



**Emak<sup>®</sup>**

MEMBER OF THE YAMA GROUP

# HALF YEAR REPORT AT 30 JUNE 2006



**DYNAMAC**

**GARDENING TECHNOLOGY**



# Half-Year Report at 30 June 2006

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## Corporate Officers

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

The Board of Directors has granted Giacomo Ferretti, Chairman of the Board of Directors, Aimone Burani, the Deputy Chairman, and Fausto Bellamico, director and General Manager, separate powers for ordinary and extraordinary management within the bounds of the company's purpose and except for those powers reserved by law and the articles of association for the Board of Directors according to the Board resolution of 14 May 2004.

### Board of Directors

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

### Board of Statutory Auditors

Chairman	Marco Montanari
Acting Auditors	Andrea Magnanini Martino Masini
Alternate Auditors	Giuseppe Antonio Barranco Silvia Pataccini

### Independent Auditors

Axis S.r.l.

### Audit Committee

Chairman	Andrea Ferrari Ivano Accorsi Andrea Barilli
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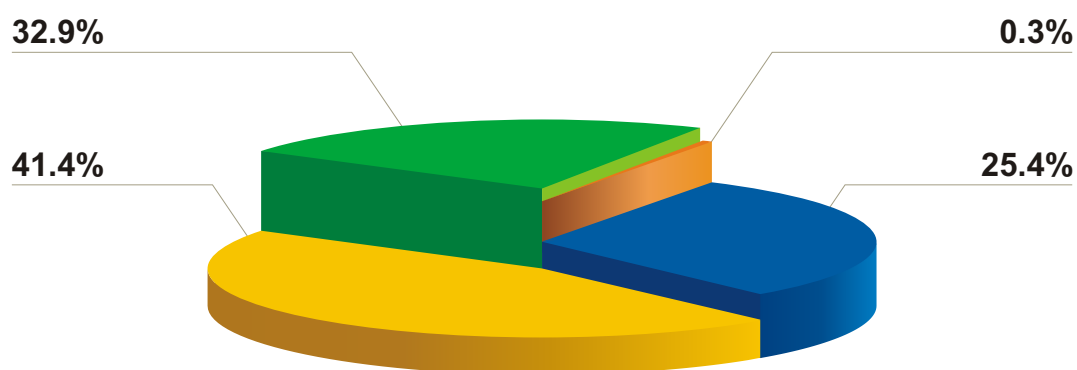
### Remuneration Committee

Chairman	Andrea Ferrari Ivano Accorsi Andrea Barilli
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## Main shareholders of Emak S.p.A.

Main shareholders at 30.06.2006	Number of shares	%
D-Lite Netherlands B.V. (Yama Group)	11,446,876	41.394%
Yama S.p.A.	9,095,624	32.892%
Treasury shares held at 30.06.2006	73,882	0.267%
Free float	7,037,118	25.447%
Total number of shares	<b>27,653,500</b>	<b>100.000%</b>

Main shareholders at 30.06.2006



■ D-Lite Netherlands B.V.

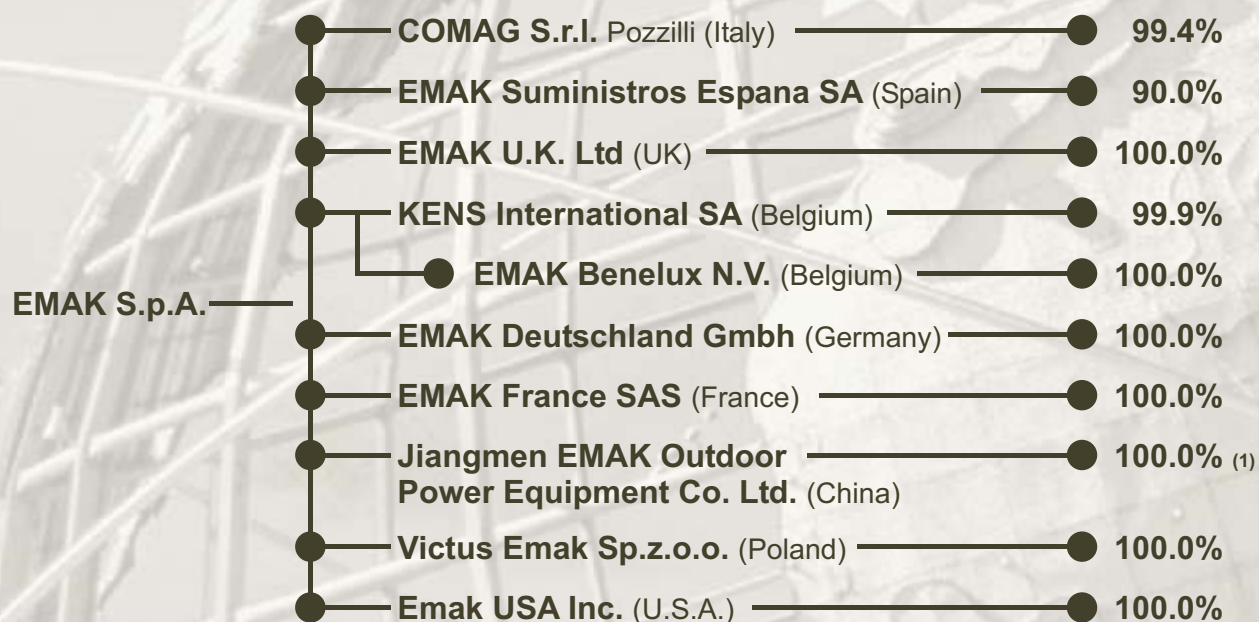
■ Free float

■ Yama S.p.A.

■ Treasury shares

## Group structure

The Emak Group is structured as follows at 30.06.2006:



<sup>(1)</sup> 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.

## Emak Group financial highlights

All the figures contained in this report are IFRS compliant.

### Income statements (€/000)

FY 2005		First Half 2006	First Half 2005
183,381	Net sales	125,925	107,291
22,268	EBITDA (1)	18,065	16,359
17,038	EBIT	15,437	13,858
9,605	Net profit	8,969	7,902

### Investments and cash flow (€/000)

FY 2005		First Half 2006	First Half 2005
6,053	Investment in property, plant and equipment	3,459	2,652
1,192	Investment in intangible assets	356	504
14,835	Free cash flow from operations (2)	11,597	10,403

### Balance sheet (€/000)

31.12.2005		First Half 2006	First Half 2005
101,195	Net capital employed	109,473	91,972
(25,836)	Net debt	(30,030)	(18,334)
75,359	Total equity	79,443	73,638

### Other statistics

FY 2005		First Half 2006	First Half 2005
12.1%	EBITDA / Net revenues (%)	14.3%	15.2%
9.3%	EBIT / Net revenues (%)	12.3%	12.9%
5.2%	Net profit / Net revenues (%)	7.1%	7.4%
16.8%	EBIT / Net capital employed (%)	14.1%	15.1%
0.34	Debt / Equity	0.38	0.25
856	Number of employees at period end ( <i>numero</i> )	885	675

1) EBIT + Amortization/depreciation

2) Net profit + Amortization/depreciation

### Share information and prices

31.12.2005		30.06.2006	30.06.2005
0.345	Earnings per share (€)	0.323	0.284
2.71	Equity per share (€)	2.86	2.65
4.79	Official price (€)	4.73	4.56
5.16	Maximum share price in period (€)	5.35	4.71
3.86	Minimum share price in period (€)	4.70	4.45
132	Stockmarket capitalization (€/million)	131	126
27,650,588	Average number of outstanding shares	27,630,915	27,649,766
27,653,500	Number of shares comprising share capital	27,653,500	27,653,500
0.537	Cash flow per share: net profit + amortization/depreciation (€)	0.420	0.376
0.150	Dividend per share (€)	-	-

# Report on performance at 30 June 2006



## Report on performance

### □ Introduction

The comments and comparisons contained in this report refer to consistent figures and reporting standards.

### □ ECONOMIC AND INDUSTRY SITUATION

#### 1 Economic situation

European Union GDP grew by around 2.3% in the first half of 2006, its highest rate in the last six years, driven by a stronger-than-expected recovery in domestic demand.

The picture was not the same across the Union with some countries, like Italy, underperforming due to weaker domestic demand and exports. In contrast, countries in Eastern Europe are developing at Asian growth rates, although remaining exposed to the risk of inflation.

The pace of European economic growth is expected to slow slightly in the second half of 2006, with the same applying to the US economy which should report annual growth of 2.5%.

Japanese GDP has continued to grow apace on the strength of domestic demand.

The Chinese economy has accelerated since the start of the year despite the government's timid attempts to hold back demand.

#### 2 Industry performance

The sector of garden and forestry maintenance machinery is concentrated 55% in the United States, 30% in Europe and 15% in the rest of the world.

Demand, mostly of the replacement kind, is dictated by trends in the economic cycle. The gardening sector is particularly sensitive to weather conditions.

Emak earns around 80% of its revenues in Europe and so is affected by the state of the economy in this area. Around 60% of its revenues are earned in the first six months of the year.

#### 3 Significant events in the period

##### 3.1 CAPITAL INCREASE BY VICTUS EMAK SP. Z O.O.

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

##### 3.2 INCORPORATION OF EMAK USA Inc. AND PAYMENT OF ITS SHARE CAPITAL

On 12 April 2006 Emak S.p.A. paid in the share capital of the newly incorporated company Emak USA Inc, amounting to USD 50 thousand.

Emak USA Inc, a wholly-owned subsidiary of Emak S.p.A., has its registered office in Wooster, Ohio and started operating in July 2006. Thanks to the new company the Emak Group now has a direct presence on this very important market for the development of its turnover.

## Report on performance

### 3.3 SALE OF BUSINESS

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

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

The assets and liabilities transferred as a result of this transaction are listed in note 7 to the consolidated financial statements.

#### 4 Emak Group - Overview of results

##### Highlights from the consolidated income statement

Highlights from the consolidated income statement for the first half of 2006 (1H 2006) are summarized below:

FY 2005	%	(€/000)	1H 2006	%	1H 2005	%	Change
183,381	100.0	Revenues	125,925	100.0	107,291	100.0	18,634
22,268	12.1	EBITDA	18,065	14.3	16,359	15.2	1,706
17,038	9.3	EBIT	15,437	12.3	13,858	12.9	1,579
16,905	9.2	Profit before taxes	14,288	11.3	13,236	12.3	1,052
9,605	5.2	Net profit	8,969	7.1	7,902	7.4	1,067

##### Sales

Revenues increased by 17.4% in 1H 2006 to €125,925 thousand, up from €107,291 thousand in 1H 2005.

Sales are broken down by product as follows:

(€/000)	1H 2006	%	1H 2005	%	Change
Brushcutters	26,651	21.2%	20,664	19.3%	5,987
Chainsaws	16,119	12.8%	15,730	14.7%	389
Lawn mowers	25,182	20.0%	21,417	20.0%	3,765
Garden tractors	12,139	9.6%	10,198	9.5%	1,941
Other products	33,656	26.7%	28,305	26.4%	5,351
Spare parts and accessories	12,178	9.7%	10,977	10.1%	1,201
<b>Total</b>	<b>125,925</b>	<b>100.0%</b>	<b>107,291</b>	<b>100.0%</b>	<b>18,634</b>

The excellent performance by brushcutters was largely due to the introduction of new more competitive models.

Garden tractors reported good sales, partly thanks to completion of their range; lawnmowers benefited from a more favourable product mix.

The limited growth of chainsaw sales reflected a not particularly high level of demand; the forthcoming launch of new models should foster a significant turnaround with the start of the new season in the second part of the year.

Sales of most of the other product ranges did well, partly thanks to improvements in the group's competitiveness.

## Report on performance

The geographical breakdown of sales is shown in the following table for both 1H 2006 and 1H 2005:

(€/000)	1H 2006	%	1H 2005	%	Change
Italy	22,046	17.5%	22,672	21.1%	(626)
Europe	85,944	68.3%	72,931	68.0%	13,013
Rest of world	17,935	14.2%	11,688	10.9%	6,247
<b>Total</b>	<b>125,925</b>	<b>100.0%</b>	<b>107,291</b>	<b>100.0%</b>	<b>18,634</b>

Lower-than-expected demand and a particularly fierce competitive environment caused a slight dip in sales on the Italian market.

In Europe it was Eastern Europe that contributed most significantly to the growth in sales, while West European sales proved to be stable.

Turkey and South America were the principal drivers of growth in the rest of the world.

The recently incorporated US subsidiary started to do business only at the start of July, meaning that it had no impact on the group's first-half sales.

### Profits

#### - EBITDA

EBITDA improved by 10.4% in 1H 2006 to €18,065 thousand, up from €16,359 thousand in the corresponding period of last year.

The following factors contributed positively to first-half results:

- the increase in sales volumes;
- the consolidation of the Polish company Victus Emak Sp. z o.o.;
- the reorganization of the production process.

The following factors all contributed negatively to results:

- the product/market mix;
- the cost of raw materials, as partly absorbed by other savings;
- higher payroll costs due to an increase in average headcount (up from 704 in 1H 2005 to 930 in 1H 2006), wage rises and greater use of temporary staff;
- the costs incurred in the second quarter for starting up the new subsidiary Emak Usa Inc.

#### - EBIT

EBIT was €15,437 thousand in 1H 2006, an increase of 11.4% on the corresponding prior year figure of €13,858 thousand.

#### - Net profit

Net profit for 1H 2006 was 13.9% higher at €8,969 thousand, up from €7,902 thousand in the same period of last year.

Net financial expense was higher than in 1H 2005, reflecting the increase in net debt and interest rates, as well as movements in exchange rates.

## Report on performance

### Highlights from the consolidated balance sheet

31.12.2005	(€/000)	30.06.2006	30.06.2005
34,776	Net non-current assets	34,728	27,098
66,419	Net current assets	74,745	64,874
101,195	Total net capital employed	109,473	91,972
75,359	Equity	79,443	73,638
(25,836)	Net debt	(30,030)	(18,334)

#### - Net non-current assets

During 1H 2006 the Emak Group invested €3,815 thousand in property, plant and equipment and intangible assets as follows:

- €1,081 thousand for product innovation (mainly analyses, research and equipment for new products);
- €442 thousand for boosting production capacity and for process innovation;
- €716 thousand for upgrading the computer network and other investments in management infrastructure;
- €1,576 thousand for completing and modernizing existing buildings.

#### - Net current assets

Net current assets were €8,326 thousand higher than at the end of December 2005, up from €66,419 thousand to €74,745 thousand.

The increase in net current assets since 31 December 2005 was attributable to the larger volume of business and the seasonal pattern of sales.

#### - Equity

Total equity was €79,443 thousand at the end of June 2006 compared with €75,359 thousand at 31 December 2005. Earnings per share were €0.323 at 30 June 2006 up from €0.284 in the corresponding period of the prior year.

#### - Net debt

Net debt increased from €25,836 thousand at 31 December 2005 to €30,030 thousand at 30 June 2006. The increase was mainly due to working capital needs and new investments.

Free cash flow from operations in 1H 2006 was €11,597 thousand after tax, compared with €10,403 thousand in the same period of last year.

The net financial position is made up as follows:

31.12.2005	(€/000)	30.06.2006	30.06.2005
4,103	Cash and banks	8,712	6,179
137	Securities and other financial assets	129	101
19	Other financial receivables	13	30
(30,095)	Loans and borrowings	(38,872)	(24,644)
0	Derivative financial instruments (liabilities)	(12)	0
<b>(25,836)</b>	<b>Total net debt</b>	<b>(30,030)</b>	<b>(18,334)</b>

## Report on performance

### 5 Research and development

Apart from the results of investment in the period, research and development activities have continued to be particularly intense in order to keep up with the rapid pace of change in our sector.

Product innovation continues to be the principal driver of business growth; this is particularly true at a time when the regulations on emissions, both in Europe and the USA, are about to enter a new phase in which the much stricter limits will require the development of new technology.

Apart from protecting the environment and reducing consumption, efforts in this area have concentrated on improving the group's competitive position and value proposition in its own specific market.

This was the direction taken by research and development activities in the first half of the year, with a resulting enhancement of our product range.

### 6 Human resources

The workforce is analyzed by country in the following table:

Employees at period end	30.06.2006	30.06.2005
Italy	501	541
France	51	45
Belgium	5	5
UK	17	16
Spain	17	15
Germany	21	21
Poland	64	65
China	204	148
USA	5	0
<b>Total</b>	<b>885</b>	<b>856</b>

The growth in headcount since 31 December 2005, from 856 to 885 employees, is mostly due to the development of the factory in China with all the main functions at Emak JM now being fully staffed (+56 employees).

The addition of 6 employees in France relates to staff on fixed-term contracts taken on to meet seasonal demand.

The total has also increased since 31 December 2005 following the recruitment of 5 staff by Emak USA Inc., the newly-incorporated subsidiary.

The decrease of 40 staff in Italy is mainly due to the sale of the plastic components business and the termination of staff hired by Emak and Comag under fixed-term contracts to cope with seasonal production requirements.

The parent company is at an advanced stage in the process of revising its organizational structure and procedures with the objective of obtaining ISO 14000 environmental certification by October 2006 and the SA 8000 ethical certification by the end of the current year.

## Report on performance

### **7** Related parties transactions

Please refer to note 39 to the consolidated financial statements for information about related party transactions.

### **8** Buy-back of Emak S.p.A. shares

In accordance with the related authorization by shareholders, Emak S.p.A. has carried out purchases and sales of treasury shares on the market for the purpose of improving the stock's liquidity. Emak S.p.A. held 6,000 treasury shares at 31 December 2005, worth €28 thousand.

Emak purchased 67,882 treasury shares between 31 December 2005 and 30 June 2006, meaning that it held 73,882 such shares, worth €365 thousand, at the end of June 2006.

It purchased another 34,967 treasury shares in July 2006, taking its total holding at 31 July 2006 to 108,849 such shares worth €528 thousand.

### **9** Outstanding disputes

There are no outstanding disputes other than those for which related provisions have been made, as discussed in note 34 to the consolidated financial statements.

### **10** Business outlook

The first half of the year reported a good set of preseason sales.

The late start to the spring combined with a particularly hot, dry summer in most European countries contributed to generally lower demand with a resulting drop in orders during the season.

Nonetheless, stock levels within the distribution network are normal thanks to the fact that volumes sold in were adjusted in time to match those sold out.

The group will continue to launch new models in the second half of the year, contributing towards the achievement of our growth objectives in a nonetheless extremely competitive general environment.

## Report on performance

### **11** Corporate governance

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

The code seeks to govern reporting obligations and restrictions on dealings in Emak shares by persons defined as "relevant", amongst whom the company's principal shareholders, directors and statutory auditors, and the general manager and deputy general manager, as well as persons closely associated with them.

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

**Emak Group**  
**Consolidated financial statements**  
**and Explanatory notes**  
**at 30 June 2006**



## Consolidated income statement

Year 2005	(€/000)	Notes	1 Half 2006	1 Half 2005
183,381	Revenues	10	125,925	107,291
1,629	Other operating revenues	10	826	673
8,817	Change in inventories		6,042	2,503
(114,246)	Raw and consumable materials	11	(79,993)	(65,073)
(25,763)	Payroll costs	12	(15,284)	(12,982)
(31,550)	Other operating costs	13	(19,451)	(16,053)
(5,230)	Amortization, depreciation and impairment losses	14	(2,628)	(2,501)
<b>17,038</b>	<b>EBIT</b>		<b>15,437</b>	<b>13,858</b>
658	Financial income	15	319	199
(1,419)	Financial expenses	15	(1,021)	(696)
628	Exchange gains and losses	15	(447)	(125)
<b>16,905</b>	<b>Profit before taxes</b>		<b>14,288</b>	<b>13,236</b>
(7,300)	Income taxes	16	(5,319)	(5,334)
<b>9,605</b>	<b>Net profit</b>		<b>8,969</b>	<b>7,902</b>
(73)	Profit/loss attributable to minority interests		(48)	(54)
<b>9,532</b>	<b>Net profit attributable to the group</b>		<b>8,921</b>	<b>7,848</b>
<b>0.345</b>	<b>Basic earnings per share</b>	17	<b>0.323</b>	<b>0.284</b>
<b>0.345</b>	<b>Diluted earnings per share</b>	17	<b>0.323</b>	<b>0.284</b>

## Consolidated balance sheet

### Assets

31.12.2005	(€/000)	Notes	30.06.2006	30.06.2005
	<b>Non-current assets</b>			
32,557	Property, plant and equipment	18	33,362	31,309
3,080	Intangible assets	20	2,925	2,052
6,305	Goodwill	21	6,002	0
399	Investment property	19	380	402
223	Equity investments	22	223	223
2,922	Deferred income tax assets	32	2,503	1,878
0	Other financial assets		5	13
63	Other receivables	24	55	97
<b>45,549</b>	<b>Total</b>		<b>45,455</b>	<b>35,974</b>
	<b>Non-current assets held for sale</b>			
269	Assets held for sale	26	269	256
<b>269</b>	<b>Total</b>		<b>269</b>	<b>256</b>
	<b>Current assets</b>			
59,840	Inventories	25	65,279	53,265
56,911	Trade and other receivables	24	67,733	64,654
3,525	Current income tax assets	32	1,469	318
19	Other financial assets		8	17
38	Derivative financial assets	23	124	11
99	Marketable securities at fair value	27	5	90
4,103	Cash and banks	28	8,712	6,179
<b>124,535</b>	<b>Total</b>		<b>143,330</b>	<b>124,534</b>
<b>170,353</b>	<b>Total assets</b>		<b>189,054</b>	<b>160,764</b>

### Equity and Liabilities

31.12.2005	(€/000)	Notes	30.06.2006	30.06.2005
	<b>Capital and reserves</b>			
7,190	Issued capital		7,190	7,190
21,047	Share premium		21,047	21,047
(28)	Treasury shares		(365)	0
30,354	Other reserves		30,231	30,311
16,338	Retained earnings		20,880	14,649
<b>74,901</b>	<b>Total Group</b>	29	<b>78,983</b>	<b>73,197</b>
<b>458</b>	<b>Minority interests</b>		<b>460</b>	<b>441</b>
<b>75,359</b>	<b>Total equity</b>		<b>79,443</b>	<b>73,638</b>
	<b>Non-current liabilities</b>			
7,174	Long-term loans and borrowings	31	6,591	11,390
2,565	Deferred income tax liabilities	32	2,538	2,225
5,985	Employee benefits	33	5,989	5,660
359	Provisions for liabilities and charges	34	418	298
2,132	Other non-current liabilities	35	2,046	936
<b>18,215</b>	<b>Total</b>		<b>17,582</b>	<b>20,509</b>
	<b>Current liabilities</b>			
50,430	Trade and other payables	30	54,914	48,706
2,811	Current income tax liabilities	32	4,460	4,338
22,921	Short-term loans and borrowings	31	32,281	13,254
0	Short-term derivative financial instruments	23	12	0
617	Provisions for liabilities and charges	34	362	319
<b>76,779</b>	<b>Total</b>		<b>92,029</b>	<b>66,617</b>
<b>170,353</b>	<b>Total equity and liabilities</b>		<b>189,054</b>	<b>160,764</b>

## Changes in consolidated equity at 30.06.2005

(€/000)	Issued capital	Share premium	Treasury shares	Other reserves	
				Legal reserve	Special reserve
<b>Total at 31.12.2004</b>	<b>7,190</b>	<b>21,047</b>	<b>(47)</b>	<b>1,438</b>	<b>1,138</b>
Change in translation reserve					
Sale of treasury shares			47		
Payments of dividends					
Net change arising from hedging transactions					
Other changes					
Net profit for the period					
<b>Total at 30.06.2005</b>	<b>7,190</b>	<b>21,047</b>	<b>0</b>	<b>1,438</b>	<b>1,138</b>

Other reserves			Retained earnings		Total Group	Equity attributable to minority interests	Total
Reserve for hedging instruments	Cumulative translation adjustments	Other reserves	Retained earnings	Net profit of the period			
(73)	(59)	23,799	5,880	8,741	69,054	446	69,500
	151				151		151
			29		76		76
		3,839	892	(8,741)	(4,010)	(59)	(4,069)
80					80		80
(2)					(2)		(2)
				7,848	7,848	54	7,902
5	92	27,638	6,801	7,848	73,197	441	73,638

## Changes in consolidated equity at 31.12.2005 and at 30.06.2006

(€/000)	Issued capital	Share premium	Treasury shares	Other reserves	
				Legal reserve	Special reserve
<b>Balance at 31.12.2004</b>	<b>7,190</b>	<b>21,047</b>	<b>(47)</b>	<b>1,438</b>	<b>1,138</b>
Change in translation reserve					
Change of treasury shares			19		
Payment of dividends					
Net change arising from hedging transactions					
Other changes					
Net profit for 2005					
<b>Balance at 31.12.2005</b>	<b>7,190</b>	<b>21,047</b>	<b>(28)</b>	<b>1,438</b>	<b>1,138</b>
Change in translation reserve					
Change of treasury shares			(337)		
Payment of dividends					
Net profit for the period					
<b>Balance at 30.06.2006</b>	<b>7,190</b>	<b>21,047</b>	<b>(365)</b>	<b>1,438</b>	<b>1,138</b>

Other reserves			Retained earnings		Total Group	Equity attributable to minority interests	Total
Reserves for hedging instruments	Cumulative translation adjustments	Other reserves	Retained earnings	Net profit of the period			
(73)	(59)	23,799	5,880	8,741	69,054	446	69,500
	199				199		199
			31		50		50
		3,839	892	(8,741)	(4,010)	(59)	(4,069)
73					73		73
			3		3	(2)	1
		0		9,532	9,532	73	9,605
0	140	27,638	6,806	9,532	74,901	458	75,359
	(349)		(9)		(358)		(358)
					(337)		(337)
		226	5,162	(9,532)	(4,144)	(46)	(4,190)
				8,921	8,921	48	8,969
0	(209)	27,864	11,959	8,921	78,983	460	79,443

## Consolidated cash flow statement

2005	(€/000)	Notes	30.06.2006	30.06.2005
<b>Cash flow from operation</b>				
<b>9,605</b>	<b>Net profit for the period</b>		<b>8,969</b>	<b>7,902</b>
5,230	Amortization, depreciation and impairment losses	14	2,628	2,501
(17)	(Capital gains) / losses on disposal of property, plant and equipment		(192)	(16)
(5,601)	Decreases / increases in trade and other receivables		(8,359)	(10,088)
(7,243)	Decreases / increases in inventories		(5,698)	(2,642)
5,500	Decreases / increases in trade and other payables		6,043	7,027
583	Change in employee benefits	33	205	258
488	Decreases / increases in provisions for liabilities (and charges)	34	(196)	129
(150)	Decreases / increases in derivative financial instruments		(74)	(123)
<b>8,395</b>	<b>Net cash generated by operations</b>		<b>3,326</b>	<b>4,948</b>
<b>Cash flow from financing activities</b>				
(7,517)	Increases in property, plant and equipment and intangible assets		(3,250)	(3,156)
182	Increases and decreases in financial assets		100	179
156	Proceeds from disposal of property, plant and equipment		36	38
(6,751)	Change of consolidation area / assets and liabilities transferred	7	505	
<b>(13,930)</b>	<b>Net cash absorbed by financing activities</b>		<b>(2,609)</b>	<b>(2,939)</b>
<b>Cash flow from financial activities</b>				
124	Change in equity		(346)	154
1,784	Change in short and long-term loans and borrowings		(836)	1,461
3,643	Change in lease finance		(274)	(61)
(4,069)	Dividends paid		(4,190)	(4,069)
199	Transaction reserve variation		(349)	151
<b>1,681</b>	<b>Net cash absorbed by financial activities</b>		<b>(5,995)</b>	<b>(2,364)</b>
<b>(3,854)</b>	<b>Net increase in cash and cash equivalents</b>		<b>(5,278)</b>	<b>(355)</b>
<b>(1,234)</b>	<b>Opening cash and cash equivalents</b>		<b>(5,088)</b>	<b>(1,234)</b>
<b>(5,088)</b>	<b>Closing cash and cash equivalents</b>		<b>(10,366)</b>	<b>(1,589)</b>

## Additional information on the cash flow statement

2005	(€/000)	30.06.2006	30.06.2005
<b>Reconciliation of cash and cash equivalents</b>			
<b>(1,234)</b>	<b>Opening cash and cash equivalents, detailed as follows:</b>	<b>(5,088)</b>	<b>(1,234)</b>
5,205	Cash and cash equivalents	4,103	(5,205)
(6,439)	Overdrafts	(9,191)	(6,439)
<b>(5,088)</b>	<b>Closing cash and cash equivalents, detailed as follows:</b>	<b>(10,366)</b>	<b>(1,589)</b>
4,103	Cash and cash equivalents	8,712	6,179
(9,191)	Overdrafts	(19,078)	(7,768)
<b>Other informazions:</b>			
285	Change with related party receivables and service transactions	(208)	34
144	Change with related party payables and service transactions	1,256	1,101

## Explanatory notes to the Consolidated Financial Statements of the Emak Group

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## Explanatory notes to the Consolidated Financial Statements

### 1 General information

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

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

The group has around 900 employees.

Emak US Inc., the newly-incorporated US company, has joined the group since 31 December 2005, starting to be consolidated from 12 April 2006; the consolidated balance sheet, income statement and cash flow statement therefore include this company's results.

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

These consolidated financial statements were approved by the Board of Directors on 29 September 2006.

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

### 2 Summary of principal accounting policies

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

#### 2.1 General methods of preparation

The Emak Group's consolidated financial statements at 30 June 2006 have been prepared in accordance with IAS 34 (Interim Financial Reports), and currently applicable CONSOB regulations and resolutions.

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

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

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

- Balance sheet: based on the distinction between current and non-current assets and current and non-current liabilities;
- Income statement: based on a classification of items of income and expense according to their nature.

The preparation of financial statements under IFRS requires management to make use of accounting estimates.

The matters involving a high degree of judgement or complexity and the areas in which the assumptions and estimates could have a significant impact on the consolidated financial statements are discussed in note 4.

## Explanatory notes to the Consolidated Financial Statements

### 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 purchase method 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.

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 30 June 2006 includes the following companies:

Name	Head office	Share capital	Currency	% consolidated	Held by	% interest held
Emak S.p.A.	Bagnolo in Piano - RE (I)	7,189,910	€			
Emak Suministros Espana SA	Getafe-Madrid (E)	270,459	€	90.000	Emak S.p.A.	90.000
Comag S.r.l.	Pozzilli - IS (I)	1,850,000	€	99.442	Emak S.p.A.	99.442
Emak U.K. Ltd	Lichfield (UK)	17,350	GBP	100.000	Emak S.p.A.	100.000
Emak Deutschland GmbH	Backnang (D)	533,218	€	100.000	Emak S.p.A.	100.000
Kens International SA	Wilrijk (B)	61,973	€	99.999	Emak S.p.A. Comag S.r.l.	99.800 0.200
Emak Benelux N.V.	Schoten (B)	92,960	€	99.999	Kens Int.l SA	100.000
Emak France SAS	Rixheim (F)	2,000,000	€	100.000	Emak S.p.A.	100.000
Jiangmen Emak Outdoor Power Equipment Co. Ltd (*)	Jiangmeng (RPC)	18,171,788	RMB	100.000	Emak S.p.A.	100.000
Victus-Emak Eco Sp. Z.o.o.	Poznan (PL)	10,168,000	PLN	100.000	Emak S.p.A.	100.000
Emak USA Inc.	Wooster-Ohio (USA)	50,000	USD	100.000	Emak S.p.A.	100.000

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

### 2.3 Criteria for defining business segments

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

A geographical sector is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

## Explanatory notes to the Consolidated Financial Statements

### 2.4 Translation differences

#### (a) Functional currency and reporting 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 reporting 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 reporting currency of the consolidated financial statements are translated as follows:

- (i) assets and liabilities are translated at the closing rate on the balance sheet date;
- (ii) income and expenses are translated at the average rate for the period;
- (iii) all translation differences are recognized as a separate reserve under equity ("cumulative translation adjustment").

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

Amount of currency corresponding to 1€	1H 2006 average	30.06.2006	FY 2005 average	31.12.2005
Pound sterling (GB)	0.6869	0.6921	0.6838	0.6853
Renminbi (China)	9.8721	10.1648	10.2037	9.5204
Zloty (Poland)	3.89	4.05	3.92 (*)	3.86
Dollars (USA)	1.26	1.27		

(\*) Refers to the average in the last quarter of 2005.

### 2.5 Description of accounting policies applied to individual items

Details of the accounting policies applied to individual items within the financial statements can be found in sections 2.5 to 2.26 of the explanatory notes to the consolidated financial statements at 31 December 2005.

### 3 Financial risk management

Reference should be made to the explanatory notes to the consolidated financial statements at 31 December

### 4 Key accounting estimates and assumptions

The preparation of the financial statements and the related notes under IAS/IFRS has required management to make estimates and assumptions affecting the value of reported assets and liabilities and the disclosures relating to potential assets and liabilities at the balance sheet date. Actual results could differ from these estimates.

Estimates are used for recording provisions for doubtful accounts and inventory obsolescence, amortization and depreciation, writedowns to assets, employee benefits, taxes and other provisions. Estimates and assumptions are reviewed periodically and the effects of any change are immediately reflected in the income statement.

## Explanatory notes to the Consolidated Financial Statements

### 5 New accounting standards

No new accounting standards or interpretations have been issued or old ones amended, applicable as from 1 January 2005, that have a material effect on the Emak Group's financial statements.

The IASB has published a number of new accounting standards in recent months that have no impact on the consolidated balance sheet, income statement or financial position.

IFRS 7 (Financial instruments: disclosures) is applicable from 1 January 2007.

### 6 Segment information

#### 6.1. Primary reporting format - Business segments

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

#### 6.2. Secondary reporting format - Geographical

The group operates on a worldwide basis.

Sales revenues by geographical area are analyzed by segment on the basis of the end customer's location.

The value of assets and investments is analyzed by geographical segment based on the location of the assets themselves.

(€/000)	sales		total assets		investment in fixed assets	
	1H 2006	1H 2005	30.06.2006	31.12.2005	1H 2006	1H 2005
Italy	22,046	22,672	114,276	109,872	1,752	1,580
Europe	85,944	72,931	64,018	53,665	234	283
Rest of world	17,935	11,688	10,760	6,816	1,829	1,293
<b>Total</b>	<b>125,925</b>	<b>107,291</b>	<b>189,054</b>	<b>170,353</b>	<b>3,815</b>	<b>3,156</b>

### 7 Significant non-recurring events and transactions

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

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

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

Description	Book value in €/000
Property, plant and equipment	249
Inventories	259
Other receivables	1
Prepaid expenses	19
Employee benefits (termination indemnities)	(201)
Accrued expenses (employees)	(23)
<b>Total net assets sold</b>	<b>304</b>
<b>Capital gain</b>	<b>201</b>
<b>Disposal price</b>	<b>505</b>

## Explanatory notes to the Consolidated Financial Statements

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

No atypical or unusual transactions took place in the first half of 2006.

### 9 Net financial position

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

(€/000)	30.06.2006	31.12.2005	30.06.2005
Cash and banks	8,712	4,103	6,179
Securities and derivative financial instruments	129	137	101
Other financial assets	8	19	17
Financial liabilities	(32,281)	(22,921)	(13,254)
Derivative financial instruments (liabilities)	(12)	0	0
<b>Short-term net debt</b>	<b>(23,444)</b>	<b>(18,662)</b>	<b>(6,957)</b>
Other financial assets	5	0	13
Financial liabilities	(6,591)	(7,174)	(11,390)
<b>Long-term net debt</b>	<b>(6,586)</b>	<b>(7,174)</b>	<b>(11,377)</b>
Cash and banks	8,712	4,103	6,179
Securities and derivative financial instruments	129	137	101
Other financial assets	13	19	30
Financial liabilities	(38,872)	(30,095)	(24,644)
Derivative financial instruments (liabilities)	(12)	0	0
<b>Total net debt</b>	<b>(30,030)</b>	<b>(25,836)</b>	<b>(18,334)</b>

### 10 Sales and other operating revenues

The group's sales revenues amount to €125,925 thousand, compared with €107,291 thousand in the corresponding prior year period. They are stated net of €788 thousand in returns, compared with €281 thousand in the same period of last year.

Details of revenues are as follows:

(€/000)	1H 2006	1H 2005
Net sales revenues (net of discounts and rebates)	125,801	106,785
Revenues for recharged transport costs	912	787
Returns	(788)	(281)
<b>Total</b>	<b>125,925</b>	<b>107,291</b>

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

Other operating revenues amount to €826 thousand compared with €673 thousand in the corresponding prior year period and include:

- €71 thousand in capital grants (€85 thousand in 1H 2005);
- €295 thousand in capital gains on the sale of property, plant and equipment (€23 thousand in 1H 2005);
- €65 thousand in rental income (€64 thousand in 1H 2005).

The increase in the capital gains on the sale of property, plant and equipment mostly consists of the gain of €201 thousand on the sale of the plastic components business (see note 7).

## Explanatory notes to the Consolidated Financial Statements

### 11 Cost of raw and consumable materials

Purchases of raw, ancillary and consumable materials and goods amount to €79,993 thousand (€65,073 thousand in 1H 2005), representing an increase of €14,920 thousand.

### 12 Payroll costs

Details of these costs are as follows:

(€/000)	1H 2006	1H 2005
Wages and salaries	10,351	9,190
Social security charges	3,170	2,869
Employee termination indemnities (note 33)	566	485
Other costs	362	71
Directors' emoluments	236	89
Temporary staff	599	278
<b>Total</b>	<b>15,284</b>	<b>12,982</b>

The average number of employees at the end of 1H 2006 was 930, compared with 704 in 1H 2005.

### 13 Other operating costs

Details of these costs are as follows:

(€/000)	1H 2006	1H 2005
Subcontract work	3,426	2,878
Maintenance	982	965
Transportation	5,621	4,183
Advertising and promotion	1,890	1,532
Commissions	1,415	1,367
Travel	580	500
Consulting fees	986	752
Other services	2,694	2,579
<b>Services</b>	<b>17,594</b>	<b>14,756</b>
<b>Leases and rentals</b>	<b>825</b>	<b>577</b>
<b>Increases in provisions (note 34)</b>	<b>59</b>	<b>131</b>
Writedown of receivables and bad debts	199	193
Capital losses on property, plant and equipment	103	7
Other taxes (not on income)	236	164
Other operating costs	435	225
<b>Other costs</b>	<b>973</b>	<b>589</b>
<b>Total</b>	<b>19,451</b>	<b>16,053</b>

## Explanatory notes to the Consolidated Financial Statements

### 14 Amortization, depreciation and impairment losses

Details of these costs are as follows:

(€/000)	1H 2006	1H 2005
Amortization of intangible assets (note 20)	450	372
Depreciation of property, plant and equipment (note 18)	2,160	2,094
Depreciation of investment property (note 19)	18	35
<b>Total</b>	<b>2,628</b>	<b>2,501</b>

### 15 Financial income and expenses

Details of these costs are as follows:

(€/000)	1H 2006	1H 2005
Interest on trade receivables	115	78
Interest on bank and post office accounts	50	21
Cash discounts received	129	80
Other financial income	25	20
<b>Financial income</b>	<b>319</b>	<b>199</b>

(€/000)	1H 2006	1H 2005
Interest on long-term bank loans and borrowings	145	145
Interest on short-term bank loans and borrowings	493	283
Interest expense and discounts given	196	158
Financial charges from valuing employee termination indemnities (note 33)	50	40
Other financial costs	137	70
<b>Financial expenses</b>	<b>1,021</b>	<b>696</b>

(€/000)	1H 2006	1H 2005
Exchange differences on trade transactions	(402)	(149)
Exchange differences on financial items	(45)	24
<b>Exchange gains and losses</b>	<b>(447)</b>	<b>(125)</b>

### 16 Income taxes

The estimated charge for current tax and changes in deferred tax assets and liabilities in the first half of 2006 is €5,319 thousand (€5,334 thousand in the corresponding prior year period).

The first-half tax rate of 37.2% was down from that of 40.3% in the corresponding prior year period, due to differences in the tax rules applying in the various countries where the group operates.

## Explanatory notes to the Consolidated Financial Statements

### 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 38). The parent company has only ordinary shares outstanding.

	1H 2006	1H 2005
Net profit attributable to ordinary shareholders in the parent company (€/000)	8,921	7,848
Weighted average number of ordinary shares outstanding	27,630,915	27,649,766
<b>Basic earnings per share (€)</b>	<b>0.323</b>	<b>0.284</b>

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)	31.12.2005	Increases	Decreases	Sale of business (note 7)	Other changes	Exchange difference	30.06.2006
Land and buildings	26,932	1,353	0	0	(95)	(135)	28,055
Accumulated depreciation	(5,170)	(339)	0	0	0	0	(5,509)
<b>Land and buildings</b>	<b>21,762</b>	<b>1,014</b>	<b>0</b>	<b>0</b>	<b>(95)</b>	<b>(135)</b>	<b>22,546</b>
Plant and machinery	11,654	153	(25)	(421)	339	(32)	11,668
Accumulated depreciation	(7,493)	(534)	12	187	0	3	(7,825)
<b>Plant and machinery</b>	<b>4,161</b>	<b>(381)</b>	<b>(13)</b>	<b>(234)</b>	<b>339</b>	<b>(29)</b>	<b>3,843</b>
Other assets	39,900	1,382	(217)	(43)	259	(23)	41,258
Accumulated depreciation	(33,549)	(1,287)	183	28	0	9	(34,616)
<b>Other assets</b>	<b>6,351</b>	<b>95</b>	<b>(34)</b>	<b>(15)</b>	<b>259</b>	<b>(14)</b>	<b>6,642</b>
<b>Advances</b>	<b>283</b>	<b>571</b>	<b>0</b>	<b>0</b>	<b>(505)</b>	<b>(18)</b>	<b>331</b>
<b>Net book value</b>	<b>32,557</b>	<b>1,299</b>	<b>(47)</b>	<b>(249)</b>	<b>(2)</b>	<b>(196)</b>	<b>33,362</b>

The increase in land and buildings includes around €1,245 thousand for constructing the new factory in China.

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

The increase in other assets includes €1,016 thousand for the purchase of moulding equipment, while the remainder refers to various kinds of production equipment.

### 19 Investment property

This refers to a building leased to a company in the Yama Group and to a farmhouse situated on a piece of land available for future expansion of production activities. Their gross value at period end is unchanged since 31 December 2005 at €1,407 thousand, while the associated accumulated depreciation amounts to €1,026 thousand (€1,008 thousand at the end of 2005).



## Explanatory notes to the Consolidated Financial Statements

### 20 Intangible assets

Intangible assets report the following changes:

(€/000)	31.12.2005	Increases	Other changes	Exchange difference	30.06.2006
Development costs	1,067	75	0	0	1,142
Accumulated amortization	(368)	(76)	0	0	(444)
<b>Development costs</b>	<b>699</b>	<b>(1)</b>	<b>0</b>	<b>0</b>	<b>698</b>
Patents and intellectual property rights	3,234	277	(3)	(6)	3,502
Accumulated amortization	(1,984)	(307)	3	1	(2,287)
<b>Patents</b>	<b>1,250</b>	<b>(30)</b>	<b>0</b>	<b>(5)</b>	<b>1,215</b>
Concessions, licences and trademarks	681	4	0	(31)	654
Accumulated amortization	(16)	(67)	0	4	(79)
<b>Concessions, licences and trademarks</b>	<b>665</b>	<b>(63)</b>	<b>0</b>	<b>(27)</b>	<b>575</b>
Other intangible assets	468	0	0	(29)	439
Accumulated amortization	(2)	0	0	0	(2)
<b>Other intangible assets</b>	<b>466</b>	<b>0</b>	<b>0</b>	<b>(29)</b>	<b>437</b>
<b>Net book value</b>	<b>3,080</b>	<b>(94)</b>	<b>0</b>	<b>(61)</b>	<b>2,925</b>

The increase in development costs refers to costs incurred in the period for the "clean engines" project.

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

All the intangible assets have a finite residual life.

### 21 Goodwill

The goodwill of €6,002 thousand reported at 30 June 2006 can be separated into two parts as follows:

(€/000)	31.12.2005	Exchange difference	30.06.2006
Goodwill on the purchase of Victus Emak Sp. z.o.o.	965	(46)	919
Goodwill on the purchase of Victus IT business	5,340	(257)	5,083
<b>Total</b>	<b>6,305</b>	<b>(303)</b>	<b>6,002</b>

- goodwill on the purchase of Victus Emak Sp.z.o.o., amounting to €919 thousand, refers to the difference between the purchase price for 100% of Victus Emak Sp. z.o.o., a Polish company, and its equity at the date of acquisition;

- the goodwill of €5,083 thousand refers to the purchase of the business of Victus International Trading SA.

No doubts about the recovery of goodwill emerged in the period.

## Explanatory notes to the Consolidated Financial Statements

### 22 Equity investments

The company 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. This investment has not suffered any impairment losses and the risks and rewards of owning it are negligible.

### 23 Derivative financial instruments

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

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

At 30 June 2006 there were outstanding forward currency agreements for the purchase of:

- €3,405 thousand in hedges taken out by our Polish and UK subsidiaries;
- JPY 95,000 thousand;
- USD 964 thousand;
- GBP 130 thousand.

### 24 Trade and other receivables

(€/000)	30.06.2006	31.12.2005
Trade receivables	65,985	56,001
Provision for doubtful accounts	(975)	(816)
<b>Net trade receivables</b>	<b>65,010</b>	<b>55,185</b>
Receivables due from related parties (note 39)	864	656
Other receivables	1,363	839
Prepaid expenses and accrued income	496	231
<b>Total current portion</b>	<b>67,733</b>	<b>56,911</b>
Other non-current receivables	55	63
<b>Total non-current portion</b>	<b>55</b>	<b>63</b>

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

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

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

### 25 Inventories

Inventories are detailed as follows:

(€/000)	30.06.2006	31.12.2005
Raw, ancillary and consumable materials	23,887	26,718
Work in progress and semifinished products	5,350	5,788
Finished products and goods for resale	36,042	27,334
<b>Total</b>	<b>65,279</b>	<b>59,840</b>

Inventories are stated net of a provision of €1,066 thousand at 30 June 2006 (€1,145 thousand at 31 December 2005). The purpose of this provision is to write down obsolete and slow-moving items to their estimated realizable value.

## Explanatory notes to the Consolidated Financial Statements

### 26 Non-current assets held for sale

Like at 31 December 2005, the entire balance of €269 thousand refers to an industrial building in Brescello (Reggio Emilia), which is no longer used by the group, for which the sale process has started and should be completed during 2006.

### 27 Marketable securities at fair value

The balance of €5 thousand reported at 30 June 2006 refers to temporary investments of surplus cash.

### 28 Cash and banks

(€/000)	30.06.2006	31.12.2005
Bank and post office deposits	8,702	4,089
Cash	10	14
<b>Total</b>	<b>8,712</b>	<b>4,103</b>

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

(€/000)	30.06.2006	31.12.2005
Cash and banks	8,712	4,103
Overdrafts (note 31)	(19,078)	(9,191)
<b>Total</b>	<b>(10,366)</b>	<b>(5,088)</b>

### 29 Equity

#### Share capital

Share capital is fully paid up at 30 June 2006 and amounts to €7,190 thousand, remaining unchanged since the end of 2005. It consists of 27,653,500 ordinary shares of par value €0.26 each.

#### Share premium reserve

The share premium reserve, which consists of the premium paid on new-issue shares, is €21,047 thousand at 30 June 2006, staying unchanged since the end of 2005.

#### Treasury shares

The adjustment of €365 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 30 June 2006 (note 38).

#### Legal reserve

At 30 June 2006 the legal reserve is the same as six months earlier at €1,438 thousand.

#### Revaluation reserves

The revaluation reserve at 30 June 2006 includes the reserves arising from revaluations under Law 72/83 for €371 thousand and under Law 413/91 for €767 thousand. No change has taken place in the period under review.

## Explanatory notes to the Consolidated Financial Statements

### Other reserves:

The extraordinary reserve amounts to €27,088 thousand at 30 June 2006, inclusive of all allocations of earnings in prior years.

At 30 June 2006, the reserve for unrealized exchange gains comprises €253 thousand in unrealized exchange gains from prior periods.

At 30 June 2006, the untaxed reserves refer to €129 thousand in tax-related provisions for grants and donations and €394 thousand in merger surplus reserves. All these reserves have remained the same as at the end of 2005.

### Cumulative translation adjustment

The cumulative translation adjustment is a negative €209 thousand at 30 June 2006. It is entirely due to differences arising on the translation of financial statements into the group's functional currency.

### Gains (losses) recognized directly in equity

No gains or losses have been recognized directly in equity between 31 December 2005 and 30 June 2006.

## 30 Trade and other payables

(€/000)	30.06.2006	31.12.2005
Trade payables	42,604	39,800
Payables due to related parties (note 39)	6,358	5,102
Payables due to staff and social security institutions	5,843	3,985
Other payables	109	1,543
<b>Total</b>	<b>54,914</b>	<b>50,430</b>

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

## 31 Financial liabilities

Financial liabilities include €2,789 thousand in secured payables (loans by financial institutions). The loans from financial institutions are secured by some of the group's land, buildings and goods. Payables for leases are secured by the lessor's right over the leased asset in the event of insolvency.

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

(€/000)	30.06.2006	31.12.2005
Overdrafts (note 28)	19,078	9,191
Bank loans	12,472	13,076
Lease finance	564	555
Financial accrued expenses and deferred income	164	86
Other loans	3	13
<b>Total</b>	<b>32,281</b>	<b>22,921</b>

The carrying amount of short-term loans and lease finance approximates their fair value.

## Explanatory notes to the Consolidated Financial Statements

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

(€/000)	30.06.2006	31.12.2005
Bank loans	2,568	2,841
Lease finance	3,127	3,410
Financial accrued expenses and deferred income	0	27
Other loans	896	896
<b>Total</b>	<b>6,591</b>	<b>7,174</b>

The amount of bank loans repayable after more than 5 years is €188 thousand.

The minimum payments contractually due for finance leases after more than 5 years amount to €1,237 thousand.

The other loans are all repayable after more than 5 years.

### 32 Tax assets and liabilities

Deferred income tax assets are detailed below:

(€/000)	30.06.2006	31.12.2005
Reversal of unrealized intercompany gains	1,054	796
Provision for inventory obsolescence	292	288
Impairment of assets	96	96
Carryforward tax losses	404	527
Provision for doubtful accounts	31	31
Costs deductible in future	0	376
Other deferred tax assets	626	808
<b>Total</b>	<b>2,503</b>	<b>2,922</b>

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

Deferred income tax liabilities are detailed below:

(€/000)	30.06.2006	31.12.2005
Leased assets	1,735	1,762
Valuation of provision for employee termination indemnities under IAS 19	31	30
Other deferred tax liabilities	772	773
<b>Total</b>	<b>2,538</b>	<b>2,565</b>

Current income tax assets amount to €1,469 thousand at 30 June 2006 and refer to VAT credits, surplus payments on account of direct tax and other tax credits.

Current income tax liabilities amount to €4,460 thousand at 30 June 2006. They refer to payables for direct tax for the period, VAT and withholding taxes.

## Explanatory notes to the Consolidated Financial Statements

### 33 Long-term employee benefits

These liabilities mainly refer to the present value of employee termination indemnities payable at the end of an employee's working life, amounting to €5,892 thousand at 30 June 2006. Had this provision been stated at face value, it would have amounted to €5,988 thousand at period end.

Movements in this liability are as follows:

(€/000)	
<b>Net book value of post-employment benefits at 31.12.2005</b>	<b>5,985</b>
Current service cost (note 12)	566
Interest cost on obligation (note 15)	50
Disbursements	(411)
Sale of business (note 7)	(201)
<b>Net book value of post-employment benefits at 30.06.2006</b>	<b>5,989</b>

The principal economic and financial assumptions used are the same as those adopted at 31 December 2005.

### 34 Provisions for liabilities and charges

Movements in these provisions are detailed below:

(€/000)	31.12.2005	Increases	Decreases	30.06.2006
Provision for agents' termination indemnity	359	59	0	418
<b>Total non-current portion</b>	<b>359</b>	<b>59</b>	<b>0</b>	<b>418</b>
Provision for product warranties	191	0	0	191
Other provisions	426	0	(255)	171
<b>Total current portion</b>	<b>617</b>	<b>0</b>	<b>(255)</b>	<b>362</b>

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

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

The decrease of €255 thousand in other provisions refers to the extinguishment of the estimated liability relating to tax assessments for fiscal years 1984-1985 and 1985-1986. The dispute was closed once and for all during the first half of 2006 with the group having to pay out €175 thousand. The surplus provision of €80 thousand was released to out-of-period income forming part of other revenues.

The closing balance of "other provisions" includes €95 thousand in relation to the partial audit of fiscal year 2002, completed last autumn by the tax authorities at the parent company Emak S.p.A.. The company regards the amount of this provision, which is the same as at 31 December 2005, to be sufficient to cover the potential liability.

## Explanatory notes to the Consolidated Financial Statements

### 35 Other non-current liabilities

(€/000)	30.06.2006	31.12.2005
Deferred income - Law 488 grants	705	755
Social security payables	91	102
Payables due to sellers of Victus IT business	1,250	1,275
<b>Total</b>	<b>2,046</b>	<b>2,132</b>

The deferred income refers to the capital grant received by Comag under Law 488/92 which is being recognized over future years. The portion of the grant recognizable this year is classified under current liabilities as other payables (note 30) and amounts to €97 thousand.

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

### 36 Potential liabilities

At the date of 30 June 2006 the group does not have any disputes that could give rise to future liabilities that have not already been reflected in the balance sheet.

### 37 Commitments and guarantees given

#### *Fixed asset purchases*

The group has €2,356 thousand in commitments to purchase fixed assets at 30 June 2006 (€1,958 thousand at 31 December 2005). These commitments mostly refer to the construction of the new factory in Pozzilli (Isernia) by the subsidiary Comag.

#### *Guarantees given*

The group has given €309 thousand in guarantees to third parties at 30 June 2006 (€364 thousand at the end of 2005).

### 38 Ordinary shares, treasury shares and dividends

Share capital is fully paid up at 30 June 2006 and amounts to €7,190 thousand. It consists of 27,653,500 ordinary shares of par value €0.26 each.

All the shares are fully paid up.

	30.06.2006	31.12.2005
Number of ordinary shares	27,653,500	27,653,500
Treasury shares	(73,882)	(6,000)
<b>Total</b>	<b>27,579,618</b>	<b>27,647,500</b>

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

Reference should be made to the specific section of the report on performance for details on the purchase and sale of treasury shares during the period.

## Explanatory notes to the Consolidated Financial Statements

### 39 Related party transactions

The effect on the balance sheet and income statement at 30 June 2006 of transactions by the Emak Group with ultimate parent companies, affiliated companies and any related parties are shown below.

Some of the companies belonging to the Yama Group supply the Emak Group with parts and materials, exploiting synergies associated with technological research. These are mostly strategically important parts, whose purchasing policy is based on factors of quality and cost.

The Emak Group supplies finished products to some of the trading companies within the Yama Group, allowing them to complete their product range.

All intercompany transactions, whether of a commercial or financial nature, are conducted on an arm's length basis.

No transactions were conducted with related parties of an atypical or unusual nature.

The main transactions with ultimate parent and affiliated companies during the period ended 30 June 2006 and the receivable and payable balances at that date are reported below:

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

Companies controlled by Yama S.p.A. (€/000)	Net revenues	Other revenues	Total revenues	Receivables
Mac Sardegna S.r.l.	469	0	469	523
Sabart S.p.A.	94	0	94	94
Tecomec S.p.A.	21	68	89	10
Unigreen S.p.A.	3	0	3	3
Garmec S.p.A.	161	0	161	154
Comet S.p.A.	98	0	98	77
Yabe S.p.A.	11	0	11	2
Selettra S.r.l.	2	0	2	1
<b>Total (note 24)</b>	<b>859</b>	<b>68</b>	<b>927</b>	<b>864</b>

#### **Purchase of goods and services and payables:**

Companies belonging to the Yama S.p.A. Group (€/000)	Purchase of raw materials and finished products	Other costs	Total costs	Payables
Fima S.p.A.	284	20	304	259
Selettra S.r.l.	1,818	24	1,842	1,294
Tecomec S.p.A.	772	0	772	535
Sabart S.p.A.	104	0	104	33
Comet S.p.A.	963	0	963	687
Garmec S.p.A.	11	0	11	8
Yabe S.p.A.	2,724	0	2,724	1,646
Unigreen S.p.A.	29	0	29	5
Tecnol S.p.A.	2,074	87	2,161	1,465
Speed France SAS	371	0	371	225
Comet France SAS	10	0	10	8
Yama Immobiliare S.r.l.	0	18	18	0
Tai Long Ltd.	272	0	272	142
Yama S.p.A.	0	53	53	51
<b>Total (note 30)</b>	<b>9,432</b>	<b>202</b>	<b>9,634</b>	<b>6,358</b>



## Explanatory notes to the Consolidated Financial Statements

### 40 Subsequent events

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

The proposal to merge the two Belgian subsidiaries Kens International SA and Emak Benelux N.V. was approved on 19 May 2006.

The shareholders of these two companies met in July 2006 to approve the merger. The reasons for this merger lie in the fact that it is not considered to be economic to continue running the sub-holding company Kens International SA since its only activity involves holding the investment in Emak Benelux N.V. which operates on the Belgian market.

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

(€/000)	Equity at 30.06.2006	Results for 1H 2006	Equity at 31.12.2005	Results for FY 2005
Equity and results of Emak S.p.A.	70,747	5,843	69,385	7,834
Equity and results of consolidated subsidiaries	24,282	4,145	18,493	2,644
<b>Total</b>	<b>95,029</b>	<b>9,988</b>	<b>87,878</b>	<b>10,478</b>
Effect of eliminating book value of equity investments	(13,703)	-	(11,035)	-
Elimination of dividends	-	(415)	-	(528)
Elimination of intercompany balances and gains	(1,883)	(604)	(1,484)	(345)
<b>Total as per consolidated financial statements</b>	<b>79,443</b>	<b>8,969</b>	<b>75,359</b>	<b>9,605</b>
<b>Minority interests</b>	<b>(460)</b>	<b>(48)</b>	<b>(458)</b>	<b>(73)</b>
<b>Equity and results attributable to the group</b>	<b>78,983</b>	<b>8,921</b>	<b>74,901</b>	<b>9,532</b>

**Emak S.p.A.**  
**Individual financial statements**  
**at 30 June 2006**

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

Year 2005	(€/000)	1 Half 2006	1 Half 2005
147,090	Revenues	98,614	84,478
522	Other operating revenues	582	375
3,327	Change in inventories	(1,627)	(1,479)
(95,321)	Raw and consumable materials	(64,179)	(52,900)
(17,707)	Payroll costs	(9,963)	(9,115)
(21,507)	Other operating costs	(11,704)	(10,324)
(3,494)	Amortization, depreciation and impairment losses	(1,675)	(1,700)
<b>12,910</b>	<b>EBIT</b>	<b>10,048</b>	<b>9,335</b>
1,077	Financial income	967	753
(694)	Financial expenses	(546)	(323)
319	Exchange gains and losses	(525)	(72)
<b>13,612</b>	<b>Profit before taxes</b>	<b>9,944</b>	<b>9,693</b>
(5,778)	Income taxes	(4,101)	(3,793)
<b>7,834</b>	<b>Net profit</b>	<b>5,843</b>	<b>5,900</b>
<b>0.283</b>	<b>Basic earnings per share</b>	<b>0.211</b>	<b>0.213</b>
<b>0.283</b>	<b>Diluted earnings per share</b>	<b>0.211</b>	<b>0.213</b>

## Emak S.p.A. - Balance sheet

### Assets

31.12.2005	(€/000)	30.06.2006	30.06.2005
	<b>Non-current assets</b>		
17,566	Property, plant and equipment	16,786	17,841
1,585	Intangible assets	1,630	1,262
399	Investment property	380	402
10,367	Equity investments	13,035	9,389
1,394	Deferred income tax assets	817	670
14,892	Other financial assets	10,571	4,542
21	Other receivables	8	65
<b>46,224</b>	<b>Total</b>	<b>43,227</b>	<b>34,171</b>
	<b>Non-current assets held for sale</b>		
269	Assets held for sale	269	256
<b>269</b>	<b>Total</b>	<b>269</b>	<b>256</b>
	<b>Current assets</b>		
37,005	Inventories	35,120	32,199
48,627	Trade and other receivables	64,764	54,500
1,459	Current income tax assets	535	10
19	Other financial assets	8	17
0	Derivative financial assets	0	11
1,077	Cash and banks	2,121	2,953
<b>88,187</b>	<b>Total</b>	<b>102,548</b>	<b>89,690</b>
<b>134,680</b>	<b>Total assets</b>	<b>146,044</b>	<b>124,117</b>

### Equity and Liabilities

31.12.2005	(€/000)	30.06.2006	30.06.2005
	<b>Capital and reserves</b>		
7,190	Issued capital	7,190	7,190
21,047	Share premium	21,047	21,047
(28)	Treasury shares	(365)	0
30,214	Other reserves	30,440	30,219
10,962	Retained earnings	12,435	9,026
<b>69,385</b>	<b>Total</b>	<b>70,747</b>	<b>67,482</b>
	<b>Non-current liabilities</b>		
4,633	Financial liabilities	4,388	5,996
2,317	Deferred income tax liabilities	2,287	2,068
5,564	Employee benefits	5,517	5,321
359	Provision for liabilities and charges	418	298
<b>12,873</b>	<b>Total</b>	<b>12,610</b>	<b>13,683</b>
	<b>Current liabilities</b>		
41,756	Trade and other liabilities	41,980	39,331
1,245	Current income tax liabilities	2,125	2,007
8,949	Short-term loans and borrowings	18,353	1,385
0	Short-term derivative financial instruments	12	0
472	Provision for liabilities and charges	217	229
<b>52,422</b>	<b>Total</b>	<b>62,687</b>	<b>42,952</b>
<b>134,680</b>	<b>Total equity and liabilities</b>	<b>146,044</b>	<b>124,117</b>

## Change in the equity of Emak S.p.A. at 30.06.2005

(€/000)	Share capital	Share premium	Treasury shares	Other reserves
				Legal reserve
<b>Total as at 31.12.2004</b>	<b>7,190</b>	<b>21,047</b>	<b>(47)</b>	<b>1,438</b>
Sale of treasury shares			47	
Payments of dividends				
Change arising from hedging transactions				
Net profit for 2004				
Net profit for 1H 2005				
<b>Total as at 30.06.2005</b>	<b>7,190</b>	<b>21,047</b>	<b>0</b>	<b>1,438</b>

Special reserve	Other reserves		Retained earnings		Total
	Reserve for hedging transactions	Other reserves	Retained earnings	Net profit for the period	
1,138	0	23,799	3,154	7,792	65,511
			29		76
				(4,010)	(4,010)
	5				5
		3,839	(57)	(3,782)	0
				5,900	5,900
1,138	5	27,638	3,126	5,900	67,482

## Change in the equity of Emak S.p.A. at 31.12.2005 and at 30.06.2006

(€/000)	Issued capital	Share premium	Treasury shares	Other reserves
				Legal reserve
<b>Balance at 01.01.2005</b>	<b>7,190</b>	<b>21,047</b>	<b>(47)</b>	<b>1,438</b>
Change in treasury shares			19	
Payments of dividends				
Reclassification of 2004 net profit				
Net profit for 2005				
<b>Total at 31.12.2005</b>	<b>7,190</b>	<b>21,047</b>	<b>(28)</b>	<b>1,438</b>
Change in treasury shares			(337)	
Payments of dividends				
Reclassification of 2005 net profit				
Net profit for 1H 2006				
<b>Total at 30.06.2006</b>	<b>7,190</b>	<b>21,047</b>	<b>(365)</b>	<b>1,438</b>

Other reserves		Retained earnings		Total
Special reserve	Other reserves	Retained earnings	Net profit for the period	
<b>1,138</b>	<b>23,799</b>	<b>3,154</b>	<b>7,792</b>	<b>65,511</b>
		31		<b>50</b>
			(4,010)	<b>(4,010)</b>
	3,839	(57)	(3,782)	<b>0</b>
			7,834	<b>7,834</b>
<b>1,138</b>	<b>27,638</b>	<b>3,128</b>	<b>7,834</b>	<b>69,385</b>
				<b>(337)</b>
			(4,144)	<b>(4,144)</b>
	226	3,464	(3,690)	<b>0</b>
			5,843	<b>5,843</b>
<b>1,138</b>	<b>27,864</b>	<b>6,592</b>	<b>5,843</b>	<b>70,747</b>



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

31.12.2005	(€/000)	30.06.2006	30.06.2005
<b>Cash flow from operations</b>			
<b>7,834</b>	<b>Net profit for period</b>	<b>5,843</b>	<b>5,900</b>
3,494	Amortization, depreciation and impairment losses	1,675	1,700
(22)	(Capital gains) / losses on disposal of property, plant and equipment	(201)	(18)
(528)	Reclassification of dividends receipts	(416)	(528)
(6,288)	Decreases / Increases in trade and other receivables	(14,643)	(10,032)
(3,327)	Decreases / Increases in inventories	1,626	1,479
8,083	Decreases / Increases in trade and other payables	1,097	6,171
458	Change in employee benefits	154	215
421	Decreases / Increases in provision for liabilities (and charges)	(196)	117
0	Decreases / Increases in derivative financial instruments	12	(11)
<b>10,125</b>	<b>Net cash generated by operations</b>	<b>(5,049)</b>	<b>4,993</b>
<b>Cash flow from investment activities</b>			
528	Dividends received	416	528
(3,075)	Increases in property, plant and equipment and intangible assets	(1,189)	(1,216)
(12,157)	Increases and decreases in financial assets	1,664	(828)
27	Proceeds from disposal of property, plant and equipment	19	19
0	Disposal of portion of plastic and manufacturing activity (Note 7)	505	0
<b>(14,677)</b>	<b>Net cash absorbed by investment activities</b>	<b>1,415</b>	<b>(1,497)</b>
<b>Cash flow from financing activities</b>			
50	Changes in equity	(337)	81
9	Change in short and long-term loans and borrowings	(609)	(129)
3,765	Change in lease finance	(213)	0
(4,010)	Dividends paid	(4,144)	(4,010)
<b>(186)</b>	<b>Net cash absorbed by financing activities</b>	<b>(5,303)</b>	<b>(4,058)</b>
<b>(4,738)</b>	<b>Net increase in cash and cash equivalent</b>	<b>(8,937)</b>	<b>(562)</b>
<b>3,548</b>	<b>Opening cash and cash equivalent</b>	<b>(1,190)</b>	<b>3,484</b>
<b>(1,190)</b>	<b>Closing cash and cash equivalent</b>	<b>(10,127)</b>	<b>2,922</b>

### Additional information on the cash flow statement

31.12.2005	(€/000)	30.06.2006	30.06.2005
<b>Reconciliation of cash and cash equivalent</b>			
<b>3,548</b>	<b>Opening cash and cash equivalent, detailed as follows:</b>	<b>(1,190)</b>	<b>3,484</b>
3,656	Cash and cash equivalent	1,077	3,656
(108)	Overdrafts	(2,267)	(172)
<b>(1,190)</b>	<b>Closing cash and cash equivalent, detailed as follows:</b>	<b>(10,127)</b>	<b>2,922</b>
1,077	Cash and cash equivalent	2,121	2,954
(2,267)	Overdrafts	(12,248)	(32)



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MEMBER OF THE YAMA GROUP

**EMAK S.p.A.**

Registered office:

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Share capital € 7,189,910

Reggio Emilia Company Register

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