



Quarterly report at 30.06.2006

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

Emak Group Financial Highlights

Y2005		2ndQ 2006	2ndQ 2005	H 2006	H 2005
183.381	Net sales	62.666	53.378	125.925	107.291
22.268	Ebitda	7.938	7.952	18.065	16.359
17.038	Ebit	6.685	6.680	15.437	13.858
9.605	Net profit	4.006	3.768	8.969	7.902

Investment and free cash flow

Y2005	€/000	2ndQ 2006	2ndQ 2005	H 2006	H 2005
6.053	Investment in property, plant and equipment	1.740	1.580	3.440	2.652
1.192	Investment in intangible assets	208	364	354	504
14.835	free cash flow from operations	5.259	5.040	11.597	10.403

Balance sheet

31.12.2005	€/000	30.06.06	30.06.05
101.195	Net capital employed	109.473	91.972
(25.836)	Net debt	(30.030)	(18.334)
75.359	Total equity	79.443	73.638

Other statistics

Y 2005		2ndQ 2006	2ndQ 2005	H 2006	H 2005
12,1%	Ebitda / Net revenues (%)	12,7%	14,9%	14,3%	15,2%
9,3%	Ebit / Net revenues (%)	10,7%	12,5%	12,3%	12,9%
5,2%	Net profit / Net revenues (%)	6,4%	7,1%	7,1%	7,4%
16,8%	Ebit / Net capital employed (%)			14,1%	15,1%
0,34	Debt /Equity			0,38	0,25
856	Number of employees at period end			885	675

Segment reporting

€/000	Sales		Total assets		Investment in fixed assets	
	H2006	H2005	H2006	H2005	H2006	H2005
Italy	22.046	22.672	114.276	109.872	1.751	1.580
Europe	85.944	72.931	64.018	53.665	214	283
Rest of the world	17.935	11.688	10.760	6.816	1.829	1.293
Total	125.925	107.291	189.054	170.353	3.794	3.156

Consolidated Income Statement

€/000	II Q 2006	II Q 2005	I H 2006	I H 2005
Revenues	62.666	53.378	125.925	107.291
Other operating revenues	526	383	826	673
Change in inventories	(2.227)	(2.492)	6.042	2.503
Raw and consumable materials	(35.895)	(28.698)	(79.993)	(65.073)
Payroll costs	(7.712)	(6.889)	(15.284)	(12.982)
Other operating costs	(9.420)	(7.730)	(19.451)	(16.053)
Amortization, depreciation and impairment losses	(1.253)	(1.272)	(2.628)	(2.501)
Ebit	6.685	6.680	15.437	13.858
Financial income	132	16	319	199
Financial expenses	(512)	(386)	(1.021)	(696)
Exchange gains and losses	(252)	28	(447)	(125)
Profit before taxes	6.053	6.338	14.288	13.236
Income taxes	(2.047)	(2.570)	(5.319)	(5.334)
Net profit	4.006	3.768	8.969	7.902
Profit/loss attributable to minority interests	(27)	(20)	(48)	(54)
Net profit attributable to the group	3.979	3.748	8.921	7.848
Basic earnings per share	0,14	0,14	0,32	0,28
Diluted earnings per share	0,14	0,14	0,32	0,28

Consolidated Balance Sheet

ASSETS

31.12.2005	€/000	30.06.2006	30.06.2005
	Non-current assets		
32.557	Property, plant and equipment	33.362	31.309
3.080	Intangible assets	2.925	2.052
6.305	Goodwill	6.002	0
399	Investment property	380	402
223	Equity investments	223	223
2.922	Deferred income tax assets	2.503	1.878
0	Other financial assets	5	13
63	Trade and other receivables	55	97
45.549	Total	45.455	35.974
	Non-current assets held for sale		
269	Assets held for sale	269	256
269	Total	269	256
	Current assets		
59.840	Inventories	65.279	53.265
56.911	Trade and other receivables	67.733	64.654
3.525	Current income tax assets	1.469	318
19	Other financial assets	8	17
38	Derivative financial assets	124	11
99	Marketable securities at fair value	5	90
4.103	Cash and banks	8.712	6.179
124.535	Total	143.330	124.534
170.353	TOTAL ASSETS	189.054	160.764

Consolidated Balance Sheet

EQUITY AND LIABILITIES

31.12.2005	€/000	30.06.2006	30.06.2005
	Capital and reserves		
7.190	Issued capital	7.190	7.190
21.047	Share premium	21.047	21.047
(28)	Treasury shares	(365)	0
30.354	Other reserves	30.231	30.311
16.338	Retained earnings (accumulated losses)	20.880	14.649
74.901	Total Group	78.983	73.197
458	Minority interests	460	441
75.359	Total equity	79.443	73.638
	Non-current liabilities		
7.174	Long-term loans and borrowings	6.591	11.390
2.565	Deferred income tax liabilities	2.538	2.225
5.985	Employee benefits	5.989	5.660
359	Provision for liabilities and charges	418	298
2.132	Other non-current liabilities	2.046	936
18.215	Total	17.582	20.509
	Non-current liabilities		
0	Liabilities to leave off	0	0
0	Total	0	0
	Current liabilities		
50.430	Trade and other payables	54.914	48.706
2.811	Current income tax liabilities	4.460	4.338
22.921	Short-term loans and borrowings	32.281	13.254
0	Short-term derivative financial instruments	12	0
617	Provision for liabilities and charges	362	319
76.779	Total	92.029	66.617
170.353	TOTAL LIABILITIES	189.054	160.764

Consolidated Net Debt

€/000	30.06.2006	31.03.2006	31.12.2005	30.06.2005
Cash and banks	8.712	4.864	4.103	6.179
Securities and derivative financial instruments	129	290	137	101
Other financial assets	8	16	19	17
Financial liabilities	(32.281)	(36.509)	(22.921)	(13.254)
Derivative financial instruments	(12)	(31)	0	0
Short-term net debt	(23.444)	(31.370)	(18.662)	(6.957)
Other financial assets	5	3	0	13
Financial liabilities	(6.591)	(6.952)	(7.174)	(11.390)
Long-term net debt	(6.586)	(6.949)	(7.174)	(11.377)
Cash and banks	8.712	4.864	4.103	6.179
Securities and derivative financial instruments	129	290	137	101
Other financial assets	13	19	19	30
Financial liabilities	(38.872)	(43.461)	(30.095)	(24.644)
Derivative financial instruments	(12)	(31)	0	0
Total net debt	(30.030)	(38.319)	(25.836)	(18.334)

Changes in consolidated equity at 31.12.2005 and 30.06.2006

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

€/000	Share capital	Share premium	Treasury shares	Other reserves					Retained earnings		Total Group	Equity attributable to minority interests	Total
				Legal reserve	Special reserve	Reserve for hedging instruments	Cumulative translation adjustments	Other reserves	Retained earnings	Net profit of the period			
Balance at 31.12.2004	7.190	21.047	(47)	1.438	1.138	(73)	(59)	23.799	5.880	8.741	69.054	446	69.500
Change in translation reserve							199				199		199
Sale of treasury shares			19						31		50		50
Payment of dividends								3.839	892	(8.741)	(4.010)	(59)	(4.069)
Change arising from hedging transactions						73					73		73
Other changes									3		3	(2)	1
Net profit for 2004								0		9.532	9.532	73	9.605
Total at 31.12.2005	7.190	21.047	(28)	1.438	1.138	0	140	27.638	6.806	9.532	74.901	458	75.359
Change in translation reserve							(349)		(9)		(358)		(358)
Sale of treasury shares			(337)								(337)		(337)
Payment of dividends								226	5.162	(9.532)	(4.144)	(46)	(4.190)
Other changes											0		0
Net profit for 2005										8.921	8.921	48	8.969
Total at 30.06.2006	7.190	21.047	(365)	1.438	1.138	0	(209)	27.864	11.959	8.921	78.983	460	79.443

Emak at 30 June 2006

Directors' report

Emak's second quarter consolidated sales came in at €62,666 thousand, an improvement of 17.4% on the figure of €53,378 thousand reported in the same period of 2005.

Consolidated sales in the first half climbed by 17.4% from €107,291 thousand to €125,925 thousand.

Sales in the first half of 2006 (1H 2006) are broken down by product in the following table which also shows the prior year comparatives.

Euro/000	30.06.06	%	30.06.05	%	Change %
Brush cutters	26,651	21.2%	20,664	19.3%	29.0%
Chainsaws	16,119	12.8%	15,730	14.7%	2.5%
Lawnmowers	25,182	20.0%	21,417	20.0%	17.6%
Garden tractors	12,139	9.6%	10,198	9.5%	19.0%
Other products	33,656	26.7%	28,305	26.4%	18.9%
Spare parts and accessories	12,178	9.7%	10,977	10.1%	10.9%
Total	125,925	100%	107,291	100%	17.4%

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

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

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

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

The geographical breakdown of sales is shown in the following table for both 1H2006 and 1H2005:

€/000	30.06.06	%	30.06.05	%	Change %
Italy	22,046	17.5%	22,672	21.1%	-2.8%
Europe	85,944	68.3%	72,931	68.0%	17.8%
Rest of the world	17,935	14.2%	11,688	10.9%	53.4%
Total	125,925	100%	107,291	100%	17.4%

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

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

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

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

Additional information

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

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

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

Comments on the financial statements

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

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

It should be pointed out that:

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

Extraordinary transactions and events

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

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

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

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

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

3. SALE OF BUSINESS

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

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

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

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

Scope of consolidation

Emak USA Inc joined the scope of consolidation in the second quarter of 2006 (2Q 2006). Victus Emak Sp. Z o.o., the Polish company, has also joined the consolidation in the period since 30th June 2005.

Balance sheet and financial position

1. Net non-current assets

During 1H 2006 Emak Group invested €3,794 thousand in property, plant and equipment and intangible assets as follows:

- €989 thousand for product innovation (mainly analyses, research and equipment for new products);
- €379 thousand for boosting production capacity and for process innovation;
- €699 thousand for upgrading the computer network and other investment in management infrastructure;
- €1,727 thousand for completing and modernizing existing buildings.

2. Net current assets

Net current assets were €8,327 thousand higher than the end of December 2005, up from €66,419 thousand to €74,746 thousand; this increase reflected the following changes:

- increase in inventories	€5,439	thousand
- increase in trade receivables	€10,033	thousand
- increase in net tax payables	(€3,704)	thousand
- increase in trade payables	(€4,061)	thousand
- increase in other receivables	€790	thousand
- increase in other payables	(€170)	thousand

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

3. Equity

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

4. Net financial position

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

Free cash flow from operations in 1H 2006 was €11,597 thousand after tax, compared with €10,403 thousand in the same period of last year. Free cash flow from operations in 2Q 2006 was €5,259 thousand after tax, compared with €5,040 thousand in the same period of 2005.

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

Short-term financial payables mainly consist of:

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

Income statement

1. EBITDA

Revenues increased by 17.4% in 1H 2006 to €125,925 thousand, up from €107,291 thousand in 1H 2005. Assuming the same scope of consolidation, the increase would have been 7.3%. Revenues were 17.4% higher in 2Q 2006 at €62,666 thousand, up from €53,378 thousand in the same quarter of last year.

EBITDA improved by 10.4% in 1H 2006 to €18,065 thousand, up from €16,359 thousand in the corresponding period of last year. EBITDA for 2Q 2006 amounted to €7,938 thousand compared with €7,952 thousand in the corresponding quarter of last year.

The following factors contributed positively to first-half results:

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

The following factors all contributed negatively to results:

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

The group's total number of employees amounted to 885 at 30th June 2006, compared with 856 at the end of December 2005. This increase was mainly attributable to new personnel recruited to staff the start of production by the Chinese factory.

2. EBIT

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

EBIT was €6,685 thousand in 2Q 2006 compared with €6,680 thousand in the same period of last year.

3. Net profit

Net profit for 1H 2006 was 13.9% higher at €8,969 thousand, up from €7,902 thousand in the same period of last year; net profit for 2Q 2006 was €4,006 thousand, reporting an increase of 6.3% on the figure of €3,768 thousand posted in 2Q 2005.

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

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

Subsequent events

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

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

The shareholders of these two companies met in July 2006 to approve the merger.

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

Business outlook

The first half of the year reported a good set of preseason sales. The late start to the spring combined with a particularly hot, dry summer in most European countries contributed to generally lower demand with a resulting drop in orders during the season. Nonetheless, stock levels within the distribution network are normal thanks to the fact that volumes sold in were adjusted in time to match those sold out. The group will continue to launch new models in the second half of the year, with benefits for our growth objectives in a nonetheless extremely competitive general environment.

Bagnolo in Piano (RE), 4th August 2006

On behalf of the Board of Directors

Deputy Chairman

Aimone Burani