments in 2011 are expected to be in line with 2010.

## 30. Provisions for liabilities and charges

Movements in this balance are analyzed below:

| €/000 | 31.12.2009 | Increase | Decrease | 31.12.2010 |
|---|---|---|---|---|
| Provision for agents' termination indemnity | 648 | 46 | (35) | 659 |
| Other provisions | 23 | - | - | 23 |
| **Total non-current portion** | **671** | **46** | **(35)** | **682** |
| Provision for product | 81 | - | - | 81 |
| Other provisions | 41 | 112 | (25) | 128 |
| **Total current portion** | **122** | **112** | **(25)** | **209** |

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.

Other non-current provisions relate to future costs to be incurred, equal to € 23 thousand, the same figure as for the previous year. They have been allocated in respect of a dispute for IRES, IRAP and VAT taxes for the financial years 1999-2006, for a total disputed amount of € 376 thousand all-inclusive (including taxes, interests and sanctions). The disputes are currently at different stages of legal proceedings. All the sentences so far passed by the relevant Tax Commissions (the last one on 24/1/2011 passed by the Provincial Tax Commission of Reggio Emilia) have been in favour of Emak S.p.A. and it is expected that the final outcome of the proceedings will be favourable also in the last resort.
A provision has been allocated in case the Judge, whilst recognising the company's just position, orders compensation for costs.

The provision for product warranties of €81 thousand refers to expected replacement or repair costs, calculated using estimates based on historical trends.

The "Other current provisions" heading, standing at € 128 thousand, refers to:

- the best estimate of costs that may be requested from the Group in the future for around € 81 thousand
- the reimbursement of excess amounts on civil liability accidents set aside for € 47 thousand;.

**31. Contingent liabilities**

At the date of 31 December 2010 the Company does not have any disputes that could give rise to future liabilities that have not already been reflected in the balance sheet.
In the Director's opinion, at the closing date there were no reasonable grounds for the occurrence of additional future liabilities with respect to those already provided for in the accounts.

**32. Information on financial risks**

The Company is exposed to a variety of financial risks associated with its business activities:
- credit risk, regarding both normal commercial relations and to financing activities;
- liquidity risk, with particular reference to the availability of financial resources and to access to the credit market;
- market risks, with particular reference to exchange and interest rates, since the Company operates at an international level in different currencies and uses financial instruments that generate interest.

As described in the section "Management of financial risk", The Company constantly monitors the financial risks to which it is exposed, so as to minimise potential negative effects on financial results.

Qualitative and quantitative information is given below regarding the nature of such risks for the Company.
The quantitative figures shown below have no value for forecasting purposes. Specifically, the *sensitivity analysis* on market risks are unable to reflect the complexity and associated reactions of the market as a result of each change hypothesised.

**Credit risk**
The maximum theoretical exposure to credit risk for the Company at 31 December 2010 is the accounting value of financial activities shown in the financial statements.

It should be pointed out that the credit granted to dealers and distributors involves specific assessments of solvency. Generally the Company obtains guarantees, both financial and otherwise, against credits granted for the supply of products. Certain categories of credits to foreign customers are also covered by insurance with SACE.

Credit positions are subject to constant analysis and possible individual devaluation in the case of singularly significant positions that are in a condition of partial or total insolvency.

The total devaluation is estimated on the basis of recoverable flows, from relative collection data, from the costs and expenses of future recovery, as well as possible guarantees in force. For those credits that are not subject to individual devaluation, bad debt provisions are allocated on an overall basis, taking account of historical experience and statistical data.

At 31 December 2010 there were no significant positions of insolvency subject to individual devaluation. Allocation to the bad debt provision was made on the basis of a constant analysis of outstanding amounts as a whole.

At December 2010 Trade receivables and Other receivables, equal to €48,826 thousand (€53,436 thousand at 31 December 2009), include €1,401 thousand (€4,794 thousand at 31 December 2009) outstanding by more than 3 months.

The maximum exposure to credit risk deriving from trade receivables at the end of the financial period, broken down by geographical area (using the Sace reclassification) is as follows:

| €/000 | 2010 | 2009 |
|---|---|---|
| Trade receivables due from customers with SACE 1 rating | 26,771 | 27,691 |
| Trade receivables due from customers with SACE 2 and 3 rating | 13,592 | 13,285 |
| Trade receivables due from customers with non-insurable SACE rating | 203 | 44 |
| **Total (Note 22)** | **40,566** | **41,020** |

Countries with SACE 1 rating are those for which insurance covers 90% of the amounts receivable. Countries with SACE 2 rating are those for which insurance covers 85% of the amounts receivable, and those with SACE 3 rating, 80%. SACE provides no coverage for non-Insurable or suspended countries.

The value of amounts receivable covered by SACE insurance or by other guarantees at 31 December 2010 is € 16,351 thousand.

At 31 December 2010 the 10 most important customers (not including companies belonging to the Emak Group) account for 45.4% of total trade receivables, while the top customer represents 13.3% of the total.

**Liquidity risk**

Liquidity problems can occur as a result of the inability to obtain financial resources necessary for the Company's operations at acceptable conditions.
The two main factors determining the Company's liquidity situation are, on the one hand, the resources generated or absorbed in its operating and investment activities, and on the other hand, by the expiry or renewal of debt or by the liquidity of financial commitments and market conditions.

As described under the "Management of financial risk" heading, the Company reduces liquidity risk and optimises the management of financial resources through:
- maintaining a suitable level of liquid funds;
- obtaining appropriate lines of credit;
- monitoring future cash flows, taking account of the company's planning process.

The characteristics and nature of the expiry of debts and of the Company's financial activities are set out in Notes 25 and 28 relating respectively to Cash and Cash Equivalents and Financial Liabilities.
The management considers that currently unused funds and credit lines, amounting to € 97 million, as well as those which will be generated from operating and financial activities, will allow the Group to meet its requirements deriving from investment activities, the management of working capital and the repayment of debts at their natural maturity dates.

**Exchange rate risk**

The Company is exposed to risks deriving from fluctuations in exchange rates, which may affect the economic result and value of equity.
Specifically:
- in cases in which the Company incurs costs expressed in different currencies from those of their respective revenues, the fluctuation of exchange rates may affect the operating result.
  In 2010, the overall amount of revenues directly exposed to exchange risk represented around 6% of the turnover (2% in 2009), while the amount of costs exposed to exchange risk is equal to 8% of turnover (5% in 2009).
  The main currency exchanges to which the Company is exposed are the following:
  - EUR/USD, relating to sales in dollars made mainly in the North American market and to purchases in the dollar area;
  - EUR/YEN, relating to purchases in the Japanese market and to sales in other markets;

There are no significant commercial flows with regards to other currencies.

The Company's policy is to cover net currency flows, typically through the use of forward contracts, evaluating the amounts and expiry dates according to market conditions and net future exposure, with the objective of minimising the impact of possible variations in future exchange rates.

**Sensitivity analysis**
The potential loss of fair value of the net balance of financial assets/liabilities subject to the risk of variation in exchange rates held by the Company at 31 December 2010, as a result of a hypothetical unfavourable and immediate variation of 10% in all relevant single exchange rates, would amount to around €486 thousand (€209 thousand at 31 December 2009).

**Interest rate risk**
The Company utilises external financial resources in the form of debt and invest liquid funds in monetary and financial market instruments. Variations in market interest rates influence the cost and return of the various forms of financing and utilisation, affecting the level of the Company's financial expenditure and income.

The Company has used derivative financial instruments to cover interest rate risk.

**Sensitivity analysis**
The possible effects of variations in interest rates are analysed for their potential impact in terms of cash flows, since almost all the Company's financial assets and liabilities accrue variable interest.

A hypothetical, instantaneous and unfavourable negative variation of one base point in annual interest rates in force at 31 December 2010 applicable to financial liabilities at a variable interest rate would result in a greater net cost, on an annual basis, of around €102 thousand (€78 thousand at 31 December 2009). For the purpose of the calculation account has been taken of the amounts of financial liabilities net of IRS operations for hedging purposes.
This analysis is based on the assumption of a general and instantaneous variation of one base point on reference interest rates.

**Other risks on derivative financial instruments**
The company holds a number of derivative financial instruments at 31 December 2010 whose value is linked to the trend in exchange rates (forward currency purchase operations) and the trend in interest rates.

Although these operations have been entered into for hedging purposes, accounting principles do not permit their treatment using hedge accounting. As a result, changes in underlying values may affect the economic results of the Group.

**Sensitivity analysis**
The potential loss of fair value of derivative financial instruments for hedging exchange rate risks held at 31 December 2010, as a result of a hypothetical unfavourable and immediate variation of 10% in underlying values, would amount to around € 110 thousand (€106 thousand at 31 December 2009).

## 33. Commitments

**Fixed asset purchases**

The company has €437 thousand in unrecorded commitments to purchase fixed assets at 31 December 2010 (€332 thousand at 31 December 2009). These commitments relate entirely to the purchase of equipment, plant and machinery.

**Guarantees granted**
***to third parties:***
They amount to € 1,125 thousand and are made up as follows:

- € 52 thousand for sureties in favour of the Ministry of Production for promotional prize contests;
- € 20 thousand for surety policy in favour of the Reggio Emilia Customs Office for guaranteeing customs duties;
- € 350 thousand for surety policy in favour of the Naples Customs Office for guaranteeing customs duties;
- € 273 thousand for sureties in favour of the Municipality Bagnolo in Piano to cover the correct execution of primary urban development work in accordance with the town-planning agreement relating to the "Via Fermi" Detailed Plan;

- € 430 thousand for a bank guarantee in favour of EPA (United Environmental Protection Agency) in compliance with an American regulation in force from 2010 regarding the emissions of combustion engines.

***letters of patronage to subsidiary companies:***
These amount to € 10,124 thousand, and refer to the balance of credit line used as at 31 December 2010, broken down as follows:
- € 313thousand to the subsidiary Comag S.r.l.;
- € 2,200 thousand to the subsidiary Emak Deutschland Gmbh;
- € 912 thousand to the subsidiary Emak France SAS;
- € 1,350 thousand to the subsidiary Emak UK Ltd;
- € 3,142 thousand to the subsidiary Jiangmen Emak Outdoor Power Equipment Co.Ltd.;
- € 1,523 thousand to the subsidiary Tailong (Zhuhai) Machinery Manufacturing Equipment Ltd.;
- € 684 thousand to the subsidiary Victus Emak Sp. z.o.o..

### 34. Ordinary shares, treasury shares and dividends

Share capital is fully paid up at 31 December 2010 and amounts to €7,190 thousand. It consists of 27,653,500 ordinary shares of par value €0.26 each.

| | **31.12.2010** | **31.12.2009** |
|---|---|---|
| Number of ordinary shares | 27,653,500 | 27,653,500 |
| Treasury shares | (397,233) | (397,233) |
| **Total outstanding shares** | **27,256,267** | **27,256,267** |

The dividends for 2009 approved by the shareholders on 15 April 2010, totalling €4,088 thousand, were paid during 2010.

At 31.12.2009 the company held in portfolio 397,233 treasury shares for a value of € 2,029 thousand.
No treasury shares have been acquired during 2010.

In January and February 2011 no treasury shares were acquired or sold by Emak S.p.A.. As a result, the holding and value of treasury shares is unchanged with respect to 31 December 2010.

### 35. Related party transactions

During the financial year, Emak has adopted control procedures for transactions with related parties, set up in compliance with the provisions established by *Consob* through resolutions no. 17221 of 12/3/2010 and no. 17389 of 26/6/2010. The guidelines for such procedures are published and available for consultation on the www.emak.it website in the “Investor relations” – “Company documentation” – “Corporate Governance” section. These procedures were approved by Emak’s Board of Directors on 12/11/2010 by a resolution with the unanimous approval of the independent Directors.
No operations of an extraordinary nature, and in any case of an atypical or unusual nature, have been carried out with related parties in the financial year.

Emak S.p.A. has many dealings with related parties, carried out in the ordinary exercise of its business activities and conducted at arm’s length. For the purpose of their regulation, Emak follows guidelines in the form of framework resolutions, which are examined and approved every year with the contribution of the internal Control Committee. The supporting evidence of the ordinary activities carried out in each accounting period are systematically examined on an overall basis by the Board of Directors.

* * * * * * *

The EMAK Group.

With regards to the group of companies under its control, transactions for the supply and purchase of goods and services carried out by Emak correspond to the industrial and commercial supply chain relating to its normal business activity.

Emak's other significant dealings with related parties concern the remuneration of their Directors, established in compliance with general meeting resolutions which have established maximum global remunerations for the entire three-year period in office and, with regards to Managing Directors, incentive schemes. The decisions of the Board of Directors are taken with the contribution of the Remuneration Committee, composed entirely of independent Advisors.

The main transactions with subsidiary and affiliated companies in the Emak Group during 2010 and the values of the relative receivable and payable balances at the closure date are reported below:

Receivables for loans and interest:

| **Companies controlled by Emak S.p.A. (€/000)** | **Interest** | **Loans given** |
|---|---|---|
| Comag S.r.l. | 16 | 1,537 |
| Emak Benelux N.V. | 12 | 390 |
| Emak Deutschland GmbH | 53 | 2,800 |
| Emak UK Ltd | 9 | 316 |
| Emak France SAS | 74 | 2,645 |
| Victus Emak Sp. z.o.o. | 16 | - |
| Jiangmen Emak Outdoor Power Equipment Co. Ltd. | 4 | - |
| Emak USA Inc. | 4 | 169 |
| Tailong (Zhuhai) Machinery Manufacturing Equipment Ltd. | 10 | 225 |
| **Total (note 13 and note 21)** | **198** | **8,082** |

Sale of goods and services and receivables:

| **Companies controlled by Emak S.p.A. (€/000)** | **Net sales** | **Dividends** | **Total** | **Receivables** |
|---|---|---|---|---|
| Emak Suministros Espana SA | 4,659 | 279 | **4,938** | **578** |
| Comag S.r.l. | 139 | - | **139** | **14** |
| Emak Benelux N.V. | 1,235 | - | **1,235** | **267** |
| Emak Deutschland Gmbh | 4,487 | - | **4,487** | **797** |
| Emak UK Ltd | 1,522 | - | **1,522** | **413** |
| Emak France SAS | 9,081 | - | **9,081** | **2,540** |
| Jiangmen Emak Outdoor Power Equipment Co. Ltd. | 1,277 | - | **1,277** | **441** |
| Victus Emak Sp. z.o.o. | 4,068 | - | **4,068** | **362** |
| Emak USA Inc. | 1,591 | - | **1,591** | **2,002** |
| Tailong (Zhuhai) Machinery Manufacturing Equipment Ltd. | 331 | - | **331** | **143** |
| **Total** | **28,390** | **279** | **28,669** | **7,557** |
| **Total A** | | | **28,669** | **7,557** |

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 | 2 | 120 | **122** | **25** |
| Comag S.r.l. | 14,628 | 100 | **14.728** | **3.368** |
| Emak Benelux N.V. | - | 76 | **76** | **-** |
| Emak Deutschland Gmbh | 13 | 336 | **349** | **-** |
| Emak UK Ltd | - | 81 | **81** | **36** |
| Emak France SAS | 2 | 428 | **430** | **108** |
| Emak USA Inc | 2 | 188 | **190** | **35** |
| Jiangmen Emak Outdoor Power Equipment Co. Ltd. | 31,687 | - | **31,687** | **2,663** |
| Victus Emak Sp. z.o.o. | - | 234 | **234** | **58** |
| Tailong (Zhuhai) Machinery Manufacturing Equipment Ltd. | 669 | 22 | **691** | **172** |
| **Total** | **47,003** | **1,585** | **48,588** | **6,465** |
| **Total A** | | | **48,588** | **6,465** |

The costs incurred in the financial year for emoluments of the directors and auditors of Emak S.p.A., including remuneration for services provided to Group companies, are as follows

| €/000 | FY 2010 | FY 2009 |
|---|---|---|
| Emoluments of directors and statutory auditors | 405 | 326 |
| Benefits in kind | 10 | 10 |
| Wages and salaries | 765 | 622 |
| Employee termination indemnities | 53 | 50 |
| Consulting fees | 42 | 28 |
| **Total** | **1.275** | **1.036** |

Total amounts payable for the emoluments of the directors and auditors of the parent company at 31 December 2010 amount to € 166 thousand

* * * * * * *

YAMA Group.

It should be noted that EMAK belongs to a larger group of companies under the control of YAMA S.p.A., its parent company. Exclusively ordinary operations have been carried out during the 2010 financial year with the parent company and with other companies controlled by it. All such transactions form part of EMAK's typical ordinary operations and are conducted at arm's length.

It should also be noted that the Yama Group mainly operates in the following sectors: machines and equipment for agriculture and gardening, engine components and real estate. A number 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, for which the purchasing policy is based on factors of quality and cost. On the other hand, a number of the companies belonging to the Yama Group purchase from the Emak Group products that complete their respective product range.

The operations carried out in 2010 with parties belonging to the Yama Group and the values of such relations in force at the closing date of the financial year are shown below.

Sale of goods and services and receivables:

| Companies controlled by Yama S.p.A. (€/000) | Net sales | Other income | Total revenues | Receivables |
|---|---|---|---|---|
| Agro D.o.o. | 94 | 1 | 95 | **24** |
| Comet S.p.A. | 115 | 30 | 145 | **44** |
| Euro Reflex D.o.o. | 307 | - | 307 | **680** |
| Garmec S.p.A. | 202 | 1 | 203 | **9** |
| Mac Sardegna S.r.l. | 851 | 8 | 859 | **446** |
| Sabart S.p.A. | 155 | 23 | 178 | **40** |
| Tecomec S.r.l. | 17 | 2 | 19 | **7** |
| Unigreen S.p.A. | 12 | - | 12 | **17** |
| **Total** | **1,753** | **65** | **1,818** | **1,268** |
| **Total B** | **1,753** | **65** | **1,818** | **1,268** |
| | | | | |
| **Total A+B (note 22)** | | | **30,487** | **8,825** |

Purchase of goods and services and payables::

| Companies controlled by Yama S.p.A. (€/000) | Purchase of raw materials and finished products | Other costs | Total costs | Payables |
|---|---|---|---|---|
| Cofima S.r.l. | 682 | - | **682** | **338** |
| Comet S.p.A. | 866 | - | **866** | **351** |
| Euro Reflex D.o.o. | 817 | - | **817** | **82** |
| Garmec S.p.A. | 1 | 1 | **2** | **-** |
| Mac Sardegna S.r.l. | - | 3 | **3** | **5** |
| Sabart S.p.A. | 50 | - | **50** | **18** |
| Selettra S.r.l. | 1,089 | - | **1,089** | **427** |
| Speed France SAS | 566 | - | **566** | **107** |
| Tecomec S.r.l. | 722 | - | **722** | **287** |
| Unigreen S.p.A. | 54 | - | **54** | **14** |
| **Totali** | **4,847** | **4** | **4,851** | **1,629** |
| **Total B** | | | **4,851** | **1,629** |
| **Total A+B (note 26)** | | | **53,439** | **8,094** |

| Ultimate parent company (€/000 | Purchase of raw materials and finished products | Other costs | Total costs | Payables |
|---|---|---|---|---|
| Yama S.p.A. | - | 2 | **2** | **-** |
| **Total** | **-** | **2** | **2** | **-** |

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

### 36. Subsequent events

There have been no significant subsequent events.

***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
4. SCHEDULE OF FEES FOR AUDIT SERVICES AND OTHER SERVICES

## Appendix 1

### Changes in equity investments

| | 31.12.2009 | | | | Changes | | 31.12.2010 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares | Values in the financial statements €/000 | % total shareholding | direct shareholding | Subscriptions And acquisitions | Deprecietions | Number of shares | Values in the financial statements €/000 | % total shareholding | direct shareholding |
| **Italy** Comag S.r.l. | 1 quota | 8,408 | 99.44 | 99.44 | | | 1 quota | 8,408 | 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 | | * | 342,090 | 691 | 100 | 100 |
| **Belgium** Emak Benelux N.V. | 499 | 127 | 99.99 | 99.8 | | | 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. | - | 2,476 | 100 | 100 | | | - | 2,476 | 100 | 100 |
| Tailong (Zhuhai) Machinery Manufacturing Equipment Ltd. | - | 2,550 | 100 | 100 | | | - | 2,550 | 100 | 100 |
| **Poland** Victus Emak Sp. z.o.o. | 32,800 | 3,605 | 100 | 100 | | | 32,800 | 3,605 | 100 | 100 |
| **USA** Emak USA Inc. | 10 | 674 | 100 | 100 | 371 | (398) | 10 | 647 | 100 | 100 |
| **Total investments in subsidiaries** | | **21,677** | | | **371** | **(398)** | | **21,650** | | |

*Further to the increase in Share capital of the subsidiary Emak U.K. Ltd. carried out on 30 April 2010 for the value of £ 324,740 through the full use of the reserve already set up in previous financial periods. The number of shares increased from 17,350 to 342,090 confirming the nominal value of 1 pound sterling per share.

Emak
our power, your passion

## Appendix 2

### Details of equity investments

| Figures in thousands of Euros | Registered Office | Value in the financial statements | % Share | Share Capital | Equity | | Profit/ (loss) in the year (*) |
|---|---|---|---|---|---|---|---|
| | | | | | Total | Attributable to Emak S.p.A. | |
| Comag S.r.l. | Pozzilli (Is) | 8,408 | 99.44 | 1,850 | 12,170 | 12,102 | 73 |
| Emak Suministros Espana SA | Madrid | 572 | 90 | 270 | 4,910 | 4,419 | 449 |
| Emak Deutschland Gmbh | Fellbach- Oeffingen | 525 | 100 | 553 | 532 | 532 | (66) |
| Emak UK Ltd | Staffords | 691 | 100 | 325 | 358 | 358 | (119) |
| Emak Benelux N.V. | Meer- Hoogstraten | 127 | 99.8 | 130 | 71 | 71 | 2 |
| Emak France SAS | Rixheim | 2,049 | 100 | 2,000 | 5,924 | 5,924 | 405 |
| Jiangmen Emak Outdoor Power Equipment Co. Ltd. | Jiangmen | 2,476 | 100 | 2,476 | 14,077 | 14,077 | 2,786 |
| Tailong (Zhuhai) Machinery Manufacturing Equipment Ltd. | Zhuhai | 2,550 | 100 | 1,513 | 4,271 | 4,271 | 786 |
| Victus Emak Sp. z.o.o. | Poznan | 3,605 | 100 | 2,672 | 10,987 | 10,987 | 916 |
| Emak USA Inc. | Wooster- Ohio | 674 | 100 | 41 | 159 | 159 | (196) |
| **Total investments in subsidiaries** | | **21,650** | | | | | |

(*) Amounts taken from the financial statements of the subsidiaries prepared according to IAS/IFRS accounting principles

## Appendix 3

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

| (FIGURES IN THOUSANDS OF EUROS) | | |
|---|---|---|
| **BALANCE SHEET** | **31.12.2009** | **31.12.2008** |
| **Assets** | | |
| A) Amounts receivable from shareholders for outstanding payments | - | - |
| B) Fixed assets | 58.199 | 52.701 |
| C) Current assets | 12.098 | 9.231 |
| D) Prepayments and accrued income | 118 | 286 |
| **Total assets** | **70.415** | **62.218** |
| | | |
| **Liabilities** | | |
| A) Equity: | | |
| Share capital | 16.858 | 16.858 |
| Reserves | 10.940 | 6.686 |
| Profit in the financial period | 2.493 | 7.449 |
| B) Provisions | - | - |
| C) Post-employment benefits | 24 | 21 |
| D) Amounts payable | 40.075 | 31.123 |
| E) Accruals and deferred income | 25 | 81 |
| **Total liabilities** | **70.415** | **62.218** |
| | | |
| **Guarantees, commitments and other risks** | 31.127 | 30.567 |

| INCOME STATEMENT | 31.12.2009 | 31.12.2008 |
|---|---|---|
| A) Sales | 85 | 367 |
| B) Production costs | (1.324) | (1.448) |
| C) Financial income and expenditure | 6.252 | 10.096 |
| D) Adjustments to the value of financial assets | (2.968) | (2.000) |
| E) Extraordinary income and expenditure | | |
| **Result before tax** | **2.045** | **7.015** |
| Tax for the period | 448 | 434 |
| **Profit for the period** | **2.493** | **7.449** |

## Appendix 4

**Schedule of fees relating to the 2010 financial period for audit services and other services, subdivided by type.**

| Type of service | Entity providing the service | Beneficiary of the service | Fees (thousands of Euros) |
|---|---|---|---|
| Auditing Company | Fidital Revisione Srl | Emak S.p.A. | 85 |
| Auditing Company | Fidital Revisione Srl | Comag S.r.l. | 17 |
| Auditing Company | Rete HLB | Controllate | 37 |
| Other services | Fidital Revisione Srl | Emak S.p.A. | 5 |

The above information is provided in accordance with art. 160, paragraph 1-*bis* of Legislative Decree 24 February 1998, no. 58 and with article 149-*duodecies* of the CONSOB Regulations contained in Consob resolution no. 19971 of 14 May 1999 and subsequent modifications.

**Certification of the consolidated financial statements in accordance with art. 81-ter of Consob Regulation no.11971 of 14 May 1999 and subsequent modifications and integrations**

1. The undersigned, Giacomo Ferretti, Fausto Bellamico and Aimone Burani, the latter in his position as the executive in charge of preparing the accounting statements of Emak Spa, certify, taking account of the provisions of art. 154-bis, paragraphs 3 and 4, of Legislative Decree 24 February 1998, no. 58:

    - the suitability, in relation to the nature of the entity and
    - effective application

of administrative and accounting procedures for the preparation of the company's individual financial statements and the consolidated financial statements for the financial period ending 31 December 2010.

2. No factors of a significant nature have arisen with regards to the above.

3. It is certified, moreover, that:

3.1 the individual financial statements and consolidated financial statements for the financial period:

a) have been drawn up in conformity with the international accounting standards recognised by the European Community in accordance with EC regulation no. 1606/2002 of the European Parliament and European Council of 19 July 2002;

b) correspond to the accounting documents, ledgers and records;

c) appear to be suitable for providing a true and fair view of the balance sheet, economic and financial situation of the issuer and of the entities included in the consolidation.

3.2 The Directors' Report contains a reliable analysis of operating trends and results, as well as of the current situation of the issuer and of the entities included in the consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Date: 16 March 2011

The executive in charge of preparing the accounting statements:

Aimone Burani

The other delegated directors:

Fausto Bellamico