ANNUAL REPORT 2007

our power, your passion

ANNUAL REPORT 2007

Contents

Notice of Annual General Meeting

Shareholders are invited to the Ordinary and Extraordinary General Meeting on 28 April 2008, at 10.00, at the company's registered office in Bagnolo in Piano (RE), Via Fermi, 4, and, if necessary, in second call on 29 April 2008, at the same place and time, in order to discuss and resolve on the following:

agenda

ORDINARY BUSINESS

1) Presentation of the Financial Statements and Consolidated Financial Statements at 31 December 2007, the Directors' Report, the Board of Statutory Auditors' Report and the External Auditors' Report; relative and ensuing resolutions;
2) Resignation of a director and his replacement on the part of the Meeting; possible determination of the maximum overall fees for directors' emoluments in accordance with art. 16, last paragraph of the articles of association; relative and ensuing resolutions;
3) Proposal to authorise the acquisition and sale of treasury shares and ensuing resolutions.

EXTRAORDINARY BUSINESS

1) Proposals to change certain articles of the company's articles of association:
   - arts. 12-17 (Board of Directors);
   - art. 19 (Board of Statutory Auditors).

   Relative and ensuing resolutions.

It should be noted that, in accordance with legal requirements and the articles of association, notification issued by authorised Intermediaries certifying possession of the relative shareholding, must arrive at the company's registered office at least two days before the date fixed in first call.

In accordance with art. 12, last paragraph, of the articles of association in force, the General Meeting shall arrange for the replacement of the Director as per point 2) of the agenda for ordinary business, with legally required majorities and without the voto di lista (voting list) system.

Documentation relating to the items on the agenda shall be made available to the General Public, in the terms provided for by legislation in force, at the company's registered office, at the offices of Borsa Italiana S.p.A. and on the www.emak.it website. Shareholders have the right to obtain a copy.

Bagnolo in Piano, (RE) 25 March 2008

p. Il Consiglio di Amministrazione
Il Presidente – Giacomo Ferretti

Corporate Officers

The shareholders of the parent company Emak S.p.A. voted in an ordinary meeting held on 27 April 2007 to appoint the Board of Directors for the three years 2007, 2008 and 2009; the Board of Statutory Auditors was appointed at the same time for the same term, and the firm Fidital revisione ed organizzazione contabile s.r.l. was engaged as independent auditors for the financial years from 2007 to 2015.

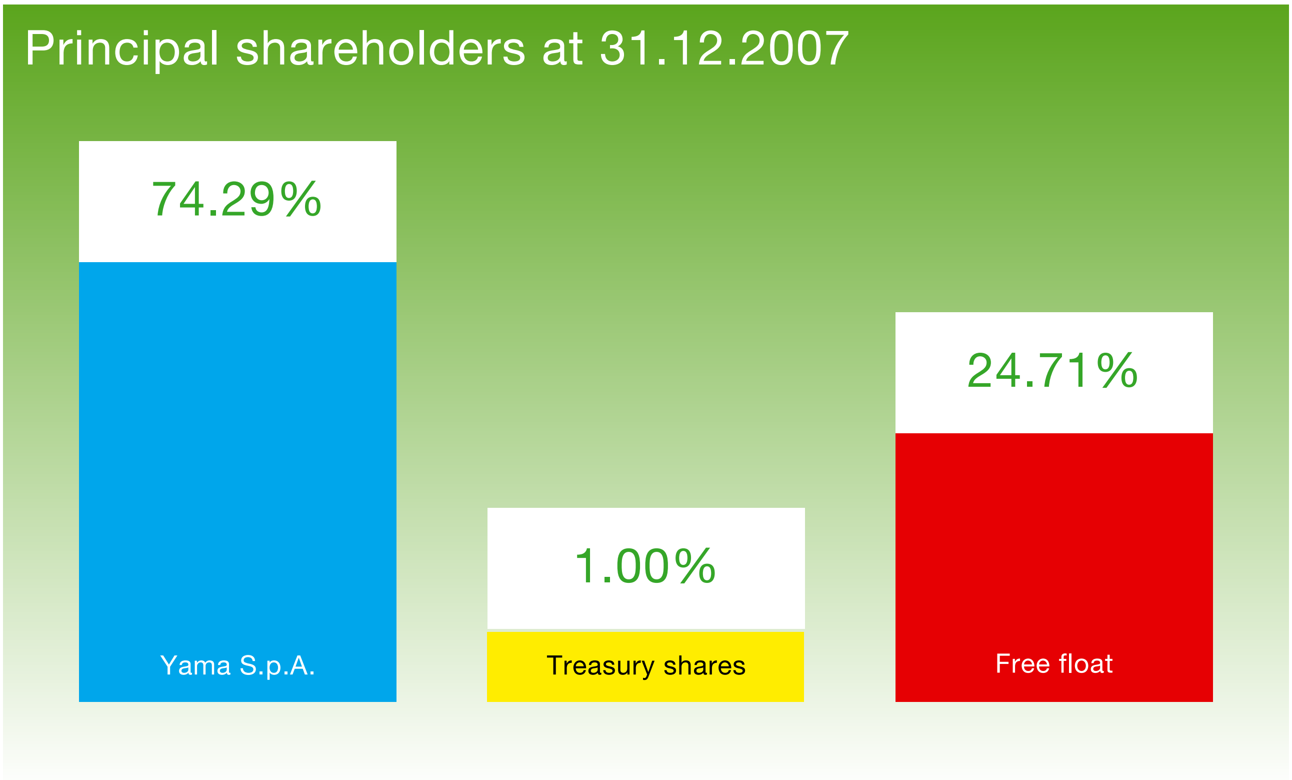
Board of Directors	
Chairman	Giacomo Ferretti
Deputy Chairman	Aimone Burani
Chief Executive Officer	Fausto Bellamico
Independent directors	Ivano Accorsi
	Andrea Barilli
	Gian Luigi Basini
Directors	Carlo Baldi
	Luigi Bartoli
	Paola Becchi
	Giuliano Ferrari
	Ivano Salsapariglia
	Vilmo Spaggiari
	Guerrino Zambelli
Board of Statutory Auditors	
Chairman	Marco Montanari
Acting auditors	Claudia Catellani
	Martino Masini
Alternate auditors	Mario Venezia
	Eugenio Poletti
Independent Auditors	Fidital S.r.l.
Audit Committee	
Chairman	Andrea Barilli
	Ivano Accorsi
	Gian Luigi Basini
Remuneration Committee	
Chairman	Andrea Barilli
	Ivano Accorsi
	Gian Luigi Basini
Financial Reporting Officer	Aimone Burani

Note: the nature of the powers granted to the Chairman, the Executive Directors and Gener Managers are discussed in the section on “Corporate Governance” in the Directors’ Report.

Principal shareholders of Emak S.p.A.

The composition of the shareholders of Emak S.p.A. at 31 December 2007 is presented below. Share capital consists of 27,653,500 shares of par value € 0.26 each.
The company has been listed on the Milan Stock Exchange since 25 June 1998. The company's stock was admitted to the STAR segment of the market in September 2001, which has higher standards in terms of reporting, stock liquidity and corporate governance.

Principal shareholders	Number of shares	%
Yama S.p.A.	20,542,500	74.29%
Treasury shares held at 31.12.2007	277,413	1.00%
Free float	6,833,587	24.71%
Total number of shares	27,653,500	100.00%



Group structure

The Emak Group is structured as follows at 31 December 2007:

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

Financial highlights

Income statement (€/000)

	FY 2007	FY 2006
Net sales	217,834	208,402
EBITDA (1)	29,992	25,127
EBIT	24,472	19,771
Net profit	15,246	11,304

Investment and free cash flow (€/000)

	FY 2007	FY 2006
Investment in property, plant and equipment	7,927	8,020
Investment in intangible assets	679	973
Free cash flow from operations (2)	20,766	16,660

Balance sheet (€/000)

	31.12.2007	31.12.2006
Net capital employed	122,481	119,740
Net debt	(31,042)	(37,864)
Total equity	91,439	81,876

Other statistics

	FY 2007	FY 2006
EBITDA / Net revenues (%)	13.8%	13.8%
EBIT / Net revenues (%)	11.2%	11.2%
Net profit / Net revenues (%)	7.0%	7.0%
EBIT/ Net capital employed (%)	20.0%	20.0%
Debt /Equity	33.9%	33.9%
Number of employees at period end	844	863 (5)

Share information and prices

	31.12.2007	31.12.2006
Earnings per share (€)	0.550	0.407
Equity per share (€) (3)	3.321	2.955
Official price (€)	5.300	4.840
Maximum share price in period (€)	6.920	5.500
Minimum share price in period (€)	4.834	4.590
Stockmarket capitalization (€/million)	146.000	133.000
Average number of oustanding shares	27,581,709	27,589,077
Number of shares comprising share capital	27,653,500	27,653,500
Cash flow per share: net profit + amortization/depreciation (€) (4)	0.753	0.604
Dividend per share (€)	0.220	0.175

(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"
(5)the figure for the previous year was 902, as the list included 39 temporary workers employed

DIRECTORS’ REPORT

Directors' Report

Dear Shareholders,

Emak's consolidated financial statements at 31 December 2007 closed with a net profit of €15,246 thousand compared with €11,304 thousand in 2006, representing an increase of 34.9%.
The group's share of net profit was €15,181 thousand compared with €11,239 thousand in 2006.
The group consisted of ten companies at 31 December 2007, all of which were consolidated on a line-by-line basis.
Net sales increased by 4.5% on 2006 to €217,834 thousand.
EBITDA (earnings before interest, tax, depreciation and amortization) was €29,992 thousand compared with €25,127 thousand in 2006, representing an increase of 19.4%.
EBIT (earnings before interest and tax) was €24,472 thousand compared with €19,771 thousand in 2006, representing an increase of 23.8%.
Net debt decreased from€37,864 thousand at the end of 2006 to €31,042 thousand at the end of 2007.
The financial statements of Emak S.p.A., the group's parent company, closed with a net profit of €9,813 thousand at 31 December 2007 compared with €9,023 thousand in 2006, representing an increase of 8.8%.

1. Economic situation

The global economy expanded by 4.9% in 2007, with very different rates of growth between advanced and emerging economies.
The macroeconomic scenario of the year was characterized by a strong growth in the first nine months and by a marked slowdown in the last quarter in the face of marked nervousness in the financial sector.
Economic growth in the United States slowed notably in the fourth quarter, closing the year at 2.2% as a result of the weakening of manufacturing and housing sector activity, employment and consumption. Growth also slowed in West Europe, standing at 2.6% by the end of the year, in contrast with East Europe, which grew by 5.5%. Emerging markets and developing economies have continued to expand, led by China (11.4%) and India.
Italy had a growth in 2007 of 1.5%, slightly lower than expectations.

2. Industry performance

The sector of garden and forestry maintenance machinery is concentrated to the extent of 52% in the United States, 30% in Europe and 18% in the rest of the world.
In this context Emak realizes 60% of its total turnover in the first six months of the year.
The demand, mostly for substitution, is affected by trends in the economic cycle, and especially for the gardening sector, by weather conditions.
In 2007 the season has generally been favourable for gardening products. On the other hand, the forestry sector has been negatively affected by weather conditions and by contraction in demand.
Breaking down the market by geographic area, global demand has been fundamentally in line with 2006. More specifically, North America has shown a generalized downturn, while West Europe has recorded a slight increase. East Europe and the Rest of the World have performed very well, led by Russia and South America respectively.

3. Strategy

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

a) STRATEGIC POLICIES AND MAIN GOALS

The objective to create value will be achieved through Emak's ability to satisfy the final customer. For this purpose Emak intends to concentrate its efforts on five factors:

- **Product innovation,** in order to offer its final customers a range of state-of-the-art and innovative products in terms of reliability, performance, design and comfort.
- **Level of service,** to offer its final customers a state-of-the-art and excellent level of service in terms of delivery and pre and post sales assistance.
- **Competitiveness,** to offer the customer best value for money.
- Development of the business, to guarantee a deep-rooted and widespread presence in all international markets.
- **Development of human resources and relations with the customer,** to build an organisation directed towards the customer and which knows how to combine enthusiasm, empathy, competence and ethical standards.

b) VALUES

The company's values, together with its mission, characterise Emak's identity and help to give direction to its business activities, its strategic choices and its policies.
These values represent the company's moral commitment towards its stakeholders and towards society in general, and for those who work inside the company, constitute the guiding principles to follow in their day-to-day conduct.
We at Emak are convinced that a business can only achieve successful results if it is founded upon strong and positive values, such as those that inspired our founding shareholders and which we have continued to keep alive, such as:

- **ethical standards:** compliance with regulations, transparency, safeguarding the rights of people and the environment;
- **competence:** investments in training and continuous learning, and the assessment of professionalism;
- **team spirit:** working as a team in order to achieve shared goals, respect for people's roles, trust in others;
- **innovative spirit:** new and challenging goals, innovative solutions, new ideas, openness to change.

c) CORPORATE RESPONSIBILITY AND CERTIFICATIONS

Emak's commitment regarding Corporate Responsibility is demonstrated by the wish to measure, manage and integrate the company's environmental, social and economic activity, convinced that only responsible choices will guarantee the company and the wider community sustainable development for over time.

Well aware of its role in the wider social and economic context, Emak seeks to develop through the creation of value to the benefit of the company itself 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 five fundamental critical factors for success;
- **social sustainability,** understood as the intention to take into account the legitimate expectations of stakeholders (whether employees, shareholders or suppliers) 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 has set about this course of action by formalising an integrated quality, ethical and environmental policy and is currently implementing a management system incorporating the three main international standards: ISO 9001:2000, ISO 14000:2004 and SA 8000:2001

The SA 8000 Ethical Certification is the most widespread and recognised standard at an international level with which organisations certify the ethical nature of their productive processes and, indirectly, of their supply chain. The standard is based on the universal declaration of Human Rights, on the ILO (International Labour Organisation) Convention and on the UN Convention for the Rights of Children, and implies compliance with a series of requirements relating to themes such as child labour, compulsory work, work safety, discrimination and working conditions in general (pay, hours, freedom of association and disciplinary procedures).

The ISO 14000 Environmental Certification is the means by which companies, through the identification, control and gradual reduction of environmental impacts linked to their business, adopt measures for the prevention of pollution and for the safeguarding of natural resources. Obtaining such certifications requires a precise commitment on the part of the company towards the stakeholders, as well as the active involvement of suppliers and customers in a virtuous cycle aimed at safeguarding human rights and the environment and at guaranteeing consumers that our products are manufactured in compliance with these principles.

The ISO 9001 Quality Certification sets out the requirements that a quality management system must have in order to demonstrate a company's ability to supply products that conform to customers' demands and to applicable regulatory requirements, and is aimed at improving customer satisfaction. It functions as a benchmark for the assessment and compliance certification of quality management systems, maintaining, therefore a "contractual" nature. The standard takes account of all the company processes associated with quality management: from the review of contracts received from customers, to delivery of the finished product. The objective is to provide a universal benchmark for the quality management system, independently of the type of company or economic sector in which it is applied.

4. Significant events in the year

In 2007 there have been no significant events.

5. Balances or transactions arising from atypical and unusual, significant and non recurring operations.

Please refer to notes 7 and 8 of the attached consolidated financial statements.

6. Emak Group - overview of results

Highlights from the consolidated income statement

€/000	FY 2007	%	FY 2006	%	Change
Net sales	217,834	100	208,402	100	4.5%
EBITDA	29,992	13.8	25,127	12.1	19.4%
EBIT	24,472	11.2	19,771	9.5	23.8%
Profit before taxes	22,615	10.4	18,579	8.9	21.7%
Net profit	15,246	7.0	11,304	5.4	34.9%

Sales

Net sales in 2007 and the prior year are broken down by product as follows:

€/000	FY 2007	%	FY 2006	%	Change
Brushcutters	45,397	20.8%	39,948	19.2	13.6%
Chainsaws	36,636	16.8%	38,645	18.5	-5.2%
Lawnmowers	33,628	15.4%	33,114	15.9	1.6%
Garden tractors	19,252	8.8%	16,940	8.1	13.6%
Other products	59,224	27.3%	57,286	27.5	3.4%
Spare parts and Accessories	23,697	10.9%	22,469	10.8	5.5%
Total	**217,834**	**100**	**208,402**	**100**	**4.5%**

Consolidated sales for the full year 2007 grew by 4.5%, reaching €217,834 thousand, compared to €208,402 thousand of the prior year.

With regards to product type, the increase in sales was driven by the brush cutters and by the garden tractors, both increasing by 13.6%. In general terms, all the grass-cutting products benefited in the past season from favourable weather conditions throughout Europe.
The more limited increase registered for lawnmowers (1.6%) was caused by a decrease in volumes of sales through modern distribution channels, compensated by an increase in sales in the traditional dealer segment.
There was a downturn of 5.2% in sales of chainsaws as a result of cyclic trends in the sector and of unfavourable weather conditions almost everywhere.
Good growth was achieved for other products and for spare parts and accessories.

The geographical breakdown of sales in 2007, and comparisons with the previous year, is shown in the following table:

€/000	FY 2007	%	FY 2006	%	Change
Italy	41,082	18.9%	40,872	19.6	0.5%
Europe	145,206	66.6%	134,763	64.7	7.7%
Rest of world	31,546	14.5%	32,767	15.7	-3.7%
Total	**217,834**	**100**	**208,402**	**100**	**4.5**

In terms of geographical area, growth was driven mainly by sales in the European market, particularly in East European countries.
Sales in the Italian market, which was affected by a much more serious macroeconomic situation than the rest of Europe as a whole, were stable.

With regards to sales in the Rest of the World, decreasing by 3.7%, the growth achieved in Latin America failed to compensate for the fall in sales in the Middle East.

Profits

EBITDA

EBITDA increased by 19.4%, to €29,992 thousand, up from €25,127 thousand in the previous year. In terms of percentage of revenues, EBITDA stands at 13.8%

The following factors contributed positively to full-year results:

- the increase in sales volumes;
- the product mix improvement;
- the capital gain of €531 thousand arising on the sale of the industrial building in Brescello (Reggio Emilia);
- the improvement in production efficiency.

Aggressive price policies applied by competitors has had a negative impact on the results.

The group's total number of employees amounted to 844 at 31st December 2007, compared with 863 at the end of December 2006 (the figure for 31 December 2006 set out in previous reports was 902, as the list included 39 temporary workers employed by the company Emak Jiangmen).

EBIT

EBIT was €24,472 thousand, corresponding to 11.2% of revenues, compared with €19,771 thousand (9.5% of revenues) in the previous year, an increase of 23.8%.

Net profit

Net profit was €15,246 thousand, equal to 7% of sales, compared to €11,304 thousand (5.4% of sales) in 2006, an increase of 34.9%;

The result for financial operations in 2007 is linked to the increase in interest rates and to increased borrowing activities in the first part of the year.

The full-year 2007 tax rate of 32.6% was down from that of 39.1% in the full-year 2006, mainly due to differences in tax rules applied in the various countries where the group operates.

Highlights from the consolidated balance sheet

€/000	31.12.2007	31.12.2006
Net non-current assets	41,410	37,955
Net working capital	81,071	81,785
Total net capital employed	**122,481**	**119,740**
Equity attributable to the group	90,924	81,393
Equity attributable to minority interests	515	483
Net debt	(31,042)	(37,864)

Net non-current assets

During 2007 Emak Group invested € 8,606 thousand in property, plant and equipment and intangible assets as follows:

- €2,145 thousand for product innovation;
- €2,791 thousand for boosting production capacity and for process innovation;
- €949 thousand for upgrading the computer network;
- € 2,616 thousand for completing and modernizing existing buildings;
- €105 thousand for other investments in management infrastructure.

Net working capital

Net working capital decreased by €714 thousand compared to the end of December 2006, down from €81,785 thousand to €81,071 thousand.

The chart below shows the changes in net working capital in 2007 compared to the previous year:

€/000	2007	2006
Net working capital at 01 January	**81,785**	**66,419**
increase/(decrease) in inventories	(1,868)	8,462
increase/(decrease) in trade receivables	434	2,419
(increase)/decrease in trade payables	(548)	5,170
other changes	1,268	(685)
Net working capital at 31 December	**81,071**	**81,785**

The decrease in net current assets in 2007 is mainly due to the reduction in inventories as a result of more efficient logistical management.

Equity

Total equity amounts to €91,439 thousand compared with €81,876 thousand at 31st December 2006. Earnings per share for the year are €0.550, up from €0.407 for last year.

Net financial position

€/000	31.12.2007	31.12.2006
Cash and banks	6,036	4,028
Securities and derivative financial instruments	5	5
Other financial assets	90	9
Financial liabilities	(23,840)	(35,572)
Derivative financial instruments	(189)	(229)
Short-term net debt	**(17,898)**	**(31,759)**
Financial liabilities	(13,144)	(6,105)
Long-term net debt	**(13,144)**	**(6,105)**
Cash and banks	6,036	4,028
Securities and derivative financial instruments	5	5
Other financial assets	90	9
Financial liabilities	(36,984)	(41,677)
Derivative financial instruments	(189)	(229)
Total net debt	**(31,042)**	**(37,864)**

Net debt decreased from €37,864 thousand at 31.12.2006 to €31,042 thousand at 31.12.2007. The improvement is mainly related to lower working capital requirements and to the cash flow generated in the year.

Free cash flow from operations in 2007 was €20,766 thousand after tax, compared with €16,660 thousand last year.

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 2008;
- amounts due to other providers of finance falling due by 31st December 2008.

The net financial position does not contain any balances with related parties either at 31st December 2007 or at 31st December 2006.

7. Research and development

Research and development activities in 2007 were conducted in accordance with the group's Business Plan, which views product innovation as the principal driver of the group's growth.

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

Renewal of the product range applies to all major product types, and particularly to the grass-cutting machines in which the range of brushcutters has been completely renewed with the objective of strengthening the offer, improving competitiveness and the "value for money" offered to our customers.

Significant resources have also been allocated to the development of new technologies aimed at the reduction of energy consumption, the protection of the environment and to improved ergonomics through substantial reductions in noise emissions and vibrations, also taking account of the evolution of the legislative framework which provides for the application of Euro 1 and Euro 2 phases from the beginning of 2008.

A new R&D centre was set up in 2007 at the Chinese factory, which collaborates with the parent company's R&D centre. The aim is to achieve product development goals, paying particular attention to those products that will be manufactured locally.

The company incurred a total of €4,540 thousand in R&D costs charged to the income statement during the year (€4,306 thousand in 2006).

8. Human resources
The workforce at 31st December 2007 is analyzed by country in the following table:

Workforce	31.12.2007	31.12.2006
Italy	464	489
France	43	43
Belgium	6	5
UK	16	16
Spain	17	14
Germany	17	15
Poland	60	60
China	214	216
USA	7	5
Total	**844**	**863**

The total workforce decreased in 2007 compared to 2006 (from 863 to 844 employees). With regards to temporary workers (largely employed in the Emak JM company), there was an increase, on the other hand, of 18 workers.

Demand for labour associated with peaks in production required the introduction of fixed-term contracts and to the employment of temporary labour.

Improvement and development of the organisational structures of Emak Suministros Espana, Emak Deutschland, Emak France, Emak USA and Emak Jiangmen was undertaken during 2007.

In Emak SpA, management and technical training is carried out according to established programmes. A total of 5,438 hours of technical – specialised instruction and training were provided, of which 578 hours relating to work safety.

In addition, a survey was carried out in September on attitudes regarding the organisation of the company, with the objective of monitoring employees' satisfaction. The aim is to assess the perception of the company and to take action to develop human resources and improve the quality of working life inside Emak. In 2007 Emak SpA obtained the SA 8000 ethical and ISO 14000 environmental certifications.

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

Highlights from the income statement

€/000	FY 2007	%	FY 2006	%	Change
Net sales	157,996	100	161,935	100	(2.4)
EBITDA	17,852	11.3	18,867	11.7	(5.4)
EBIT	14,742	9.3	15,567	9.6	(5.3)
Profit before taxes	15,307	9.7	15,484	9.6	(1.1)
Net profit	9,813	6.2	9,023	5.6	8.8

Sales by product line

Net sales in 2007 and the prior year are broken down by product as follows:

€/000	FY 2007	%	FY 2006	%	%Change
Brush cutters	40,901	25.9	37,060	22.9	10.4
Chainsaws	34,494	21.8	37,395	23.0	(7.8)
Lawnmowers	27,658	17.5	30,447	18.9	(9.2)
Garden tractors	5,018	3.2	4,868	3.0	3.1
Other products	32,897	20.8	35,680	22.0	(7.8)
Spare parts and accessories	17,028	10.8	16,485	10.2	3.3
Total	**157,996**	**100**	**161,935**	**100**	**(2.4)**

The positive trend in the sale of brushcutters has continued. The decrease in sales of chainsaws is the result of cyclic trends in the sector and of unfavourable weather conditions almost everywhere. The downturn in sales of lawnmowers was caused by a decrease in volumes of sales through modern distribution channels, partially compensated by an increase in sales in the traditional dealer segment.

Sales by geographical area

The geographical breakdown of sales in 2007 is shown in the following table compared to the prior year:

€/000	FY 2007	%	FY 2006	%	Change
Italy	38,971	24.7	40,834	25.2	(4.6)
Europe	86,292	54.6	84,476	52.2	2.1
Rest of world	32,733	20.7	36,625	22.6	(10.6)
Total	**157,996**	**100**	**161,935**	**100**	**(2.4)**

The decrease in sales in the Italian market was mainly due to a much more unfavourable macroeconomic situation than the rest of Europe as a whole.

The growth in turnover at a European level was driven mainly by sales in East European countries.

With regards to turnover in the Rest of the World, there has been an increase in Latin America and a fall in the Middle East.

Sales in the Rest of the World for the year ending 31 December 2007 also include sales of components to the subsidiary company, Jiangmen Emak Outdoor Power Equipment Co. Ltd., for €1,400 thousand (compared to around €2,700 thousand in 2006).

EBITDA

EBITDA in 2007 was €17,852 thousand, compared to €18,867 thousand in the previous year, a decrease of 5.4%.

The following factors contributed positively to full-year results:

- the product/distribution channel mix;
- the reorganization of the production process.

The following factors all contributed negatively to results:

- the decrease in sales volumes;
- the market mix;
- the increase in the price of the principal raw materials, partially offset by other savings;
- the increase in the cost of transportation services and customs clearance of products originating from China.

At 31st December 2007 employees numbered 369 compared to 378 at 31st December 2006.

EBIT

EBIT was €14,742 thousand, corresponding to 9.3% of revenues, compared with €15,567 thousand (9.6% of revenues) in the previous year.

Net profit

Net profit was €9,813 thousand, equal to 6.2% of sales, compared to €9,023 thousand (5.6% of sales) in 2006.

The result for financial operations was negatively affected by the increase in interest rates and positively by the dividends received.

The full-year 2007 tax rate of 35.9% was down from that of 41.7% in the full-year 2006 (for more details, reference should be made to the notes to the accounts of Emak S.p.A. (number 14).

Highlights from the balance sheet

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

€/000	31.12.2007	31.12.2006
Net non-current assets	27,301	25,387
Net working capital	59,946	59,215
Total net capital employed	**87,247**	**84,602**
Equity	77,790	73,765
Net cash (debt)	(9,457)	(10,837)

Net non-current assets

During 2007 the company invested €2,988 thousand in property, plant and equipment and intangible assets as follows:

- €1,597 thousand in product innovation;
- €518 thousand for boosting production capacity and for process innovation;
- €578 thousand for upgrading the computer network;
- €295 thousand for modernizing and completing existing buildings.

€ 1,700 thousand was also paid during the year to the subsidiary company, Comag Srl, on account for future increases in share capital.

Net working capital

Net working capital was €731 thousand higher at the end of 2007 compared to the previous year, as a result of the following changes:

€/000	2007	2006
Net working capital at 01 January	**59,215**	**43,617**
increase/(decrease) in inventories	173	3,139
increase/(decrease) in trade receivables	(3,002)	3,994
(increase)/decrease in trade payables	1,944	8,761
other changes	1,616	(296)
Net working capital at 31 December	**59,946**	**59,215**

Equity

Equity amounted to €77,790 thousand at the end of 2007 compared with €73,765 thousand a year earlier. Earnings per share were €0.356 at 31st December 2007, up from €0.327 in the previous year.

Net financial position

The net financial position at the end of 2007 is a total net debt of €9,457 thousand compared with €10,837 thousand for the previous year.

The net financial position is made up as follows:

€/000	31.12.2007	31.12.2006
Cash and banks	1,957	827
Other financial assets	4	9
Financial liabilities	(10,766)	(17,673)
Derivative financial instruments	0	(44)
Short-term net debt	**(8,805)**	**(16,881)**
Other financial assets	8,057	10,209
Financial liabilities	(8,709)	(4,165)
Long-term net debt	**(652)**	**6,044**
Cash and banks	1,957	827
Other financial assets	8,061	10,218
Financial liabilities	(19,475)	(21,838)
Derivative financial instruments	0	(44)
Total net debt	**(9,457)**	**(10,837)**

Long-term “Other financial assets” at 31st December 2007 refer entirely to loans granted to subsidiaries and have decreased as a result of the repayments received.

The decrease in total net debt is a result of the increase in operating cash flow in 2007 compared to 2006. The restructuring of borrowings has led to a fall in short-term debt and an increase in medium/long-term debt.

10. Performance of subsidiaries

Emak France SAS

The company made a profit of €950 thousand, against €836 thousand in 2006. Turnover was €38,374 thousand, against €37,210 thousand in 2006, an increase of 3.1%.

Investments made in the distribution network have allowed for an improvement in the distribution channel/product mix, with positive effects on the result for the 2007 financial period. The company distributes Emak products in France.

Jiangmen Emak Outdoor Power Equipment Co. Ltd

The company made a profit of €3,040 thousand, against €1,315 thousand in 2006. Turnover was €28,598 thousand, against €15,872 thousand in 2006.

The range of products and sales volumes maintained the full capacity levels reached at the end of 2006, allowing for an increase in turnover.

Victus Emak Sp. z o.o.

The company made a profit of €2,052 thousand, against €733 thousand in 2006. Turnover was €23,635 thousand, against €16,862 thousand in 2006, an increase of 40.2%.

2007 was the second financial year with the company operating at full capacity. The results exceeded expectations, both in terms of turnover and in terms of profit margin, thanks to more effective penetration in an important market such as Poland.

The company distributes Emak products in the Polish market.

Comag S.r.l.
The company made a profit of €436 thousand, against €578 thousand in 2006. Turnover was €18,459 thousand, against €21,056 thousand in 2006.
The fall in turnover was caused by a decrease in production volumes. Profit was adversely affected by an increase in the cost of raw materials.

Further to the investment plan implemented with relation to Law 488/92, revenues from capital grants were capitalised in 2007 to the amount of €285 thousand.

Emak Deutschland Gmbh
The company made a loss of €178 thousand, against a profit of €81 thousand in 2006. Turnover was €10,642 thousand, against €11,097 thousand in 2006, a decrease of 4.1%. The result for 2007 was adversely affected by the trend in demand for certain product families, as well by a number of one-off costs relating to the reorganisation of the sales network.
The company distributes Emak products in Germany.

Emak Suministros Espana SA
The company made a net profit of €631 thousand, against €621 thousand in 2006. Turnover was €8,943 thousand, compared to €8,325 thousand in 2006, an increase of 7.4%.
The company distributes Emak products in Spain.

Emak U.K. Ltd
The company made a profit of €64 thousand, against €164 thousand in 2006. Turnover was €6,140 thousand, a growth of 1.6% compared to the turnover of €6,041 thousand in 2006. The consolidation of turnover and a better distribution channel mix allowed for a satisfying profit margin in line with the previous financial period. The result was affected by the financial performance, as a result of the change in value of the Euro compared to the British Sterling. The company distributes Emak products in Great Britain.

Emak Benelux N.V.
Emak Benelux N.V. made a profit of €46 thousand, against €18 thousand in 2006.
Turnover was €3,046 thousand, a fall from the 2006 turnover of €3,407.
The improved distribution channel mix allowed for a recovery in profit margins. It should also be noted that the company sustained a number of one-off costs in 2006 relating to the merger operation.
The company distributes Emak products in the Belgian and Dutch markets.

Emak USA Inc.
Emak USA Inc. has been trading since July 2006. The company made a loss of €247 thousand, against a loss of €206 thousand in the previous financial year. The result was adversely affected by a more difficult commercial start-up phase than expected, due to the general slump in demand in the USA market. Turnover was €1,500 thousand against €744 thousand in 2006. The company distributes Emak products in the North American market.

11. Related party transactions

Please refer to note 39 to the consolidated financial statements and note 36 to the individual financial statements for information about related party transactions.

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

In accordance with the related authorization by shareholders, Emak S.p.A. has purchased treasury shares on the market for the purpose of improving the stock's liquidity.

Emak S.p.A. held 108,849 treasury shares at 31st December 2006, worth €527 thousand. During the first quarter of 2007 all the treasury shares held in portfolio at the beginning of the financial year were sold, while the Company subsequently purchased 277,413 treasury shares, worth €1,516 thousand. As a result, at 31.12.2007 the Company held 277,413 treasury shares for a value of €1,516 thousand.

During the months of January and February 2008, Emak S.p.A. purchased 31,700 treasury shares, worth €154 thousand, taking its total holding at 29th February 2008 to 309,113 such shares, worth a total of €1,670 thousand.

13. Corporate governance

Information regarding the Corporate Governance of EMAK is set out below.

* * * * * * *

Further to its appointment by the shareholders in the meeting of 27 April 2007 and the decisions taken by the Board of Directors on 15 May 2007, the current Board of Directors is made up as follows:

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

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

The Board of Directors appointed three executive directors in its meeting of 15 May 2007. These persons have the power to act severally within the area of their specific responsibilities.

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

- to examine the strategic, operational and financial plans of the company and the group;
- to examine the annual budget of the company and the group;
- to assess the suitability of the organisational, administrative and accounting structure of the parent company and subsidiary companies with relation to the strategic policy set out by the company's Directors, with particular reference to the internal control system and to the management of conflicts of interest;
- to examine and approve quarterly and half-yearly summary economic and financial documentation and draft budgets of the parent company and subsidiary companies, as well as to assess the general performance of the group, taking into special consideration information received from delegated company Bodies. In addition, to carry out a periodic review of the results achieved against budgeted results;
- to delegate powers to other members of the Board of Directors and also revoke them;
- to determine, after consulting the Board of Statutory Auditors, the remuneration of the executive directors and of those directors who are appointed to hold particular office within the company, and the allocation of the total amount approved by the shareholders' meeting to individual members of the Board;
- to examine and approve in advance the operations of the parent company and of its subsidiary companies when such operations have significant strategic, economic, balance sheet or financial importance for the company. Particular attention is to be paid to situations in which one or more Directors have interests either on their own account or on behalf of third parties and, more generally, to operations with related parties. For this purpose, the definition of the general criteria to identify operations of significant importance applies;
- to carry out, at least once a year, an assessment of the dimension, composition and functioning of the Board of Directors and of its committees, if appointed;
- to appoint and remove the Financial Reporting Officer, subject to the required opinion of the Board of Auditors, in accordance with art. 154-bis, of Legislative Decree 58/1998;
- to appoint and remove one or more persons to the task of internal control, fixing their duties and powers;
- to report to the shareholders at shareholders' meetings;
- to resolve on the purchase, sale, exchange, transfer, designation as security in a mortgage agreement, of real estate and of real property rights; to resolve on the stipulation and termination of real estate financial leasing contracts;
- to resolve on the acquisition, sale, exchange, transfer and rental of companies, of company branches, of shareholdings in other companies, of brands and trademarks, as well as the transfer of technology;
- to nominate the General Manager on the recommendation of the Executive Directors;
- to exercise all other powers that may not be delegated under law or the company's articles of association.

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

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

The emoluments of all Directors, including those who hold particular offices, are attributed by the Board of Directors within the limits of a maximum overall amount, established by the Shareholders' Meeting, in accordance with art. 16 of the articles of association in force.
The General Meeting resolved to this effect on 27 April 2007, with application throughout the three-year period of office of the current Board of Directors. A significant part of the emoluments payable to Directors, as established by the Board of Directors on 3 August 2007, in compliance with the limits imposed by the Shareholder's Meeting, is incentive-based, correlated to increases in the gross operating margin achieved by the group in each financial period. The Deputy General Manager also takes part in this incentive mechanism.

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

The current Board of Directors will remain in office until the date of the shareholders' meeting called to approve the financial statements for the year ended 31 December 2009.

* * * * * * *

The shareholders' meeting of 27 April 2007 appointed the current Board of Statutory Auditors, which will remain in office until the date of approving the financial statements for the year ended 31 December 2009. The Board of Statutory Auditors currently has the following members:

Marco Montanari	Chairman
Claudia Catellani	Acting auditor
Martino Masini	Acting auditor
Mario Venezia	Alternate auditor
Eugenio Poletti	Alternate auditor

* * * * * * *

Since 2001 EMAK has followed the Code of Self-discipline, approved by the Committee set up by the Italian Stock Exchange, obtaining admission to the STAR segment of the MTA. EMAK complies with the provisions of the latest version of the Code, approved by the Committee in March 2006, according to the terms and following the specific provisions set out in the special report which has been prepared as per art. 89-bis, CONSOB Regulations – Consob resolution 11971/1999, and which is available to the public in the prescribed terms and forms: further information can be found on the web site: www.emak.it.

* * * * * * *

The company has set up procedures with regards to internal dealing, in compliance with the provisions as per art. 114, seventh paragraph of the Securities Trading Act, and arts. 152-sexies and following of the CONSOB Regulations. The company has also adopted specific procedures for processing privileged and confidential information, in compliance with the provisions to safeguard against "market abuse"; it has set up the register required by art. 115-bis, Securities Trading Act, and regulated by arts. 152-bis and following of the CONSOB Regulations.

Emak has implemented the Organisation, Management and Control Programme provided for by art. 6, Legislative Decree 231/01. It approved its latest updated version during the meeting of the Board of Directors held on 26 March 2008.

The Programme sets out the procedures, risk analysis and sanctions with reference to the following offences:

- offences against Public Administration and currency forgery;
- offences against corporate rights (arts. 2621 and following, civil code)
- offences of a terrorist nature and the subversion of democracy;
- offences against the individual;
- offences involving abuse of the market;
- manslaughter and grievous bodily harm, committed in violation of the accident-prevention regulations and the safeguarding of health and safety at work;
- transnational offences and the receiving, laundering and use of money, assets or profits of illicit origin.

The Board of Directors has duly appointed a Supervisory Body, furnished with its own statute and appropriate budget.

EMAK has an ethical code which sets out the criteria to follow in its operations.

* * * * * * *

During the Shareholders' Meeting which took place on 27 April 2007, EMAK aligned its articles of association with the legal provisions introduced by the body of legislation on the protection of savings (Legislative Decrees 262/05 and 303/06). Specifically, it has introduced the voting list mechanism for the appointment of the Board of Directors, applied in favour of minorities. It has extended the election mechanism with a listed vote previously used for the appointment of the Board of Auditors, for the same purposes; it has introduced the role of Financial Reporting Officer for the preparation of company accounting documents.
Further proposals for modification of the articles of association shall be put before the Shareholders' Meeting called for approval of the accounts at 31/12/2007, for the purpose of applying the regulatory provisions approved by Consob in implementation of the aforementioned legislation.

* * * * * * *

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 01.01.2007	No. shares purchased	No. shares sold	No. shares held on 31.12.2007
Giacomo Ferretti *(Board of Directors)*	Emak S.p.A	0	10,000	-	10,000
Aimone Burani *(Board of Directors)*	Emak S.p.A.	0	5,000	-	5,000
Fausto Bellamico *(Emak Chief Executive Officer)*	EMAK S.p.A.	5,000	5,000	0	10,000
Ivano Accorsi *(Board of Directors)*	EMAK S.p.A.	2,000	-	-	2,000
Carlo Baldi *(Board of Directors)*	EMAK S.p.A.	14,000*		(14,000)*	0*
Andrea Barilli *(Board of Directors)*	EMAK S.p.A.	1,000	-	-	1,000
Martino Masini *(Board of Statutory Auditors)*	EMAK S.p.A.	30,000	5,000	(18,000)	17,000

* Also includes shares not owned directly

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

€/000	Term in office	Emoluments of office	Benefits in kind	Bonuses and other incentives		Other remuneration
Giacomo Ferretti *Chairman and Executive Director*	1.1.07-31.12.07	64	-	80	(a)	226
Fausto Bellamico *General Manager and CEO*	1.1.07-31.12.07	52	3	112	(a)	248
Aimone Burani *Deputy Chairman Director And Executive Director*	1.1.07-31.12.07	23	3	64	(a)	212
Carlo Baldi *Director*	1.1.07-31.12.07	2	-	-	(b)	13
Andrea Barilli *Director*	1.1.07-31.12.07	15	-	-		-
Vilmo Spaggiari *Director*	1.1.07-31.12.07	2	-	-		-
Guerrino Zambelli *Director*	1.1.07-31.12.07	2	-	-		-
Paola Becchi *Director*	1.1.07-31.12.07	2	-	-		-
Ivano Salsapariglia *Director*	1.1.07-31.12.07	2	-	-		-
Giuliano Ferrari *Director*	1.1.07-31.12.07	1	-	-		-
Luigi Bartoli *Director*	1.1.07-31.12.07	2	-	-		-
Ivano Accorsi *Director*	1.1.07-31.12.07	11	-	-		-
Andrea Ferrari *Director*	1.1.07-26.04.07	5	-	-		-
Gianluigi Basini *Director*	27.4.07-31.12.07	8	-	-		-
Marco Montanari *Chairman of Board of Statutory Auditors*	1.1.07-31.12.07	18	-	-		-
Andrea Magnanini *Acting auditor*	1.1.07-26.04.07	3	-	-	(b)	11
Claudia Catellani *Acting auditor*	27.4.07-31.12.07	9	-		(b)	10
Martino Masini *Acting auditor*	1.1.07-31.12.07	11	-	-		-

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

14. Outstanding disputes

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

15. Additional information

Obligations regarding personal data protection
In compliance with Appendix B to Decree 196/2003, we declare that we checked and revised the company's Security Plan on 31st January 2008

16. Business outlook

An increase in turnover was achieved in 2007 together with a significant increase in profits. The Business Plan for 2008 foresees a continuation in the growth trend, both in terms of turnover and margins. The main driving factors of growth are expected to be the launch of new products and the strengthening of marketing operations in the distribution network.
The acquisition of Bertolini S.p.A. forms part of the corporate strategy to foster development of the business also in external lines, with important industrial and commercial synergies.
The general economic situation, the level of inventories held within the distribution network, weather conditions, the price of raw materials and the general competitive situation are all external factors which may affect the achievement of our objectives.

17. Subsequent events

Reference is made to the following events:

1. On 15 January 2008 EMAK S.p.A. acquired from the holding company, Yama s.p.a., 100% of the shares in the company, BERTOLINI S.p.A..
BERTOLINI S.P.A. sells products with the "Bertolini" and "Nibbi" trademarks, and is one of the leaders in the market for the production and sale of walking tractors, power motors, motor hoes, transporters and other machines for small-scale farming and gardening.
Through this operation, the EMAK Group will expand its current operations in terms of size, production and income in associated and synergetic sectors.

The consideration for the acquisition of the shareholding amounts to €6,500 thousand, which was paid by Emak S.p.A. at the same time as the transfer of shares.

The estimated net worth (shareholders' equity) of Bertolini S.p.A at 31 December 2007 amounted to around €4,400 thousand.
For further information, reference should be made to the relevant informative document filed in the registered office, on the Emak S.p.A. website, and filed with the Italian Stock Exchange;

2. A targeted tax inspection was completed in Emak on 22 February 2008 as per art. 33, D.P.R. (Decree of the President of the Republic) 600/73 by the Bologna Inland Revenue Office, regarding direct taxes and value added tax relating to the financial period 2005 and, in part, to the financial period 2004.
The inspection had a positive outcome without any significant consequences.

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 2007, which report a net profit of €9,813,384.
The Board of Directors is proposing that a dividend of €0.220 be distributed to every outstanding share.

We therefore invite you to adopt the following resolution:

a. to approve the financial statements for the year ended 31st December 2007 reporting a net profit of €9,813,384;

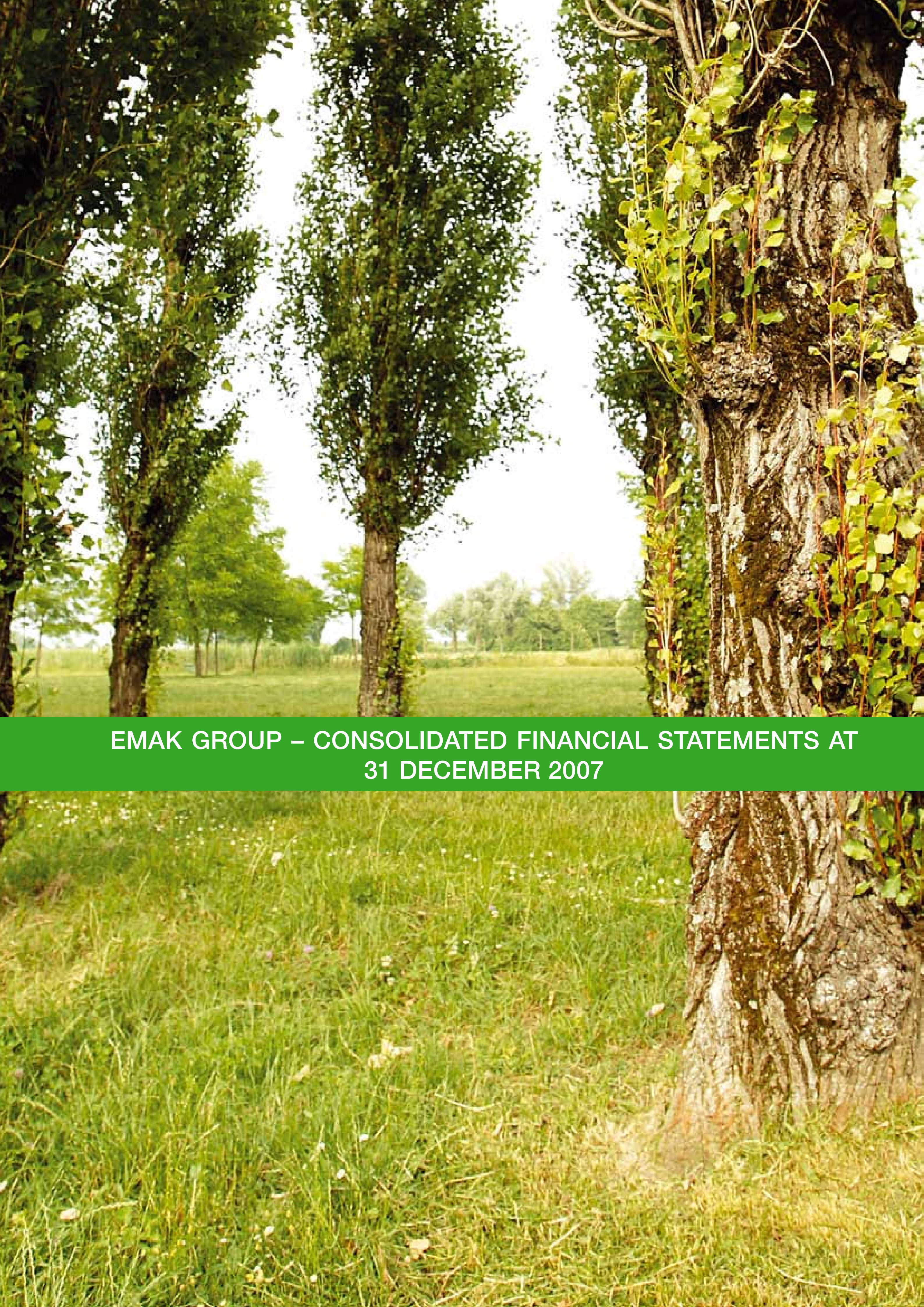
b. to allocate the net profit of €9,813,384 as follows:
   - to the shareholders, a dividend of €0.220 for each of the outstanding shares, gross of legally required withholdings, but not for the treasury shares held by the company itself, with the shares going ex-div on 2nd June 2007 and the dividend paid on 5th June 2007;
   - the remainder to retained earnings, since the legal reserve has reached the maximum limit required by law.

Bagnolo in Piano (RE), 26 March 2008

on behalf of the Board of Directors

Il Presidente

Giacomo Ferretti



EMAK GROUP – CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007

Emak Group
Consolidated financial statements at 31 December 2007

Consolidated income statement

€/000		Year 2007	Year 2006
Sales	10	217,834	208,402
Other operating incomes	10	2,104	1,575
Change in inventories		(1,474)	9,775
Raw and consumable materials and goods	11	(126,500)	(131,506)
Salaries and employee benefits	12	(27,671)	(27,865)
Other operating costs	13	(34,301)	(35,254)
Amortization, depreciation and impairment losses	14	(5,520)	(5,356)
Ebit		**24,472**	**19,771**
Financial income	15	591	540
Financial expenses	15	(2,634)	(2,085)
Exchange gains and losses	15	186	353
EBT		**22,615**	**18,579**
Income taxes	16	(7,369)	(7,275)
Net profit		**15,246**	**11,304**
(Profit)/loss attributable to minority interests		**(65)**	**(65)**
Net profit attributable to the group		**15,181**	**11,239**
Basic earnings per share	**17**	**0.550**	**0.407**
Diluted earnings per share	**17**	**0.550**	**0.407**

CONSOLIDATED BALANCE SHEET

ASSETS

€/000		31.12.2007	31.12.2006
Non-current assets			
Property, plant and equipment	18	38,689	35,535
Intangible assets	20	2,795	3,076
Goodwill	21	6,773	6,353
Investment property	19	174	361
Equity investments	22	224	224
Deferred tax assets	31	2,845	3,126
Other financial assets		0	0
Other receivables	24	854	48
Total		**52,354**	**48,723**
Non-current assets held for sale			
Assets held for sale		0	269
Total		**0**	**269**
Current assets			
Inventories	25	66,434	68,302
Trade and other receivables	24	63,373	58,925
Current tax assets	31	3,071	2,238
Other financial assets		4	9
Derivative financial instruments	23	86	0
Marketable securities at fair value	26	5	5
Cash and cash equivalents	27	6,036	4,028
Total		**139,009**	**133,507**
TOTAL ASSETS		**191,363**	**182,499**

EQUITY AND LIABILITIES

€/000		31.12.2007	31.12.2006
Capital and reserves			
Share capital		7,190	7,190
Share premium		21,047	21,047
Treasury shares		(1,516)	(527)
Other reserves		30,397	30,223
Retained earnings		33,806	23,460
Total Group	**28**	**90,924**	**81,393**
Minority interests		**515**	**483**
Total equity		**91,439**	**81,876**
Non-current liabilities			
Loans and borrowings	30	13,144	6,105
Deferred tax liabilities	31	3,204	2,692
Post-employment benefits	32	4,562	5,796
Provisions	33	582	468
Other non-current liabilities	34	2,596	2,081
Total		**24,088**	**17,142**
Current liabilities			
Trade and other payables	29	49,639	45,146
Current tax liabilities	31	1,788	2,150
Loans and borrowings	30	23,840	35,572
Derivative financial instruments	23	189	229
Provisions	33	380	384
Total		**75,836**	**83,481**
TOTAL EQUITY AND LIABILITIES		**191,363**	**182,499**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY AT 31.12.2006 AND AT 31.12.2007

				OTHER RESERVES	
€/000	SHARE CAPITAL	SHARE PREMIUM	TREASURY SHARES	LEGAL RESERVE	REVALUATION RESERVE
Balance at 31.12.2005	**7,190**	**21,047**	**(28)**	**1,438**	**1,138**
Change in translation reserve					
Change in treasury shares			(499)		
Payment of dividends					
Other changes					
Net profit for 2006					
Balance at 31.12.2006	**7,190**	**21,047**	**(527)**	**1,438**	**1,138**
Change in translation reserve					
Change in treasury shares			(989)		
Payment of dividends					
Other changes					
Net profit at 30.09.07					
Balance at 31.12.2007	**7,190**	**21,047**	**(1,516)**	**1,438**	**1,138**

OTHER RESERVES		RETAINED EARNINGS				
CUMULATIVE TRANSLATION ADJUSTMENT	**OTHER RESERVE**	**RETAINED EARNINGS**	**NET PROFIT OF THE PERIOD**	**TOTAL GROUP**	**EQUITY ATTRIBUTABLE TO MINORITY INTERESTS**	**TOTAL**
140	**27,638**	**6,806**	**9,532**	**74,901**	**458**	**75,359**
(104)				(104)		(104)
				(499)		(499)
	226	5,162	(9,532)	(4,144)	(46)	(4,190)
	(253)	253		0	6	6
			11,239	11,239	65	11,304
36	**27,611**	**12,221**	**11,239**	**81,393**	**483**	**81,876**
174				174		174
		40		(949)		(949)
		6,400	(11,239)	(4,839)	(42)	(4,881)
		(36)		(36)	9	(27)
			15,181	15,181	65	15,246
210	**27,611**	**18,625**	**15,181**	**90,924**	**515**	**91,439**

Consolidated Cash Flow Statement

€/000	Notes	2007	2006
Cash flow from operations			
Net profit for period		**15,246**	**11,304**
Amortization, depreciation and impairment losses	14	5,520	5,356
(Capital gains)/losses on disposal of property, plant and equipment		(536)	(188)
Decreases/increases in trade and other receivables		(5,807)	(936)
Decreases/increases in inventories		1,868	(8,721)
Decreases/increases in trade and other payables		5,158	(5,846)
Change in post-employment benefits	32	(1,234)	12
Decreases/increases in provision for liabilities	33	110	(124)
Decreases/increases in derivate financial instruments		(126)	266
Net cash generated by operations		**20,199**	**1,123**
Cash flow from investment activities			
Increases in property, plant and equipment and intangible assets		(8,625)	(8,792)
Increases and decreases in financial assets		5	104
Proceeds from disposal of property, plant and equipment		805	189
Business combinations	6	0	505
Net cash absorbed by investment activities		**(7,815)**	**(7,994)**
Cash flow from financial activities			
Change in equity		(976)	(493)
Change in short and long-term loans and borrowings		4,227	4,362
Change in finance leases		(524)	(536)
Dividends paid		(4,881)	(4,190)
Change in translation reserve		174	(104)
Net cash absorbed by financial activities		**(1,980)**	**(961)**
Net increase in cash and cash equivalents		**10,404**	**(7,832)**
Opening cash and cash equivalents		(12,920)	(5,088)
Closing cash and cash equivalents		(2,516)	(12,920)

ADDITIONAL INFORMATION ON THE CASH FLOW STATEMENT

€/000		2007	2006
Reconciliation of cash and cash equivalents			
Opening cash and cash equivalents, detailed as follows:	**27**	**(12,920)**	**(5,088)**
Cash and cash equivalents		4,028	4,103
Overdrafts		(16,948)	(9,191)
Closing cash and cash equivalents, detailed as follows:	**27**	**(2,516)**	**(12,920)**
Cash and cash equivalents		6,036	4,028
Overdrafts		(8,552)	(16,948)

Other information:

Tax paid	(8,401)	(8,934)
Interest income	355	284
Interest paid	(1,941)	(1,463)
Effects of exchange rate changes	14	5
Change in related party receivables and service transactions	(1,043)	117
Change in related party payables and service transactions	912	(805)

Explanatory notes to the consolidated financial statements of the Emak Group

Notes to the consolidated financial statements - Contents

1. General information

The Board of Directors approved the consolidated financial statements of Emak S.p.A. for the year ended 31 December 2007 on 26 March 2008 and authorized their immediate publication in a press release of the same date.

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

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

The group has around 850 employees.

During 2007 Emak S.p.A. paid €1,700 thousand to the subsidiary company, Comag Srl, on account for future increases in share capital.

EMAK is controlled by YAMA S.p.A., 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 its corporate Bodies..
EMAK S.p.A.'s Board of Directors, however, makes its own strategic decisions and operates autonomously. 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. The aim in all cases is to protect the company and its assets in the best way possible.

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

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

2. Summary of principal accounting policies

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

2.1 General methods of preparation

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

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

The preparation of financial statements under IFRS requires management to make use of accounting estimates. The matters involving a high degree of judgement or complexity and the areas in which the assumptions and estimates could have a significant impact on the consolidated financial statements are discussed in note 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 2007 therefore includes the following companies:

Name	Head office	Share capital	Currency	% consolidated	Held by	% interest held
Emak S.p.A.	Bagnolo in Piano - RE (I)	7,189,910	€			
Emak Suministros Espana SA	Getafe-Madrid (E)	270.459	€	90.000	Emak S.p.A.	90.000
Comag S.r.l.	Pozzilli - IS (I)	1,850,000	€	99.442	Emak S.p.A.	99.442
Emak U.K. Ltd	Lichfield (UK)	17,350	GBP	100.000	Emak S.p.A.	100.000
Emak Deutschland Gmbh	Fellbach-Oeffingen (D)	553,218	€	100.000	Emak S.p.A.	100.000
Emak Benelux NV	Meer (B)	130,000	€	99.999	Emak S.p.A.	99.800
					Comag S.r.l.	0.200
Emak France SAS	Rixheim (F)	2,000,000	€	100.000	Emak S.p.A.	100.000
Jangmen Emak Outdoor Power Equipment Co.Ltd (*)	Jiangmeng (RPC)	18,171,788	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

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

2.3 Criteria for defining business segments

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

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

2.4 Translation differences

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

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

(c) Group companies
The financial statements of all group companies whose functional currency differs to the presentation currency of the consolidated financial statements are translated as follows:

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

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

Amount of currency corresponding to €1	2007 average	31.12.2007	2006 average	31.12.2006
Pounds sterling (GB)	0.68	0.73	0.68	0.67
Renminbi (China)	10.42	10.75	10.01	10.28
Zloty (Poland)	3.78	3.59	3.90	3.83
Dollars (USA)	1.37	1.47	1.28 (*)	1.32

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

2.5 Property, plant and equipment

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

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

Land is not 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 (i) it is identifiable, (ii) it is probable that it will generate future economic benefits and (iii) its cost can be measured reliably.

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

2.7 Goodwill

Goodwill relating to the purchase of subsidiaries is classified among the non-current assets and 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.

2.13 Trade receivables

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

2.14 Trade payables

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

2.15 Cash and cash equivalents

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

2.16 Share capital

Ordinary shares are classified under equity.

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

2.17 Financial liabilities

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

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

2.18 Taxes

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

Deferred tax assets are recognized on all temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. The same principle applies to the recognition of deferred tax assets on utilizable tax losses.
The carrying amount of deferred tax assets is reviewed at each balance sheet date and possibly reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of 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.
(b) Sale of services
Sales of services are recognized in the period in which the service is rendered with reference to the stage of completion of the specific transaction, measured on the basis of the services performed to date as a percentage of total services to be performed.

2.22 Government grants

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

2.23 Financial income and expenses

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

2.24 Payment of dividends

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

2.25 Earnings per share

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

2.26 Cash flow statement

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

2.27 New accounting standards

It should be noted that the IASB and IFRIC have approved a number of changes to IAS/IFRS standards, applicable for the first time from 1st January 2007. The main changes relate to:
IFRS 7 ("Financial Instruments Disclosures") and supplementary changes to IAS 1 ("Presentation of Financial Statements – Disclosures relating to share capital") effective from 1st January 2007: the IFRS 7 principle introduces integrative information to be provided with regards to financial instruments, replacing IAS 30 ("Disclosure in the Financial Statements of Banks and Similar Financial Institutions") and a number of requirements of IAS 32 ("Financial Instruments: Disclosure and Presentation").
IFRIC 7 ("Applying the Restatement Approach under IAS 29"), effective from annual periods beginning on or after 1st March 2006: the guidance relates to principles applicable in the event of companies operating in countries where there is hyperinflation, currently not relevant for the group.
IFRIC 8 ("Scope of IFRS 2"), effective from annual periods beginning on or after 1st May 2006; the interpretation specifies the treatment of share-based payments, currently not applicable for the group.
IFRIC 9 ("Reassessment of Embedded Derivatives"), effective from annual periods beginning on or after 1st June 2006, currently not applicable for the group.
IFRIC 10 ("Interim Financial Reporting and Impairment"), effective from annual periods beginning on or after 1st November 2006: the document clarifies a number of aspects regarding the recognition and reversal in financial statements of impairment losses on goodwill and certain financial assets, not applicable for the group.
Besides what is set out above, the following changes to principles and interpretations have been issued but are not effective for the 2007 financial period and the group has not chosen to adopt them in advance.
IFRIC 11 - IFRS2 ("Group and Treasury Share Transactions"), effective from annual periods beginning from 2009. The Interpretation addresses how to apply IFRS 2 "Share-based Payment" to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group (e.g. equity instruments of its parent, currently not applicable for the group.
IFRS 8 ("Operating Segment"), obligation for balance sheets relating to annual periods opening on or after 1st January 2009: the principle replaces IAS 14 "Segment reporting" and introduces, in the IFRS system, a "management" approach to reporting on the financial performance of operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. This standard has not currently been applied.

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 in 2007 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 December2007 and 31 December 2006 were as follows:

	31 Dec. 07	31 Dec. 06
	€/1,000	**€/1,000**
Net financial position (note 9)	31,042	37,864
Total equity	91,439	81,876
Debt-equity ratio	**0.34**	**0.46**

The decrease in the ratio during the 2007 reflects the improvement in earnings and the reduction in the amount of working capital.

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 2007, the group's bank loans and borrowings and finance leases all carried variable interest and no hedges had been taken out.

(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.

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

(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.

(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.

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

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

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

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

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

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

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

6.1. Primary reporting format - Business segments

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

6.2. Secondary reporting format – Geographical segments

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

€/000	Sales		Total assets		Investment in fixed assets	
	FY 2007	FY 2006	31.12.2007	31.12.2006	FY 2007	FY 2006
Italy	41,082	40,872	121,652	113,109	6,567	5,450
Europe	145,206	134,763	53,631	55,033	570	626
Rest of world	31,546	32,767	16,080	14,357	1,469	2,917
Total	**217,834**	**208,402**	**191,363**	**182,499**	**8,606**	**8,993**

7. Significant non-recurring events and transactions

The following events have occurred during the year:

1. Emak S.p.A. sold an industrial building in Brescello (Reggio Emilia) for €800 thousand. This building had previously been classified under “assets held for sale” at a value of €269 thousand. The capital gain on this sale, classified in “other operating income” amounted to €531 thousand. (note 10).

2. In June 2007, the reform of the complementary social security system, introduced by Legislative Decree 252/2005 and subsequent modifications, came into force.
As a result of this reform, starting from January 1st 2007, the funds for employee termination indemnities must be fully paid into a complementary security fund or into a Treasury Fund managed by INPS (National Social Security Institute), following an accounting treatment already applied for social security contributions.

The termination indemnity fund, accrued until December 31st 2006, is still considered to all effects as a defined benefits plan, with the need to carry out actuarial projections.
Unlike the previous actuarial estimates, estimates from June 2007 will no longer take account of the component relating to future salary increases.

The revised estimate using the new actuarial calculation method has given rise to the release of around €675 thousand to income. (note 32)

This amount has been treated as a reduction in salaries and employee benefits and so included in the group’s EBIT.

8. Balances or transactions arising from atypical and unusual operations

No atypical or unusual transactions took place during the course of 2007.

9. Net financial position

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

€/000	31.12.2007	31.12.2006
Cash and banks	6,036	4,028
Securities and derivative financial instruments	5	5
Other financial assets	90	9
Financial liabilities	(23,840)	(35,572)
Derivative financial instruments	(189)	(229)
Short-term net debt	**(17,898)**	**(31,759)**
Financial liabilities	(13,144)	(6,105)
Long-term net debt	**(13,144)**	**(6,105)**
Cash and banks	6,036	4,028
Securities and derivative financial instruments	5	5
Other financial assets	90	9
Financial liabilities	(36,984)	(41,677)
Derivative financial instruments	(189)	(229)
Total net debt	**(31,042)**	**(37,864)**

The net financial position does not contain any balances with related parties either at 31 December 2007 or at 31 December 2006.

10. Sales and other operating income

The group's sales revenues amount to €217,834 thousand, compared with €208,402 thousand in 2006. They are stated net of €866 thousand in returns, compared with €1,297 thousand in the prior year.

Details of sales are as follows:

€/000	FY 2007	FY 2006
Net sales revenues (net of discounts and rebates)	217,114	208,285
Revenues from recharged transport costs	1,586	1,414
Returns	(866)	(1,297)
Total	**217,834**	**208,402**

Other operating income is analyzed as follows:

€/000	FY 2007	FY 2006
Capital gains on property, plant and equipment	16	316
Recovery of warranty costs	44	117
Insurance refunds	28	70
Advertising reimbursements	353	258
Rental income (note 19)	131	129
Capital gains on disp. of fixed assets available for sale (note 7)	531	-
Grant under Law 488/92	357	159
Other operating revenues	644	526
Total	**2,104**	**1,575**

The "capital gains" balance for the disposal of fixed assets available for sale, of €531 thousand, refers to the sale of the industrial building in Brescello (RE) as referred to in note 7.

11. Cost of raw and consumable materials and goods

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

€/000	FY 2007	FY 2006
Raw materials, semi-finished products and goods	124,221	129,837
Other purchases	2,279	1,669
Total	**126,500**	**131,506**

The decrease in the "Raw materials, semi-finished products and goods" balance is attributable to both efficiency improvements achieved in the management of stocks and to efficiency improvements deriving from the application of marketing principles to purchases.

12. Salaries and employee benefits

Details of these costs are as follows:

€/000	FY 2007	FY 2006
Wages and salaries	19,701	19,502
Social security charges	5,798	5,798
Employee termination indemnities	1,166	949
Adjustment of termination indemnity for actuarial losses/(profits) (note 32)	(878)	(250)
Other costs	685	682
Directors' emoluments	449	382
Temporary staff	750	802
Total	**27,671**	**27,865**

Employees are broken down by grade as follows:

	31.12.2007		31.12.2006	
	(1)	(2)	(1)	(2)
Executives	24	24	23	23
Office staff	422	433	385	397
Factory workers	402	387	453	443
Totale	**848**	**844**	**861**	**863**

(1) Average number of employees in year
(2) Number of employees at this date
The financial statements of 31 December 2006 showed the average number of employees as 900 and the number of employees at that date as 902. Both figures included 39 temporary workers in the company, Emak Jiangmen.
Details of changes in staff numbers are provided in section 8 of the report on performance.

13. Other operating costs

Details of these costs are as follows:

€/000	FY 2007	FY2006
Subcontract work	4,300	5,532
Maintenance	1,802	1,905
Transportation	9,371	9,129
Advertising and promotions	3,981	3,526
Commissions	2,561	2,569
Travel	1,230	1,124
Postage and telecommunications	650	567
Consulting fees	1,561	1,786
Other services	4,869	4,889
Services	**30,325**	**31,027**
Leases and rentals	**1,669**	**1,709**
Increases in provisions (note 33)	**339**	**353**
Bad debts	15	23
Increase in provision for doubtful accounts (nota 24)	384	442
Capital losses on property, plant and equipment	11	128
Other taxes (not on income)	382	353
Other operating costs	1,176	1,219
Other costs	**1,968**	**2,165**
Total	**34,301**	**35,254**

The decrease in subcontract work in 2007 compared to 2006 is due to improved integrati on of the production cycle.

14. Amortization, depreciation and impairment losses

Details of these amounts are as follows:

€/000	FY 2007	FY 2006
Amortization of intangible assets (nota 20)	969	947
Depreciation of property, plant and equipment (nota 18)	4,513	4,371
Depreciation of investment property (nota 19)	38	38
Total	**5,520**	**5,356**

15. Finance income and expenses

Financial income is analyzed as follows:

€/000	FY 2007	FY 2006
Interest on trade receivables	217	167
Income from other securities held for trading	196	133
Cash discounts received	99	206
Other financial income	79	34
Financial income	**591**	**540**

Financial expenses are analyzed as follows:

€/000	FY 2007	FY 2006
Interest on long-term bank loans and borrowings	387	247
Interest on short-term bank loans and borrowings	1,364	1,068
Financial charges from valuing employee termination indemnities (note 32)	227	119
Cash discounts given	369	377
Other financial costs	287	274
Financial expenses	**2,634**	**2,085**

The increase in interest payable is mainly due to an increase in interest rates and to a higher level of borrowing in the first part of the year.

Exchange gains and losses are analysed as follows:

€/000	FY 2007	FY 2006
Exchange differences on trade transactions	(64)	32
Exchange differences on financial items	250	321
Exchange gains and losses	**186**	**353**

16. Income taxes

The estimated charge for current tax and changes in deferred tax assets and liabilities is €7,369 thousand in 2007 (€7,275 thousand in the prior year).

This amount is made up as follows:

€/000	FY 2007	FY 2006
Current income taxes	6,641	7,797
Taxes from prior years	(32)	(422)
Changes in deferred tax assets (nota 31)	257	(227)
Changes in deferred tax liabilities (nota 31)	503	127
Totale	**7,369**	**7,275**

"Taxes from prior years" at 31 December 2006 included €376 thousand previously recognized as deferred tax.

Current income taxes include €1,218 thousand in IRAP (Italy's regional business tax) compared with €1,515 thousand in 2006.

During 2007, €19 thousand of tax on income was recorded directly in movements in equity. No such amounts were recorded in the previous financial period.
These tax amounts refer to capital gains on the sales of treasury shares (note 28).

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

€/000	FY 2007	% rate	FY 2006	% rate
Profit before taxes	**22,615**		**18,579**	
Theoretical tax charge	**8,424**	**37.25**	**6,921**	**37.25**
Effect of IRAP differences calculated on different tax base	554	2.4	907	4.9
Non-taxable income	(75)	(0.3)	(88)	(0.5)
Non-deductible costs	259	1.2	203	1.1
Differences in rates with other countries	(1,715)	(7.6)	(696)	(3.8)
Changes in tax rates in 2007	(219)	(1.0)		
Taxes from prior years	141	0.6	(28)	(0.1)
Effective tax charge	**7,369**	**32.6**	**7,275**	**39.1**

The effective tax rate of 32.6% is down from the one of 39.1% reported in 2006.

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.

	FY 2007	FY 2006
Net profit attributable to ordinary shareholders in the parent company (€/000)	15,181	11,239
Weighted average number of ordinary shares outstanding	27,581,709	27,589,077
Basic earnings per share (€)	**0.550**	**0.407**

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

€/000	31.12.2006	Increases	Decreases	Other changes	Exchange difference	31.12.2007
Land and buildings	29,634	2,442	-	150	(147)	32,079
Accumulated depreciation	(5,867)	(792)	-	-		(6,659)
Land and buildings	**23,767**	**1,650**	**0**	**150**	**(147)**	**25,420**
Plant and machinery	12,824	2,411	(124)	155	(61)	15,205
Accumulated depreciation	(8,386)	(1,026)	124		13	(9,275)
Plant and machinery	**4,438**	**1,385**	**0**	**155**	**(48)**	**5,930**
Other assets	42,496	2,754	(383)	49	(38)	44,878
Accumulated depreciation	(35,796)	(2,695)	352		5	(38,134)
Other assets	**6,700**	**59**	**(31)**	**49**	**(33)**	**6,744**
Advances	**630**	**320**	**(1)**	**(354)**	**0**	**595**
Cost	**85,584**	**7,927**	**(508)**	**0**	**(246)**	**92,757**
Accumulated depreciation (note 14)	**(50,049)**	**(4,513)**	**476**	**0**	**18**	**(54,068)**
Net book value	**35,535**	**3,414**	**(32)**	**0**	**(228)**	**38,689**

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

The increase in land, buildings, plant and machinery includes €1,720 thousand for extending the factory of Comag S.r.l., the remainder for minor expenditure on the routine replacement of assets.

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

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

At 31 December 2007 the accounting value of tangible fixed assets under construction is €4,304 thousand. The amount mainly relates to the aforementioned extension of the Comag S.r.l. factory.

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

€/000	31.12.2007	31.12.2006
Gross value	3,659	4,981
Accumulated depreciation	(330)	(524)
Net book value	**3,329**	**4,457**

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;

The property used as the registered office and warehouse of the Spanish subsidiary, Emak Suministros Espana SA, was redeemed, on the other hand, during 2007. The contract was entered into with Caja Duero Bank on 18.07.1997 and expired on 18.07.2007, with a gross value of the fixed asset of €1.322 thousand.

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

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

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

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 this grants was accepted and the relative credit was accounted for at 31 December 2007, 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 24).

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

19. Investment property

Investment property relates to a building let to a company in the Yama group. The cost at 31 December 2007 amounts to €1,257 thousand (€1,407 thousand at 31 December 2006) and the amortisation provision amounts to €1,083 thousand (€1,045 thousand at 31 December 2006). The balance at 31 December 2006 included land belonging to the parent company for a value of €150 thousand, which was used for the construction of a new building and therefore reclassified under the Land and buildings heading (note 18).

The rental income earned from these properties amounted to €131 thousand in 2007 (note 9) compared with €129 thousand the year before.

The fair value of investment properties amounts to around €2.5 million at 31 December 2007.

20. Intangible assets

Intangible assets report the following changes:

€/000	31.12.2005	Increases	Decreases	Other changes	31.12.2006
Development costs	1,067	127	-	-	1,194
Accumulated amortization	(368)	(151)	-	-	(519)
Development costs	**699**	**(24)**	**0**	**0**	**675**
Patents and intellectual property rights	3,234	741	(4)	-	3,971
Accumulated amortization	(1,984)	(659)	4	-	(2,639)
Patents	**1,250**	**82**	**0**	**0**	**1,332**
Concessions, licences and trademarks	681	11	-	5	697
Accumulated amortization	(16)	(134)	-	-	(150)
Concessions, licences and trademarks	**665**	**(123)**	**0**	**5**	**547**
Other intangible assets	468	94	-	(35)	527
Accumulated amortization	(2)	(3)	-	-	(5)
Other intangible assets	**466**	**91**	**0**	**(35)**	**522**
Cost	**5,450**	**973**	**(4)**	**(30)**	**6,389**
Accumulated amortization (note 14)	**(2,370)**	**(947)**	**4**	**0**	**(3,313)**
Net book value	**3,080**	**26**	**0**	**(30)**	**3,076**

€/000	31.12.2006	Increases	Other changes	31.12.2007
Development costs	1,194	47	-	1,241
Accumulated amortization	(519)	(119)	-	(638)
Development costs	**675**	**(72)**	**0**	**603**
Patents and intellectual property rights	3,971	465	9	4,445
Accumulated amortization	(2,639)	(683)	(15)	(3,337)
Patents	**1,332**	**(218)**	**(6)**	**1,108**
Concessions, licences and trademarks	697	12	44	753
Accumulated amortization	(150)	(149)	(6)	(305)
Concessions, licences and trademarks	**547**	**(137)**	**38**	**448**
Other intangible assets	527	38	(23)	542
Accumulated amortization	(5)	(18)	-	(23)
Other intangible assets	522	20	(23)	519
Advances	**0**	**117**	**0**	**117**
Cost	**6,389**	**679**	**30**	**7,098**
Accumulated amortization (note14)	**(3,313)**	**(969)**	**(21)**	**(4,303)**
Net book value	**3,076**	**(290)**	**9**	**2,795**

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

A total of €4,540 thousand in research and development costs were expensed to income in the year compared with €4,306 thousand the year before.

All the intangible assets have a finite residual life.

21. Goodwill

The goodwill of €6,773 thousand reported at 31 December 2007 can be separated into two parts as follows:

€/000	31.12.2006	Exchange difference	31.12.2007
Goodwill on the purchase of Victus Eco Sp. z.o.o.	973	59	1,032
Goodwill on the purchase of the Victus IT business	5,380	361	5,741
Total	**6,353**	**420**	**6,773**

- goodwill arising on the purchase of Victus Emak Sp.z.o.o., amounting to €1,032 thousand, refers to the difference between the purchase price for 100% of Victus Emak Sp. z.o.o., a Polish company, and its equity at the date of acquisition;
- goodwill of €5,741 thousand arising on the purchase of the business of Victus International Trading SA.

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

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

The impairment test was carried out using the discounted cash flow method with reference to the date of 31 December 2007. Forecast future cash flows from operations are based on the group's budgets for the following three years and on estimated terminal value. Expected cash flows have been discounted using a weighted average cost of capital (WACC) of 10.3%.

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

22. Equity investments

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

23. Derivative financial instruments

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

At 31 December 2007 there were outstanding forward currency agreements for the purchase of:

- 5,530 thousand euros with expiry July 2008 at an average exchange rate of 3.674 Zloty (refers to hedges made by the Polish subsidiary company, Victus Emak Sp.z.o.o.);
- 40,000 thousand yen with expiry April 2008 at an average exchange rate of 164.1 euros (refers to hedges made by the parent company Emak S.p.A., and Emak France SAS);
- 500 thousand U.S. dollars with expiry January 2008 at an average exchange rate of 1.41 euros (refers to hedges made by the subsidiary company Emak France SAS);
- 2,230 thousand dollars with expiry June 2008 at an average exchange rate of 2.50 Zloty (refers to hedges made by the Polish subsidiary company, Victus Emak Sp.z.o.o.);
- 220 thousand pounds sterling with expiry June 2008 at an average exchange rate of 4.941 Zloty (refers to hedges made by the Polish subsidiary company, Victus Emak Sp.z.o.o.);

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

24. Trade and other receivables

Details of these amounts are as follows:

€/000	31.12.2007	31.12.2006
Trade receivables	58,251	58,652
Provision for doubtful accounts	(1,372)	(1,165)
Net trade receivables	**56,879**	**57,487**
Receivables due from related parties (note 38)	1,816	773
Prepaid expenses and accrued income	200	214
Other receivables	4,478	451
Total current portion	**63,373**	**58,925**
Other non-current receivables	854	48
Total non-current portion	**854**	**48**

The increase in the heading “other receivables” (current portion) relates to:
- the amount of €1,601 thousand for the Law 488 grant receivable by the subsidiary company, Comag, which will be collected in 2008 (see note 18);
- advance payments to suppliers of €2,073 thousand, 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.
The customer has, in turn, paid Emak in advance €1,698 thousand for costs sustained. This amount has been accounted for under the heading “other (current) payables” (see note 29).

The increase in the heading “Other non-current receivables” refers to the amount receivable for the Law 488 grant which will be collected after 31 December 2008, for an amount of around €800 thousand (see note 18).

Trade receivables include the following amounts in foreign currency:
- USD 5,485,134;
- GBP 1,334,133;
- JPY 17,633,110;
- PLN 3,589,628.

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

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

Movements in the provision for doubtful accounts are as follows:

€/000	31.12.2007	31.12.2006
Opening balance	**1,165**	**816**
Increases (note 13)	384	442
Decreases	(177)	(93)
Closing balance	**1,372**	**1,165**

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

25. Inventories

Inventories are detailed as follows:

€/000	31.12.2007	31.12.2006
Raw, ancillary and consumable materials	25,487	26,359
Work in progress and semi-finished products	6,900	5,759
Finished products and goods for resale	34,047	36,184
Total	**66,434**	**68,302**

Inventories are stated net of a provision of €1,511 thousand at 31 December 2007 (€1,442 thousand at 31 December 2006). The purpose of this provision is to write down obsolete and slow-moving items to their estimated realizable value.

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

€/000	FY 2007	FY 2006
Opening balance	**1,442**	**1,145**
Increases	358	578
Uses	(289)	(281)
Closing balance	**1,511**	**1,442**

None of the group's inventories at 31 December 2007 act as security against its liabilities.

26. Marketable securities at fair value

At 31 December 2007 the balance is €5 thousand, the same as the previous financial period. The valuation of these securities at cost does not result in any differences.

27. Cash and cash equivalents

Cash and cash equivalents are detailed as follows:

€/000	31.12.2007	31.12.2006
Bank and post office deposits	6,028	4,021
Cash	8	7
Total	**6,036**	**4,028**

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

€/000	31.12.2007	31.12.2006
Cash and cash equivalents	6,036	4,028
Overdrafts (note 30)	(8,552)	(16,948)
Total	**(2,516)**	**(12,920)**

28. Equity

Share capital
Share capital is fully paid up at 31 December 2007 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
At 31 December 2007, the share premium reserve of €21,047 thousand, unchanged compared to the previous financial year, is composed of premiums on newly issued shares.

Treasury shares
The adjustment of equity for acquisitions of treasury shares, equal to €1,516 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 2007 (note 38).
The nominal value of these treasury shares is €72 thousand.

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

The revaluation reserve at 31 December 2007 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 2007, inclusive of all allocations of earnings in prior years.

The other reserves at 31 December 2007 also include:

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

All these reserves have remained the same as at the end of 2006.

The cumulative translation adjustment of €210 thousand at 31 December 2007 is entirely due to differences arising on the translation of financial statements into the group's functional currency.

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

Of the "Retained earnings" reported in the consolidated financial statements, €1,740 thousand may not be distributed.

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

- Retained earnings:

€/000	FY 2007	FY 2006
Capital gains on sale of treasury shares	59	0
Taxes	(19)	0
Net profit on treasury shares	**40**	**0**

29. Trade and other payables

Details of trade and other payables are set out below:

€/000	31.12.2007	31.12.2006
Trade payables	35,071	35,434
Payables due to related parties (note 39)	5,209	4,297
Payables due to staff and social security institutions	4,399	3,699
Accrued expenses and deferred income (note 34)	580	126
Other payables	4,380	1,590
Total	**49,639**	**45,146**

Trade payables do not generate interest and are usually settled after around 80 days. Trade payables include the following amounts in foreign currency:

- USD 4,027,913 ;
- JPY 170,907,804 ;
- GBP 31,139 ;
- RMB 16,498,852;
- CHF 31,926 ;
- TWD 2,123,677.

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

The heading “other payables” is largely composed of the following amounts:

-The amount payable to the transferors of the Victus IT business equal to €1,536 thousand, which refers to the residual amount to be paid in November 2008 to settle the transaction for the acquisition of the business.

-Advance payments received from a customer, for €1,698 thousand, for which a new product development project is in progress (note 24).

30. Financial liabilities

In the event of insolvency, amounts payable for leases are secured by the lessor’s right over the leased asset.

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

€/000	31.12.2007	31.12.2006
Overdrafts (note 27)	8,552	16,948
Bank loans	13,935	17,959
Finance leases	456	519
Financial accrued expenses and deferred income	177	87
Other loans	0	59
Guarantees received	720	0
Total current portion	**23,840**	**35,572**

The “Guarantees received” heading refers to commercial credits granted.

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

€/000	31.12.2007	31.12.2006
Bank loans	9,798	2,298
Finance leases	2,450	2,911
Other loans	896	896
Total non-current portion	**13,144**	**6,105**

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

The amount that Emak S.p.A. must repay Simest S.p.A. in 2013 will be the higher 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.

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	1,214	1,210	986	6,313	9,723	75
Finance leases	482	483	498	512	1,975	475
Other loans	0	0	0	0	0	896
Total	**1,696**	**1,693**	**1,484**	**6,825**	**11,698**	**1,446**

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 0.2% to a maximum of 0.8%;
-for loans in Renminbi, the reference interest rate communicated by the People's Bank of China is applied, with a discount of 10%;

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

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

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

€/000	31.12.2007	31.12.2006
Minimum future payments<1 year	531	607
Minimum future payments from 1 to 5 years	2,140	2,145
Minimum future payments beyond 5 years	479	1,011
Total minimum payments	**3,150**	**3,763**
Payables for future financial expenses	(244)	(333)
Present value	**2,906**	**3,430**
Interest rate	**4.9%**	**3.6%**

The book value of the amounts reported in the balance sheet corresponds to their fair value.
The group had around €83.5 million in undrawn credit lines at 31 December 2007.

31. Tax assets and liabilities

Deferred tax assets are detailed below:

€/000	31.12.2006	Increases	Decreases	Exchange difference	31.12.2007
Reversal of unrealized intercompany gains	1,495	1,328	(1,481)	(14)	1,328
Provision for inventory obsolescence	334	117	(221)	-	230
Impairment of assets	36	-	(36)	-	-
Carried forward tax losses	553	163	(81)	(12)	623
Provision for doubtful accounts	34	5	(5)		34
Other deferred tax assets	674	132	(178)	2	630
Total (note 16)	**3,126**	**1,745**	**(2,002)**	**(24)**	**2,845**

A total of €1,804 thousand in deferred tax assets will reverse in the next 12 months.

There is no time limit on the use of carried-forward tax losses.

Deferred tax liabilities are detailed below:

€/000	31.12.2006	Increases	Decreases	Exchange difference	31.12.2007
Buildings redeemed under finance lease IAS 17	1,607		(160)		1,447
Valuation of provision for employee termination indemnities under IAS 19	147	154			301
Other deferred tax liabilities	938	724	(215)	9	1,456
Total (note 16)	**2,692**	**878**	**(375)**	**9**	**3,204**

“Other deferred tax liabilities” refers mainly to revenues that will be fiscally recognised in future financial periods and to anticipated depreciation provisions allocated during 2007.

A total of €401 thousand in deferred tax liabilities will reverse in the next 12 months.

No deferred taxes have been recognized on undistributed subsidiary company earnings. This is because the group is able to control when to distribute these reserves and because they are unlikely to be distributed in the foreseeable future. The total amount of such taxes is €280 thousand at 31 December 2007.

No deferred taxes have been recognized for the revaluation reserves, which are partly untaxed reserves. This is because it is unlikely that any operations will be undertaken that would give rise to their taxation. The total amount of such taxes is around €339 thousand at 31 December 2007.

Current tax assets amount to €3,071 thousand at 31 December 2007 compared with €2,238 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 €1,788 thousand at 31 December 2007 compared with €2,150 thousand a year earlier.
They refer to payables for direct tax for the period, VAT and withholding taxes.

32. Long-term post-employment benefits

The liabilities mainly refer to the present value of employee termination indemnities payable at the end of an employee's working life, amounting to €4,460 thousand at 31 December 2007. Had this provision been stated at face value, it would have amounted to €5,554 thousand at year end.

Movements in this liability are as follows:

€/000	2007	2006
Opening balance	**5,796**	**5,985**
Current service cost	-	949
Actuarial (gains)/losses (note 12)	(203)	(250)
Actuarial (gains)/losses on opening termination indemnity balance (notes 12 and 7)	(675)	-
Interest cost on obligations (note 15)	227	119
Sale of Plastema business	-	(201)
Disbursements	(583)	(806)
Closing balance	**4,562**	**5,796**

The principal economic and financial assumptions used are as follows:

	FY 2007	FY 2006
Annual inflation rate	2.6%	2.1%
Rising discount rate	4.5%	3.9%
Rate of dismissal (overall average rate)	3%	-
Rate of worker turnover: decreasing rate	-	7%/1%
Rate of office staff turnover: decreasing rate	-	8%/1%
Rate of executive turnover: constant rate	-	6%

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

In the 2008 financial year, payments are expected to be in line with 2007.

33. Provisions for liabilities and charges

Movements in these provisions are detailed below:

€/000	31.12.2006	Increases	Decreases	31.12.2007
Provision for agents' termination indemnity	468	117	(3)	582
Total non-current portion	**468**	**117**	**(3)**	**582**
Provision for product warranties	244	173	(97)	320
Other provisions	140	49	(129)	60
Total current portion	**384**	**222**	**(226)**	**380**

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

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

Other provisions stand at €60 thousand, and include non insured risks of €11 thousand set aside for excess payments relating to civil liability accidents. €49 thousand has been allocated to the "prizes" fund for commitments assumed with the clientele.

34. Other non-current liabilities

€/000	31.12.2007	31.12.2006
Deferred income - Law 488 grants	2,542	640
Social security payables	54	79
Payables due to the transferors of the Victus IT business	0	1,362
Total	**2,596**	**2,081**

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 29) and amounts to €214 thousand (€84 thousand in 2006).

"Payables due to the transferors of the Victus It business" has been classified at 31 December 2007 under other current payables since the debt expires in November 2008 (note 29).

35. Contingent liabilities

At the date of 31 December 2007 the group does not have any disputes that could give rise to future liabilities that have not already been reflected in the balance sheet.

36. 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 2007 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, starting from the 2007 financial period.

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 2007 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 2007 Trade receivables and Other receivables, equal to €63,373 thousand (€58,925 thousand at 31 December 2006), include €2,889 thousand (€1,907 thousand at 31 December 2006) 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	2007	2006
Trade receivables due from customers with SACE 1 rating	48,025	50,808
Trade receivables due from customers with SACE 2 and 3 rating	10,079	7,512
Trade receivables due from customers with non-insurable SACE rating	147	332
Total (Note 24)	**58,251**	**58,652**

Countries with level 1 rating for Sace are those for which insurance covers 90% of the collectable credit. Countries with level 2 rating for Sace are those for which insurance covers 85%. No cover is provided for with regards to non-insurable or suspended countries.

The amount of credits covered by SACE insurance at 31 December 2007 is €15,063 thousand.

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 27 and 30 relating respectively to Cash and Cash Equivalents and Financial Liabilities.
Management is of the opinion that the funds and credit lines currently available, besides those cash flows generated by operations and by financing activities, will be sufficient to allow the Group to meet its requirements with regards to investment activities, the management of working capital and the payment of debts at their natural expiry 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 2007 financial period, the overall amount of revenues directly exposed to exchange risk represented around 12% of the Group's aggregate turnover (10% in the 2006 financial period), while the amount of costs exposed to exchange risk is equal to 14% of aggregate Group turnover (17% in the 2006 financial period).
  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 28).
  At the balance sheet date there was no hedging in force with regards to these exposures for conversion exchange risk.

During 2007 there were no significant changes in the nature and structure of exposures to exchange risk and hedging policies adopted by the Group compared to the previous financial period.

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 2007, as a result of a hypothetical unfavourable and immediate variation of 10% in all relevant single exchange rates, would amount to around €355 thousand (€470 thousand at 31 December 2006).

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 does not currently use 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 2007 applicable to financial liabilities at a variable interest rate would result in a greater net cost, on an annual basis, of around €363 thousand (€410 thousand at 31 December 2006).
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 23, the Group holds a number of derivative financial instruments whose value is linked to the trend of exchange rates (forward currency purchase operations).
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 2007 as a result of a hypothetical unfavourable and immediate variation of 10% in underlying values would amount to around €319 thousand (€195 thousand at 31 December 2006).

37. Commitments

Fixed asset purchases

The group has €875 thousand in commitments to purchase fixed assets at 31 December 2007 (€633 thousand at 31 December 2006).

The Group also has commitments for urbanization costs payable for an amount of €173 thousand.

Guarantees granted

The group has €686 thousand in guarantees granted to third parties at 31 December 2007 (€581 thousand at the end of 2006).

38. Ordinary shares, treasury shares and dividends

Share capital is fully paid up at 31 December 2007 and amounts to €7,190 thousand. It consists of 27,653,500 ordinary shares of par value €0.26 each.

€/000	31.12.2007	31.12.2006
Number of ordinary shares	27,653,500	27,653,500
Treasury shares	(277,413)	(108,849)
Total outstanding shares	**27,376,087**	**27,544,651**

The dividends for 2006 approved by the shareholders on 27 April 2007, totalling €4,839 thousand, were paid during 2007.

In accordance with the related authorization by shareholders, Emak S.p.A. has purchased treasury shares on the market for the purpose of improving the stock's liquidity.

Emak S.p.A. held 108,849 treasury shares at 31st December 2006, worth €527 thousand.
During the first quarter of 2007 all the treasury shares held in portfolio at the beginning of the financial year were sold, while the Company subsequently purchased 277,413 treasury shares, worth €1,516 thousand. As a result, at 31.12.2007 the Company held 277,413 treasury shares for a value of €1,516 thousand.

During the months of January and February 2008, Emak S.p.A. purchased 31,700 treasury shares, worth €154 thousand, taking its total holding at 29th February 2008 to 309,113 such shares, worth €1,670 thousand.

39. Related party transactions

The effects on the balance sheet and income statement at 31 December 2007 of transactions by the Emak Group with ultimate parent companies, affiliated companies and any related parties are shown below.
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. The Emak Group supplies finished products to a number of the trading companies within the Yama Group, enabling them to complete their product range.

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

The main transactions with ultimate parent and affiliated companies during the year ended 31 December 2007 and the receivable and payable balances at that date are reported below:

Sale of goods and services and receivables

Companies controlled by Yama S.p.A. (€/000)	Net sales	Other revenues	Total revenues	Receivables
Comet S.p.A.	2,314	7	2,321	1,179
Garmec S.p.A.	291	-	291	17
Mac Sardegna S.r.l.	863	2	865	543
Sabart S.p.A.	220	4	224	66
Selettra S.r.l.	-	1	1	-
Tecomec S.p.A.	14	138	152	4
Unigreen S.p.A.	10	-	10	-
Bertolini S.p.A.	38	-	38	7
Total (note 24)	**3,750**	**152**	**3,902**	**1,816**

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
Arrow line	105	-	105	88
Bertolini S.p.A.	3,242	-	3,242	634
Cofima S.r.l.	67	4	71	86
Comet France SAS	811	-	811	14
Comet S.p.A.	2,154	-	2,154	1,360
Fima S.p.A.	483	34	517	152
Garmec S.p.A.	13	1	14	0
Mac Sardegna S.r.l.	-	7	7	6
Sabart S.p.A.	150	-	150	23
Selettra S.r.l.	2,414	30	2,444	872
Speed France SAS	570	-	570	94
Tecnol S.p.A.	2,583	25	2,608	850
Tecomec S.p.A.	1,134	-	1,134	237
Unigreen S.p.A.	58	-	58	16
Yama Immobiliare S.r.l.	-	45	45	-
Yama S.p.A.	-	102	102	53
Tai Long	2,332	-	2,332	724
Total (nota 29)	**16,116**	**248**	**16,364**	**5,209**

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

€/000	FY 2007	FY 2006
Emoluments of directors and statutory auditors	475	407
Benefits in kind	6	6
Wages and salaries	639	586
Employee termination indemnities	47	44
Consulting fees	34	57
Total	**1,201**	**1,100**

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

40. Subsequent events

Reference is made to the following events:
1. On 15 January 2008 EMAK S.p.A. acquired from the holding company, Yama s.p.a., 100% of the shares in the company, BERTOLINI S.p.A.,
BERTOLINI S.P.A. sells products with the "Bertolini" and "Nibbi" trademarks, and is one of the leaders in the market for the production and sale of walking tractors, power motors, motor hoes, transporters and other machines for small-scale farming and gardening.
Through this operation, the EMAK Group will expand its current operations in terms of size, production and income in associated and synergetic sectors.

The consideration for the acquisition of the shareholding amounts to €6,500 thousand, which was paid by Emak S.p.A. at the same time as the transfer of shares.

The estimated net worth (shareholders' equity) of Bertolini S.p.A at 31 December 2007 amounted to around €4,400 thousand.
For further information, reference should be made to the relevant informative document filed in the registered office, on the Emak S.p.A. website, and filed with the Italian Stock Exchange;

2. A targeted tax inspection was completed in Emak on 22 February 2008 as per art. 33, D.P.R. (Decree of the President of the Republic) 600/73 by the Bologna Inland Revenue Office, regarding direct taxes and value added tax relating to the financial period 2005 and, in part, to the financial period 2004.
The inspection had a positive outcome without any significant consequences

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

€/000	Equity 31.12.2007	Results for year ended 31.12.2007	Equity 31.12.2006	Results for year ended 31.12.2006
Equity and results of Emak S.p.A.	77,790	9,813	73,765	9,023
Equity and results of consolidated subsidiaries	31,957	6,793	24,703	4,140
Total	**109,747**	**16,606**	**98,468**	**13,163**
Effect of eliminating book value of equity investments	(15,581)	-	(13,881)	-
Elimination of dividends		(1,315)	-	(416)
Elimination of intercompany balances and gains	(2,727)	(45)	(2,711)	(1,443)
Total as per consolidated financial statements	**91,439**	**15,246**	**81,876**	**11,304**
Minority interests	**(515)**	**(65)**	**(483)**	**(65)**
Equity and results attributable to the group	**90,924**	**15,181**	**81,393**	**11,239**

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(This translation from the Italian original version has been made for the convenience of the reader)

REPORT OF THE AUDITORS IN ACCORDANCE WITH ARTICLE 156 OF LEGISLATIVE DECREE NO. 58 OF FEBRUARY 24, 1998

To the shareholders of
EMAK SpA

1 We have audited the consolidated financial statements of Emak Group as at and for the year ended December 31, 2007, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and notes thereto. These financial statements are the responsibility of the parent's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes as required by law, reference should be made to the report issued by other auditors on April 11, 2007.

3 In our opinion, the consolidated financial statements of Emak Group as at and for the year ended December 31, 2007 comply with the International Financial Reporting Standard endorsed by the European Union, as well as the Italian regulations implementing article 9 of the legislative decree n° 38 of February 28, 2005. Therefore, they are clearly stated and give a true and fair view of the financial position of Emak Group as at December 31, 2007, the results of its operations, changes in its equity and its cash flows for the year then ended.

Bologna, April 7, 2008

Fidital Revisione e Organizzazione Contabile Srl

(Signed on the original)

Diego Bassi
(Partner)

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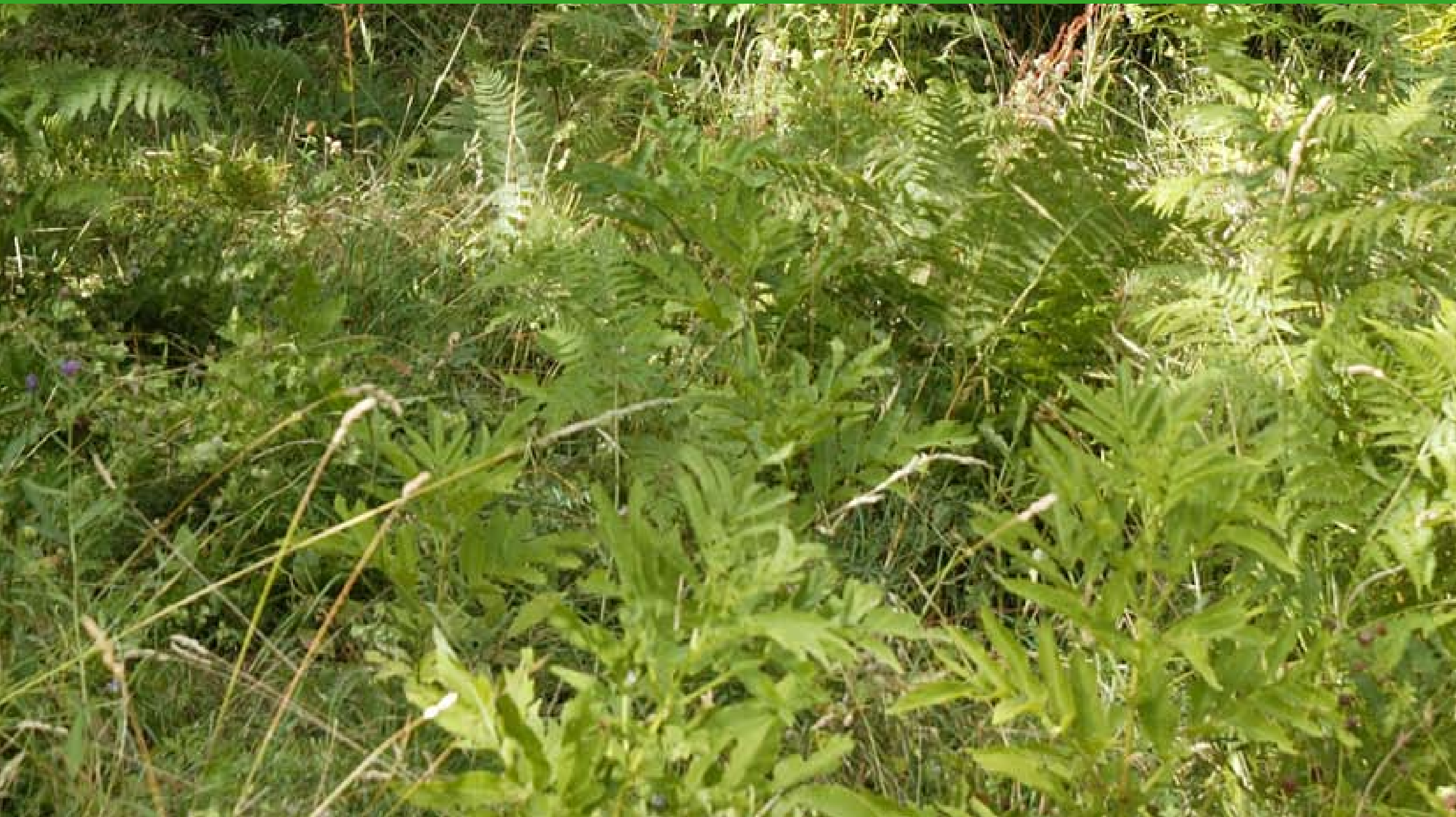
EMAK S.P.A. – FINANCIAL STATEMENTS AT 31 DECEMBER 2007



Emak S.p.A.
Financial statements at 31 December 2007

Emak S.p.A. - Income Statement

€/000	Notes	Year 2007	Year 2006
Sales	8	157,996,497	161,935,321
Other operating income	8	1,134,037	925,961
Change in inventories	23	172,356	3,397,380
Raw and consumable materials and goods	9	(103,714,275)	(107,945,619)
Salaries and employee benefits	10	(17,272,425)	(17,773,911)
Other operating costs	11	(20,464,409)	(21,672,765)
Amortization, depreciation and impairment losses	12	(3,109,785)	(3,299,562)
EBIT		**14,741,996**	**15,566,805**
Financial revenues	13	2,156,902	1,382,213
Financial costs	13	(1,389,023)	(1,064,280)
Exchange gains and losses	13	(203,029)	(400,529)
EBT		**15,306,846**	**15,484,209**
Income taxes	14	(5,493,462)	(6,461,337)
Net profit		**9,813,384**	**9,022,872**
Basic earnings per share	**15**	**0.356**	**0.327**
Diluted earnings per share	**15**	**0.356**	**0.327**

Emak S.p.A. - Balance Sheet

ASSETS

€/000	Notes	31.12.2007	31.12.2006
Non-current assets			
Property, plant and equipment	16	16,362,499	16,288,868
Intangible assets	18	1,646,822	1,667,548
Investment property	17	173,964	361,385
Equity investments	19	15,804,197	14,104,197
Deferred tax assets	29	669,714	870,547
Other financial assets	21	8,057,090	10,208,896
Other receivables	22	10,537	5,835
Total		**42,724,823**	**43,507,276**
Non-current assets held for sale			
Assets held for sale	24	0	268,969
Total		**0**	**268,969**
Current assets			
Inventories	23	40,316,079	40,143,723
Trade and other receivables	22	51,629,532	52,620,636
Current tax assets	29	2,173,335	624,257
Other financial assets	21	4,372	8,804
Cash and cash equivalents	25	1,957,364	827,465
Total		**96,080,682**	**94,224,885**
TOTAL ASSETS		**138,805,505**	**138,001,130**

EQUITY AND LIABILITIES

€/000	Notes	31.12.2007	31.12.2006
Capital and reserves			
Share capital	26	7,189,910	7,189,910
Share premium	26	21,047,079	21,047,079
Treasury shares	26	(1,516,075)	(527,589)
Other reserves	26	30,186,816	30,186,816
Retained earnings	26	20,881,904	15,868,386
Total		**77,789,634**	**73,764,602**
Non-current liabilities			
Loans and Borrowings	28	8,709,304	4,164,921
Deferred tax liabilities	29	2,637,354	2,389,723
Post-employment benefits	30	4,147,127	5,321,809
Provisions	31	581,726	468,369
Total		**16,075,511**	**12,344,822**
Current liabilities			
Trade and other payables	27	33,282,271	32,994,593
Current tax liabilities	29	717,375	942,709
Loans and borrowings	28	10,766,552	17,673,537
Derivative financial instruments	20	434	44,090
Provisions	31	173,728	236,777
Total		**44,940,360**	**51,891,706**
TOTAL EQUITY AND LIABILITIES		**138,805,505**	**138,001,130**

STATEMENT OF CHANGES IN THE EQUITY OF EMAK S.p.A. AT 31.12.2006 AND AT 31.12.2007

			OTHER RESERVES	
€/000	SHARE CAPITAL	SHARE PREMIUM	TREASURY SHARES	LEGAL RESERVE
Total at 31.12.2005	**7,190**	**21,047**	**(28)**	**1,438**
Change in treasury shares			(499)	
Payment of dividends				
Reclassification of 2005 net profit				
Other changes				
Net profit for 2006				
Total at 31.12.2006	**7,190**	**21,047**	**(527)**	**1,438**
Change in treasury shares			(989)	
Payments of dividends				
Reclassification of 2006 net profit				
Net profit for 2007				
Total at 31.12.2007	**7,190**	**21,047**	**(1,516)**	**1,438**

OTHER RESERVES		RETAINED EARNINGS		
REVALUATION RESERVE	**OTHER RESERVE**	**RETAINED EARNINGS**	**NET PROFIT OF THE PERIOD**	**TOTAL**
1,138	**27,638**	**3,128**	**7,834**	**69,385**
				(499)
			(4,144)	(4,144)
	226	3,464	(3,690)	0
	(253)	253		0
			9,023	9,023
1,138	**27,611**	**6,845**	**9,023**	**73,765**
		40		(949)
			(4,839)	(4,839)
		4,184	(4,184)	0
			9,813	9,813
1,138	**27,611**	**11,069**	**9,813**	**77,790**

Emak S.p.A. Cash flow statement

Consolidated Cash Flow Statement

€/000	Notes	2007	2006
Cash flow from operations			
Net profit for period		**9,813**	**9,023**
Amortization, depreciation and impairment losses	12	3,110	3,300
(Capital gains)/losses on disposal of property, plant and equipment		(523)	(204)
Dividends income		(1,326)	(416)
Decreases/increases in trade and other receivables		(362)	(2,640)
Decreases/increases in inventories		(172)	(3,398)
Decreases/increases in trade and other payables		310	(8,968)
Change in post-employment benefits	30	(1,175)	(42)
Decreases/increases in provision for liabilities	31	50	(126)
Decreases/increases in derivate financial instruments		(44)	44
Net cash generated by operations		**9,681**	**(3,427)**
Cash flow from investment activities			
Dividend income		1,326	416
Increases in property, plant and equipment and intangible assets		(2,986)	(2,458)
Increases and decreases in financial assets		456	956
Proceeds from disposal of property, plant and equipment		804	145
Business combinations	5	0	505
Net cash absorbed by investment activities		**(400)**	**(436)**
Cash flow from financial activities			
Change in equity		(949)	(499)
Change in short and long-term loans and borrowings		757	1,658
Change in finance leases		(443)	(430)
Dividends paid		(4,839)	(4,144)
Net cash absorbed by financial activities		**(5,474)**	**(3,415)**
Net increase in cash and cash equivalents		**3,807**	**(7,278)**
Opening cash and cash equivalents		**(8,468)**	**(1,190)**
Closing cash and cash equivalents		**(4,661)**	**(8,468)**

ADDITIONAL INFORMATION ON THE CASH FLOW STATEMENT

€/000	Notes	2007	2006
Reconciliation of cash and cash equivalents			
Opening cash and cash equivalents, detailed as follows:	**25**	**(8,468)**	**(1,190)**
Cash and cash equivalents		827	1,077
Overdrafts		(9,295)	(2,267)
Closing cash and cash equivalents, detailed as follows:	**25**	**(4,661)**	**(8,468)**
Cash and cash equivalents		1,957	827
Overdrafts		(6,618)	(9,295)
Other information:			
Tax paid		(6,503)	(6,128)
Interest paid		(703)	(730)
Interest receiveable on financings to subsidiary companies		484	562
Interest receiveable on bank account		36	32
Interest receiveable on trade receivables		154	148
Effects of exchange rate changes		5	1
Change in related party financial assets transactions		(2,152)	947
Change in related party receivables and service transactions		(1,792)	(2,985)
Change in related party payables and service transactions		(410)	(1,104)

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

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

1. General information

The Board of Directors approved the draft financial statements of Emak S.p.A. for the year ended 31 December 2007 on 26 March 2008 and authorized their immediate publication in a press release on the same date.

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

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

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

The company has around 400 employees.

EMAK is controlled by YAMA s.p.a., 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 its corporate Bodies.
EMAK S.p.A.'s Board of Directors, however, makes its own strategic decisions and operates substantially autonomously. 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. The aim in all cases is to protect the company and its assets in the best possible way.

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

2. Summary of principal accounting policies

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

2.1 General methods of preparation

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

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

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

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

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

2.2 Presentation currency

(a) The financial statements are presented in euro.

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

2.3 Property, plant and equipment

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

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

Land is not 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.
Capitalized development costs are amortized over 5 years, commencing from the start of production of the products developed.
All other development costs are expensed to income as incurred.

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

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

2.5 Impairment of assets

Assets with an indefinite life are not amortized or depreciated but are 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.

2.10 Trade receivables

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

2.11 Trade payables

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

2.12 Cash and cash equivalents

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

2.13 Share capital

Ordinary shares are classified under equity.

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

2.14 Financial liabilities

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

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

2.15 Taxes

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

Deferred tax assets are recognized on all temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.
The same principle applies to the recognition of deferred tax assets on utilizable tax losses.
The carrying amount of deferred tax assets is reviewed at each balance sheet date and possibly reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of 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.

2.16 Provision for employee termination indemnities

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

2.17 Provisions for liabilities and charges

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

2.18 Revenues

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

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

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

2.19 Financial income and expenses

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

2.20 Payment of dividends

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

2.21 Earnings per share

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

2.22 Cash flow statement

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

2.23 New accounting standards

It should be noted that the IASB and IFRIC have approved a number of changes to IAS/IFRS standards, applicable for the first time from 1st January 2007. The main changes relate to:
IFRS 7 ("Financial Instruments Disclosures") and supplementary changes to IAS 1 ("Presentation of Financial Statements – Disclosures relating to share capital") effective from 1st January 2007: the IFRS 7 principle introduces integrative information to be provided with regards to financial instruments, replacing IAS 30 ("Disclosure in the Financial Statements of Banks and Similar Financial Institutions") and a number of requirements of IAS 32 ("Financial Instruments: Disclosure and Presentation").
IFRIC 7 ("Applying the Restatement Approach under IAS 29"), effective from annual periods beginning on or after 1st March 2006: the guidance relates to principles applicable in the event of companies operating in countries where there is hyperinflation, currently not relevant for the company.

IFRIC 8 (“Scope of IFRS 2”), effective from annual periods beginning on or after 1st May 2006; the interpretation specifies the treatment of share-based payments, currently not applicable for the company.
IFRIC 9 (“Reassessment of Embedded Derivatives”), effective from annual periods beginning on or after 1st June 2006, currently not applicable for the company.
IFRIC 10 (“Interim Financial Reporting and Impairment”), effective from annual periods beginning on or after 1st November 2006: the document clarifies a number of aspects regarding the recognition and reversal in financial statements of impairment losses on goodwill and certain financial assets, not applicable for the company.
Besides what is set out above, the following changes to principles and interpretations have been issued but are not effective for the 2007 financial period and the company has not chosen to adopt them in advance.
IFRIC 11 - IFRS2 (“Group and Treasury Share Transactions”), effective from annual periods beginning from 2009. The Interpretation addresses how to apply IFRS 2 “Share-based Payment” to share-based payment arrangements involving an entity’s own equity instruments or equity instruments of another entity in the same group (e.g. equity instruments of its parent, currently not applicable for the company.
IFRS 8 (“Operating Segment”), obligation for balance sheets relating to annual periods opening on or after 1st January 2009: the principle replaces IAS 14 “Segment reporting” and introduces, in the IFRS system, a “management” approach to reporting on the financial performance of operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. This standard has not currently been applied by the company.

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 price risk), credit risk, liquidity risk and interest rate risk. The Company’s policies for managing and controlling financial risks focus on the unpredictability of financial markets and seek to minimize the potentially negative effects on the consolidated 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 group 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 2007, the Company’s bank loans and borrowings and finance leases all carried variable interest and no hedges had been taken out.

(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.

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

(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.

(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 sufficient credit lines.

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

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

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

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

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

3.3 Measurement of fair value

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

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

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

4. Key accounting estimates and assumptions

The preparation of the financial statements and the related notes under IFRS has required management to make estimates and assumptions affecting the value of reported assets and liabilities and the disclosures relating to contingent assets and liabilities at the balance sheet date. Actual results could differ from these estimates. Estimates are used for recording provisions for doubtful accounts and inventory obsolescence, amortization and depreciation, 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 were carried out during the 2007 financial year:

1. During the first quarter Emak S.p.A. sold an industrial building in Brescello (Reggio Emilia) for €800 thousand. This building had previously been classified under “assets held for sale” (note 24).
The capital gain on this sale, classified in “other operating incomes” amounted to €531 thousand (note 8).

2. In June 2007, the reform of the complementary social security system, introduced by Legislative Decree 252/2005 and subsequent modifications, came into force.
As a result of this reform, starting from January 1st 2007, the funds for employee termination indemnities must be fully paid into a complementary security fund or into a Treasury Fund managed by INPS (National Social Security Institute), following an accounting treatment already applied for social security contributions.

The termination indemnity fund, accrued until December 31st 2006, is still considered to all effects as a defined benefits plan, with the need to carry out actuarial projections.
In contrast with previous actuarial projections, as from June 2007 future wage increases have no longer been taken into consideration.

The projection, carried out by applying the new actuarial methodology, results in a profit of approximately €648 thousand (note 30).

This profit has been accounted for as a reduction in staff costs and is therefore included in the Group’s operating income.

6. Balances or transactions arising from atypical and unusual operations

No atypical or unusual transactions took place during the course of 2007.

7. Net financial position

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

€/000	31.12.2007	31.12.2006
Cash and banks	1,957	827
Other financial assets	4	9
Financial liabilities	(10,766)	(17,673)
Derivative financial instruments	0	(44)
Short-term net debt	**(8,805)**	**(16,881)**
Other financial assets	8,057	10,209
Financial liabilities	(8,709)	(4,165)
Long-term net debt	**(652)**	**6,044**
Cash and banks	1,957	827
Other financial assets	8,061	10,218
Financial liabilities	(19,475)	(21,838)
Derivative financial instruments	0	(44)
Total net debt	**(9,457)**	**(10,837)**

Long-term “Other financial assets” at 31 December 2007 refer entirely to loans given to subsidiaries.

8. Sales and other operating income

Sales revenues amount to €157,996 thousand, compared with €161,935 thousand in the prior year. They are stated net of €849 thousand in returns, compared with €1,297 thousand in the prior year.

Details of sales are as follows:

€/000	FY 2007	FY 2006
Net sales revenues (net of discounts and rebates)	157,571	161,946
Revenues from recharged transport costs	1,274	1,286
Returns	(849)	(1,297)
Total	**157,996**	**161,935**

Other operating income is analyzed as follows:

€/000	FY 2007	FY 2006
Grants for operating expenses	111	8
Capital gains on property, plant and equipment	12	301
Capital gains on fixed assets available for sale	531	-
Insurance refunds	9	44
Out-of-period income	199	337
Rental income (note 17)	131	129
Other	141	107
Total	**1,134**	**926**

The heading “Grants for operating expenses” includes the subsidy of €103 thousand received from the Emilia Romagna Region in accordance with Law 7/2002 for an industrial research project.

The “Capital gains on fixed assets available for sale, of €531 thousand, relates to the disposal of the industrial building in Brescello (RE) as referred to in note 5.

9. Cost of raw and consumable materials and goods

€/000	FY 2007	FY 2006
Raw materials	48,990	61,662
Consumable materials	211	244
Finished products	53,161	44,521
Other purchases	1,352	1,519
Total	**103,714**	**107,946**

The decrease in the heading “Raw materials” and the increase in the heading “Finished products” result from the development of the production system relating to supplies from factories in which the group operates.

10. Salaries and employee benefits

Details of these costs are as follows:

	FY 2007	FY 2006
Wages and salaries	12,346	12,253
Social security charges	3,904	3,906
Employee termination indemnity	1,034	791
Adjustment of termination indemnity fund for actuarial losses/(gains) (30)	(837)	(225)
Other costs	69	180
Directors’ emoluments	434	371
Temporary staff	322	498
Total	**17,272**	**17,774**

Employees are broken down by grade as follows:

€/000,	FY 2007		FY 2006	
	(1)	(2)	(1)	(2)
Executives	13	13	12	12
Office staff	159	151	158	156
Factory workers	215	205	239	210
Totale	**387**	**369**	**409**	**378**

(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 2007	FY 2006
Subcontract work	3,515	4,469
Maintenance	1,172	1,352
Transportation	5,308	4,881
Advertising and promotions	2,192	2,203
Commissions	1,611	1,662
Other services	4,787	5,051
Services	**18,585**	**19,618**
Leases and rentals	**628**	**613**
Increases in provisions (note 31)	**280**	**325**
Increase in provision for doubtful accounts (note 22)	183	251
Capital losses on property, plant and equipment	8	97
Other taxes (not on income)	145	131
Other operating costs	635	638
Other costs	**971**	**1,117**
Total	**20,464**	**21,673**

The decrease in subcontract work during 2007 compared to 2006 is attributable to the improved integration of the production cycle.

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

12. Amortization, depreciation and impairment losses

Details of these amounts are as follows:

€/000	FY 2007	FY 2006
Amortization of intangible assets (note 18)	637	637
Depreciation of property, plant and equipment (note 16)	2,435	2,625
Depreciation of investment property (note 17)	38	38
Total	**3,110**	**3,300**

13. Finance income and expenses

These amounts are analyzed as follows:

€/000	FY 2007	FY 2006
Dividends from subsidiaries	1,326	416
Interest on trade receivables	212	167
Interest on loans to subsidiaries (note 35)	484	562
Interest on bank and post office accounts	36	31
Cash discounts received	99	206
Financial income	**2,157**	**1,382**

The "Dividends from subsidiaries" heading is composed of dividends received from the companies, Jiangmen Emak Outdoor Power Equipment Co. Ltd, for €941 thousand, and Emak Suministros Espana S.A., for €385 thousand.

€/000	FY 2007	FY 2006
Interest on long-term bank loans and borrowings	215	145
Interest on short-term bank loans and borrowings	445	324
Financial charges from valuing employee termination indemnities (note 30)	212	112
Cash discounts given	329	323
Other financial costs	188	160
Financial expenses	**1,389**	**1,064**

The increase in interest payable is mainly due to an increase in interest rates, with the average level of borrowing remaining substantially unchanged.

€/000	FY 2007	FY 2006
Realized exchange gains	488	623
Unrealized gains	(55)	(392)
Realized exchange losses	(636)	(632)
Exchange gains and losses	**(203)**	**(401)**

14. Income taxes

The estimated charge for current tax and changes in deferred tax assets and liabilities in 2007 is €5,493thousand, (€6,461 thousand in the prior year).

This amount is made up as follows:

€/000	FY 2007	FY 2006
Current income taxes	5,077	6,287
Taxes from prior years	(32)	(422)
Changes in deferred tax liabilities (note 29)	247	73
Changes in deferred tax assets (note 29)	201	523
Total	**5,493**	**6,461**

Current tax includes the cost for IRAP (regional tax on productive activities) for €1,096 thousand, against €1,357 thousand in 2006.
Current income taxes transferred directly to movements in equity in 2007 amount to €19 thousand and did not feature in the previous financial period. These taxes refer to capital gains on the sale of treasury shares (note 26).

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

€/000	FY 2007	% rate	FY 2006	% rate
Profit before taxes	**15,307**		**15,484**	
Theoretical tax charge	**5,702**	**37.25**	**5,768**	**37.25**
Effect of IRAP differences calculated on different tax base	478	3.1	741	4.8
Non-taxable income	(61)	(0.4)	(68)	(0.4)
Dividends	(416)	(2.7)	(130)	(0.9)
Non-deductible costs	173	1.1	171	1.1
Other differences	(368)	(2.4)	-	-
Effective tax charge	(15)	(0.1)	(21)	(0.1)
Effect of IRAP differences calculated on different tax base	**5,493**	**35.9**	**6,461**	**41.7**

The effective tax rate of 35.9% is down from the one of 41.7% reported in 2006.
The reduction in tax rates applicable in the calculation of payable and receivable deferred tax which occurred in 2007 has led to a lower theoretical fiscal charge of around €368 thousand calculated on temporary differences.

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 2007	FY 2006
Net profit attributable to ordinary shareholders (€/000)	9,813	9,023
Weighted average number of ordinary shares outstanding	27,581,709	27,589,077
Basic earnings per share (€)	**0.356**	**0.327**

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

€/000	31.12.2006	INCREASES	DECREASES	SALE OF BUSINESS	31.12.2007
Land and buildings	14,432	223	-	150	14,805
Accumulated depreciation	(3,903)	(334)	-	-	(4,237)
Land and buildings	**10,529**	**(111)**	**-**	**150**	**10,568**
Plant and machinery	6,613	348	(124)	-	6,837
Accumulated depreciation	(5,019)	(331)	112	-	(5,238)
Plant and machinery	**1,594**	**17**	**(12)**	**-**	**1,599**
Other property, plant and equipment	35,780	1,529	(324)	-	36,985
Accumulated depreciation	(31,614)	(1,770)	323	-	(33,061)
Other assets	**4,166**	**(241)**	**(1)**	**-**	**3,924**
Advances	**-**	**271**	**-**	**-**	**271**
Cost	**56,825**	**2,371**	**(448)**	**150**	**58,898**
Accumulated depreciation (note12)	**(40,536)**	**(2,435)**	**435**	**-**	**42,536**
Net book value	**16,289**	**(64)**	**(13)**	**150**	**16,362**

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

An amount of €150 thousand has been reclassified under the “Land and buildings” heading, relating to land that has become suitable for building and on which urbanization work has begun (note 17).

The increase in other plant and machinery refers to investments made for the routine renewal of these fixed assets.

The increase in other fixed assets refers to €1,257 thousand for the purchase equipment and moulds, €28 thousand for the purchase of internal means of transport, €145 thousand for the purchase of electronic machines, €74 thousand for the purchase of testing and control equipment and the remainder for the purchase of various other items of equipment

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

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

Property, plant and equipment under construction has a book value of €91 thousand at 31 December 2007.

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

€/000	31.12.2007	31.12.2006
Gross value	3,659	3,659
Accumulated depreciation	(330)	(220)
Net book value	**3,329**	**3,439**

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

17. Investment property

The cost at 31 December 2007 amounts to €1,257 thousand euro, compared to €1,407 thousand at the end of the previous financial period. The decrease of €150 thousand is due to a reclassification in tangible fixed assets under the “Land and buildings” heading, as described in note 16 above.

The value refers exclusively to an industrial building let to a company in the Yama group. Rental income received in 2007 from this property amounted to €131 thousand (note 8), compared to €129 thousand in the previous financial period.

The amortisation provision at 31 December 2007 is €1,083 thousand, compared to €1,046 thousand at the end of the previous financial period.

At 31 December 2007 the fair value of non-capital investments amounts to €2.5 million.

18. Intangible assets

Intangible assets report the following changes:

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

€/000	31.12.2006	Increases	Decreases	31.12.2007
Development costs	1,194	47	-	1,241
Accumulated amortization	(519)	(119)	-	(638)
Development costs	**675**	**(72)**	**-**	**603**
Patents and intellectual property rights	3,048	402	-	3,450
Accumulated amortization	(2,091)	(503)	-	(2,594)
Patents	**957**	**(101)**	**-**	**856**
Concessions, licences and trademarks	44	12	-	56
Accumulated amortization	(9)	(5)	-	(14)
Concessions, licences and trademarks	**35**	**7**	**-**	**42**
Other intangible assets	-	38	-	38
Accumulated amortization	-	(10)	-	(10)
Other intangible assets	**-**	**28**	**-**	**28**
Advances	**-**	**117**	**-**	**117**
Cost	**4,286**	**616**	**-**	**4,902**
Accumulated amortization (note 12)	**(2,619)**	**(637)**	**-**	**(3,256)**
Net book value	**1,667**	**(21)**	**-**	**1,646**

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

The increase in other intangible assets refers to costs incurred during the year for the new website.

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

The company expensed a total of €4,540 thousand in R&D costs to income during the year (€4,306 thousand in 2006).

19. Equity investments

Details of equity investments are as follows:

€/000	FY 2007	FY 2006
Equity investments		
- in subsidiary companies	15,580	13,880
- in other companies	224	224
TOTAL	**15,804**	**14,104**

Equity investments in subsidiary companies amount to €15,580 thousand with an increase of €1,700 thousand relating to payments made in 2007 to the subsidiary company, Comag S.r.l., on account for future increases in share capital.

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

Jiangmen Emak Outdoor Power Equipment Co. Ltd. is a wholly-owned subsidiary by virtue of the undertaking to buy back the 49% interest held by Simest S.p.A. on 30 June 2013.
The interest subscribed by Simest S.p.A. in this Chinese company amounts to €896 thousand and is matched by a corresponding liability reported under financial payables (note 28).

Equity investments in other companies relate to:

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

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

20. Derivative financial instruments

This amount refers to losses realized on the fair value measurement of financial instruments that hedge foreign currency purchases.
At 31 December 2007 there were outstanding forward agreements for the purchase of JPY 25,000,000 maturing by end of April 2008 at an average exchange rate of 163.83.

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

21. Other financial assets

Other non-current financial assets of €8,057 thousand, compared with €10,209 thousand at the end of the prior year, all refer to loans granted to subsidiary companies.

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

Other current financial assets, amounting to €4 thousand, compared with €9 thousand in the prior year, refer to accrued income and prepaid expenses of a financial nature.

22. Trade and other receivables

Details of these amounts are as follows:

€/000	FY 2007	FY 2006
Trade receivables	38,183	39,221
Provision for doubtful credits	(772)	(599)
Net trade receivables	**37,411**	**38,622**
Receivables due from related parties(note 36)	11,866	13,658
Prepaid expenses and accrued income	69	63
Other receivables	2,283	278
Total current portion	**51,629**	**52,621**
Other non-current receivables	11	6
Total non-current portion	**11**	**6**

Trade receivables include the following amounts in foreign currency:
- USD 4,933,082;
- JPY 17,633,110;
- PLN 18,450.

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

The "Other receivables" heading includes €2,073 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. The customer has, in turn, paid Emak in advance €1,698 thousand for costs sustained. This amount has been accounted for under the heading "other (current) payables" (note 27).

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

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

€/000	Italy	Europe	Rest of world	Total
Trade receivables	15,213	13,653	8,545	37,411
Receivables due from related parties	699	8,200	2,967	11,866

Movements in the provision for doubtful accounts are as follows:

€/000	31.12.2007	31.12.2006
Opening balance	**599**	**405**
Increases (note 11)	183	251
Decreases	(10)	(57)
Closing balance	**772**	**599**

The book value of this balance approximates its fair value.

23. Inventories

Inventories are detailed as follows:

€/000	FY 2007	FY 2006	Change
Raw, ancillary and consumable materials	17,987	19,342	(1,355)
Work in progress and semi-finished products	5,697	4,816	881
Finished products and goods for resale	16,632	15,986	646
Total	**40,316**	**40,144**	**172**

Inventories are stated net of a provision of €693 thousand at 31 December 2007 (€739 thousand at 31 December 2006). The purpose of this provision is to write down obsolete and slow-moving items to their estimated realizable value.

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

€/000	FY 2007	FY 2006
Opening balance	**739**	**647**
Increases	213	359
Uses	(259)	(267)
Closing balance	**693**	**739**

Income recognized in the year for write-backs of goods sold in the period was not material.

None of the company's inventories at 31 December 2007 act as security against its liabilities.

24. Non-current assets held for sale

The balance under this heading has been eliminated further to the sale of the relevant industrial building as described in note 5. The balance was €269 thousand at 31 December 2006.

25. Cash and cash equivalents

Cash and cash equivalents are detailed as follows:

€/000	31.12.2007	31.12.2006
Bank and post office deposits	1,956	826
Cash	1	1
Total	**1,957**	**827**

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

€/000	31.12.2007	31.12.2006
Cash and banks	1,957	827
Overdrafts (note 28)	(6,618)	(9,295)
Total	**(4,661)**	**(8,468)**

26. Equity

Share capital
Share capital is fully paid up at 31 December 2007 and amounts to €7,190 thousand, remaining unchanged since the end of 2006. It consists of 27,653,500 ordinary shares of par value €0.26 each.

Share premium reserve
The share premium reserve, which consists of the premium paid on new-issue shares, is €21,047 thousand at the end of 2007, remaining unchanged since the prior year.

Treasury shares
The adjustment of €1,516 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 2007 (note 35).
The par value of these treasury shares is €72 thousand.

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

The revaluation reserve at 31 December 2007 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 2007, inclusive of all allocations of earnings in prior years.

At 31 December 2007, 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 2006.

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

Nature/Description (€/000)	Amount	Possible use	Distributable portion	Summary of uses in past three years: Coverage of losses	Summary of uses in past three years: Other reasons
Share capital	**7,190**				
Treasury shares	**(1,516)**				
Capital reserves					
Share premium reserve	21,047	A – B - C	21,047	-	-
Revaluation reserve under Law 72/83	371	A – B – C	371	-	-
Revaluation reserve under Law 413/91	767	A – B – C	767	-	-
Merger surplus reserve	394	A – B – C	394	-	-
Reserves formed from earnings					
Legal reserve	1,438	B	-	-	-
Extraordinary reserve	27,088	A – B – C	27,088	-	-
Untaxed reserves	129	A – B – C	129	-	-
Reserve for unrealized exchange gains	11,069	A – B – C	11,069		
Net profit for the period	9,813	A – B – C	9,813	-	-
Total	**77,790**		**70,678**	**-**	**-**
Undistributable portion(*)			**942**	**-**	**-**
Distributable balance			**69,736**	**-**	**-**

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

(*): This represents the undistributable portion due to: the part restricted for unamortized deferred costs under article 2426.5 of the Italian Civil Code (€603 thousand) and the estimated taxes on the distribution of the revaluation reserves and merger surplus reserve (€339 thousand).

Gains recognized directly in equity

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

€/000	FY 2007	FY 2006
Capital gains on sale of treasury shares	59	-
Taxes	(19)	-
Net profit on treasury shares	**40**	**-**

27. Trade and other payables

Details of these amounts are as follows:

€/000	31.12.2007	31.12.2006
Trade payables	19,212	20,745
Payables due to related parties (note 36)	9,100	9,510
Payables due to staff and social security institutions	2,791	2,273
Other payables	2,179	467
Total	**33,282**	**32,995**

Trade payables do not generate interest and are usually settled after 80 days.
This balance includes the following amounts in foreign currency:
- USD 1,803,610;
- JPY 85,361,395;
- CHF 31,926;
- TWD 2,123,677.

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

€/000	Italy	Europe	Rest of world	Total
Trade payables	13,769	1,920	3,523	19,212
Payables due to related parties	6,464	373	2,263	9,100

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

The "Other payables" heading includes €1,698 thousand relating to advanced payments received from a customer with regards to a new product development project in progress (note 22).

28. Financial liabilities

Financial liabilities at 31 December 2007 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	31.12.2007	31.12.2006
Overdrafts (note 25)	6,618	9,295
Bank loans	2,800	7,800
Finance leases	456	443
Financial accrued expenses and deferred income	173	77
Other loans	-	59
Guarantees received	720	-
Total current portion	**10,767**	**17,674**

The guarantees received refer to commercial credits granted.

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

€/000	31.12.2007	31.12.2006
Bank loans	5,376	376
Finance leases	2,437	2,892
Financial accrued expenses and deferred income	-	1
Other loans	896	896
Total non-current portion	**8,709**	**4,165**

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

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

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

Short-term loans and borrowings are repayable as follows:

€/000	Due within 6 months	Esigibili 6 and 12 months	Total
Bank loans	2,800	-	2,800
Finance leases	226	230	456
Guarantees received	-	720	720
Total	**3,026**	**950**	**3,976**

Long-term loans and borrowings are repayable as follows:

€/000	Due within 2 years	Due within 3 years	Due within 4 years	Due within 5 years	Total due within 5 years	Due beyond 5 years
Bank loans	75	75	75	5,075	5,300	76
Finance leases	469	483	498	512	1,962	475
Other loans	-	-	-	-	-	896
Total	**544**	**558**	**573**	**5,587**	**7,262**	**1,447**

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

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

€/000	31.12.2007	31.12.2006
Minimum future payments<1 year	531	531
Minimum future payments from 1 to 5 years	2,126	2,126
Minimum future payments beyond 5 years	479	1,011
Total minimum payments	3,136	3,668
Payables for future financial expenses	(243)	(333)
Present value	2,893	3,335
Interest rate	**4.9%**	**3.6%**

The company had around €59 million in undrawn credit lines at 31 December 2007.

Financial liabilities are analyzed by geographical area as follows:

€/000	Italy	Europe	Rest of world	Total
Bank loans and overdrafts	14,794	-	-	14,794
Finance leases	2,893	-	-	2,893
Other loans	896	-	-	896
Guarantees received	**-**	**-**	**720**	**720**

29. Tax assets and liabilities

In the calculation of deferred tax assets and liabilities, account has been taken of the IRES (corporation tax) and IRAP (regional tax on production activities) rates in force from the 2008 financial period.

Deferred tax assets are detailed below:

€/000	31.12.2006	Increases	Decreases	31.12.2007
Provision for inventory obsolescence	275	67	(125)	217
Impairment of assets	36	-	(36)	-
Provision for doubtful accounts	31	-	(1)	30
Other deferred tax assets	529	289	(395)	423
Total (note 14)	**871**	**356**	**(557)**	**670**

A total of €175 thousand in deferred tax assets will reverse in the next 12 months.

Deferred tax liabilities are detailed below:

€/000	31.12.2006	Increases	Decreases	31.12.2007
Capital gains on fixed asset disposals	17	193	-	210
Valuation of provision for employee termination indemnities under IAS 19	130	150	-	280
Buildings redeemed under finance lease IAS 17	1,607	-	(160)	1,447
Other deferred tax liabilities	636	152	(88)	700
Total (note 14)	**2,390**	**495**	**(248)**	**2,637**

A total of €301 thousand in deferred tax liabilities will reverse in the next 12 months.

No deferred taxes have been recognized for revaluation reserves, which are partly untaxed reserves. This is because it is unlikely that any operations will be undertaken that would give rise to their taxation. The total amount of such taxes is around €339 thousand at 31 December 2007.

Tax assets at 31 December 2007 amount to €2,173 thousand compared to €624 thousand in the previous financial period and refer to VAT credits, down payments of direct tax for the period and other minor tax credits.

Tax liabilities at 31 December 2007 amount to €717 thousand compared to €943 thousand in the previous financial period and refer to amounts payable for tax on "prize-awarding" operations and liabilities for tax deductions payable.

30. 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 €4,147 thousand. The amount of termination indemnity calculated according to the nominal debt method in force at the closing date would be €5,165 thousand.

Movements in this liability are as follows:

€/000	**2007**	**2006**
Opening balance	**5,322**	**5,565**
Current service cost (note 10)	-	791
Actuarial (gains)/ losses (note 10)	(189)	(225)
Actuarial (gains)/losses on opening termination indemnity fund (note 10-5)	(648)	-
Interest cost on obligations (note 13)	212	112
Sale of Plastema business	-	(201)
Disbursements	(550)	(720)
Closing balance	**4,147**	**5,322**

The "Current service cost" balance is zero as a result of legislative changes introduced during 2007 and described in note 5.

The principal economic and financial assumptions used are as follows:

	FY 2007	**FY2006**
Annual inflation rate	2.6%	2.1%
Rising discount rate	4.5%	3.9%
Rate of dismissal (average overall rate)	3%	-
Rate of worker turnover: decreasing rate	-	7%/1%
Rate of office staff turnover: decreasing rate	-	8%/1%
Rate of executive turnover: constant rate	**-**	**6%**

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

31. Provisions for liabilities and charges

Movements in this balance are analyzed below:

€/000	31.12.2006	Increases	Decreases	31.12.2007
Provision for agents' termination indemnity	468	117	(3)	582
Total non-current portion	468	117	(3)	582
Provision for product warranties	97	114	(97)	114
Other provisions	140	49	(129)	60
Total current portion	**237**	**163**	**(226)**	**174**

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

The provision for product warranties of €114 thousand refers to expected replacement or repair costs, calculated using estimates based on historical trends.

Other provisions amount to €60 thousand and consist of €11 thousand for the uninsured risks provisions to cover exemptions on product liability claims and €49 thousand for commitments associated with customer rebates.

The decrease in other provisions refers to utilisation of the "prizes" fund for €119 thousand and to "non-insured risks" for €10 thousand.

32. Contingent liabilities

At the date of 31 December 2007 the company does not have any disputes that could give rise to future liabilities that have not already been reflected in the balance sheet.

33. Informazioni sui rischi finanziari

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 2007 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, starting from the 2007 financial period.

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 2007 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 2007 Trade receivables and Other receivables, equal to €51,629 thousand (€52,621 thousand at 31 December 2006), include €2,404 thousand (€1,443 thousand at 31 December 2006) 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	**2007**	**2006**
Trade receivables due from customers with SACE 1 rating	27,957	31,377
Trade receivables due from customers with SACE 2 and 3 rating	10,079	7,515
Trade receivables due from customers with non-insurable SACE rating	147	332
Total	**38,183**	**39,221**

Countries with level 1 rating for Sace are those for which insurance covers 90% of the collectable credit. Countries with level 2 rating for Sace are those for which insurance covers 85%. No cover is provided for with regards to non-insurable or suspended countries.

The amount of credits covered by SACE insurance at 31 December 2007 is €15,063 thousand.

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 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 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.
Management is of the opinion that the funds and credit lines currently available, besides those cash flows generated by operations and by financing activities, will be sufficient to allow the Company to meet its requirements with regards to investment activities, the management of working capital and the payment of debts at their natural expiry dates.

Exchange 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 2007, the overall amount of revenues directly exposed to exchange risk represented around 4% of the turnover (8% in 2006), while the amount of costs exposed to exchange risk is equal to 6% of turnover (11% in 2006).
  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 in other markets in which the dollar is the reference currency;
  - 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.

During 2007 there were no significant changes in the nature and structure of exposures to exchange risk and hedging policies adopted by the Company compared to the previous financial period.

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 2007, as a result of a hypothetical unfavourable and immediate variation of 10% in all relevant single exchange rates, would amount to around €554 thousand (€982 thousand at 31 December 2006).

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 does not currently use 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 2007 applicable to financial liabilities at a variable interest rate would result in a greater net cost, on an annual basis, of around €186 thousand (€209 thousand at 31 December 2006).
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 20, the Company holds a number of derivative financial instruments whose value is linked to the trend of exchange rates (forward currency purchase operations).
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 Company.

Sensitivity analysis
The potential loss of fair value of derivative financial instruments held at 31 December 2007 as a result of a hypothetical unfavourable and immediate variation of 10% in underlying values would amount to around €15 thousand (€106 thousand at 31 December 2006).

34. Commitments

Fixed asset purchases

The company has €640 thousand in unrecorded commitments to purchase fixed assets at 31 December 2007 (€415 thousand at 31 December 2006). These commitments mostly refer to the purchase of equipment, plant and machinery.

The Company also has commitments for urbanization costs payable for an amount of €173 thousand.

Guarantees granted

to third parties:
These amount to €686 thousand as follows:
- €63 thousand for sureties to the Ministry of Industry in respect of prize competitions;
- €350 thousand for a surety to the Naples Customs Office as security against customs duties;
- €273 thousand for securities to the Municipality of Bagnolo in Piano to cover the proper performance of primary urban development work under the urban development plan for Via Fermi.

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

letters of patronage to subsidiary companies:
These amount to €24,532thousand as follows:
- €3,500 thousand for credit lines given to the subsidiary Comag S.r.l.;
- €2,850 thousand for credit lines given to the subsidiary Emak Deutschland Gmbh;
- €4,600 thousand for credit lines given to the subsidiary Emak France SAS;
- €4,933 thousand (GBP 3,617,678) for credit lines given to the subsidiary Emak UK Ltd;
- €8,649 thousand (USD 5,099,678 and RMB 55,750,719) for credit lines given to the subsidiary Jiangmen Emak Outdoor Power Equipment Co..

35. Ordinary shares, treasury shares and dividends

Share capital is fully paid up at 31 December 2007 and amounts to €7,190 thousand. It consists of 27,653,500 ordinary shares of par value €0.26 each.

	31.12.2007	31.12.2006
Number of ordinary shares	27,653,500	27,653,500
Treasury shares	(277,413)	(108,849)
Total outstanding shares	**27,376,087**	**27,544,651**

The dividends for 2006 approved by the shareholders on 27 April 2007, totalling €4,839 thousand, were paid during 2007.

In accordance with the related authorization by shareholders, Emak S.p.A. has purchased treasury shares on the market for the purpose of improving the stock's liquidity.

Emak S.p.A. held 108,849 treasury shares at 31st December 2006, worth €527 thousand.
During the first quarter of 2007 all the treasury shares held in portfolio at the beginning of the financial year were sold, while the Company subsequently purchased 277,413 treasury shares, worth €1,516 thousand. As a result, at 31.12.2007 the Company held 277,413 treasury shares for a value of €1,516 thousand

During the months of January and February 2008, Emak S.p.A. purchased 31,700 treasury shares, worth €154 thousand, taking its total holding at 29th February 2008 to 309,113 such shares, worth €1,670 thousand.

36. Related party transactions

The effects on the balance sheet and income statement at 31 December 2007 of transactions by Emak S.p.A. with subsidiaries, affiliated companies and any related parties are shown below.

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

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

The main transactions with subsidiary and affiliated companies during the year ended 31 December 2007 and the receivable and payable balances at that date are reported below:

Receivables for loans and interest:

Companies controlled by Emak S.p.A. (€/000)	**Interest**	**Loans given**
Emak Benelux N.V.	40	705
Emak Deutschland Gmbh	26	504
Emak UK Ltd	25	391
Emak France SAS	138	2,645
Victus Emak Sp. z.o.o.	223	3,339
Jiangmen Emak Outdoor Power Equipment Co. Ltd	22	320
Emak USA Inc.	10	153
Total (note 21 and note 13)	**484**	**8,057**

Sale of goods and services and receivables:

Companies controlled by Emak S.p.A. (€/000)	**Net sales**	**Dividends**	**Total**	**Receivables**
Emak Suministros Espana SA	5,204	385	5,589	1,294
Comag S.r.l.	99	-	99	19
Emak Benelux N.V.	1,447	-	1,447	260
Emak Deutschland Gmbh	2,862	-	2,862	2,723
Emak UK Ltd	2,747	-	2,747	988
Emak France SAS	8,691	-	8,691	2,491
Jiangmen Emak Outdoor Power Equipment Co. Ltd	1,517	941	2,458	441
Victus Emak Sp. z.o.o.	9,217	-	9,217	444
Emak USA Inc.	1,452	-	1,452	2,526
Total	**33,236**	**1,326**	**34,562**	**11,186**
Total A	**33,236**	**1,326**	**34,562**	**11,186**

Companies controlled by Yama S.p.A. (€/000)	**Net sales**	**Rental income**	**Total revenues**	**Receivables**
Comet S.p.A.	143	-	143	49
Garmec S.p.A.	284	-	284	17
Mac Sardegna S.r.l.	863	2	865	543
Sabart S.p.A.	220	4	224	66
Selettra S.r.l.	-	1	1	-
Tecomec S.p.A.	14	138	152	4
Unigreen S.p.A.	10	-	10	-
Bertolini S.p.A.	2	-	2	1
Total	**1,536**	**145**	**1,681**	**680**
Total B	**1,536**	**145**	**1,681**	**680**
Total A+B (note 22)	**34,772**	**1,471**	**36,243**	**11,866**

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	-	181	181	55
Comag S.r.l.	18,424	-	18,424	3,914
Emak Benelux N.V.	1	56	57	1
Emak Deutschland Gmbh	-	162	162	-
Emak UK Ltd	1	135	136	61
Emak France SAS	111	421	532	123
Emak USA	7	125	132	78
Jiangmen Emak Outdoor Power Equipment Co. Ltd	26,595	-	26,595	2,185
Victus Emak Sp. z.o.o.	-	277	277	55
Total	**45,139**	**1,357**	**46,496**	**6,472**
Total A	**45,139**	**1,357**	**46,496**	**6,472**

Companies controlled by Yama S.p.A. (€/000)	Purchase of raw materials and finished products	Other costs	Total costs	Payables
Comet S.p.A.	670	-	670	201
Fima S.p.A.	454	34	488	152
Garmec S.p.A.	10	1	11	-
Mac Sardegna S.r.l.	-	7	7	6
Sabart S.p.A.	12	-	12	3
Selettra S.r.l.	2,413	30	2,443	872
Speed France S.a.r.l.	460	-	460	77
Tecnol S.p.A.	2,583	25	2,608	850
Tecomec S.p.A.	901	-	901	216
Bertolini S.p.A.	758	-	758	97
Unigreen S.p.A.	44	-	44	15
Yama Immobiliare S.r.l.	-	45	45	-
Cofima S.r.l.	67	4	71	86
Total	**8,372**	**146**	**8,518**	**2,575**
Total B	**8,372**	**146**	**8,518**	**2,575**
Total A+B (note 27)	**53,511**	**1,503**	**55,014**	**9,047**

Ultimate parent company (€/000)	Other costs	Total	Payables
Yama S.p.A.	102	102	53
Total (note 27)	**102**	**102**	**53**

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

€/000	FY 2007	FY2006
Emoluments of directors and statutory auditors	475	407
Benefits in kind	6	6
Wages and salaries	639	586
Employee termination indemnities	47	44
Consulting fees	34	57
Total	**1,201**	**1,100**

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

37. Subsequent events

Reference is made to the following events:
1) On 15 January 2008 EMAK S.p.A. acquired from the holding company, Yama s.p.a., 100% of the shares in the company, BERTOLINI S.p.A.,
BERTOLINI S.P.A. sells products with the "Bertolini" and "Nibbi" trademarks, and is one of the leaders in the market for the production and sale of walking tractors, power motors, motor hoes, transporters and other machines for small-scale farming and gardening.
Through this operation, Gruppo EMAK will expand its current operations in terms of size, production and income in associated and synergetic sectors.

The consideration for the acquisition of the shareholding amounts to €6,500 thousand, which was paid by Emak S.p.A. at the same time as the transfer of shares.

The estimated net worth (shareholders' equity) of Bertolini S.p.A at 31 December 2007 amounted to around €4,400 thousand.
For further information, reference should be made to the relevant informative document filed in the registered office, on the Emak S.p.A. website, and filed with the Italian Stock Exchange;

2) A targeted tax inspection was completed in Emak on 22 February 2008 as per art. 33, D.P.R. (Decree of the President of the Republic) 600/73 by the Bologna Inland Revenue Office, regarding direct taxes and value added tax relating to the financial period 2005 and, in part, to the financial period 2004.
The inspection had a positive outcome without any significant consequences.

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

	31.12.2006				Change	31.12.2007			
	Number of shares	Book value (€/000)	% total interest	of which direct	Sub-scriptions and purchases	Number of shares	Book value (€/000)	% total interest	of which direct
Italy Comag S.r.l.	1 share	4,535	99.44	99.44	1,700	1 share	6,235	99.44	99.44
Spain Emak Suministros Espana SA	405	572	90	90	-	405	572	90	90
Germany Emak Deutschland Gmbh	10,820	525	100	100	-	10,820	525	100	100
Great Britain Emak UK Ltd	17,350	691	100	100	-	17,350	691	100	100
Belgium Emak Benelux N.V.	499	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	-	1,735	100	100	-	-	1,735	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	41	100	100	-	10	41	100	100
Total subsidiary companies		**13,880**			**1,700**		**15,580**		

Appendix 2

Details of equity investments

€/000	Registered office	Book value	% interest	Share capital	Equity Total	Equity attributable to group	Net profit/ (loss) for the year
Comag S.r.l.	Pozzilli (Is)	6,235	99.44	1,850	10,322	10,260	436
Emak Suministros Espana SA	Madrid	572	90	270	4,588	4,130	631
Emak Deutschland Gmbh	Fellbach-Oeffingen	525	100	553	633	633	(178)
Emak UK Ltd	Staffords	691	100	26	885	885	64
Emak Benelux N.V.	Meer-Hoogstraten	127	99.8	130	94	94	46
Emak France SAS	Rixheim	2,049	100	2,000	4,634	4,634	950
Jiangmen Emak Outdoor Power Equipment Co. Ltd	Jiangmen	1,735	100	1,735	4,649	4,649	3,040
Victus Emak Sp. z.o.o.	Poznan	3,605	100	2,672	6,524	6,524	2,052
Emak USA Inc.	Wooster- Ohio	41	100	41	(373)	(373)	(247)
Total equity investments in subsidiary companies		**15,580**					

Appendix 3

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

€/000		
BALANCE SHEET	**31.12.2006**	**31.12.2005**
Assets		
A) Receivables for uncalled share capital	-	-
B) Fixed assets	47,983	50,811
C) Current assets	5,199	4,641
D) Prepaid expenses and accrued income	46	10
Total assets	**53,228**	**55,462**
Liabilities		
A) Equity:		
Share capital	16,858	16,858
Reserves	13,574	17,120
Net profit for the year	(1,412)	2,850
B) Provisions for liabilities and charges	-	1
C) Provision for employee termination indemnities	15	12
D) Payables	24,191	18,609
E) Accrued expenses and deferred income	2	12
Total equity and liabilities	**53,228**	**55,462**
Guarantees, commitments and other risks	**22,466**	**26,026**

INCOME STATEMENT	**31.12.2006**	**31.12.2005**
A) Value of production	416	1,038
B) Cost of production	(1,154)	(1,305)
C) Financial income and expenses	4,045	4,522
D) Adjustments to financial assets	(5,219)	(1,700)
E) Extraordinary income and expenses	-	(33)
Profit (loss) before taxes	**(1,912)**	**2,522**
Income taxes for the year	500	328
Net profit for the year	**(1,412)**	**2,850**

Appendix 4

Schedule of fees relating to the 2007 financial period for audit services and other services, subdivided by type.

Type of service	Entity providing the service	Beneficiary of the service	Fees (€ thousands)
Audit	FiditalRevisione Srl	Emak SpA	37
Audit	FiditalRevisione Srl	Comag Srl	8
Certification	--	--	--
Tax advice	--	--	--
Other services	--	--	--
Total			**45**

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.

Emak S.p.A.

Member of the YAMA group

DECLARATION

Subject: Declaration relating to the individual financial statements and consolidated financial statements in accordance with art. 81-*ter* of Consob Regulations no. 11971 of 14 May 1999 and subsequent modifications and integrations.

1. We, the undersigned, Giacomo Ferretti, Fausto Bellamico and Aimone Burani, the latter also in his position as Financial Reporting Officer of the company, Emak S.p.A. affirm, taking account of the provisions of art. 154-*bis*, paragraphs 3 and 4, of legislative decree 24 February 1998, n. 58:

    - the suitability, with reference to the nature of the company, and
    - the effective application

    of administrative and accounting procedures for the preparation of the individual financial statements and the consolidated financial statements for the financial period ending 31 December 2007

2. No significant elements have emerged with reference to point 1 above.

3. It is hereby declared, moreover, that the financial statements and consolidated financial statements:

    a) correspond to the accounting registers and records;

    b) have been prepared in compliance with international accounting standards (IFRS) adopted by the European Union, as well as with the provisions adopted in implementation of art. 9 of Legislative Decree no. 38/2005 and, to the best of our knowledge, represent a true and fair view of the assets, liabilities, economic and financial situation of the issuer and of the enterprises included in the consolidation.

Date: 26 March 2008

The Financial Reporting Officer:

Aimone Burani

Delegated officers of the administrative bodies:

Giacomo Ferretti

Fausto Bellamico

fidital

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(This translation from the Italian original version has been made for the convenience of the reader)

REPORT OF THE AUDITORS IN ACCORDANCE WITH ARTICLE 156 OF LEGISLATIVE DECREE NO. 58 OF FEBRUARY 24, 1998

To the shareholders of
EMAK SpA

1 We have audited the separate financial statements of Emak Spa as at and for the year ended December 31, 2007, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and notes thereto. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the separate financial statements of the prior year, which are presented for comparative purposes as required by law, reference should be made to the report issued by other auditors on April 11, 2007.

3 In our opinion, the separate financial statements of Emak Spa as at and for the year ended December 31, 2007 comply with the International Financial Reporting Standard endorsed by the European Union, as well as the Italian regulations implementing article 9 of the legislative decree n° 38 of February 28, 2005. Therefore, they are clearly stated and give a true and fair view of the financial position of Emak Spa as at December 31, 2007, the results of its operations, changes in its equity and its cash flows for the year then ended.

Bologna, April 7, 2008

Fidital Revisione e Organizzazione Contabile Srl

(Signed on the original)

Diego Bassi
(Partner)

Sede Legale: 40125 Bologna - Via Calzolerie, 2
Ufficio Amministrativo: 20124 Milano - Via Vittor Pisani, 19

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Emak S.p.A. Member of the Yama Group •

Registered office

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

This report and financial statements were approved by the Board of Directors on 26 March 2008.

This document is available on website www.emak.it