



Quarterly report at 30.09.2006

Registered office in Bagnolo in Piano (RE), Via E. Fermi 4
Share Capital: € 7.189.910
Reggio Emilia Company Register -Tax code 00130010358

Emak Group Financial Highlights

Y2005	€/000	3rd Q 2006	3rd Q 2005	Nine months 2006	Nine months 2005
183.381	Net sales	34.987	35.494	160.912	142.785
22.268	Ebitda	3.075	3.626	21.140	19.985
17.038	Ebit	1.742	2.312	17.179	16.170
9.605	Net profit	1.003	1.192	9.972	9.094

Investment and free cash flow

Y2005	€/000	3rd Q 2006	3rd Q 2005	Nine months 2006	Nine months 2005
6.053	Investment in property, plant and equipment	1.788	1.246	5.247	3.898
1.192	Investment in intangible assets	352	237	708	741
14.835	Free cash flow from operations	2.336	2.506	13.933	12.909

Balance sheet

31.12.2005	€/000	30.09.06	30.09.05
101.195	Net capital employed	107.661	83.756
(25.836)	Net debt	(27.226)	(8.913)
75.359	Total equity	80.435	74.843

Other statistics

Y2005		3rd Q 2006	3rd Q 2005	Nine months 2006	Nine months 2005
12,1%	Ebitda / Net revenues (%)	8,8%	10,2%	13,1%	14,0%
9,3%	Ebit / Net revenues (%)	5,0%	6,5%	10,7%	11,3%
5,2%	Net profit / Net revenues (%)	2,9%	3,4%	6,2%	6,4%
16,8%	Ebit / Net capital employed (%)			16,0%	19,3%
0,34	Debt /Equity			0,34	0,12
856	Number of employees at period end			879	711

Segment reporting

€/000	Sales		Total assets		Investment in fixed assets	
	Nine months 2006	Nine months 2005	30.09.06	31.12.2005	Nine months 2006	Nine months 2005
Italy	30.025	30.137	102.395	109.872	3.210	2.437
Europe	106.272	92.568	51.309	53.665	321	455
Rest of the world	24.615	20.080	12.472	6.816	2.424	1.747
Total	160.912	142.785	166.176	170.353	5.955	4.639

Consolidated Income Statement

€/000	3rd Q 2006	3rd Q 2005	Nine months 2006	Nine months 2005
Revenues	34.987	35.494	160.912	142.785
Other operating revenues	300	317	1.126	990
Change in inventories	2.638	(1.462)	8.680	1.041
Raw and consumable materials	(21.997)	(18.323)	(101.990)	(83.396)
Payroll costs	(6.207)	(5.672)	(21.491)	(18.794)
Other operating costs	(6.646)	(6.728)	(26.097)	(22.641)
Amortization, depreciation and impairment losses	(1.333)	(1.314)	(3.961)	(3.815)
Ebit	1.742	2.312	17.179	16.170
Financial income	147	100	466	299
Financial expenses	(402)	(272)	(1.423)	(968)
Exchange gains and losses	393	161	(54)	36
Profit before taxes	1.880	2.301	16.168	15.537
Income taxes	(877)	(1.109)	(6.196)	(6.443)
Net profit	1.003	1.192	9.972	9.094
Profit/loss attributable to minority interests	(12)	(10)	(60)	(64)
Net profit attributable to the group	991	1.182	9.912	9.030
Basic earnings per share	0,036	0,0427	0,359	0,327

Consolidated Balance Sheet

ASSETS

31.12.2005	€/000	30.09.2006	30.09.2005
Non-current assets			
32.557	Property, plant and equipment	34.100	31.594
3.080	Intangible assets	3.046	2.114
6.305	Goodwill	6.128	0
399	Investment property	370	410
223	Equity investments	223	223
2.922	Deferred income tax assets	2.699	2.004
0	Other financial assets	9	4
63	Trade and other receivables	51	76
45.549	Total	46.626	36.425
Non-current assets held for sale			
269	Assets held for sale	269	250
269	Total	269	250
Current assets			
59.840	Inventories	67.276	51.825
56.911	Trade and other receivables	45.318	44.986
3.525	Current income tax assets	1.194	409
19	Other financial assets	3	21
38	Derivative financial assets	27	0
99	Marketable securities at fair value	5	29
4.103	Cash and banks	5.458	13.419
124.535	Total	119.281	110.689
170.353	TOTAL ASSETS	166.176	147.364

Consolidated Balance Sheet

EQUITY AND LIABILITIES

31.12.2005	€/000	30.09.2006	30.09.2005
Capital and reserves			
7.190	Issued capital	7.190	7.190
21.047	Share premium	21.047	21.047
(28)	Treasury shares	(527)	0
30.354	Other reserves	30.381	30.325
16.338	Retained earnings (accumulated losses)	21.872	15.830
74.901	Total Group	79.963	74.392
458	Minority interests	472	451
75.359	Total equity	80.435	74.843
Non-current liabilities			
7.174	Long-term loans and borrowings	6.355	3.871
2.565	Deferred income tax liabilities	2.509	2.229
5.985	Employee benefits	6.103	5.638
359	Provision for liabilities and charges	442	304
2.132	Other non-current liabilities	2.060	897
18.215	Total	17.469	12.939
Current liabilities			
50.430	Trade and other payables	36.265	35.725
2.811	Current income tax liabilities	5.207	4.897
22.921	Short-term loans and borrowings	26.357	18.507
0	Short-term derivative financial instruments	16	9
617	Provision for liabilities and charges	427	444
76.779	Total	68.272	59.582
170.353	TOTAL LIABILITIES	166.176	147.364

Consolidated Net Debt

€/000	30.09.2006	30.06.2006	31.12.2005	30.09.05	30.06.2005
Cash and banks	5.458	8.712	4.103	13.419	6.179
Securities and derivative financial instruments	32	129	137	30	101
Other financial assets	3	8	19	21	17
Financial liabilities	(26.357)	(32.281)	(22.921)	(18.507)	(13.254)
Derivative financial instruments	(16)	(12)	0	(9)	0
Short-term net debt	(20.880)	(23.444)	(18.662)	(5.046)	(6.957)
Other financial assets	9	5	0	4	13
Financial liabilities	(6.355)	(6.591)	(7.174)	(3.871)	(11.390)
Long-term net debt	(6.346)	(6.586)	(7.174)	(3.867)	(11.377)
Cash and banks	5.458	8.712	4.103	13.419	6.179
Securities and derivative financial instruments	32	129	137	30	101
Other financial assets	12	13	19	25	30
Financial liabilities	(32.712)	(38.872)	(30.095)	(22.378)	(24.644)
Derivative financial instruments	(16)	(12)	0	(9)	0
Total net debt	(27.226)	(30.030)	(25.836)	(8.913)	(18.334)

Changes in consolidated equity at 31.12.2004 and 30.06.2006

The following table reports changes in consolidated equity between 31st December 2004 and 30 September 2006.

€/000	Share capital	Share premium	Treasury shares	Other reserves					Retained earnings		Total Group	Equity attributable to minority interests	Total all
				Legal reserve	Special reserve	Reserve for hedging instruments	Cumulative translation adjustments	Other reserves	Retained earnings	Net profit of the period			
Balance at 31.12.2004	7.190	21.047	(47)	1.438	1.138	(73)	(59)	23.799	5.880	8.741	69.054	446	69.500
Change in translation reserve							199				199		199
Sale of treasury shares			19						31		50		50
Payment of dividends								3.839	892	(8.741)	(4.010)	(59)	(4.069)
Change arising from hedging transactions						73					73		73
Other changes									3		3	(2)	1
Net profit for 2004								0		9.532	9.532	73	9.605
Total at 31.12.2005	7.190	21.047	(28)	1.438	1.138	0	140	27.638	6.806	9.532	74.901	458	75.359
Change in translation reserve							(199)		(8)		(207)		(207)
Sale of treasury shares			(499)								(499)		(499)
Payment of dividends								226	5.162	(9.532)	(4.144)	(46)	(4.190)
Other changes											0		0
Net profit for 2005										9.912	9.912	60	9.972
Total at 30.09.2006	7.190	21.047	(527)	1.438	1.138	0	(59)	27.864	11.960	9.912	79.963	472	80.435

Emak at 30 September 2006

Directors' report

Emak 3rdQ consolidated sales amounted to €34,987 thousand compared with €35,494 thousand reported in the same period of 2005.

Consolidated sales in the first nine months 2006 climbed by 12.7% from €142,785 thousand to €160,912 thousand.

Sales in the first nine months of 2006 are broken down by product in the following table which also shows the prior year comparatives.

€/000	30.09.06	%	30.09.05	%	Change %
Brush cutters	31.765	19,7%	25.652	18,0%	23,8%
Chain saws	26.358	16,4%	27.423	19,2%	(3,9%)
Lawnmowers	28.186	17,5%	24.353	17,1%	15,7%
Garden tractors	13.387	8,3%	12.239	8,6%	9,4%
Others	44.715	27,8%	37.847	26,5%	18,1%
Spare part and accessories	16.501	10,3%	15.271	10,6%	8,1%
Total	160.912	100%	142.785	100%	12,7%

Demand in the third quarter was affected by hot, dry summer in most European countries. Despite this cutting grass product sales have been growing for the first nine months 2006.

The excellent performance by brush cutters was largely due to the introduction of new more competitive models, while the slipping launch of new models of chainsaws, in forth quarter, affected the sales of this line of products.

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

The geographical breakdown of sales is shown in the following table for both nine months 2006 and nine months 2005.

€/000	30.09.06	%	30.09.05	%	Change %
Italy	30.025	18,7%	30.137	21,1%	(0,4)
Europe	106.272	66,0%	92.568	64,8%	14,8%
Rest of the world	24.615	15,3%	20.080	14,1%	22,6%
Total	160.912	100%	142.785	100%	12,7%

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

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

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

The recently incorporated US subsidiary started to do business only at the start of July, meaning that it had non significant impact on the group's first nine months sales.

Additional information

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

Emak purchased 102,849 treasury shares between 31st December 2005 and 30th September 2006, meaning that it held 108,849 such shares, worth €527 thousand, at the end of September 2006.

Emak didn't purchase any share in October 2006.

Comments on the financial statements

In compliance with article 82 of the Issuers Regulations (Consob resolution 11971/99) and subsequent amendments, this quarterly consolidated report has been prepared in accordance with International Financial Reporting Standards (IFRS) and presented on the basis of the principles specified in annex 3D to the aforementioned regulations.

The accounting standards and policies adopted by the group for preparing the quarterly consolidated financial statements are the same as those used for the consolidated financial statements at 31st December 2005.

It should be pointed out that:

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

Extraordinary transactions and events

1. CAPITAL INCREASE BY VICTUS EMAK SP. Z O.O.

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

2. INCORPORATION AND PAYMENT OF SHARE CAPITAL OF EMAK USA Inc.

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

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

3. SALE OF BUSINESS

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

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

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

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

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

The shareholders approved the proposal to merge the two Belgian subsidiaries Kens International SA and Emak Benelux N.V. in July 2006.

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

The merger has no impact on the Emak consolidated equity.

Scope of consolidation

After 30th September 2005 Emak USA Inc, the USA branch, and Victus Emak Sp. Z o.o., the Polish company, have joined the company's consolidation area.

Balance sheet and financial position

1. Net non-current assets

During the first nine months 2006 Emak Group invested €5,955 thousand in property, plant and equipment and intangible assets as follows:

- €1,523 thousand for product innovation (mainly R&D, tooling and equipment for new products);
- €992 thousand for boosting production capacity and for process innovation;
- €1,114 thousand for upgrading the computer network and other investment in management infrastructure;
- €2,326 thousand for completing and modernizing existing buildings.

2. Net current assets

Net current assets were €5,470 thousand higher than the end of December 2005, up from €66,419 thousand to €71,889 thousand; this increase reflected the following changes:

- | | | |
|---------------------------------|-----------|----------|
| - increase in inventories | €7,436 | thousand |
| - decrease in trade receivables | (€11,997) | thousand |
| - decrease in trade payables | €13,986 | thousand |
| - other changes | (€3,955) | thousand |

The increase in net current assets since 31st December 2005 was attributable to the larger volume of business.

3. Equity

Total equity was €80,435 thousand at the end of September 2006 compared with €75,359 thousand at 31st December 2005. Earnings per share were €0,359 at 30th September 2006 up from €0,327 in the corresponding period of the previous year.

4. Net financial position

Net debt increased from €25,836 thousand at 31st December 2005 to €27,226 thousand at 30th September 2006. The increase was mainly due to working capital needs and new investments.

Free cash flow from operations in the first nine months 2006 was €13,933 thousand after tax, compared with €12,909 thousand in the same period of last year. Free cash flow from operations in 3rd Q 2006 was €2,336 thousand after tax, compared with €2,506 thousand in the same period of 2005.

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

Short-term financial payables mainly consist of:

- overdrafts;
- loan repayments falling due by 30th September 2007;
- amounts due to other providers of finance falling due by 30th September 2007.

Income statement

1. EBITDA

Revenues increased by 12.7% during first nine months 2006 to €160,912 thousand, up from €142,785 thousand during first nine months 2005. Assuming the same scope of consolidation, the increase would have been 3%. Revenues decreased by 1.4% at €34,987 thousand in 3rdQ 2006 compared with €35,494 thousand in the same quarter of last year.

EBITDA improved by 5.8% in nine months 2006 to €21,140 thousand, up from €19,985 thousand in the corresponding period of last year. EBITDA for 3rdQ 2006 decreased by 15.2% to €3,075 thousand compared with €3,626 thousand in the corresponding quarter of last year.

The following factors contributed positively to first nine months results:

- the increase in sales volumes;
- the changes in consolidation area;
- the reorganization of the production process.

The following factors all contributed negatively to results:

- the product/market/channel mix;
- the cost of raw materials, partly absorbed by other efficiencies;
- higher payroll costs due to an increase in average headcount (up from 691 employees in first nine months 2005 to 902 in first nine months 2006), wage rises and greater use of temporary staff;
- the costs incurred for starting up the new subsidiary Emak USA Inc.

The group's total number of employees amounted to 879 at 30th September 2006, compared with 856 at the end of December 2005. This increase was mainly attributable to new personnel recruited to staff the start of production by the Chinese factory.

2. EBIT

EBIT increased of 6.2% to €17,179 thousand in first nine months 2006, compared with the corresponding prior year figure of €16,170 thousand.

EBIT decreased by 24.7% to €1,742 thousand in 3rdQ 2006 compared with €2,312 thousand in the same period of last year.

3. Net profit

Net profit in first nine months 2006 was 9.7% higher at €9,972 thousand, up from €9,094 thousand in the same period of last year; net profit for 3rdQ 2006 decreased by 15.9% to €1,003 thousand, on the figure of €1,192 thousand posted in 3rdQ 2005.

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

The first nine months tax rate of 38.3% was down from that of 41.5% in the corresponding prior year period, due to differences in the tax rules applied in the various countries where the group operates.

Business outlook

The level of the retail inventories is steady thanks to the extension of the normal sales season for cutting grass products. The introduction of new models should have a positive effect on the last quarter and in light of this growth of both sales and Ebit is expected to be a 10% higher than the previous year.

Bagnolo in Piano (RE), 14th November 2006

On behalf of the Board of Directors

Chairman

Giacomo Ferretti