MEMBER OF THE YAMA GROUP

FINANCIAL REPORT 2005

GARDENING TECHNOLOGY

Financial Report 2005

The Annual Report has been translated into the English language solely for the convenience of international readers, in any case the Italian version will prevail.

Contents

Notice of Annual General Meeting

The shareholders are called in ordinary meeting at 10.00 a.m. on 28 April 2006 to be held at the company's registered office in Via Fermi 4, Bagnolo in Piano (RE), and, if necessary, in second call on 5 May 2006, at the same time and place, to discuss and vote on the following:

Agenda

1) Presentation of the individual and consolidated financial statements at 31 December 2005 and the reports by the directors, the board of statutory auditors and independent auditors; related resolutions;

2) Proposal to update the overall annual remuneration due to the Board of Directors for 2006; related resolutions;

3) Proposal to authorize the purchase and sale of treasury shares and related resolutions.

By law and the company's articles of association, shareholders with voting rights are entitled to take part in the meeting provided they have complied with the provisions of article 2370.2 of the Italian Civil Code at least two days before the date of the meeting.
The legally required documentation relating to items on the agenda will be publicly available at the company's registered office and at the offices of Borsa Italiana S.p.A. within the prescribed deadlines. Shareholders are entitled to obtain copies.

Bagnolo in Piano (RE), 31 March 2006

on behalf of the Board of Directors

The Chairman
Giacomo Ferretti

Corporate Officers

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

Board of Directors

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

Board of Statutory Auditors

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

Independent Auditors	Axis S.r.l.

Audit Committee

Chairman	Andrea Ferrari
	Ivano Accorsi
	Andrea Barilli

Remuneration Committee

Chairman	Andrea Ferrari
	Ivano Accorsi
	Andrea Barilli

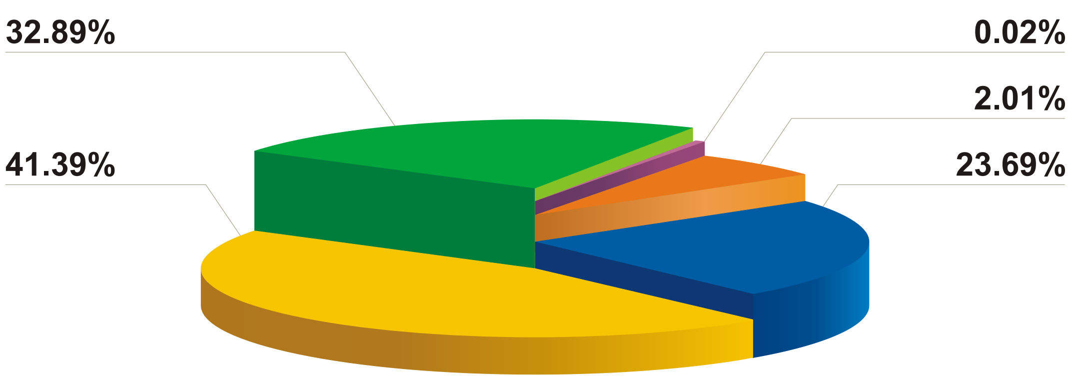
Note: the - powers granted to the Chairman, the Chief Executive Officers and General Managers are exposed below in the section on "Corporate Governance".

Main shareholders of Emak S.p.A.

The composition of the shareholders of Emak S.p.A. at 31 December 2005 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.

Main shareholders	Number of shares	%
D-Lite Netherlands B.V. (Yama Group)	11,446,876	41.39%
Yama S.p.A.	9,095,624	32.89%
Schroders I.M.	555,078	2.01%
Treasury shares held at 31.12.2005	6,000	0.02%
Free float	6,549,922	23.69%
Total number of shares	**27,653,500**	**100.00%**

Main shareholders at 31 December 2005



D-Lite Netherlaands B.V.
Yama S.p.A.
Schroders I.M.
Free float
Treasury shares

Group structure

The Emak Group is structured as follows at 31 December 2005:

EMAK S.p.A.

Company	Interest
COMAG S.r.l. Pozzilli (Italy)	**99.442%**
EMAK Suministros Espana SA (Spain)	**90.000%**
EMAK U.K. Ltd (UK)	**100.000%**
KENS International SA (Belgium)	**99.999%**
— **EMAK Benelux N.V.** (Belgium)	**99.997%**
EMAK Deutschland Gmbh (Germany)	**100.000%**
EMAK France SAS (France)	**100.000%**
Jiangmen EMAK Outdoor Power Equipment Co. Ltd. (China)	**100.000%**
Victus Eco Sp.z.o.o. (Poland)	**100.000%**

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

All the figures contained in this report are IFRS compliant; the comparative figures have been reclassified on a consistent basis.

Income statement *(€ / 000)*

	FY 2005	FY 2004
Net sales	183,381	162,785
EBITDA	22,268	22,095
EBIT	17,038	16,570
Net profit	9,605	8,832

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

	FY 2005	FY 2004
Investment in property, plant and equipment	6,053	6,779
Investment in intangible assets	1,192	933
Free cash flow from operations	14,835	14,357

Balance sheet *(€ / 000)*

	31.12.2005	31.12.2004
Net capital employed	101,195	86,022
Net debt	(25,836)	(16,522)
Total equity	75,359	69,500

Other statistics

	FY 2005	FY 2004
EBITDA / Net revenues *(%)*	12.1%	13.6%
EBIT / Net revenues *(%)*	9.3%	10.2%
Net profit / Net revenues *(%)*	5.2%	5.4%
EBIT / Net capital employed *(%)*	16.8%	19.3%
Debt / Equity	0.34	0.24
Number of employees at period end	856	634

Share information and prices

	31.12.2005	31.12.2004
Earnings per share *(€)*	0.34	0.32
Equity per share *(€)*	2.71	2.50
Official price *(€)*	4.79	3.90
Maximum share price in period *(€)*	5.16	4.05
Minimum share price in period *(€)*	3.86	3.15
Stockmarket capitalization *(€ / million)*	132	108
Average number of outstanding shares	27,650,588	27,626,977
Number of shares comprising share capital	27,653,500	27,653,500
Cash flow per share: net profit + amortization/depreciation *(€)*	0.54	0.52
Dividend per share *(€)*	0.150	0.145

Report on performance

Report on performance

Shareholders,

Emak's consolidated financial statements at 31 December 2005 closed with a net profit of €9,605 thousand compared with €8,832 thousand in 2004.

The group's share of net profit was €9,532 thousand compared with €8,741 thousand in 2004.

The group consisted of ten companies at 31 December 2005, all of which were consolidated on a line-by-line basis. Victus Eco Sp.z.o.o., a Polish company, joined the scope of consolidation during 2005.

Net revenues increased by 12.7% on 2004 to €183,381 thousand.

EBITDA (earnings before interest, tax, depreciation and amortization) was €22,268 thousand, corresponding to 12.1% of revenues, compared with €22,095 thousand in 2004 (13.6% of revenues).

EBIT (earnings before interest and tax) was €17,038 thousand, corresponding to 9.3% of revenues, compared with €16,570 thousand in 2004 (10.2% of revenues).

Net debt increased from €16,522 thousand at the end of 2004 to €25,836 thousand at the end of 2005.

The financial statements of Emak S.p.A., the group's parent company, closed with a net profit of €7,834 thousand at 31 December 2005 compared with €7,792 thousand in 2004.

1 Global economic conditions

The bygone year continued to be affected by tensions on the markets for oil and raw materials, where demand was once more fuelled by the development of emerging economies, foremost of which China and India. In order to cope with rising prices, manufacturers moved production abroad and sourced goods and materials from low-cost areas.

The international economy performed largely as had been forecast at the start of the year. In fact, the United States managed to maintain the pace of growth seen in 2004, staying well ahead of the euro-zone which continued to suffer from extremely weak consumer spending and domestic demand. The Italian economy fell even further behind the rest of the euro-zone, with its GDP estimated to have grown well below the average. Italy nonetheless maintained a stable rate of inflation, in line with the European average, even if there were continued concerns about medium-term inflation.

2 Business operational factors

The business of power products for forestry and lawn and garden maintenance was driven overall by general economy and weather impact, primarily regarding garden equipment. In 2005 weather was generally favourable except in Spain and Portugal, which experienced a very prolonged drought.

The market in our sector has generally been characterized by a relatively stable demand over the business cycle.

Report on performance

3 Business mission

The Emak Group, controlled by Yama S.p.A., operates in the business of power products for forestry, lawn and garden maintenance. Emak's business mission is to design, develop, manufacture and market portable products that are able to anticipate and exceed market expectations.

The Emak Group manufactures and assemblies a well-known complete range of products that stands for high quality and technological innovation.

The group's aim is to continue to create value for shareholders through good growth and high profitability.

To achieve these goals, the Emak Group's activities are focused primarily on the following:

Company values

The Emak Group draws its strength and inspiration from a number of values that guide its conduct: *Fair dealing*: having a code of conduct for dealing with people, the environment and the community. *Expertise*: we like to infuse our products and services with quality by providing suitable training based on constant learning and skills enhancement. *Team spirit*: working together to perform better and find more solutions. *Spirit of innovation*: our experience permits us to experiment with new ideas that allow us to anticipate the future.

Product -development

Over the next three years Emak will maintain a continuous quality product development and a broaden company's product range through the introduction of 10/12 new products on average every year.

Particular attention will be given to international standards regarding safety, noise limitations and emission limits.

Greater cost-efficiency

Over the next three years the company aims to strengthen its position further by reducing and controlling production and fixed costs. This will be achieved by investing in improving the search for more competitive sources of supply, the efficiency and organization of in-house processes and the management of customers, suppliers and information in general.

Special attention will be given to developing cut-price products, to be produced in the new factory in China, for price sensitive and mass market channels.

Well-developed distribution network

Over the next three years the Emak Group will continue to devise suitable marketing initiatives for consolidating its distribution network in Italy and for increasing its market shares in European countries where it currently operates through trading subsidiaries.

Development of OEM's business

In addition to its established channels of business, the group aims to achieve greater penetration of the European mass market thanks to the offer of more competitive products manufactured in its Chinese production plant and consolidation of its relationship with Original Equipment Manufacturers (OEMs).

Report on performance

4 Significant events in the year

A number of extraordinary events took place during the year affecting the group's balance sheet and results.

Purchase of Victus Eco Sp. z.o.o. and the Victus IT business in Poland

On 11 October 2005 the parent company Emak S.p.A. purchased 100% of the shares in Victus Eco Sp. z o.o., a Polish company with registered office in Poznan (Poland), for total consideration inclusive of incidental expenses of PLN 3,789 thousand (corresponding to €978 thousand).

On 22 November 2005 Victus Eco Sp. z o.o. purchased the business of Victus International Trading SA, a Polish company which operates in the gardening and forestry sector.

The following table provides details of the assets and liabilities purchased and the cash flow generated by the transaction as a whole:

(€ / 000)	Victus Eco book values	Victus IT business book value	Fair value adjustments	Fair value of assets acquired
Property, plant and equipment	20	66	125	211
Intangible assets		2	718	720
Inventories	134	1,883	(43)	1,974
Trade receivables	563	398		961
Cash and banks	53			53
Trade payables	(754)	(1,001)		(1,755)
Total net assets acquired	**16**	**1,348**	**800**	**2,164**
Goodwill				**6,144**
Purchase price				**8,308**
Analyzed as follows:				
Payables to sellers of Victus IT business				1,504
Cash				6,804
Net cash outflows for acquisitions:				
Payment in cash				6,804
Cash e banks acquired				(53)
				6,751

As provided by the acquisition agreement, 80% of the consideration was paid in cash on the date of acquisition, while the remaining 20% will be paid in 2008.

In the last full financial year in which they operated under normal trading conditions (from August 2004 to July 2005), the Polish company Victus Eco Sp. z o.o. and the business acquired from Victus International Trading SA had estimated sales of around PLN 66,000 thousand, (€17,000 thousand), and estimated net profit of about PLN 3,700 thousand (€959thousand).

The goodwill arising from the acquisition of 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.

Report on performance

Termination of distribution agreement for US market

In December 2005 the group terminated its distribution agreement with the US importer Tilton Equipment Company.

Under the terms agreed, starting from July 2006 Emak will have its own structure for distributing its products on the North American market.

Emak has entered into this agreement with the goal of making the most of all the opportunities offered by the North American market, the world's largest for gardening and forestry products.

The termination of the agreement has involved paying an indemnity of USD 1.5 million (around €1,300 million).

This cost will be quickly recovered thanks to the opportunities available by operating directly on such an important market.

Termination of distribution agreement with Yanmar in France and Germany

During the last quarter of 2005 Yanmar, a Japanese manufacturer of power products, proposed terminating its longstanding distribution agreement with Emak for the distribution of Yanmar products on the German and French markets.

The Emak Group received an indemnity of €500 thousand as a result of the termination of this agreement.

This event will not harm the Emak Group's future profitability since it has replaced the products supplied by Yanmar with those of other suppliers.

Increase in share capital by Jiangmen Emak Outdoor Power Equipment Co. Ltd

Jiangmen Emak Outdoor Power Equipment Co. Ltd., the Chinese subsidiary, increased its capital during the year to the current level of USD 2,200 thousand (USD 1,084 thousand at 31 December 2004).

The overall increase of €861 thousand was subscribed by Emak S.p.A. (51%) and Simest S.p.A. (49%).

The company has been treated like 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 the Chinese company, amounting to €896 thousand, has been classified as a financial payable at 31 December 2005.

Change in interest held in Netribe S.r.l.

Following the withdrawal and redemption of shares by a shareholder in Netribe S.r.l., Emak's interest in this company increased from 10.0% to 10.42%.

Report on performance

5 Emak Group - overview of results

Highlights from the consolidated income statement

(€ / 000)	FY 2005	%	FY 2004	%	Change
Net revenues	183,381	100.0	162,785	100.0	20,596
EBITDA	22,268	12.1	22,095	13.6	173
EBIT	17,038	9.3	16,570	10.2	468
Profit before taxes	16,905	9.2	15,425	9.5	1,480
Net profit	9,605	5.2	8,832	5.4	773

Sales by product line

Sales are broken down by product line as follows:

(€ / 000)	FY 2005	%	FY 2004	%	Change
Brushcutters	**33,594**	**18.3%**	31,282	19.2%	7.4%
Chainsaws	**36,992**	**20.3%**	34,752	21.4%	6.4%
Lawnmowers	**29,051**	**15.8%**	21,614	13.3%	34.4%
Garden tractors	**14,936**	**8.1%**	12,559	7.7%	18.9%
Other products	**46,941**	**25.6%**	41,826	25.7%	12.2%
Spare parts and accessories	**21,867**	**11.9%**	20,752	12.7%	5.4%
Total	**183,381**	**100.0%**	162,785	100.0%	12.7%

Sales volumes were higher for all product lines. Sales of lawnmowers and garden tractors were particularly strong thanks to the prolonged spell of fine weather.

However, since these products carry lower-than-average margins, the increase in their sales failed to benefit overall margins.

Sales by geographical area

Sales are broken down by geographical area as follows:

(€ / 000)	FY 2005	%	FY 2004	%	Change
Italy	**40,435**	**22.0%**	36,929	22.7%	9.5%
Europe	**114,796**	**62.6%**	100,785	61.9%	13.9%
Rest of world	**28,150**	**15.4%**	25,071	15.4%	12.3%
Total	**183,381**	**100.0%**	162,785	100.0%	12.7%

Report on performance

Sales on the domestic market were 9.5% higher at €40,435 thousand.

The European countries where Emak operates directly with its own trading companies, especially France and Germany, turned in a good sales performance thanks to investment in the distribution network. Demand in Eastern Europe continued to be strong.

Sales were up in the rest of the world, particularly thanks to the rebound reported in Turkey and South America. Sales in North America also recovered.

EBITDA

EBITDA amounted to €22,268 thousand in 2005, compared with €22,095 thousand in the previous year. It represented 12.1% of revenues, compared with 13.6% in 2004.

The results for the year benefited from higher sales volumes even if the product mix was worse.

The following factors all contributed negatively to results:

- a general increase in the cost of raw materials, leading to an overall rise in the cost of components, only partially offset by more efficient purchasing;
- an increase in payroll costs due to a rise in both average headcount and salaries;
- the costs incurred for starting up production at the Chinese factory;
- an increase in commercial and transportation costs, both associated with higher sales volumes.

A number of extraordinary items negatively affected the results for the year, in particular:

- Emak's payment of a contract termination indemnity of around €1,300 thousand to the US distributor Tilton, as offset by €500 thousand in compensation received from Yanmar which terminated its distribution agreement with Emak for the distribution of its products in France and Germany;
- the recognition of around €350 thousand in provisions for tax assessments;
- losses of around €200 thousand in the last quarter of the year by the new Polish company attributable to start up.

The group's total number of employees amounted to 856 at 31 December 2005, compared with 634 at the end of 2004.

EBIT

EBIT was €17,038 thousand in 2005, corresponding to 9.3% of revenues, compared with €16,570 thousand in 2004 (10.2% of revenues). Amortization, depreciation and impairment losses were in line with the amount reported in the prior year.

Report on performance

Net profit

Net profit for 2005 was €9,605 thousand, corresponding to 5.2% of revenues, compared with €8,832 thousand in the prior year, corresponding to 5.4% of revenues.

Net financial income and expense improved relative to the prior year thanks to activities associated with the trend in exchange rates.

The tax rate climbed from 42.7% in 2004 to 43.2% in 2005, reflecting the absence of certain tax breaks allowed under previous tax legislation and the different distribution of taxable profit between the various countries.

Highlights from the consolidated balance sheet

(€ / 000)	31.12.2005	31.12.2004
Net non-current assets	34,776	27,010
Net current assets	66,419	59,012
Total net capital employed	101,195	86,022
Equity attributable to the group	74,901	69,054
Equity attributable to minority interests	458	446
Net debt	(25,836)	(16,522)

Net non-current assets

During 2005 the Emak Group invested €7,245 thousand in property, plant and equipment and intangible assets (ignoring the investment in the Victus IT business) as follows:

- €1,865 thousand for product innovation (mainly analyses, research and equipment for new products);
- €1,034 thousand for boosting production capacity and for process innovation;
- €1,293 thousand for upgrading the computer network and other investments in management infrastructure;
- €3,053 thousand for modernizing and completing existing buildings and constructing the new factory in China.

Net current assets

Net current assets were €7,770 thousand higher than at the end of December 2004, up from €59,012 thousand to €66,782 thousand; this increase reflected the following changes:

- increase in inventories	€9.217	thousand
- increase intrade receivables	€4.021	thousand
- decrease in net tax payables	€479	thousand
- increase in trade payables	(€5.031)	thousand
- increase in provisions for liabilities and charges	(€376)	thousand
- increase in other receivables	€95	thousand
- increase in other payables	(€998)	thousand

The increase in net current assets since the end of last year reflects the higher volume of production and sales, as well as the first-time consolidation of a new company and the start of production at the Chinese factory.

Report on performance

Equity

Total equity was €75,359 thousand at the end of 2005 compared with €69,500 thousand a year earlier. Earnings per share were €0.34 at 31 December 2005, up from €0.32 in the prior year.

Net debt

(€ / 000)	31.12.2005	31.12.2004
Cash and banks	4,103	5,205
Securities and derivative financial instruments	137	256
Other financial assets	19	25
Financial liabilities	(22,921)	(12,461)
Derivative financial instruments	0	(112)
Short-term net debt	**(18,662)**	**(7,087)**
Other financial assets	0	19
Financial liabilities	(7,174)	(9,454)
Long-term net debt	**(7,174)**	**(9,435)**
Cash and banks	4,103	5,205
Securities and derivative financial instruments	137	256
Other financial assets	19	44
Financial liabilities	(30,095)	(21,915)
Derivative financial instruments	0	(112)
Total net debt	**(25,836)**	**(16,522)**

Net debt increased from €16,522 thousand at 31 December 2004 to €25,836 thousand at 31 December 2005. Improvements in operating cash flow were not enough to absorb the substantial outflows required for investment activity in 2005, particularly in the last quarter.

Free cash flow from operations was €14,835 thousand after tax, compared with €14,357 thousand in the prior year.

6 Research and development

Research and development activities were particularly intense in 2005, resulting in the launch of a dozen new products.

Product innovation continues to be the main driver behind improvements in the group's competitive position and involves the following activities:

- developing new products in accordance with Emak's long-term strategy for renewing the range;
- continuously improving existing products for changes in the legislative framework or to satisfy customer expectations;
- researching advanced solutions and technology for products of the future.

Report on performance

All the main product lines underwent revisions or upgrades.

Among the new products, a particular mention should go to the launch on the US market of two chainsaws with very low emissions and extremely limited fuel consumption. These products use innovative technology based on the injection concept, applied for the first time in the world to a chainsaw engine.

A new brushcutter was introduced on the US market, featuring a stratified charge engine that complies with tough North American regulations on fume emissions.

Research into adapting products for the American EPA 2 rules also related to other product lines such as power cutters.

Careful review of customer needs led to the development of a new professional backpack brushcutter. Its engine support system has a particularly innovative design, which drastically reduces the amount of vibrations transmitted to the operator.

Customers particularly welcomed the restyled range of lawnmowers in the AR series (in aluminium) and the LR series (in metal plate) launched on the market in the spring.

The strategy for expanding the product range involved developing a long-handled pruner and a mechanical tree shaker for harvesting olives.

Among the strategic projects for improving competitiveness were those developed for application in the new factory in China; production started during 2005 of a series of 26cc brushcutters and of a completely new range of 600W and 85W electric trimmers; pilot production started at the end of 2005 of a new series of 40cc brushcutters and a new series of 35-40cc chainsaws.

Continuing research was also conducted on important, topical issues such as pollution, safety and ergonomics.
These activities covered all Emak product ranges.
The entire range of Emak products was made EURO1 compliant from the start of 2005 as far as gas emissions were concerned.

The R&D department added to its headcount and enhanced its facilities. The area used for engineering and laboratories was expanded and modernized, with the purchase of new instrumentation: all of this was with a view to stimulating the development of innovative products in order to improve our competitive position.

The company expensed a total of €4,060 thousand in R&D costs to income during the year (€3,011 thousand in 2004).

7 Human resources

The workforce at 31 December 2005 is analyzed by country in the following table:

Italy (1)	541
France	45
Belgium	5
UK	16
Spain	15
Germany	21
Poland	65
China	148
Total	**856**

(1) Emak (405); Comag (136)

Report on performance

The growth in headcount since 2004, from 634 to 856 employees, is mostly due to the increase in production at Comag (+41 employees), the development of the factory in China with all the main functions now being fully staffed (+114 employees), and the first-time consolidation of Victus Eco in Poland (+65 employees).
The increase in Italy mostly reflects the recruitment of staff on fixed-term contracts. The parent company Emak S.p.A. made continuous use of temporary workers throughout the year to satisfy its peaks in production (with an average number of 17 temporary workers compared with 10 the year before).

As part of the process of skills assessment and development, Emak carried out a structured programme of technical and managerial training, providing a total of more than 4,300 hours of technical-specialist training and around 400 hours of training on the subject of safety.

A project to update the evaluation system was started in October. This involved mapping out technical skills, drawing up job profiles and defining managerial and cross-functional duties. The various stages of this project will be implemented in the first half of 2006 with the support of specific focus groups and training sessions on how the new evaluation system works.

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

Highlights from the income statement

(€ / 000)	FY 2005	%	FY 2004	%	Change
Net revenues	147,090	100.0	127,730	100.0	19,360
EBITDA	16,404	11.2	16,903	13.2	(499)
EBIT	12,910	8.8	13,123	10.3	(213)
Profit before taxes	13,612	9.3	13,302	10.4	310
Net profit	7,834	5.3	7,792	6.1	42

Sales by product line

Sales are broken down by product line as follows:

(€ / 000)	FY 2005	%	FY 2004	%	Change
Brushcutters	**31,975**	**21.7%**	28,250	22.1%	13.2%
Chainsaws	**35,850**	**24.3%**	33,582	26.3%	6.8%
Lawnmowers	**27,737**	**18.9%**	19,812	15.5%	40.0%
Garden tractors	**3,982**	**2.7%**	3,783	3.0%	5.3%
Other products	**30,394**	**20.7%**	26,653	20.9%	14.0%
Spare parts andaccessories	**17,152**	**11.7%**	15,650	12.2%	9.6%
Total	**147,090**	**100.0%**	127,730	100.0%	15.1%

Sales volumes were higher for all product lines.
Sales of lawnmowers were particularly strong thanks to the prolonged spell of fine weather.

Report on performance

Sales by geographical area

Sales are broken down by geographical area as follows:

(€ / 000)	FY 2005	%	FY 2004	%	Change
Italy	**40,405**	**27.5%**	37,047	29.0%	9.1%
Europe	**76,074**	**51.7%**	65,318	51.1%	16.5%
Rest of world	**30,611**	**20.8%**	25,365	19.9%	20.7%
Total	**147,090**	**100.0%**	127,730	100.0%	15.2%

Sales on the domestic market were 9.1% higher at €40,405 thousand.

The European countries where Emak operates directly with its own trading subsidiaries, especially France and Germany, turned in a good sales performance thanks to investment in the distribution network. Demand in Eastern Europe continued to be strong.

Sales were up in the rest of the world, particularly thanks to the rebound reported in Turkey and South America. Sales in North America also recovered.

EBITDA

EBITDA amounted to €16,404 thousand in 2005, compared with €16,903 thousand in the previous year.

The results for the year benefited from higher sales volumes even if the product mix was worse.

The following factors all contributed negatively to results:

- a general increase in the cost of the principal raw materials, leading to an overall rise in the cost of components, only partially offset by more efficient purchasing;
- a rise of around 6.5% in payroll costs due to greater use of temporary workers for production at the height of the season (+1.4%), the policy of merit increases and promotions (+2%), and increases dictated by the national payroll and in-house agreements affecting the full 12 months of 2005 (+3.1%);
- an increase in transportation costs, associated with higher sales volumes.

A number of extraordinary items negatively affected the results for the year, in particular:

- the payment of a contract termination indemnity of USD €1.5 million (around €1,300 thousand) to the US importer Tilton Equipment Company;
- the recognition of around €350 thousand in provisions for tax assessments.

There were 405 employees at 31 December 2005, of whom 14 on fixed-term contracts, compared with 406 a year earlier, of whom 20 on fixed-term contracts; the use of temporary workers, for coping with peaks in production, lasted throughout 2005.

Report on performance

EBIT

EBIT was €12,910 thousand in 2005, corresponding to 8.8% of revenues, compared with €13,123 thousand in 2004, corresponding to 10.3% of revenues.

Net profit

Net profit for 2005 was €7,834 thousand, corresponding to 5.3% of revenues, compared with €7,792 thousand in the prior year, corresponding to 6.1% of revenues.

Highlights from the balance sheet

The company's balance sheet and financial position at 31 December 2005 are summarized as follows:

(€ / 000)	31.12.2005	31.12.2004
Net non-current assets	23,361	22,101
Net current assets	43,617	42,810
Total net capital employed	66,978	64,911
Equity	69,385	65,511
Net cash	2,407	600

Net non-current assets

During 2005 the company invested €3,077 thousand in property, plant and equipment and intangible assets as follows:

- €1,140 thousand for product innovation (mainly analyses, research and equipment for new products);
- €562 thousand for boosting production capacity and for process innovation;
- €996 thousand for upgrading the computer network and other investments in management infrastructure;
- €379 thousand for modernizing and completing existing buildings.

The company also invested the following amounts in subsidiaries:

- €861 thousand in Jiangmen Emak Outdoor Power Equipment Co. Ltd (China) for a capital increase;
- €978 thousand in Victus Eco Sp. z.o.o., headquartered in Poznan (Poland), for purchasing 100% of the company's shares.

Net current assets

The increase in net current assets of €807 thousand since the end of last year reflects the higher volume of business and sales.

Report on performance

Equity

Equity amounted to €69,385 thousand at the end of 2005 compared with €65,511 thousand a year earlier. Earnings per share were €0.28 at 31 December 2005, staying the same as the year before.

Net financial position

The net financial position reported net cash of €2,407 thousand at the end of 2005 compared with €600 thousand a year earlier.

The net financial position is made up as follows:

(€ / 000)	31.12.2005	31.12.2004
Cash and banks	1,077	3,656
Other financial assets	19	25
Financial liabilities	(8,949)	(1,472)
Short-term net cash (debt)	**(7,853)**	**2,209**
Other financial assets	14,892	4,568
Financial liabilities	(4,632)	(6,177)
Long-term net cash (debt)	**10,260**	**(1,609)**
Cash and banks	1,077	3,656
Other financial assets	14,911	4,593
Financial liabilities	(13,581)	(7,649)
Total net cash (debt)	**2,407**	**600**

The main changes in the year were:

- an increase in long-term financial assets for the loan of €10,363 thousand to the subsidiary Victus Eco Sp. z.o.o.;
- an increase in financial liabilities due to a new lease agreement for €3,765 thousand;
- the reclassification to short-term liabilities of the BNL loan of €5,000 thousand, falling due on 20 September 2006.

9 Performance of subsidiaries

Emak U.K. Ltd

This company reported a net profit of €200 thousand compared with €194 thousand in 2004. Sales increased by 3.9% to €5,698 thousand, up from €5,482 thousand in 2004 (the increase in local currency terms was 4.8%). The improvement in sales helped produce a satisfactory level of earnings in line with the prior year.

The company distributes Emak products in the United Kingdom.

Report on performance

Emak Deutschland

Emak Deutschland Gmbh

This company reported a net profit of €104 thousand compared with a loss of €65 thousand in 2004.
Sales increased by 25.9% to €9,319 thousand, up from €7,404 thousand in 2004.
Reorganization of the company's sales network, combined with more effective marketing activities, are giving the first tangible results in terms of sales and earnings.
The 2005 results benefited from €100 thousand in indemnities received upon termination of the distribution agreement with Yanmar.
The company distributes Emak products in Germany.

Emak Benelux

Kens International SA

This company reported a net profit of €20 thousand, the same as the year before. The investment in Emak Benelux N.V. represents the company's only significant asset. The subsidiary Emak Benelux N.V. reported a net profit of €61 thousand, compared with €20 thousand in 2004. Sales increased by 12.2% to €3,428 thousand, up from €3,055 thousand in 2004.
Sales rebounded after the drop reported in the prior year resulting from the difficult situation on the company's specific markets.
The company distributes Emak products on the Belgian and Dutch markets.

Emak España

Emak Suministros Espana SA

This company reported a net profit of €680 thousand compared with €877 thousand in 2004. Sales were 8.4% lower at €7,919 thousand, down from €8,644 thousand in 2004, reflecting the adverse weather conditions. The deterioration in results is explained by the decrease in sales.
The company distributes Emak products in Spain.

COMAG

Comag S.r.l.

This company reported a net profit of €864 thousand compared with €388 thousand in 2004 and sales of €19,188 thousand compared with €14,078 thousand in 2004. The increase in sales and earnings was due to the higher volume of production in the year.
The improved results for the year were also due to the first full year of production by the new chainsaw line.

Emak France

Emak France SAS

This company reported a net profit of €810 thousand compared with €235 thousand in 2004. Sales were 17% higher at €35,837 thousand, up from €30,639 thousand in 2004.
The improvement in results reflected the recovery in demand on the French market and the benefits of higher investment in commercial initiatives.
The 2005 results benefited from €400 thousand in indemnities received upon termination of the distribution agreement with Yanmar.

Report on performance

Emak Jiangmen Outdoor Power Equipment Co. Ltd

This company reported a loss of €32 thousand compared with a loss of €261 thousand in 2004. Sales amounted to €3,686 thousand compared with €81 thousand in 2004.
The results for the year were severely affected by the phase of operational and organizational start-up; the business will reach full-swing operation only in 2006.

Victus Eco Sp. z.o.o.

Victus Eco Sp. z.o.o. joined the consolidation with effect from 11 October 2005 (for more details, please refer to note 17 to the consolidated financial statements).
The company reported a loss of around €200 thousand for the period after its acquisition. Sales in this same period amounted to €604 thousand.
These results reflect the costs incurred for organizational start-up after joining the group.
The company distributes Emak products on the Polish market.

10 Related party transactions

Please refer to note 35 of the consolidated financial statements and note 32 of the individual financial statements for information about related party transactions.

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

In accordance with the related authorization by shareholders, Emak S.p.A. carried out purchases and sales of treasury shares on the market for the purpose of improving the stock's liquidity. Emak S.p.A. held 6,000 treasury shares at 31 December 2005, compared with 21,968 such shares a year earlier.

Emak purchased 7,000 treasury shares between 1 January 2005 and 31 December 2005 and sold 22,968 such shares over the same period, leaving 6,000 shares in its portfolio at the end of 2005.

12 Corporate governance

In accordance with the requirements of CONSOB and Borsa Italiana S.p.A. and the specific reporting obligations arising from Emak's membership of the Italian stockmarket's STAR segment, we shall now provide the relevant information concerning our system of governance.

Further to its appointment by the shareholders in the meeting of 30 April 2004 and the decisions taken by the Board of Directors on 14 May 2004, the current Board of Directors is made up as follows:

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

Report on performance

The 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 2006.

The shareholders' meeting held on 30 April 2004 amended the company's articles of association to update them for the reforms in company law. These amendments did not involve any significant changes to the articles of association where governance was concerned; the size of the Board of Directors was also increased so that it now has a minimum of nine members and a maximum of thirteen.

Under article 17 of the articles of association, the Board 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 Chief Executive Officers, establishing the limits and manner of exercising the delegated powers.

The Board of Directors appointed three chief executive officers in its meeting of 14 May 2004. These 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 approve the quarterly and half-year financial reports and the draft annual financial statements of the company and the group;
- 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 chief executive officers and of those directors who are appointed to particular positions within the company, and the allocation of the total amount approved by the shareholders' meeting to individual members of the Board;
- to monitor the company's general performance, with special reference to situations of conflict of interest, paying particular attention to the information received from the Chief Executive Officers;
- to examine and approve transactions having a significant impact on the company's income statement, balance sheet or financial position, with special reference to transactions involving related parties;
- to evaluate the adequacy of the general organizational and administrative structure established by the Chief Executive Officers for the company and the group;
- to report to the shareholders at shareholders' meetings;
- to exercise all other powers that may not be delegated under law or the company's articles of association;
- to pass resolutions to purchase, sell, exchange, confer or mortgage company property or property rights; to enter into and settle property finance leases;
- to pass resolutions to purchase, sell, exchange, confer or rent businesses, equity investments in other companies, trademarks and patents, and to transfer technology;
- to nominate the General Manager on the recommendation of the Chief Executive Officers.

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 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.

Report on performance

The Chief Executive Officers 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 the directors, including those appointed to particular positions, are allocated by the Board of Directors within the limit of the overall amount approved by the shareholders. All the Chief Executive Officers take part, in varying degrees, in the company's incentive plan.

The Board of Directors reappointed the Audit and Remuneration Committees on 14 May 2004, both of whose members are the three independent directors.

****

The shareholders' meeting of 30 April 2004 appointed the current Board of Statutory Auditors, which will remain in office for three years until the date of approving the financial statements for the year ended 31 December 2006. The Board of Statutory Auditors has the following members:

Marco Montanari	Chairman
Andrea Magnanini	Acting auditor
Martino Masini	Acting auditor
Giuseppe Antonio Barranco	Alternate auditor
Silvia Pattacini	Alternate auditor

****

In compliance with the provisions of the Corporate Governance Code, Emak provides adequate, systematic information to shareholders and others on its corporate governance structure in a specific report presented to the annual general meeting. This document is published on the company's website at www.emak.it.

In compliance with article 79 of 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 01.01.2005	No. shares purchased	No. shares sold	No. shares held 31.12.2005
Giacomo Ferretti (Emak Chairman)	KENS International S.A.	1	-	1	0
Giacomo Ferretti (Emak Chairman)	Emak Benelux N.V.	1	-	1	0
Ivano Accorsi (Board of Directors)	EMAK S.p.A.	2,000	-	-	2,000
Andrea Barilli (Board of Directors)	EMAK S.p.A.	1,000	-	-	1,000
Carlo Baldi (Board of Directors)	EMAK S.p.A.	12,000*	39,000*	32,000*	19,000*
Luigi Bartoli (Board of Directors)	EMAK S.p.A.	42,000	-	9,464	32,536
Andrea Magnanini (Board of Statutory Auditors)	EMAK S.p.A.	0	2,000	-	2,000
Martino Masini (Board of Statutory Auditors)	EMAK S.p.A.	0	619	-	619

** Also includes shares not owned directly*

The following information is provided in accordance with article 78 of CONSOB Resolution 11971 of 14 May 1999 and subsequent amendments thereto, in relation to the emoluments paid to the directors, statutory auditors and general manager of Emak S.p.A. by the company itself as well as its subsidiaries:

Report on performance

(€ / 000)		Term in office	Emoluments of office	Benefits in kind	Bonuses and other incentives	Other remuner.
Giacomo Ferretti	Chairman and CEO	01.01.2005 31.12.2005	52	-	-	(a) 327
Fausto Bellamico	General Manager and CEO	01.05.2005 31.12.2005	52	3	-	(a) 195
Aimone Burani	Deputy Chairman and CEO	01.01.2005 31.12.2005	23	3	-	(a) 167
Carlo Baldi	Director	01.01.2005 31.12.2005	1	-	-	(b) 24
Andrea Barilli	Director	01.01.2005 31.12.2005	8	-	-	-
Vilmo Spaggiari	Director	01.01.2005 31.12.2005	1	-	-	-
Guerrino Zambelli	Director	01.01.2005 31.12.2005	1	-	-	-
Paola Becchi	Director	01.01.2005 31.12.2005	1	-	-	-
Ivano Salsapariglia	Director	01.01.2005 31.12.2005	1	-	-	-
Giuliano Ferrari	Director	01.01.2005 31.12.2005	1	-	-	-
Luigi Bartoli	Director	01.01.2005 31.12.2005	1	-	-	-
Ivano Accorsi	Director	01.01.2005 31.12.2005	8	-	-	-
Andrea Ferrari	Director	01.01.2005 31.12.2005	15	-	-	-
Marco Montanari	Chairman of Board of Statutory Auditors	01.01.2005 31.12.2005	16	-	-	-
Andrea Magnanini	Acting auditor	01.01.2005 31.12.2005	10	-	-	(b) 6
Martino Masini	Acting auditor	01.01.2005 31.12.2005	10	-	-	-

(a) Remuneration as company employee and payment of employee termination indemnity.
(b) Includes emoluments for other offices held in subsidiaries and employment remuneration and/or consulting fees.

13 Outstanding disputes

There are no outstanding disputes other than those discussed in note 28 to the consolidated financial statements, to which you should refer.

14 Additional information

Adoption of IAS/IFRS

The consolidated financial statements of the Emak Group and the individual financial statements of Emak S.p.A. have been prepared in accordance with IFRS at 31 December 2005, and specifically IFRS 1. Financial year 2005 is the first time that Emak is presenting its financial statements in accordance with international financial reporting and accounting standards.
All the effects of the transition to IFRS are reported in an appendix to this report.

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 3 January 2006.

Report on performance

15 Business outlook

The new financial year has opened to positive signs on the demand front; sales in the first two months of 2006 were more than 15% higher than in the corresponding period of last year.

Price tensions persist on raw material markets, with the price of copper and aluminium rising beyond every reasonable forecast since the start of the year.

While not wanting to underestimate the increasingly competitive nature of our sector, we believe that 2006 will benefit from the major investments of the recent past in strengthening the distribution network and launching new more competitive products.

16 Subsequent events

Negotiations are close to concluding for the sale of the plastic components moulding business.
The planned disposal to an existing specialized supplier is designed to improve service, efficiency and quality.
The sale consideration is estimated to be higher than the book value of this business's assets and liabilities.

With reference to the subsidiary Victus Eco Sp. z.o.o., its shareholders voted on 24 January 2006:

- to increase share capital by PLN 9,997,500;
- to change the company name to Victus Emak Sp.z.o.o.;
- to adopt new articles of association.

17 Proposed allocation of net profit for the year

Shareholders,

We are submitting for your approval the financial statements for the year ended 31 December 2005, which report a net profit of €7,833,782.

The Board of Directors is proposing that a dividend of €0.15 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 31 December 2005 reporting a net profit of €7,833,782;

b. to allocate the net profit of €7,833,782 as follows:

- to the shareholders, a dividend of €0.15 for each of the outstanding shares, gross of legally required withholdings, but not for the treasury shares held by the company itself;
- €225,549.80 to the reserve for unrealized exchange gains;
- the remainder to retained earnings, since the legal reserve has reached the limit required by law.

Bagnolo in Piano (RE), lì 31 March 2006

on behalf of the Board of Directors

The Chairman
Giacomo Ferretti

Emak Group
Consolidated Financial Statements
at December 31st 2005

Consolidated Income Statements

(€ / 000)	Note	Year 2005	Year 2004
Sales	6	183,381	162,785
Other operating income	6	1,629	1,355
Change in inventories		8,817	4,422
Costs of goods	7	(114,246)	(97,926)
Salaries and employee benefits	8	(25,763)	(22,720)
Other operating costs	9	(31,550)	(25,821)
Amortization, depreciation and impairment losses	10	(5,230)	(5,525)
Ebit		**17,038**	**16,570**
Financial income	11	658	427
Financial expenses	11	(1,419)	(1,403)
Exchange gains and losses	11	628	(169)
EBT		**16,905**	**15,425**
Income taxes	12	(7,300)	(6,593)
Net profit		**9,605**	**8,832**
(Profit) / loss attributable to minotrity interests		**(73)**	**(91)**
Net profit attributable to the group		**9,532**	**8,741**
Earnings per share basic	13	**0.34**	**0.32**
Earnings per share diluted	13	**0.34**	**0.32**

Consolidated Balance Sheet

Assets

(€ / 000)	Note	31.12.2005	31.12.2004
Non-current assets			
Property, plant and equipment	14	32,557	30,952
Intangible assets	16	3,080	1,879
Goodwill	17	6,305	0
Investment property	15	399	287
Equity investments	18	223	223
Deferred income tax assets	28	2,922	2,178
Other financial assets		0	19
Trade and other receivables	20	63	111
Total		**45,549**	**35,649**
Non-current assets held for sale			
Available for sale investments	22	269	267
Total		**269**	**267**
Current assets			
Inventories	21	59,840	50,623
Trade and other receivables	20	56,911	52,795
Current tax receivables	28	3,525	1,775
Other financial assets		19	25
Derivative financial instruments	19	38	0
Marketable securities at fair value	23	99	256
Cash and cash equivalents	24	4,103	5,205
Total		**124,535**	**110,679**
Total assets		**170,353**	**146,595**

Equity and Liabilities

(€ / 000)	Note	31.12.2005	31.12.2004
Capital and reserves			
Issued capital		7,190	7,190
Share premium		21,047	21,047
Treasury shares		(28)	(47)
Other reserves		30,354	26,243
Retained earnings		16,338	14,621
Total Group	25	**74,901**	**69,054**
Minority interests		**458**	**446**
Total equity		**75,359**	**69,500**
Non-current liabilities			
Borrowings	27	7,174	9,454
Deferred tax liabilities	28	2,565	2,243
Employee benefits	29	5,985	5,402
Provisions	30	359	247
Other non-current liabilities	31	2,132	995
Total		**18,215**	**18,341**
Current liabilities			
Trade and other liabilities	26	50,430	44,401
Current tax liabilities	28	2,811	1,539
Loans and borrowings	27	22,921	12,461
Derivative financial instruments	19	0	112
Provisions	30	617	241
Total		**76,779**	**58,754**
Total equity and liabilities		**170,353**	**146,595**

Changes in Consolidated Equity at 31 December 2004 and 31 December 2005

				Other reserves	
(€ / 000)	Share capital	Share premium	Treasury shares	Legal reserve	Special reserve
Balance at 01.01.2004	**7,190**	**21,047**	**(72)**	**1,438**	**1,138**
Change in translation reserve					
Sale of treasury shares			25		
Payment of dividends					
Change arising from hedging transactions					
Other changes					
Net profit for 2004					
Total at 31.12.2004	**7,190**	**21,047**	**(47)**	**1,438**	**1,138**
Change in translation reserve					
Sale of treasury shares			19		
Payment of dividends					
Change arising from hedging transactions					
Other changes					
Net profit for 2005					
Total at 31.12.2005	**7,190**	**21,047**	**(28)**	**1,438**	**1,138**

Other reserves			Retained earnings				
Reserves for hedging instruments	Cumulative translation adjustment	Other reserves	Retained earnings	Net profit of the period	Total Group	Equity attributable to minority interests	Total
(121)	**4**	**19,704**	**13,864**		**64,192**	**674**	**64,866**
	(63)				**(63)**		**(63)**
			19		**44**		**44**
			(4,006)		**(4,006)**	(52)	**(4,058)**
48					**48**		**48**
		98			**98**	(267)	**(169)**
		3,997	(3,997)	8,741	**8,741**	91	**8,832**
(73)	**(59)**	**23,799**	**5,880**	**8,741**	**69,054**	**446**	**69,500**
	199				**199**		**199**
			31		**50**		**50**
		3,839	892	(8,741)	**(4,010)**	(59)	**(4,069)**
73					**73**		**73**
			3		**3**	(2)	**1**
				9,532	**9,532**	73	**9,605**
0	**140**	**27,638**	**6,806**	**9,532**	**74,901**	**458**	**75,359**

Consolidated Cash Flow Statement

(€ / 000)	note	2005	2004
Cash flow from operation			
Net profit for period		**9,605**	**8,832**
Amortization, depreciation and impairment losses	10	5,230	5,525
(Capital gains) / losses on disposal of property, plant and equipment		(17)	10
Decreases / increases in trade and other receivables		(5,601)	(3,107)
Decreases / increases in inventories		(7,243)	(4,326)
Decreases / increases in trade and other payables		5,500	9,053
Change in employee benefits	29	583	698
Decreases / increases in provisions for liabilities and changes	30	488	(153)
Decreases / increases in derivative financial instruments		(150)	(81)
Net cash generated by operations		**8,395**	**16,451**
Cash flow from investment activities			
Increases in property, plant and equipment and intangible assets		(7,517)	(7,712)
Increases and decreases in financial assets		182	515
Proceeds from disposal of property, plant and equipment		156	105
Change of consolidation area / acquisition of Victus IT	17	(6,751)	
Net cash absorbed by investment activities		**(13,930)**	**(7,092)**
Cash flow from financial activities			
Change in equity		124	(77)
Change in short and long-term loans and borrowings		1,784	(2,068)
Change in lease finance		3,643	(795)
Dividends paid		(4,069)	(4,058)
Transaction reserve variation		199	(63)
Net cash absorbed by financial activities		**1,681**	**(7,061)**
Net increase in cash and cash equivalents		**(3,854)**	**2,298**
Opening cash and cash equivalents		**(1,234)**	**(3,532)**
Closing cash and cash equivalents		**(5,088)**	**(1,234)**

Additional information on the cash flow statement

(€ / 000)	2005	2004
Reconciliation of cash and cash equivalents		
Opening cash and cash equivalents, detailed as follows:	**(1,234)**	**(3,532)**
Cash and cash equivalents	5,205	2,886
Overdrafts	(6,439)	(6,418)
Closing cash and cash equivalents, detailed as follows:	**(5,088)**	**(1,234)**
Cash and cash equivalents	4,103	5,205
Overdrafts	(9,191)	(6,439)
Other informations:		
Tax paid	(6,212)	(6,723)
Interest paid	807	719
Effect of exchange rate changes	67	(4)

Explanatory notes to the Consolidated Financial Statements of the Emak Group

Notes to the consolidated financial statements - Contents

Notes to the Consolidated Financial Statements

1 General information

The Emak Group is one of Europe's leading producers of gardening and forestry machinery, such as chainsaws, brushcutters, 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 (RE).

The group has around 800 employees.

Victus Eco Sp.z.o.o., a Polish company, has joined the group since the prior year, starting to be consolidated from 11 October 2005; the consolidated income statement and cash flow statement therefore contain this company's results for the last 3 months of the year.

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

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

These consolidated financial statements were approved by the Board of Directors on 31 March 2006.

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

2 Summary of principal accounting policies

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

2.1 General methods of preparation

The Emak Group's consolidated financial statements at 31 December 2005 have been prepared for the first time in accordance with IFRS (International Financial Reporting Standards) and particularly IFRS 1 (First-time adoption of International Financial Reporting Standards).
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 figures for 2004 have been restated for IFRS for the sake of consistent comparison.

As required by paragraph 4 of article 82 *bis* of CONSOB resolution 14990, the section entitled "Transition to IFRS" contains the reconciliations of equity at the start and close of 2004 and of net profit for that year, as required by IFRS 1.
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 preparation of financial statements under IFRS requires management to make use of accounting estimates. The matters involving a high degree of judgement or complexity and the areas in which the assumptions and estimates could have a significant impact on the consolidated financial statements are discussed in note 4.

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.

Notes to the Consolidated Financial Statements

The acquisition of subsidiaries is accounted for using the purchase method. The purchase method initially corresponds to the fair value of the assets acquired, the financial instruments issued and the liabilities at the date of acquisition, as increased for any directly attributable acquisition costs, and ignoring any minority interests. The excess of the cost of acquisition over the group's share of the fair value of the net assets acquired is recognized as goodwill. If the cost of acquisition is lower, the difference is directly expensed to income (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 2005 therefore includes the following companies:

Name	Head office	Share capital	Currency	% consolidated interest	Held by	% held
Emak S.p.A.	Bagnolo in Piano - RE (I)	7,189,910	€		Emak S.p.A.	
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	Burntwood (UK)	17,350	GBP	100.000	Emak S.p.A.	100.000
Emak Deutschland Gmbh	Backnang (D)	533,218	€	100.000	Emak S.p.A.	100,000
Kens International SA	Wilrijk (B)	61,973	€	99.999	Emak S.p.A. Comag S.r.l.	99.800 0.200
Emak Benelux N.V.	Meer-Hoogstraten (B)	92,960	€	99.997	Kens Int.l SA Comag S.r.l.	99.733 0.267
Emak France SAS	Rixheim (F)	2,000,000	€	100.000	Emak S.p.A.	100.000
Jiangmen Emak Outdoor Power Equipment Co. Ltd (*)	Jiangmen (China)	18,171,788	Rmb	100.000	Emak S.p.A.	100.000
Victus Eco Sp. Z.o.o.	Poznan (PL)	170,500	PLN	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 reporting currency

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

Notes to the Consolidated Financial Statements

(b) Transactions and balances

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

(c) Group companies

The financial statements of all group companies whose functional currency differs to the reporting currency of the consolidated financial statements are translated as follows:
(i) assets and liabilities are translated at the closing rate on the balance sheet date;
(ii) income and expenses are translated at the average rate for the period;
(iii) all translation differences are recognized as a separate reserve under equity ("translation reserve").

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

(amount of currency corresponding to € 1)	2005 average	31.12.2005	2004 average	31.12.2004
Pounds sterling (GB)	0.6838	0.6853	0.6784	0.7050
Renminbi (China)	10.2037	9.5204	10.29	11.28
Zloty (Poland)	3.92 (*)	3.86		

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

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 property, plant and equipment is 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 being depreciated. The other assets are being 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 repayments of principal are recognized as financial liabilities. The finance cost is expensed to income so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Notes to the Consolidated Financial Statements

Leases for which the lessor keeps 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.

2.7 Goodwill

Goodwill relating to the purchase of subsidiaries is classified as an intangible asset and tested 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 tested annually for any impairment. Depreciable assets are tested 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).

Notes to the Consolidated Financial Statements

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 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 (through the income statement)

This category include 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.

(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) 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 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 derecognized 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.

Notes to the Consolidated Financial Statements

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 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.

Notes to the Consolidated Financial Statements

2.15 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.

2.16 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.

2.17 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 part or all 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.

2.18 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. Actuarial gains and losses are recognized in the period in which they occur.

Notes to the Consolidated Financial Statements

2.19 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.

2.20 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.

2.21 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.

2.22 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.

2.23 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.

2.24 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.

Notes to the Consolidated Financial Statements

2.25 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. There is no particular impact on the cash flow statement arising from the transition to IFRS apart from those associated with the effects of this change on the balance sheet and income statement, as described in the appended report on the "Transition to IFRS".

2.26 New accounting standards

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

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

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

3 Financial risk management

3.1 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) 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.

(ii) 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 supplier contracts 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. 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.

Notes to the Consolidated Financial Statements

(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 aims to achieve flexible funding by having sufficient credit lines (see note 27).

(d) 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 2005, loans and borrowings carried variable interest and there were no interest rate hedges in course.

3.2 Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are used only 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.

Notes to the Consolidated Financial Statements

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 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.

4 Key accounting estimates and assumptions

The preparation of the consolidated financial statements and the related notes under IAS/IFRS has required management to make estimates and assumptions affecting the value of reported assets and liabilities and the disclosures relating to potential assets and liabilities at the balance sheet date. Actual results could differ from these estimates. Estimates are used for recording provisions for doubtful accounts and inventory obsolescence, amortization and depreciation, writedowns to assets, employee benefits, taxes and other provisions. Estimates and assumptions are reviewed periodically and the effects of any change are immediately reflected in the income statement.

5 Segment information

5.1. 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.

5.2. 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.

	Sales		Total assets		Investment in fixed assets	
(€ / 000)	FY 2005	FY 2004	31.12.2005	31.12.2004	FY 2005	FY 2004
Italy	40,435	36,929	109,872	108,555	3,609	6,901
Europe	114,796	100,785	53,665	36,643	564	401
Rest of world	28,150	25,071	6,816	1,397	3,072	410
Total	**183,381**	**162,785**	**170,353**	**146,595**	**7,245**	**7,712**

Notes to the Consolidated Financial Statements

6 Sales and other operating revenues

The group's sales revenues amount to €183,381 thousand, compared with €162,785 thousand in the prior year. They are stated net of €491 thousand in returns, compared with €472 thousand in 2004.

Details of revenues are as follows:

(€ / 000)	FY 2005	FY 2004
Net sales revenues (net of discounts and rebates)	182,489	161,919
Revenues for recharged transport costs	1,383	1,338
Returns	(491)	(472)
Total	**183,381**	**162,785**

Other operating revenues are analyzed as follows:

(€ / 000)	FY 2005	FY 2004
Capital gains on property, plant and equipment	39	16
Recovery of warranty costs	70	52
Insurance refunds	108	170
Out-of-period income	164	227
Rental income	127	142
Grant under Law 488/92	261	196
Other operating revenues	860	552
Total	**1,629**	**1,355**

The decrease in rental income relates to the property in Brescello (RE), which is no longer being used and will be sold in 2006 (note 22).

Other operating revenues include €500 thousand in compensation paid to the Emak Group by Yanmar, a Japanese producer of power products, upon terminating the long-term distribution contract for Yanmar products on the German and French markets.

This event will not harm the Emak Group's future profitability since it has replaced the products supplied by Yanmar with those of other suppliers.

7 Cost of goods

Purchases of raw, ancillary and consumable materials and goods amount to €114,246 thousand (€97,926 thousand in the prior year), representing an increase of €16,320 thousand.

Notes to the Consolidated Financial Statements

8 Salaries and employee benefits

Details of these costs are as follows:

(€ / 000)	FY 2005	FY 2004
Wages and salaries	17,813	15,743
Social security charges	5,548	5,033
Employee termination indemnities *(note 29)*	1,236	1,189
Other costs	76	36
Directors' emoluments	250	231
Temporary staff	840	488
Total	**25,763**	**22,720**

Employees are broken down by grade as follows:

	31.12.2005		31.12.2004	
	(1)	*(2)*	*(1)*	*(2)*
Executives	22	23	19	19
Office staff	307	339	232	250
Factory workers	457	494	360	365
Total	**786**	**856**	**611**	**634**

(1) Average number of employees. (2) Number of employees at that date.

The increase of 222 is mostly explained by:

- 65 additions after the Polish company Victus Eco Sp.z.o.o. joined the group;
- 114 additions after the Chinese manufacturing company Emak Outdoor Co Ltd. reached full-swing operation;
- 41 additions due to increased production activity by Comag S.r.l.

9 Other operating costs

Details of these costs are as follows:

(€ / 000)	FY 2005	FY 2004
Subcontract work	5,601	4,411
Maintenance	1,581	1,801
Transportation	7,171	5,802
Advertising and promotion	2,907	2,846
Commissions	2,368	2,341
Travel	1,028	921
Postage and telecommunications	535	427
Consulting fees	1,422	1,357
Other services	4,032	3,111
Services	**26,645**	**23,017**
Leases and rentals	**1,194**	**1,089**
Increases in provisions *(note 30)*	**710**	**123**
Bad debts	68	6
Increase in provision for doubtful accounts *(note 20)*	306	442
Capital losses on property, plant and equipment	22	24
Other taxes (not on income)	308	357
Other operating costs	2,297	763
Other costs	**3,001**	**1,592**
Total	**31,550**	**25,821**

Notes to the Consolidated Financial Statements

Other operating costs include the sum of USD 1.5 million (around €1,300 thousand) paid to the US importer Tilton Equipment Company after terminating its distributorship in December 2005.

10 Amortization, depreciation and impairment losses

Details of these amounts are as follows:

(€ / 000)	FY 2005	FY 2004
Amortization of intangible assets *(note 16)*	786	756
Depreciation of property, plant and equipment *(note 14)*	4,406	4,560
Depreciation of investment property *(note 15)*	38	35
Writedown due to impairment	0	174
Total	**5,230**	**5,525**

The writedown due to impairment booked in 2004 refers to the goodwill arising on the acquisition of the remaining interests in Emak Benelux N.V. and Emak Deutschland Gmbh.

11 Financial income and expenses

Financial income is analyzed as follows:

(€ / 000)	FY 2005	FY 2004
Interest on trade receivables	123	203
Income from other securities held for trading	3	9
Interest on bank and post office accounts	116	71
Gains from discounting medium/long term payables	229	0
Cash discounts	163	98
Other financial income	24	46
Financial income	**658**	**427**

Financial expenses are analyzed as follows:

(€ / 000)	FY 2005	FY 2004
Interest on long-term bank loans and borrowings	282	337
Interest on short-term bank loans and borrowings	525	403
Financial charges from valuing employee termination indemnities *(note 29)*	107	101
Cash discounts	303	414
Other financial costs	202	148
Financial expenses	**1,419**	**1,403**

Exchange gains and losses are analyzed as follows:

(€ / 000)	FY 2005	FY 2004
Exchange differences on trade transactions	316	(172)
Exchange differences on financial items	312	3
Exchange gains and losses	**628**	**(169)**

Notes to the Consolidated Financial Statements

12 Income taxes

The estimated charge for current tax and changes in deferred tax assets and liabilities in 2005 is €7,300 thousand, (€6,593 thousand in the prior year).

This amount is made up as follows:

(€ / 000)	FY 2005	FY 2004
Current income taxes	7,754	6,292
Taxes from prior years	(41)	47
Changes in deferred tax assets	(740)	(278)
Changes in deferred tax liabilities	327	532
Total	**7,300**	**6,593**

Current income taxes include €1,496 thousand in IRAP (Italy's regional business tax) compared with €1,369 thousand in 2004

A total of €15 thousand in current income taxes were booked directly to equity in 2005 compared with €9 thousand in the prior year. These taxes refer to the capital gains realized on the sale of treasury shares (note 25).

The taxes calculated on pre-tax profit differ from the theoretical amount that would be determined using the tax rate currently in force in the country where the parent company is headquartered for the following reasons:

(€ / 000)	FY 2005	% rate	FY 2004	% rate
Profit before taxes	**16,905**		**15,425**	
Theoretical tax charge	**6,297**	**37.25**	**5,746**	**37.25**
Effect of IRAP differences calculated on different tax base	890	5.3	776	5.0
Non-taxable income	(37)	(0.2)	(175)	(1.1)
Non-deductible costs	311	1.8	88	0.6
Differences in rates with other Countries	(32)	(0.2)	31	0.2
Taxes from prior years	41	0.2	47	0.3
Other differences	(170)	(1.0)	80	0.5
Effective tax charge	**7,300**	**43.2**	**6,593**	**42.7**

The effective tax rate of 43.2 % is slightly higher than the one of 42.7% reported in 2004.

13 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 34). The parent company has only ordinary shares outstanding.

	FY 2005	FY 2004
Net profit attributable to ordinary shareholders in the parent company *(€/000)*	9,532	8,741
Weighted average number of ordinary shares outstanding	27,650,588	27,626,977
Basic earnings per share *(€)*	**0.34**	**0.32**

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

Notes to the Consolidated Financial Statements

14 Property, plant and equipment

Changes in property, plant and equipment are shown below:

(€ / 000)	31.12.2003	Increases	Decreases	Other changes	31.12.2004
Land and buildings	22,139	2,608	0	(267)	24,480
Accumulated depreciation	(3,973)	(535)	0	0	(4,508)
Land and buildings	**18,166**	**2,073**	**0**	**(267)**	**19,972**
Plant and machinery	10,374	562	(67)	0	10,869
Accumulated depreciation	(5,557)	(996)	39	0	(6,514)
Plant and machinery	**4,817**	**(434)**	**(28)**	**0**	**4,355**
Other property, plant and equipment	34,501	3,349	(295)	0	37,555
Accumulated depreciation	(28,396)	(3,029)	235	0	(31,190)
Other assets	**6,105**	**320**	**(60)**	**0**	**6,365**
Advances	**0**	**260**	**0**	**0**	**260**
Cost	**67,014**	**6,779**	**(362)**	**(267)**	**73,164**
Accumulated depreciation	**(37,926)**	**(4,560)**	**274**	**0**	**(42,212)**
Net book value	**29,088**	**2,219**	**(88)**	**(267)**	**30,952**

(€ / 000)	31.12.2004	Change in scope of consolidation	Incr.	Decr.	Purchase of business	Other changes	Exch. differ.	31.12.2005
Land and buildings	24,480	21	2,427	(18)	0	22	0	26,932
Accumulated depreciation	(4,508)	(11)	(655)	4	0	0	0	(5,170)
Land and buildings	**19,972**	**10**	**1,772**	**(14)**	**0**	**22**	**0**	**21,762**
Plant and machinery	10,869	0	649	(87)	0	221	2	11,654
Accumulated depreciation	(6,514)	0	(1,062)	84	0	0	(1)	(7,493)
Plant and machinery	**4,355**	**0**	**(413)**	**(3)**	**0**	**221**	**1**	**4,161**
Other prop., plant & equip.	37,555	17	2,504	(374)	191	(14)	21	39,900
Accumulated depreciation	(31,190)	(7)	(2,689)	337	0	2	(2)	(33,549)
Other assets	**6,365**	**10**	**(185)**	**(37)**	**191**	**(12)**	**19**	**6,351**
Advances	**260**	**0**	**473**	**(84)**	**0**	**(393)**	**27**	**283**
Cost	**73,164**	**38**	**6,053**	**(563)**	**191**	**(164)**	**50**	**78,769**
Accumulated deprec.	**(42,212)**	**(18)**	**(4,406)**	**425**	**0**	**2**	**(3)**	**(46,212)**
Net book value	**30,952**	**20**	**1,647**	**(138)**	**191**	**(162)**	**47**	**32,557**

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

The increase in land and buildings includes around €2,075 thousand for constructing the new factory in China, with the remainder referring to minor investments.

Notes to the Consolidated Financial Statements

The increase in plant and machinery includes €374 thousand in investments for the routine replacement of assets and €275 thousand in investments at the factory in China.

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 assets mortgaged to secure liabilities amount to €5,647 thousand (€7,690 thousand at 31 December 2004).

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

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

(€ / 000)	31.12.2005	31.12.2004
Gross value	4,981	1,322
Accumulated depreciation	(348)	(35)
Net book value	**4,633**	**1,287**

These finance leases refer to:

- the office building of Emak S.p.A. in Via Fermi 4 used as the company's head office, under an agreement made with Locat S.p.A. on 10 November 2005 which expires on 10 May 2013; the gross value of the asset is €3,659 thousand;
- the building used as the head office of the Spanish subsidiary Emak Suministros Espana SA, under an agreement made with Caja Duero Bank on 18 July 1997 which expires on 18 July 2007; the gross value of the asset is €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;
- €834 thousand in 2002 for investments made in 2001 and 2002 worth around €4,250 thousand.

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

Comag S.r.l. presented a new application in 2004 to obtain grants worth around €2,400 thousand for investments of some €9,538 thousand.

15 Investment property

This refers to a building leased to a company in the Yama Group and to a farmhouse situated on a piece of land available for future expansion of production activities. Their gross value at 31 December 2005 is €1,407 thousand (€1,257 thousand at the end of 2004), while the associated accumulated depreciation amounts to €1,008 thousand (€970 thousand at the end of 2004).

The rental income earned from these properties amounted to €127 thousand in 2005 compared with €147 thousand the year before.

The fair value of investment properties amounts to around €2.5 million at 31 December 2005.

Notes to the Consolidated Financial Statements

16 Intangible assets

Intangible assets report the following changes:

(€ / 000)	31.12.2003	Increases	Exch. difference	31.12.2004
Development costs	571	286	0	857
Accumulated amortization	(64)	(152)	0	(216)
Development costs	**507**	**134**	**0**	**641**
Patents and intellectual property rights	1.832	399	0	2.231
Accumulated amortization	(699)	(600)	0	(1,299)
Patents	**1,133**	**(201)**	**0**	**932**
Concessions, licences and trademarks	9	2	0	11
Accumulated amortization	(1)	(1)	0	(2)
Concessions, licences and trademarks	**8**	**1**	**0**	**9**
Other intangible assets	255	16	(26)	245
Accumulated amortization	0	(3)	0	(3)
Other intangible assets	**255**	**13**	**(26)**	**242**
Advances	**0**	**55**	**0**	**55**
Cost	**2,667**	**758**	**(26)**	**3,399**
Accumulated amortization	**(764)**	**(756)**	**0**	**(1,520)**
Net book value	**1,903**	**2**	**(26)**	**1,879**

(€ / 000)	31.12.2004	Increases	Purchase of business	Other changes	Exchange difference	31.12.2005
Development costs	857	210	0	0	0	1,067
Accumulated amortization	(216)	(152)	0	0	0	(368)
Development costs	**641**	**58**	**0**	**0**	**0**	**699**
Patents and intellectual property rights	2,231	774	90	137	2	3,234
Accumulated amortization	(1,299)	(619)	0	(66)	0	(1,984)
Patents	**932**	**155**	**90**	**71**	**2**	**1,250**
Concessions, licences and trademarks	11	21	630	0	19	681
Accumulated amortization	(2)	(14)	0	0	0	(16)
Concessions, licences and trademarks	**9**	**7**	**630**	**0**	**19**	**665**
Other intangible assets	245	187	0	(8)	44	468
Accumulated amortization	(3)	(1)	0	2	0	(2)
Other intangible assets	**242**	**186**	**0**	**(6)**	**44**	**466**
Advances	**55**	**0**	**0**	**(55)**	**0**	**0**
Cost	**3,399**	**1,192**	**720**	**74**	**65**	**5,450**
Accumulated amortization	**(1,520)**	**(786)**	**0**	**(64)**	**0**	**(2,370)**
Net book value	**1,879**	**406**	**720**	**10**	**65**	**3,080**

Notes to the Consolidated Financial Statements

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

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

Investments in other intangible assets include €186 thousand for the second tranche of land rights paid by the Chinese company Emak Outdoor Power Equipment Co Ltd..

All the intangible assets have a finite residual life.

A total of €4,060 thousand in research and development costs were expensed to income in the year compared with €3,011 thousand the year before.

The increases arising from the purchase of the Victus IT business refer to the trademark and software transferred to the subsidiary Victus Eco Sp.z.o.o.

More details on the transfer of this business are provided in the subsequent note.

17 Goodwill

The goodwill of €6,305 thousand reported at 31 December 2005 can be separated into two parts as follows:

(€ / 000)	31.12.2004	Increases	Exch. difference	31.12.2005
Goodwill on the purchase of Victus Eco Sp. Z.o.o.	0	962	3	965
Goodwill on the purchase of Victus IT business	0	5,182	158	5,340
Total	**0**	**6,144**	**161**	**6,305**

- goodwill on the purchase of Victus Eco Sp.z.o.o., amounting to €965 thousand, refers to the difference between the purchase price of €978 thousand for 100% of Victus Eco Sp. z.o.o., the Polish company acquired on 11 October 2005, and its equity of €16 thousand at that date (translated at a historical rate of exchange);
- the difference of €5,340 thousand refers to the purchase of the business of Victus International Trading SA, a Polish company.
  The net difference between the assets and liabilities purchased on 22 November 2005, corresponding to €5,182 thousand at historical exchange rates, has been capitalized as goodwill.

The following table provides details of the assets and liabilities purchased and the cash flow generated by the transaction as a whole:

Notes to the Consolidated Financial Statements

(€ / 000)	Victus Eco book values	Victus IT business book values	Fair value adjustments	Fair value of assets acquiraed
Property, plant and equipment	20	66	125	211
Intangible assets		2	718	720
Inventories	134	1,883	(43)	1,974
Trade receivables	563	398		961
Cash and banks	53			53
Trade payables	(754)	(1,001)		(1,755)
Total net assets acquired	**16**	**1,348**	**800**	**2,164**
Goodwill				**6,144**
Purchase price				**8,308**

Analyzed as follows:	
Payables to sellers of Victus IT business	1,504
Cash	6,804
Net cash outflows for acquisitions:	
Payment in cash	6,804
Cash and banks acquired	(53)
	6,751

In the last full financial year in which they operated under normal trading conditions (from August 2004 to July 2005), the Polish company Victus Eco Sp. z o.o. and the business acquired from Victus International Trading SA had estimated sales of around PLN 66,000 thousand, (€17,000 thousand), and estimated net profit of about PLN 3,700 thousand (€959 thousand).

The company reported a loss of around €200 thousand for the period after its acquisition. Sales in this same period amounted to €604 thousand.

The goodwill arising from the acquisition of 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 2005. Forecast future cash flows from operations are based on the group's budgets for the next three years and on estimated terminal value. Expected cash flows have been discounted using a weighted average cost of capital (WACC) of 10.1%.
The test supports a higher value of goodwill than that reported in the balance sheet, meaning that there is no impairment.

18 Equity investments

The company owns a minority interest in Netribe S.r.l., a company operating in the IT sector. This investment is valued at its cost of €223 thousand since its fair value cannot be determined.
The value of this investment of €223 thousand has not suffered any impairment losses; the risks and rewards of owning this investment are negligible.
Following the withdrawal and redemption of shares by a shareholder in Netribe S.r.l., Emak's interest in this company has increased from 10.0% to 10.42%.

Notes to the Consolidated Financial Statements

19 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 2005 there were outstanding forward currency agreements for the purchase of:

- USD 4,450 thousand maturing by August 2006 at an average rate of 1.20;
- € 750 thousand maturing by June 2006 at an average rate of GBP 0.686 (these are hedges carried out by the UK subsidiary Emak UK Ltd.);
- € 3,300 thousand maturing by July at an average rate of PLN 3.87 (these are hedges carried out by the Polish subsidiary Victus Eco Sp.z.o.o.);
- JPY 280,000 maturing by October 2006 at an average rate of 137;
- GBP 475 thousand maturing by August 2006 at an average rate of 0.68.

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.

20 Trade and other receivables

Details of these amounts are as follows:

(€ / 000)	31.12.2005	31.12.2004
Trade receivables	56,001	52,463
Provision for doubtful accounts	(816)	(1,584)
Net trade receivables	**55,185**	**50,879**
Receivables due from related parties *(note 35)*	656	941
Prepaid expenses and accrued income	231	227
Other receivables	839	748
Total current portion	**56,911**	**52,795**
Other npn-current receivables	63	111
Total non-current portion	**63**	**111**

Trade receivables include the following amounts in foreign currency:
- USD 6,248,279;
- JPY 15,293,119;
- PLN 3,753,227;
- GBP 1,154,871.

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)	31.12.2005	31.12.2004
Opening balance	**1,584**	**1,422**
Increases *(nota 9)*	306	442
Decreases	(1,099)	(280)
Change in scope of consolidation	25	0
Closing balance	**816**	**1,584**

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

Notes to the Consolidated Financial Statements

21 Inventories

Inventories are detailed as follows:

(€ / 000)	31.12.2005	31.12.2004
Raw, ancillary and consumable materials	26,718	22,688
Work in progress and semifinished goods	5,788	5,329
Finished products and goods for resale	27,334	22,606
Total	**59,840**	**50,623**

Inventories are stated net of a provision of €1,145 thousand at 31 December 2005 (€957 thousand at 31 December 2004). 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 set out below:

(€ / 000)	FY 2005
Opening balance	**957**
Increases	528
Uses	(340)
Closing balance	**1,145**

The income earned in the year from writebacks for goods sold in the period was not material.

None of the group's inventories at 31 December 2005 act as security for its liabilities.

22 Non-current assets held for sale

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

23 Marketable securities at fair value

The balance of €99 thousand reported at 31 December 2005 refers to temporary investments of surplus cash in mutual fund shares, whose fair value is based on their official market price. The valuation of these securities at cost would have been €97 thousand.

24 Cash and banks

Cash and banks are detailed as follows:

(€ / 000)	31.12.2005	31.12.2004
Bank and post office deposits	4,089	5,193
Cash	14	12
Total	**4,103**	**5,205**

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

(€ / 000)	31.12.2005	31.12.2004
Cash and banks	4,103	5,205
Overdrafts *(note 27)*	(9,191)	(6,439)
Total	**(5,088)**	**(1,234)**

Notes to the Consolidated Financial Statements

25 Equity

Share capital

Share capital is fully paid up at 31 December 2005 and amounts to €7,190 thousand, remaining unchanged since the end of 2004. 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 2005, staying unchanged since the prior year.

Treasury shares

The adjustment of €28 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 2005 (note 34).

The par value of these treasury shares is €2 thousand.

Other reserves:

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

The revaluation reserve at 31 December 2005 includes the reserves arising from revaluations under Law 72/83 for €371 thousand and under Law 413/91 for €767 thousand. No change took place in the year under review.

The extraordinary reserve amounts to €27,088 thousand at 31 December 2005, inclusive of all allocations of earnings in prior years.

At 31 December 2005, the reserve for unrealized exchange gains comprises €27 thousand in unrealized exchange gains from prior years.

At 31 December 2005, 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 the year before.

The cumulative translation adjustment of €140 thousand at 31 December 2005 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, €640 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:

- Reserves for hedging instruments:

(€ / 000)	FY 2005	FY 2004
Opening balance	**(73)**	**(121)**
Reclassification of opening balance to income statement	112	193
Reclassification of taxes to income statement	(39)	(72)
Adjustment of hedging instruments to fair value	0	(112)
Tax effect of fair value adjustment	0	39
Closing balance	**0**	**(73)**

- Retained earnings:

(€ / 000)	FY 2005	FY 2004
Capital gains on sale of treasury shares	46	28
Taxes	(15)	(9)
Net profit on treasury shares	**31**	**19**

Notes to the Consolidated Financial Statements

26 Trade and other payables

Details of trade and other payables are set out below:

(€ / 000)	31.12.2005	31.12.2004
Trade payables	39,800	34,913
Payables due to related parties *(note 35)*	5,102	4,958
Payables due to staff and social security institutions	3,985	3,267
Accrued expenses and deferred income	193	169
Other payables	1,350	1,094
Total	**50,430**	**44,401**

Trade payables do not generate interest and are usually settled after 90 days.

Trade payables include the following amounts in foreign currency:
- USD 4,924,534;
- JPY 380,128,142;
- PLN 3,307,340;
- GBP 170,785;
- CHF 109,431;
- AUD 36,664;
- TWD 6,682,586;
- RMB 11,984,397.

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

27 Financial liabilities

Financial liabilities include €5,647 thousand in secured payables (loans by financial institutions).

The loans from some financial institutions are secured by the group's land and buildings, while payables for leases are secured by the lessor's right over the leased buildings.

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

(€ / 000)	31.12.2005	31.12.2004
Overdfrafts *(note 24)*	9,191	6,439
Bank loans	13,076	5,775
Lease finance	555	122
Financial accrued expenses and deferred income	86	75
Other loans	13	50
Total current portion	**22,921**	**12,461**

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

(€ / 000)	31.12.2005	31.12.2004
Bank loans	2,841	9,251
Lease finance	3,410	201
Financial accrued expenses and deferred income	27	2
Other loans	896	0
Total non-current portion	**7,174**	**9,454**

Notes to the Consolidated Financial Statements

The increase in short-term bank loans and the decrease in long-term ones is mainly due to the reclassification of the 5-year loan from BNL for €5,000 thousand, from non-current to current liabilities. This is because this loan matures in September 2006.

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.

Medium and long-term loans 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	546	542	618	606	**2,312**	**529**
Finance leasing	518	456	469	483	**1,926**	**1,484**
Other loans	0	0	0	0	**0**	**896**
Total	**1,064**	**998**	**1,087**	**1,089**	**4,238**	**2,909**

The interest rates on bank loans are all variable and linked to Euribor plus a variable spread ranging from a minimum of 0.3% to a maximum of 0.9%.

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

(€ / 000)	31.12.2005	31.12.2004
Minimum future payments < 1 year	661	125
Minimum future payments from 1 to 5 years	2,206	213
Minimum future payments beyond 5 years	1,328	0
Total minimum payments	**4,195**	**338**
Payables for future financial expenses	**(229)**	**(15)**
Present value	**3,966**	**323**
Interest rate	**3%**	**3%**

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

The group had around €76.4 million in undrawn credit lines at 31 December 2005.

28 Tax assets and liabilities

Deferred income tax assets are detailed below:

(€ / 000)	31.12.2004	Increases	Decreases	Exch. difference	31.12.2005
Reversal of unrealized intercompany gains	663	172	(39)	0	796
Provision for inventory obsolescence	219	69	0	0	288
Impairment of assets	156	0	(60)	0	96
Carryforward tax losses	672	4	(153)	4	527
Provision for doubtful accounts	31	0	0	0	31
Costs deductible in future	0	376	0	0	376
Other deferred tax assets	437	431	(60)	0	808
Total	**2,178**	**1,052**	**(312)**	**4**	**2,922**

A total of €1,234 thousand in deferred tax assets will reverse in the next 12 months.

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

Notes to the Consolidated Financial Statements

Deferred income tax liabilities are detailed below:

(€ / 000)	31.12.2004	Increases	Decreases	Exch. difference	31.12.2005
Buildings redeemed under finance lease	1,797	0	(35)	0	1,762
Valutation of provision for employee termination indemnities under IAS 19	105	0	(75)	0	30
Other deferred tax liabilities	341	508	(71)	(5)	773
Total	**2,243**	**508**	**(181)**	**(5)**	**2,565**

Other deferred tax liabilities mostly refer to revenue that will become taxable in future years.

A total of €414 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 around €450 thousand at 31 December 2005.

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 €430 thousand at 31 December 2005.

Current income tax assets amount to €3,525 thousand at 31 December 2005 compared with €1,775 thousand a year earlier. They refer to VAT credits and surplus payments on account of direct tax.
The increase is due to the higher amount of VAT credits at 31 December 2005.

Current income tax liabilities amount to €2,811 thousand at 31 December 2005 compared with €1,539 thousand a year earlier. They refer to payables for direct tax for the period, VAT and withholding taxes.

29 Long-term employee 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 €5,900 thousand at 31 December 2005. Had this provision been stated at face value, it would have amounted to €5,995 thousand at year end.

Movements in this liability are as follows:

(€ / 000)	2005	2004
Opening balance	**5,402**	**4,704**
Current service cost *(note 8)*	1,236	1,189
Interest cost on obligations *(note 11)*	107	101
Disbursement	(760)	(592)
Closing balance	**5,985**	**5,402**

The principal economic and financial assumptions used are as follows:

	2005	2004
Annual inflation rate	1.90%	2%
Rising discount rate	2.65%/3.25%	2.2% / 4%
Rate of worker turnover: decreasing rate	7% / 1%	7% / 1%
Rate of office staff turnover: decreasing rate	8% / 1%	8% / 1%
Rate of executive turnover: constant rate	6%	6%

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

Notes to the Consolidated Financial Statements

30 Provisions for liabilities and charges

Movements in these provisions are detailed below:

(€ / 000)	31.12.2004	Increases	Decreases	31.12.2005
Provision for agents' termination indemnity	247	112	0	359
Total non-current portion	**247**	**112**	**0**	**359**
Provision for product warranties	170	191	(170)	191
Other provisions	71	407	(52)	426
Total current portion	**241**	**598**	**(222)**	**617**

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 include the sum of €350 thousand set aside in 2005 for the amount that the parent company Emak S.p.A. is likely to have to pay to the tax authorities as a result of the following assessments:

a) Ruling by tax commission on tax assessment for fiscal years 1984-1985 and 1985-1986

The Central Tax Commission issued its rulings in the last quarter of 2005 on the assessments for fiscal years 1984-1985 and 1985-1986 received by the parent company Emak S.p.A.. The Commission confirmed most of the previous decisions expressed in the first and second levels of appeal, which were all the taxpayer's favour. It partially disallowed a few minor points to the detriment of Emak S.p.A.

The amount of the liability provided in the current financial report fully reflects the decisions by the Central Tax Commission for both fiscal years concerned, and totals €255 thousand (inclusive of additional tax, interest and penalties). Emak S.p.A. is nonetheless considering whether to mount a challenge in the Court of Appeal to the unfavourable part of this ruling.

b) Tax audit of fiscal year 2002

During the last quarter of 2005, the Reggio Emilia Tax Office carried out a partial audit of the parent company Emak S.p.A. with regard to IRPEG (corporate income tax), IRAP (regional business tax) and VAT in fiscal year 2002.

The results of the audit ended up with the issue of a report, whose findings will be reflected in an assessment, subject to discussion with the company. The resulting liability will not reasonably exceed the sum of €95 thousand, corresponding to the amount recognized as a provision. If the Tax Office fails to accept the valid reasons of the taxpayer and confirms the tax claim in whole or in part, Emak S.p.A. would nonetheless consider appealing to the Tax Commission.

Notes to the Consolidated Financial Statements

31 Other non-current liabilities

(€ / 000)	31.12.2005	31.12.2004
Deferred income - Law 488 grants	755	869
Social security payables	102	126
Payables due to sellers of Victus IT business	1,275	0
Total	**2,132**	**995**

The deferred income refers to the capital grant received by Comag under Law 488/92 which is being recognized over future years. The portion of the grant recognizable this year is classified under current liabilities as accrued expenses and deferred income (note 26) and amounts to €114 thousand (€150 thousand in 2004).

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

32 Potential liabilities

At the date of 31 December 2005 the group does not have any disputes that could give rise to future liabilities that have not already been reflected in the balance sheet.

33 Commitments

Fixed asset purchases

The group has €1,958 thousand in commitments to purchase fixed assets at 31 December 2005 (€102 thousand at 31 December 2004). These commitments mostly refer to the construction of the new factory in China.

Guarantees given

The group has €364 thousand in guarantees given to third parties at 31 December 2005 (€180 thousand at the end of 2004).

34 Ordinary shares, treasury shares and dividends

Share capital is fully paid up at 31 December 2005 and amounts to €7,190 thousand. It consists of 27,653,500 ordinary shares of par value €0.26 each.

	31.12.2005	31.12.2004
Number of ordinary shares	27,653,500	27,653,500
Treasury shares	(6,000)	(21,968)
Total outstanding shares	**27,647,500**	**27,631,532**

The dividends for 2004 approved by the shareholders on 29 April 2005, totalling €4,010 thousand, were paid during 2005.

In accordance with the related authorization by shareholders, Emak S.p.A. carried out purchases and sales of treasury shares on the market for the purpose of improving the stock's liquidity. Emak S.p.A. held 6,000 treasury shares at 31 December 2005, compared with 21,968 such shares a year earlier.

Emak purchased 7,000 treasury shares between 1 January 2005 and 31 December 2005 and sold 22,969 such shares over this period, leaving 6,000 shares in its portfolio at the end of 2005.

Notes to the Consolidated Financial Statements

35 Related party transactions

The effect on the balance sheet and income statement at 31 December 2005 of transactions by the Emak Group with ultimate parent companies, affiliated companies and any related parties are shown below.

Some of the companies belonging to the Yama Group supply the Emak Group with parts and materials, exploiting synergies associated with technological research. These are mostly strategically important parts, whose purchasing policy is based on factors of quality and cost.
The Emak Group supplies finished products to some of the trading companies within the Yama Group, allowing them to complete their product range.

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

The main transactions with ultimate parent and affiliated companies during the year ended 31 December 2005 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
Arkos S.r.l.	15	0	15	0
Comet S.p.A.	163	0	163	40
Garmec S.p.A.	315	0	315	5
Mac Sardegna S.r.l.	1,032	0	1,032	550
Sabart S.p.A.	227	0	227	53
Selettra S.r.l.	3	0	3	1
Tecnol S.p.A.	5	0	5	2
Tecomec S.p.A.	25	130	155	2
Unigreen S.p.A.	12	0	12	0
Yabe S.p.A.	16	0	16	3
Total *(note 20)*	**1,813**	**130**	**1,943**	**656**

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
Comet France SAS	8	0	8	0
Comet S.p.A.	787	0	787	166
Fima S.p.A.	1,019	21	1,040	568
Garmec S.p.A.	9	1	10	2
Mac Sardegna S.r.l.	6	7	13	7
Sabart S.p.A.	181	0	181	35
Selettra S.r.l.	3,455	38	3,493	1,445
Speed France SAS	328	0	328	140
Tecnol S.p.A.	4,421	36	4,457	1,813
Tecomec S.p.A.	1,359	2	1,361	404
Unigreen S.p.A.	9	0	9	0
Yabe S.p.A.	2,410	0	2,410	466
Yama Immobiliare S.r.l.	0	71	71	0
Yama S.p.A.	0	110	110	56
Total *(note 26)*	**13,992**	**286**	**14,278**	**5,102**

Notes to the Consolidated Financial Statements

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

(€ / 000)	FY 2005	FY 2004
Emoluments of directors and statutory auditors	201	185
Benefits in kind	6	4
Wages and salaries	573	564
Employee termination indemnities	46	41
Consulting fees	30	32
Total	**856**	**826**

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

36 Subsequent events

- During the early part of 2006 management decided to sell the plastic components moulding business of Emak S.p.A. The planned disposal to an existing specialized supplier is designed to improve service, efficiency and quality. The sale consideration is estimated to be higher than the book value of this business's assets and liabilities.

- With reference to the subsidiary Victus Eco Sp. z.o.o., its shareholders voted on 24 January 2006:
  - to increase share capital by PLN 9,997,500;
  - to change the company name to Victus Emak Sp.z.o.o.;
  - to adopt new articles of association.

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

(€ / 000)	Equity at 31.12.2005	Results for year ended 31.12.2005	Equity at 31.12.2004	Results for year ended 31.12.2004
Equity and net profit of Emak S.p.A.	69,385	7,834	65,511	7,792
Equity and net profit of consolidated subsidiaries	18,493	2,644	14,300	1,408
Total	**87,878**	**10,478**	**79,811**	**9,200**
Effect of eliminating book value of equity investments	(11,035)	-	(9,192)	(174)
Elimination of dividends	-	(528)	-	(467)
Elimination of intercompany balances and gains	(1,484)	(345)	(1,119)	273
Total as per consolidated financial statements	**75,359**	**9,605**	**69,500**	**8,832**
Minority interests	**(458)**	**(73)**	**(446)**	**(91)**
Equity and net profit attributable to the Group	**74,901**	**9,532**	**69,054**	**8,741**

Emak Group
Independent Auditors' Report

a x i s
organizzazione e revisione contabile

Auditors' report in accordance with article 156 of legislative decree n° 58 of 24 February 1998

To the Shareholders of
Emak S.p.A.

1. We have audited the consolidated financial statements of Emak S.p.A. and its subsidiaries (the Emak Group) as of and for the year ended December 31, 2005, comprising the balance sheet, the statements of income, cash flows, changes in shareholders' equity and the related explanatory notes. These consolidated financial statements are the responsibility of Emak S.p.A.'s Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
These consolidated financial statements represent the first consolidated financial statements prepared by Emak Group in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

2. We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards and criteria require that we plan and perform the audit to obtain the necessary about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

axis s.r.l. organizzazione e revisione contabile
Via Gutenberg, 3 42100 Reggio Emilia Italy
Tel. +39 0522 232110 Fax +39 0522 271337
e-mail axis@axisnet.it www.axisnet.it
C.F. e P.IVA 01277720354

A member of the
MOORE STEPHENS
INTERNATIONAL LIMITED
group of independent firms

Emak Group
Independent Auditors' Report

a x i s
organizzazione e revisione contabile

Page 2

The audit of the financial statements of certain subsidiaries and associates, which represent 37% of consolidated total asset and 36% of consolidated revenues is the responsibility of other auditors.
The consolidated financial statements present for comparative purposes the corresponding data for the prior year prepared in accordance with IFRS. In addition, the notes of the consolidated financial statements explain the effects of transition to IFRS as adopted by the European Union and include the reconciliation statements required by IFRS 1, previously published as an attachment to the interim consolidated financial reporting of Emak S.p.A. for the six-month period ended June 30, 2005, approved by the Board of Directors and which we have audited and on which we issued a special purpose auditors' report dated October 3, 2005.

3. In our opinion, the consolidated financial statements of Emak Group as of December 31, 2005, comply with IFRS as adopted by the European Union; accordingly, they give a true and fair view of the financial position, the result of operations, the changes in shareholders' equity and the cash flows of Emak Group as of and for the year ended December 31, 2005.

Reggio Emilia, April 12, 2006

AXIS S.r.l.

Franco Marchini - Partner

This report has been translated into the English language solely for the convenience of international readers.

Emak S.p.A.
Financial Statements
at December 31st 2005

Emak S.p.A. - Income Statement

(€)	Note	Year 2005	Year 2004
Sales	5	147,090,398	127,729,997
Operating income	5	522,405	831,799
Change in inventories	20	3,326,784	1,591,700
Cost of goods	6	(95,321,002)	(78,971,815)
Salaries and employee benefits	7	(17,707,269)	(16,631,068)
Other operating costs	8	(21,507,561)	(17,647,224)
Amortization, depreciation and impairment losses	9	(3,493,670)	(3,780,184)
EBIT		**12,910,085**	**13,123,205**
Financial revenues	10	1,076,988	944,204
Financial costs	10	(693,584)	(819,337)
Exchange gain and losses	10	318,827	53,626
EBT		**13,612,316**	**13,301,698**
Income taxes	11	(5,778,534)	(5,509,978)
Net profit		**7,833,782**	**7,791,720**
Earnings per share basic	12	**0.28**	**0.28**
Earnings per share diluited	12	**0.28**	**0.28**

Emak S.p.A. - Balance Sheet

Assets

(€)	Note	31.12.2005	31.12.2004
Non-current assets			
Property, plant and equipment	13	17,566,114	18,385,510
Intangible assets	15	1,585,212	1,304,467
Investment property	14	399,090	287,000
Investments	16	10,366,606	8,527,863
Deferred tax assets	26	1,394,158	695,888
Other financial assets	18	14,892,161	4,568,114
Other receivables	19	21,103	81,246
Total		**46,224,444**	**33,850,088**
Non-current assets held for sale			
Available for sale investments	21	268,969	267,000
Total		**268,969**	**267,000**
Current assets			
Inventories	20	37,004,985	33,678,201
Trade and other receivables	19	48,626,505	42,892,450
Current tax receivables	26	1,459,442	1,543,619
Other financial assets	18	18,897	24,589
Cash and cash equivalents	22	1,077,025	3,656,239
Total		**88,186,854**	**81,795,098**
Total assets		**134,680,267**	**115,912,186**

Equity and liabilities

(€)	Note	31.12.2005	31.12.2004
Capital and reserves			
Issued capital	23	7,189,910	7,189,910
Share premium	23	21,047,079	21,047,079
Treasury shares	23	(28,318)	(46,525)
Other reserves	23	30,213,956	26,374,747
Retained earnings	23	10,962,299	10,945,690
Total		**69,384,926**	**65,510,901**
Non-current liabilities			
Borrowings	25	4,632,547	6,177,322
Deferred tax liabilities	26	2,317,045	2,093,218
Post-employment benefits	27	5,564,509	5,106,908
Provisions	28	358,932	247,398
Total		**12,873,033**	**13,624,846**
Current liabilities			
Trade and other liabilities	24	41,756,120	34,575,317
Current tax liabilities	26	1,245,181	566,330
Loans and borrowings	25	8,948,647	1,472,031
Derivative financial instruments	17	219	0
Provisions	28	472,141	162,761
Total		**52,422,308**	**36,776,439**
Total equity and liabilities		**134,680,267**	**115,912,186**

Change in the equity of Emak S.p.A. at 31 December 2004 and 31 December 2005

(€ / 000)	Issued capital	Share premium	Treasury shares	Other reserves Legal reserve
Balance at 01.01.2004	**7,190**	**21,047**	**(72)**	**1,438**
Sale of treasury shares			25	
Payment of dividends				
Reclassification of 2003 net profit				
Net profit for 2004				
Total at 31.12.2004	**7,190**	**21,047**	**(47)**	**1,438**
Sale of treasury shares			19	
Payment of dividends				
Reclassification of 2004 net profit				
Net profit for 2005				
Total at 31.12.2005	**7,190**	**21,047**	**(28)**	**1,438**

Other reserves		Retained earnings		
Special reserve	Other reserves	Retained earnings	Net profit for the period	Total
1,138	**19,706**	**11,234**		**61,681**
		19		**44**
		(4,006)		**(4,006)**
	4,093	(4,093)		**0**
			7,792	**7,792**
1,138	**23,799**	**3,154**	**7,792**	**65,511**
		31		**50**
			(4,010)	**(4,010)**
	3,839	(57)	(3,782)	**0**
			7,834	**7,834**
1,138	**27,638**	**3,128**	**7,834**	**69,385**

Emak S.p.A. - Cash flow statement

(€ / 000)	note	2005	2004
Cash flow from operation			
Net profit for the period		**7,834**	**7,792**
Amortization, depreciation and impairment losses	9	3,494	3,780
(Capital gains) / losses on disposal of property, plant and equipment		(22)	12
Reclassification of dividends receipts		(528)	(467)
Decreases / increases in trade and other receivables		(6,288)	(781)
Decreases / increases in inventories		(3,327)	(1,513)
Decreases / increases in trade and other payables		8,083	6,383
Change in employee benefits	27	458	566
Decreases / increases in provisions for liabilities	28	421	79
Net cash generated by operations		**10,125**	**15,851**
Cash flow from investment activities			
Dividends received		528	467
Increases in property, plant and equipment and intangible assets		(3,075)	(6,197)
Increases and decreases in financial assets		(12,157)	(634)
Proceeds from disposal of property, plant and equipment		27	55
Net cash absorbed by investment activities		**(14,677)**	**(6,309)**
Cash flow from financial activities			
Changes in equity		50	44
Change in short and long-term loans and borrowings		9	(1,183)
Change in lease finance		3,765	(778)
Dividends paid		(4,010)	(4,006)
Net cash absorbed by financial activities		**(186)**	**(5,923)**
Net increase in cash and cash equivalent		**(4,738)**	**3,619**
Opening cash and cash equivalent		**3,548**	**(71)**
Closing cash and cash equivalent		**(1,190)**	**3,548**

Additional informations on the cash flow statement

(€ / 000)	2005	2004
Reconciliation of cash and cash equivalent		
Opening cash and cash equivalent, detailed as follows:	**3,548**	**(71)**
Cash and cash equivalent	3,656	1,204
Overdrafts	(108)	(1,275)
Closing cash and cash equivalent, detailed as follows:	**(1,190)**	**3,548**
Cash and cash equivalent	1,077	3,656
Overdrafts	(2,267)	(108)
Other informations:		
Tax paid	(5,333)	(5,779)
Interest paid	201	240
Effects of exchange rate changes	38	(4)

Explanatory notes to the Financial Statements of Emak S.p.A.

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

Notes to the Financial Statements of Emak S.p.A.

1 General information

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 420 employees.

The company is under the governance and coordination of Yama S.p.A. as defined by article 2497 of the Italian Civil Code. The Yama Group's main business is in the sectors of agricultural and gardening machinery and equipment, engine components, finance and real estate.
The draft financial statements of Emak S.p.A. for the year ended 31 December 2005 were approved by the Board of Directors on 31 March 2006.
The financial statements are being submitted for the approval of shareholders, who have the power to make amendments.

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 of Emak S.p.A. at 31 December 2005 have been prepared for the first time in accordance with IFRS (International Financial Reporting Standards) and particularly IFRS 1 (First-time adoption of International Financial Reporting Standards).
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 figures for 2004 have been restated for IFRS for the sake of consistent comparison.

As required by paragraph 4 of article 82 *bis* of CONSOB resolution 14990, the section entitled "Transition to IFRS" contains the reconciliations of equity at the start and close of 2004 and of net profit for that year, as required by IFRS 1.

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 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 Reporting 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.

Notes to the Financial Statements of Emak S.p.A.

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 being depreciated. The other assets are being 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 repayments of principal are recognized as financial liabilities. The finance cost is expensed to income 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 keeps 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.

Notes to the Financial Statements of Emak S.p.A.

(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 tested annually for any impairment. Depreciable assets are tested 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 (through the income statement)

This category include 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.
Derivatives, that do not qualify for hedge accounting, 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.

Notes to the Financial Statements of Emak S.p.A.

(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 derecognized 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.

Notes to the Financial Statements of Emak S.p.A.

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 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.

2.12 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.

2.13 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.

2.14 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.

Notes to the Financial Statements of Emak S.p.A.

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 part or all 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.

2.15 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.

2.16 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.

2.17 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.

2.18 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.

Notes to the Financial Statements of Emak S.p.A.

2.19 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.

2.20 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.

2.21 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. There is no particular impact on the cash flow statement arising from the transition to IFRS apart from those associated with the effects of this change on the balance sheet and income statement, as described in the appended report on the "Transition to IFRS".

2.22 New accounting standards

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

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

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

3 Financial risk management

3.1 Financial risk factors

The business of Emak S.p.A. 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 its results. The company uses derivative financial instruments to hedge certain risks.
Hedging of financial risks is managed by a head office function working in close collaboration with the individual operating units.

(a) Market risk

(i) Currency risk
The company conducts its business internationally and is exposed to exchange risk associated with the currencies used, chiefly US dollars, yen 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.

Notes to the Financial Statements of Emak S.p.A.

(ii) Price risk
Emak S.p.A. 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 supplier contracts 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. 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 aims to achieve flexible funding by having sufficient credit lines (see note 27).

(d) Interest rate risk

Since the company does not have significant interest-bearing assets, operating profits and cash flows are largely unaffected by changes in market interest rates. The company's interest rate risk relates to its long-term loans and borrowings. Variable rate loans expose the company to the cash flow risk associated with interest rates. Fixed rate loans expose the company to the fair value risk associated with interest rates.
The company's policy is based on constantly monitoring its level and structure of debt and on the trend in interest rates and macroeconomic variables that might directly influence them, with the goal of optimizing the cost of money. At 31 December 2005, loans and borrowings carried variable interest and there were no interest rate hedges in course.

3.2 Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are used 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.

Notes to the Financial Statements of Emak S.p.A.

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 IAS/IFRS has required management to make estimates and assumptions affecting the value of reported assets and liabilities and the disclosures relating to potential assets and liabilities at the balance sheet date. Actual results could differ from these estimates. Estimates are used for recording provisions for doubtful accounts and inventory obsolescence, amortization and depreciation, writedowns to assets, employee benefits, taxes and other provisions. Estimates and assumptions are reviewed periodically and the effects of any change are immediately reflected in the income statement.

5 Sales and other operating revenues

Sales revenues amount to €147,090 thousand, compared with €127,730 thousand in the prior year. They are stated net of €481 thousand in returns, compared with €237 thousand in 2004.

Details of revenues are as follows:

(€ / 000)	FY 2005	FY 2004
Net sales revenues (net of discounts and rebates)	146,378	127,216
Revenues from recharged transport costs	1,193	961
Returns	(481)	(447)
Total	**147,090**	**127,730**

Other operating revenues are analyzed as follows:

(€ / 000)	FY 2005	FY 2004
Capital gains on property, plant and equipment	22	12
Insurance refunds	103	170
Out-of-period income	164	227
Rental income	127	142
Other	106	281
Total	**522**	**832**

The decrease in rental income relates to the property in Brescello (RE), which is no longer being used and will be sold in 2006 (note 21).

Notes to the Financial Statements of Emak S.p.A.

6 Cost of raw and consumable materials

These amount to €95,321 thousand (€78,972 thousand in the prior year), representing an increase of €16,349 thousand.

7 Salaries and employee benefits

Details of these costs are as follows:

(€ / 000)	FY 2005	FY 2004
Wages and salaries	11,986	11,395
Social security charges	3,918	3,740
Employee termination indemnities *(note 27)*	1,069	1,059
Other costs	49	6
Directors' emoluments	165	143
Temporary staff	520	288
Total	**17,707**	**16,631**

Employees are broken down by grade as follows:

	31.12.2005		31.12.2004	
	(1)	*(2)*	*(1)*	*(2)*
Executives	12	13	12	12
Office staff	154	155	149	148
Factory workers	258	237	265	246
Total	**424**	**405**	**426**	**406**

(1) Average number of employees in year. (2) Number of employees at that date.

8 Other operating costs

Details of these costs are as follows:

(€ / 000)	FY 2005	FY 2004
Subcontract work	4,655	3,511
Maintenance	1,361	1,294
Transportation	3,744	2,716
Advertising and promotions	1,994	2,299
Commissions	2,016	2,131
Other services	4,456	4,446
Services	**18,226**	**16,397**
Leases and rentals	**485**	**516**
Increases in provisions *(note 28)*	**563**	**118**
Increase in provisions for doubtful accounts *(note 19)*	229	300
Capital losses on property, plant and equipment	0	24
Other taxes (not on income)	145	125
Other operationg costs	1.860	167
Other costs	**2,234**	**616**
Total	**21,508**	**17,647**

Other operating costs includes the sum of USD 1.5 million (around €1,300 thousand) paid to the US importer Tilton Equipment Company after terminating its distributorship in December 2005.

Notes to the Financial Statements of Emak S.p.A.

9 Amortization, depreciation and impairment losses

Details of these amounts are as follows:

(€ / 000)	FY 2005	FY 2004
Amortization of intangible assets *(note 15)*	642	667
Depreciation of property, plant and equipment *(note 13)*	2,814	3,078
Depreciation of investment property *(note 14)*	38	35
Total	**3,494**	**3,780**

10 Finance income and expenses

These amounts are analyzed as follows:

(€ / 000)	FY 2005	FY 2004
Dividends from subsidiaries	528	467
Interest on trade receivables	119	203
Interest on loans to subsidiaries *(note 32)*	180	114
Interest on bank and post office accounts	87	60
Cash discounts received	163	98
Other financial income	0	2
Financial income	**1,077**	**944**

(€ / 000)	FY 2005	FY 2004
Interest on long-term bank loans and borrowings	182	209
Interest on short-term bank loans and borrowings	19	31
Financial charges from valuing employee termination indemnities *(note 27)*	102	97
Cash discounts given	303	414
Other financial expenses	88	68
Financial expenses	**694**	**819**

(€ / 000)	FY 2005	FY 2004
Realized exchange gains	409	520
Unrealized gains	377	41
Realized exchange losses	(467)	(507)
Exchange gains and losses	**319**	**54**

Notes to the Financial Statements of Emak S.p.A.

11 Income taxes

The estimated charge for current tax and changes in deferred tax assets and liabilities in 2005 is €5,779 thousand, (€5,510 thousand in the prior year).

This amount is made up as follows:

(€ / 000)	FY 2005	FY 2004
Current income taxes	6,295	5,358
Taxes from prior years	(41)	44
Changes in deferred tax liabilities	297	178
Changes in deferred tax assets	(772)	(70)
Total	**5,779**	**5,510**

Current income taxes include €1,323 thousand in IRAP (Italy's regional business tax) compared with €1,269 thousand in 2004.

A total of €15 thousand in current income taxes were booked directly to equity in 2005 compared with €9 thousand in the prior year. These taxes refer to the capital gains realized on the sale of treasury shares (note 23).

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

(€ / 000)	FY 2005	% rate	FY 2004	% rate
Profit before taxes	**13,612**		**13,302**	
Theoretical tax charge	**5,071**	**37.25**	**4,955**	**37.25**
Effect of IRAP differences calculated on different tax base	716	5.3	707	5.3
Non-taxable income	0	0	(175)	(1.3)
Dividends	(165)	(1.2)	(147)	(1.1)
Non-deductible costs	259	1.9	75	0.6
Other differences	(102)	(0.8)	95	0.7
Effective tax charge	**5,779**	**42.5**	**5,510**	**41.4**

12 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 31).

The company has only ordinary shares outstanding.

	FY 2005	FY 2004
Net profit attributable to ordinary shareholders *(€ / 000)*	7,834	7,792
Weighted average number of ordinary shares outstanding	27,650,588	27,626,977
Basic earning per share *(€)*	**0.28**	**0.28**

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

Notes to the Financial Statements of Emak S.p.A.

13 Property, plant and equipment

Changes in property, plant and equipment are shown below:

(€ / 000)	31.12.2003	Increases	Decreases	Other changes	31.12.2004
Land and buildings	12,250	2,498	0	(267)	14,481
Accumulated depreciation	(3,039)	(201)	0	0	(3,240)
Land and buildings	**9,211**	**2,297**	**0**	**(267)**	**11,241**
Plant and machinery	6,439	144	(67)	0	6,516
Accumulated depreciation	(4,148)	(390)	39	0	(4,499)
Plant and machinery	**2,291**	**(246)**	**(28)**	**0**	**2,017**
Other property, plant and equipment	30,581	2,926	(273)	0	33,234
Accumulated depreciation	(25,854)	(2,487)	235	0	(28,106)
Other assets	**4,727**	**439**	**(38)**	**0**	**5,128**
Cost	**49,270**	**5,568**	**(340)**	**(267)**	**54,231**
Accumulated depreciation	**(33,041)**	**(3,078)**	**274**	**0**	**(35,845)**
Net book value	**16,229**	**2,490**	**(66)**	**(267)**	**18,386**

(€ / 000)	31.12.2004	Increases	Decreases	Other changes	31.12.2005
Land and buildings	14,481	47	0	(154)	14,374
Accumulated depreciation	(3,240)	(329)	0	0	(3,569)
Land and buildings	**11,241**	**(282)**	**0**	**(154)**	**10,805**
Plant and machinery	6,516	254	(86)	0	6,684
Accumulated depreciation	(4,499)	(415)	86	0	(4,828)
Plant and machinery	**2,017**	**(161)**	**0**	**0**	**1,856**
Other property, plant and equipment	33,234	1,853	(272)	0	34,815
Accumulated depreciation	(28,106)	(2,071)	267	0	(29,910)
Other assets	**5,128**	**(218)**	**(5)**	**0**	**4,905**
Cost	**54,231**	**2,154**	**(358)**	**(154)**	**55,873**
Accumulated depreciation	**(35,845)**	**(2,815)**	**353**	**0**	**(38,307)**
Net book value	**18,386**	**(661)**	**(5)**	**(154)**	**17,566**

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

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

The increase in other assets includes €1,319 thousand for the purchase of moulding equipment, €128 thousand for buying office furniture, €294 thousand for purchasing electronic machinery and the remainder for buying sundry equipment.

The other changes column includes the reclassification of about €150 thousand to investment property.

Notes to the Financial Statements of Emak S.p.A.

The assets mortgaged to secure liabilities amount to €2,582 thousand at 31 December 2005, staying the same as the year before.

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

Firm commitments to purchase equipment, plant and machinery amount to €661 thousand.

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

(€ / 000)	31.12.2005	31.12.2004
Gross value	3,659	0
Accumulated depreciation	(110)	0
Net book value	**3,549**	**0**

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 May 2013.

14 Investment property

This refers to a building leased to a company in the Yama Group and to a farmhouse situated on a piece of land available for future expansion of production activities. Their gross value at 31 December 2005 is €1,407 thousand (€1,257 thousand at the end of 2004), while the associated accumulated depreciation amounts to €1,008 thousand (€970 thousand at the end of 2004).

The rental income earned from these properties amounted to €127 thousand in 2005 compared with €142 thousand the year before.

The fair value of investment properties amounts to around €2.5 million at 31 December 2005.

Notes to the Financial Statements of Emak S.p.A.

15 Intangible assets

Intangible assets report the following changes:

(€ / 000)	31.12.2003	Increases	Other changes	31.12.2004
Development costs	571	286	0	857
Accumulated amortization	(64)	(152)	0	(216)
Development costs	**507**	**134**	**0**	**641**
Patents and intellectual property rights	1,439	341	0	1,780
Accumulated amortization	(611)	(514)	0	(1,125)
Patents	**828**	**(173)**	**0**	**655**
Concessions, licences and trademarks	9	2	0	11
Accumulated amortization	(2)	(1)	0	(3)
Concessions, licences and trademarks	**7**	**1**	**0**	**8**
Cost	**2,019**	**629**	**0**	**2,648**
Accumulated amortization	**(677)**	**(667)**	**0**	**(1,344)**
Net book value	**1,342**	**(38)**	**0**	**1,304**

(€ / 000)	31.12.2004	Increases	Other changes	31.12.2005
Development costs	857	210	0	1,067
Accumulated amortization	(216)	(152)	0	(368)
Development costs	**641**	**58**	**0**	**699**
Patents and intellectual property rights	1,780	692	0	2,472
Accumulated amortization	(1,125)	(488)	0	(1,613)
Patents	**655**	**204**	**0**	**859**
Concessions, licences and trademarks	11	21	0	32
Accumulated amortization	(3)	(2)	0	(5)
Concessions, licences and trademarks	**8**	**19**	**0**	**27**
Cost	**2,648**	**923**	**0**	**3,571**
Accumulated amortization	**(1,344)**	**(642)**	**0**	**(1,986)**
Net book value	**1,304**	**281**	**0**	**1,585**

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

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

All the intangible assets have a finite residual life 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 years

A total of €4,060 thousand in research and development costs were expensed to income in the year compared with €3,011 thousand the year before.

Notes to the Financial Statements of Emak S.p.A.

16 Equity investments

Details of equity investment:

(€ / 000)	31.12.2005	31.12.2004
Equity investments in subsidiary companies	10,144	8,305
Equity investments in other companies	223	223
Total	**10,367**	**8,528**

Equity investments in subsidiary companies amount to €10,144 thousand, having increased by €1,839 thousand since the end of 2004 as follows:

- €861 thousand relating to Jiangmen Emak Outdoor Power Equipment Co. Ltd (China) for the share capital increase;
- €978 thousand relating to Victus Eco Sp. z.o.o., based in Poznan (Poland), for the purchase of the entire interest in this Polish company.

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 entry under financial payables (note 25).

The company owns a minority interest in Netribe S.r.l., a company operating in the IT sector. This investment is valued at its cost of €223 thousand since its fair value cannot be determined.
Following the withdrawal and redemption of shares by a shareholder in Netribe S.r.l., Emak's interest in this company has increased from 10.0% to 10.42%.

17 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 2005 there were outstanding forward agreements for the purchase of JPY 130,000,000 maturing in June 2006 at an average rate of 137.68.

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.

18 Other financial assets

Details of the non-current portion are as follows:

(€ / 000)	31.12.2005	31.12.2004
Other loans to related parties *(note 32)*	14,892	4,549
Accrued financial income	0	19
Total non-current portion	**14,892**	**4,568**

The loans to subsidiaries carry a rate of 3-month Euribor +1 percentage point, except the loan to Victus Eco Sp. z.o.o., whose rate is 3-month Wibor +1 percentage point.

The current portion, amounting to €19 thousand compared with €25 thousand in the prior year, refers to accrued income and prepaid expenses of a financial nature.

Notes to the Financial Statements of Emak S.p.A.

19 Trade and other receivables

Details of these amounts are as follows:

(€ / 000)	31.12.2005	31.12.2004
Trade receivables	38,076	36,751
Provision for doubtful accounts	(405)	(1,126)
Net trade receivables	**37,671**	**35,625**
Receivables due from related parties *(nota 32)*	10,673	6,939
Prepaid expenses and accrued income	92	104
Other receivables	191	224
Total current portion	**48,627**	**42,892**
Other non-current receivables	21	81
Total non-current portion	**21**	**81**

Trade receivables include the following amounts in foreign currency:
- USD 6,248,279;
- JPY 15,087,198;
- PLN 247,233.

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.

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

(€ / 000)	Italy	Europe	Rest of world	Total
Trade receivables	17,239	13,430	7,002	**37,671**
Receivables due from related parties	676	7,318	2,679	**10,673**

Movements in the provision for doubtful accounts are set out below:

(€ / 000)	31.12.2005	31.12.2004
Opening balance	**1,126**	**940**
Increases *(note 8)*	229	300
Decreases	(950)	(114)
Closing balance	**405**	**1,126**

The book value of this balance approximates its fair value.

20 Inventories

Inventories are detailed as follows:

(€ / 000)	31.12.2005	31.12.2004	Change
Raw, ancillary and consumable materials	20,844	18,266	2,578
Work in progress and semifinished products	5,075	4,857	218
Finished products and goods for resale	11,086	10,555	531
Total	**37,005**	**33,678**	**3,327**

Inventories are stated net of a provision of €647 thousand at 31 December 2005 (€480 thousand at 31 December 2004). The purpose of this provision is to write down obsolete and slow-moving items to their estimated realizable value.

Notes to the Financial Statements of Emak S.p.A.

Details of changes in the provision for inventories are set out below:

(€ / 000)	FY 2005
Opening balance	**480**
Increases	438
Uses	(271)
Closing balance	**647**

The income earned in the year from writebacks for goods sold in the period was not material.

None of the company's inventories at 31 December 2005 act as security for its liabilities.

21 Non-current assets held for sale

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

22 Cash and cash equivalents

Cash and cash equivalents are detailed as follows:

(€ / 000)	31.12.2005	31.12.2004
Bank and post office deposits	1,074	3,653
Cash	3	3
Total	**1,077**	**3,656**

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

(€ / 000)	31.12.2005	31.12.2004
Cash and banks	1,077	3,656
Overdrafts *(note 25)*	(2,267)	(108)
Total	**(1,190)**	**3,548**

23 Equity

Share capital

Share capital is fully paid up at 31 December 2005 and amounts to €7,190 thousand, remaining unchanged since the end of 2004. 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 2005, staying unchanged since the prior year.

Treasury shares

The adjustment of €28 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 2005 (note 31).
The par value of these treasury shares is €2 thousand.

Notes to the Financial Statements of Emak S.p.A.

Other reserves:

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

The revaluation reserve at 31 December 2005 includes the reserves arising from revaluations under Law 72/83 for €371 thousand and under Law 413/91 for €767 thousand. No change took place in the year under review.

The extraordinary reserve amounts to €27,088 thousand at 31 December 2005, inclusive of all allocations of earnings in prior years.

At 31 December 2005, the reserve for unrealized exchange gains comprises €27 thousand in unrealized exchange gains from prior years.

At 31 December 2005, 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 the year before.

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

				Summary of uses in past three years	
Nature / Description *(€ / 000)*	**Amount**	**Possible use**	**Distributable portion**	**Coverage of losses**	**Other reasons**
Share capital	**7,190**				
Treasury shares	**(28)**				
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	27	A-B	-	-	-
IAS adjustments	3,128	A-B-C	3,128	-	-
Net profit for the period	7,834	A-B-C	7,834	-	-
Total	**69,385**		**60,758**	-	-
Undistributable portion (*)	**-**		**1,383**	-	-
Distributable balance	**-**		**59,375**	-	-

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

(*): This represents the undistributable portion due to: figurative net exchange gains contained in retained earnings (226) and in the specific reserve (27), the part restricted for unamortized deferred costs under article 2426.5 of the Italian Civil Code (699) and the estimated taxes on the distribution of the revaluation reserves and merger surplus reserve (431).

Gains recognized directly in equity

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

(€ / 000)	**FY 2005**	**FY 2004**
Capital gains on sale of treasury shares	46	28
Taxes	(15)	(9)
Net profit on treasury shares	**31**	**19**

Notes to the Financial Statements of Emak S.p.A.

24 Trade and other payables

Details of these amounts are as follows:

(€ / 0000)	31.12.2005	31.12.2004
Trade payables	28,330	25,136
Payables due to related parties *(note 32)*	10,614	6,957
Payables due to staff and social security institutions	2,622	2,315
Other payables	190	167
Total	**41,756**	**34,575**

Trade payables do not generate interest and are usually settled after 90 days. This balance includes the following amounts in foreign currency:

- UDS 4,504,825;
- JPY 151,493,259;
- CHF 109,431;
- TWD 6,682,586.

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

(€ / 000)	Italy	Europe	Rest of world	Total
Trade payables	18,041	1,833	8,456	**28,330**
Payables due to related parties	9,527	505	582	**10,614**

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

25 Financial liabilities

Financial liabilities include €65 thousand in secured payables (loans by financial institutions) compared with €194 thousand at 31 December 2004. The loans from some financial institutions are secured by the company's land and buildings, while payables for leases are secured by the lessor's right over the leased buildings.

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

(€ / 000)	31.12.2005	31.12.2004
Overdrafts *(note 22)*	2,267	108
Bank loans	6,176	1,240
Lease finance	430	0
Financial accrued expenses and deferred income	63	74
Other loans	13	50
Total current portion	**8,949**	**1,472**

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

(€ / 000)	31.12.2005	31.12.2004
Bank loans	376	6,176
Lease finance	3,335	0
Financial accrued expenses and deferred income	26	1
Other loans	896	0
Total non-current portion	**4,633**	**6,177**

Notes to the Financial Statements of Emak S.p.A.

The increase in short-term bank loans and the decrease in long-term ones is mainly due to the reclassification of the 5-year loan from BNL for €5,000 thousand, from non-current to current liabilities. This is because this loan matures in September 2006.

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.

Medium and long-term loans 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	0	0	75	75	**150**	**226**
Lease finance	443	456	469	483	**1,851**	**1,484**
Other loans	0	0	0	0	**0**	**896**
Total	**443**	**456**	**544**	**558**	**2,001**	**2,606**

The interest rates are all variable and linked to Euribor as follows:

- bank loans: 3/6-month Euribor plus a variable spread ranging from a minimum of 0.40% to a maximum of 0.625%;

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

- SIMEST 6.75% per year and China Fund 3% per year.

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

(€ / 000)	31.12.2005
Minimum future payments < 1 year	531
Minimum future payments from 1 to 5 years	2,126
Minimum future payments beyond 5 years	1,329
Total minimum payments	**3,986**
Payables for future financial expenses	**(221)**
Present value	**3,765**
Interest rate	**3.00%**

The company had around €58.5 million in undrawn credit lines at 31 December 2005.

Financial liabilities are analyzed by geographical area as follows:

(€ / 000)	Italy	Europe	Rest of world	Total
Bank loans and overdrafts	2,708	6,111	0	**8,819**
Lease finance	3,765	0	0	**3,765**
Other loans	909	0	0	**909**

Notes to the Financial Statements of Emak S.p.A.

26 Tax assets and liabilities

Deferred income tax assets are detailed below:

(€ / 000)	31.12.2004	Increases	Decreases	31.12.2005
Costs deductible in future	0	376	0	376
Provisions for inventory obsolescence	179	62	0	241
Impairment of assets	156	0	(60)	96
Provision for doubtful accounts	31	0	0	31
Other deferred tax assets	330	330	(10)	650
Total	**696**	**768**	**(70)**	**1,394**

A total of €290 thousand in deferred tax assets will reverse in the next 12 months.

Deferred income tax liabilities are detailed below:

(€ / 000)	31.12.2004	Increases	Decreases	31.12.2005
Capital gains on fixed assets disposals	46	4	(18)	32
Valuation of provision for employee termination indemnities under IAS 19	92	0	(67)	25
Buildings redeemed under finance lease	1,797	0	(35)	1,762
Other deferred tax liabilities	158	363	(23)	498
Total	**2,093**	**367**	**(143)**	**2,317**

A total of €344 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 €430 thousand at 31 December 2005.

Current income tax assets amount to €1,459 thousand at 31 December 2005 compared with €1,544 thousand a year earlier. They refer to VAT credits and other minor tax credits.

Current income tax liabilities amount to €1,245 thousand at 31 December 2005 compared with €566 thousand a year earlier. They refer to payables for direct tax for the period and withholding taxes.

27 Long-term employee benefits

The liability mainly refers to the present value of employee termination indemnities payable at the end of an employee's working life, amounting to €5,565 thousand at 31 December 2005. Had this provision been stated at face value, it would have amounted to €5,642 thousand at year end.

Movements in this liability are as follows:

(€ / 000)	2005	2004
Opening balance	**5,107**	**4,541**
Current service cost *(note 7)*	1,069	1,059
Interest cost on obligations *(note 10)*	102	97
Disbursements	(713)	(590)
Closing balance	**5,565**	**5,107**

Notes to the Financial Statements of Emak S.p.A.

The main economic and financial assumptions used are as follows:

	2005	2004
Annual inflation rate	1.90%	2.00%
Rising discount rate	2.65%/3.25%	2.2% / 4%
Rate of worker turnover: decreasing rate	7% / 1%	7% / 1%
Rate of office staff turnover: decreasing rate	8% / 1%	8% / 1%
Rate of executive turnover: constant rate	6%	6%

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

20 Provisions for liabilities and charges

Movements in this balance are analyzed as follows:

(€ / 000)	31.12.2004	Increases	Decreases	31.12.2005
Provision for agents' termination indemnity	247	112	0	359
Total non-current portion	**247**	**112**	**0**	**359**
Provision for product guarantees	94	71	(94)	71
Other provisions	69	380	(48)	401
Total current portion	**163**	**451**	**(142)**	**472**

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 €71 thousand refers to expected replacement or repair costs, calculated using estimates based on historical trends.

Other provisions amount to €401 thousand and include €21 thousand for the uninsured risks provisions to cover exemptions on product liability claims, €30 thousand for potential liabilities relating to an out-of-court settlement expected to be reached with a US customer in the early part of 2006 and €350 thousand in tax provisions set aside in respect of the following assessments:

a) Ruling by tax commission on tax assessment for fiscal years 1984-1985 and 1985-1986

The Central Tax Commission issued its rulings in the last quarter of 2005 on the assessments for fiscal years 1984-1985 and 1985-1986 received by the parent company Emak S.p.A.. The Commission confirmed most of the previous decisions expressed in the first and second levels of appeal, which were all the taxpayer's favour. It partially disallowed a few minor points to Emak's detriment.

The amount of the liability provided in the current financial report fully reflects the decisions by the Central Tax Commission for both fiscal years concerned, and totals €255 thousand (inclusive of additional tax, interest and penalties). Emak S.p.A. is nonetheless considering whether or not to mount a challenge in the Court of Appeal to the unfavourable part of this ruling.

b) Tax audit of fiscal year 2002

During the last quarter of 2005, the Reggio Emilia Tax Office carried out a partial audit of the parent company Emak S.p.A. with regard to IRPEG (corporate income tax), IRAP (regional business tax) and VAT in fiscal year 2002.

The results of the audit ended up with the issue of a report, whose findings will be reflected in an assessment, subject to discussion with the company. The resulting liability will not reasonably exceed the sum of €95 thousand, corresponding to the amount recognised as a provision. If the Tax Office fails to accept the valid reasons of the taxpayer and confirms the tax claim in whole or in part, Emak would nonetheless consider appealing to the Tax Commission.

Notes to the Financial Statements of Emak S.p.A.

29 Potential liabilities

At the date of 31 December 2005 the company does not have any disputes that could give rise to future liabilities that have not already been reflected in the balance sheet.

30 Commitments

Fixed asset purchases

The company has €661 thousand in unrecorded commitments to purchase fixed assets at 31 December 2005 (€102 thousand at 31 December 2004). These commitments mostly refer to the purchase of equipment, plant and machinery.

Guarantees given

to third parties:
These amount to €300 thousand as follows:-
- €25 thousand for guarantees to the Bologna office of the Ministry of Finance for events involving the award of prizes;
- €275 thousand for a surety to the Naples Customs Office as security against customs duties.

to 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 €16,244 thousand as follows:
- €2,500 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;
- € 1,600 thousand for credit lines given to the subsidiary Emak France SAS;
- €5,162 thousand (GBP 3,537,500) for credit lines given to the subsidiary Emak UK Ltd;
- €2,622 thousand (USD 2,941,158 and RMB 1,230,148) for credit lines given to the subsidiary Jiangmen Emak Outdoor Power Equipment Co.;
- €1,510 thousand (PLN 5,830,137.15) for letters of patronage issued on the amount owed to the seller of the Victus IT business.

31 Ordinary shares, treasury shares and dividends

Share capital is fully paid up at 31 December 2005 and amounts to €7,190 thousand. It consists of 27,653,500 ordinary shares of par value €0.26 each.

	31.12.2005	31.12.2004
Number of ordinary shares	27,653,500	27,653,500
Treasury shares	(6,000)	(21,968)
Total outstanding shares	**27,647,500**	**27,631,532**

The dividends for 2004 approved by the shareholders on 29 April 2005, totalling €4,010 thousand, were paid during 2005.

In accordance with the related authorization by shareholders, Emak S.p.A. carried out purchases and sales of treasury shares on the market for the purpose of improving the stock's liquidity. Emak S.p.A. held 6,000 treasury shares at 31 December 2005, compared with 21,968 such shares a year earlier.
Emak purchased 7,000 treasury shares between 1 January 2005 and 31 December 2005 and sold 22,969 such shares over this period, leaving 6,000 shares in its portfolio at the end of 2005.

Notes to the Financial Statements of Emak S.p.A.

32 Related party transactions

The effect on the balance sheet and income statement at 31 December 2005 of transactions by Emak S.p.A. with subsidiaries, affiliated companies and any related parties are shown below.

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

Emak S.p.A. supplies finished products mainly to its subsidiaries and to some of the trading companies within the Yama Group, allowing them to complete their product range.

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

The main transactions with subsidiary and affiliated companies during the year ended 31 December 2005 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
Kens International SA	0	864
Emak Deutschland GmbH	16	504
Emak UK Ltd	16	516
Emak France SAS	84	2,645
Victus Eco Sp. z.o.o.	64	10,363
Total *(notes 18 and 20)*	**180**	**14,892**

Sale of goods and services and receivables:

Companies controlled by Emak S.p.A. *(€ / 000)*	Net sales	Dividends	Total	Receivables
Emak Suministros Espana SA	4,618	528	**5,146**	**1,406**
Comag S.r.l.	93	0	**93**	**21**
Emak Benelux N.V.	1,914	0	**1,914**	**244**
Emak Deutschland GmbH	3,034	0	**3,034**	**1,929**
Emak UK Ltd	3,264	0	**3,264**	**989**
Emak France SAS	9,662	0	**9,662**	**2,218**
Jiangmen Emak Outdoor Power Equipment Co. Ltd	2,383	0	**2,383**	**2,679**
Victus Eco Sp. z.o.o.	471	0	**471**	**532**
Total	**25,439**	**528**	**25,967**	**10,018**
Total A	**25,439**	**528**	**25,967**	**10,018**

Companies controlled by Yama S.p.A. *(€ / 000)*	Net sales	Rental income	Total revenues	Receivables
Arkos S.r.l.	15	0	**15**	**0**
Comet S.p.A.	163	0	**163**	**40**
Garmec S.p.A.	315	0	**315**	**5**
Mac Sardegna S.r.l.	1,032	0	**1,032**	**550**
Sabart S.p.A.	192	0	**192**	**53**
Selettra S.p.A.	3	0	**3**	**1**
Tecnol S.p.A.	5	0	**5**	**2**
Tecomec S.p.A.	28	127	**155**	**2**
Unigreen S.p.A.	12	0	**12**	**0**
Yabe S.p.A.	15	0	**15**	**2**
Total	**1,780**	**127**	**1,907**	**655**
Total B	**1,780**	**127**	**1.907**	**655**
Total A+B *(note 19)*	**27,219**	**655**	**27,874**	**10,673**

Notes to the Financial Statements of Emak S.p.A.

Purchase of goods and services and payables:

Companies controlled by Emak S.p.A. *(€ / 000)*	Purchase of raw meterials and finished products	Other costs	Total costs	Payables
Emak Suministros Espana SA	40	169	**209**	**72**
Comag S.r.l.	19,154	15	**19,169**	**5,097**
Emak Benelux N.V.	13	78	**91**	**31**
Emak Deutschland GmbH	9	194	**203**	**45**
Emak UK Ltd	0	170	**170**	**84**
Emak France SAS	84	482	**566**	**133**
Jiangmen Emak Outdoor Power Equipment Co. Ltd	3,778	0	**3,778**	**582**
Victus Eco Sp. z.o.o.	0	2	**2**	**0**
Total	**23,078**	**1,110**	**24,188**	**6,044**
Total A	**23,078**	**1,110**	**24,188**	**6,044**

Companies controlled by Yama S.p.A. *(€ / 000)*	Purchase of raw meterials and finished products	Other costs	Total costs	Payables
Comet S.p.A.	267	0	**267**	**92**
Fima S.p.A.	1,019	21	**1,040**	**568**
Garmec S.p.A.	9	1	**10**	**2**
Mac Sardegna S.r.l.	1	7	**8**	**8**
Sabart S.p.A.	16	0	**16**	**4**
Selettra S.p.A.	3,455	38	**3,493**	**1,445**
Speed France S.a.r.l.	252	0	**252**	**140**
Tecnol S.p.A.	4,421	36	**4,457**	**1,814**
Tecomec S.p.A.	1,132	2	**1,134**	**393**
Yabe S.p.A.	223	0	**223**	**48**
Yama Immobiliare S.r.l.	0	71	**71**	**0**
Total	**10,795**	**176**	**10,971**	**4,514**
Total B	**10,795**	**176**	**10,971**	**4,514**
Total A+B *(note 24)*	**33,873**	**1,286**	**35,159**	**10,558**

Ultimate parent company *(€ / 000)*	Other costs	Total	Payables
Yama S.p.A.	110	**110**	**56**
Total *(note 24)*	**110**	**110**	**56**

The emoluments paid to directors and statutory auditors during 2005 were as follows:

(€ / 000)	2005	2004
Emoluments of directors and statutory auditors	201	179
Benefits in kind	6	4
Wages and salaries	573	564
Employee termination indemnities	46	41
Consulting fees	30	32
Total	**856**	**820**

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

Notes to the Financial Statements of Emak S.p.A.

33 Subsequent events

- During the early part of 2006 the company's management decided to sell the plastic components moulding business of Emak S.p.A.

  The planned disposal to an existing specialized supplier is designed to improve service, efficiency and quality.

  The sale consideration is estimated to be higher than the book value of this business's assets and liabilities.

- With reference to the Polish subsidiary Victus Eco Sp. z.o.o., its shareholders voted on 24 January 2006:
  - to increase share capital by PLN 9,997,500.
  - to change the company name to Victus Emak Sp.z.o.o.
  - to adopt new articles of association.

Supplementary schedules to the Financial Statements of Emak S.p.A.

The following schedules, forming an integral part of the 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

Appendix 1

Changes in equity investments in subsidiary companies

	31.12.2004				Variazioni	31.12.2005			
	Number of shares	Book value (€/000)	% total interest	of which direct	Subscriptions & purchases	Number of shares	Book value (€/000)	% total interest	of which direct
Italy									
Comag S.r.l.	1 share	3,535	99.44	99.44	-	1 share	3,535	99.44	99.44
Spain									
Emak Suministros Espana SA	405	572	90.00	90.00	-	405	572	90.00	90.00
Germany									
Emak Deutschland Gmbh	10,820	525	100.00	100.00	-	10,820	525	100.00	100.00
Great Britain									
Emak UK Ltd	17,350	691	100.00	100.00	-	17,350	691	100.00	100.00
Belgium									
Kens International SA	499	59	99.80	99.80	-	499	59	99.99	99.80
Emak Benelux N.V.	375	-	99.70	-	-	375	-	99.99	-
France									
Emak France SAS	2,000,000	2,049	100.00	100.00	-	2,000,000	2,049	100.00	100.00
China									
Jiangmen Emak Outdoor Power Equipment Co. Ltd	-	874	100.00	100.00	861	-	1,735	100.00	100.00
Poland									
Victus Eco Sp. z.o.o.	-	-	-	-	-	550	978	100.00	100.00
Total subsidiary companies		**8,305**					**10,144**		

Supplementary schedules to the Financial Statements of Emak S.p.A.

Appendix 2

Details of equity investments in subsidiary companies

(€ / 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)	3,535	99.44	1,850	6,607	6,570	864
Emak Suministros Espana SA	Madrid	572	90.00	270	4,226	3,803	680
Emak Deutschland Gmbh	Backnang	525	100.00	553	730	730	104
Emak UK Ltd	Burntwood	691	100.00	26	720	720	200
Kens International SA	Wijlrik	59	99.80	62	40	40	20
Emak France SAS	Rixheim	2,049	100.00	2,000	2,847	2,847	810
Jiangmen Emak Outdoor Power Equipment Co. Ltd	Jiangmen	1,735	100.00	1,735	1,592	1,592	(32)
Victus Eco Sp. z.o.o.	Poznan	978	100.00	44	(234)	(234)	(246)
Total equity investments in subsidiary companies		**10,144**					

Supplementary schedules to the Financial Statements of Emak S.p.A.

Appendix 3

Highlight from the latest financial statements of the ultimate parent company YAMA S.p.A.

BALANCE SHEET *(€ / 000)*	31.12.2004	31.12.2003
Assets		
A) Receivables for uncalled share capital	-	-
B) Fixed assets	42,491	41,224
C) Current assets	12,462	14,754
D) Prepaid expenses and accrued income	22	62
Total assets	**54,975**	**56,040**
Liabilities		
A) Equity:		
Share capital	16,858	16,858
Reserves	16,303	15,684
Net profit for the year	2,274	2,542
B) Provisions for liabilities and charges	3	3
C) Provisions for employee termination indemnities	9	57
D) Payables	19,495	20,847
E) Accrued expenses and deferred income	33	49
Total equity and liabilities	**54,975**	**56,040**
Guarantees, commitments and other risks	19,397	15,728

INCOME STATEMENT *(€ / 000)*	31.12.2004	31.12.2003
A) Value of production	994	1,027
B) Cost of production	(1,020)	(1,055)
C) Financial income and expenses	3,734	6,935
D) Adjustments to financial assets	(1,450)	(2,791)
E) Extraordinary income and expenses	-	-
Profit (loss) before taxes	**2,258**	**4,116**
Income taxes for the year	16	(1,574)
Net profit for the year	**2,274**	**2,542**

Emak S.p.A.
Independent Auditors' Report

a x i s
organizzazione e revisione contabile

Auditors' report in accordance with article 156 of legislative decree n° 58 of 24 February 1998

To the Shareholders of
Emak S.p.A.

1. We have audited the financial statements of Emak S.p.A. as of and for the year ended December 31, 2005, comprising the balance sheet, the statements of income, cash flows, changes in shareholders' equity and the related explanatory notes. These financial statements are the responsibility of Emak S.p.A.'s Directors. Our responsibility is to express an opinion on these separate financial statements based on our audit.
These separate financial statements represent the first separate financial statements prepared by Emak S.p.A. in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

2. We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

The audit of the financial statements of certain subsidiaries and associates, which represent 64% and 5% of investment in associates and total assets, respectively, is the responsibility of other auditors.

axis s.r.l. organizzazione e revisione contabile
Via Gutenberg, 3 42100 Reggio Emilia Italy
Tel. +39 0522 232110 Fax +39 0522 271337
e.mail: axis@axisnet.it www.axisnet.it
C.F. e P.IVA 01277720354

A member of the
MOORE STEPHENS
INTERNATIONAL LIMITED
group of independent firms

Emak S.p.A.
Independent Auditors' Report

axis
organizzazione e revisione contabile

Page 2

The financial statements present for comparative purposes the corresponding data for the prior year prepared in accordance with IFRS. In addition, the notes of the separate financial statements explain the effects of transition to IFRS as adopted by the European Union and include the reconciliation statements required by IFRS 1, previously published as an attachment to the interim financial reporting of Emak S.p.A. for the six-month period ended June 30, 2005, approved by the Board of Directors and which we have audited and on which we issued a special purpose auditors' report dated October 3, 2005.

3. In our opinion the separate financial statements of Emak S.p.A. as of December 31, 2005 comply with IFRS as adopted by the European Union; accordingly they give a true and fair view of the financial position, the result of operations, the changes in shareholders' equity and the cash flows of Emak S.p.A. as of and for the year ended December 31, 2005.

Reggio Emilia, April 12, 2006

AXIS S.r.l.

Franco Marchini - Partner

This report has been translated into the English language solely for the convenience of international readers.

graphic design
Negrini&Varetto Comunicazione
Modena - Pisogne (Bs)
www.negrinievaretto.com

photos
EMAK files

MEMBER OF THE YAMA GROUP

EMAK S.p.A.
Registered office:
Via E. Fermi 4, Bagnolo in Piano (RE) - Italy
Share capital € 7,189,910
Reggio Emilia Company Register number and tax code: 00130010358
Listed in the ordinary section: Business Register number 107563

Tel. ++39.0522.956611 - Fax ++39.0522.951555
info@emak.it - www.emak.it