Einhell Germany AG

Financial Report 2010

Einhell Germany AG, Landau a. d. Isar

Consolidated Statement of Financial Position
to 31 December 2010

A s s e t s

	Notes	31.12.2010		31.12.2009	
		€	€	€	€
A. Non-current assets	(2.1)				
I. Intangible assets					
1. Franchises, development costs, trademarks, patents, and licences and similar rights and values	(2.2)	777.657,30		1.745.165,54	
2. Goodwill	(2.3)	8.248.594,86		7.478.179,16	
3. Prepayments on intangible assets		0,00	9.026.252,16	7.446,36	9.230.791,06
II. Property, plant and equipment					
1. Land, leasehold rights and buildings, including buildings on non-owned land		10.497.433,23		10.754.154,13	
2. Technical equipment, plant and machinery		2.971.387,01		3.171.099,99	
3. Other equipment, fixtures and fittings and equipment		3.664.216,05		2.605.097,43	
4. Prepayments and plant and machinery under construction		93.865,61	17.226.901,90	37.286,48	16.567.638,03
III. Non-current financial assets					
Security investments			367.137,87		991.930,69
IV. Other non-current assets	(2.6)		1.762.320,47		3.395.977,87
V. Deferred tax assets	(2.4)		7.205.351,51		4.007.576,83
			35.587.963,91		34.193.914,48
B. Current assets					
I. Inventories	(2.5)				
1. Raw materials and supplies		1.063.139,40		923.617,30	
2. Finished goods		92.200.056,91		71.216.095,95	
3. Prepayments		2.375.407,58	95.638.603,89	2.428.598,74	74.568.311,99
II. Receivables and other current assets	(2.6)				
1. Trade receivables		62.487.286,79		48.159.666,38	
2. Other current assets		15.205.733,16	77.693.019,95	11.938.866,10	60.098.532,48
III. Cash and cash equivalents	(2.7)		44.462.201,86		57.598.457,69
			217.793.825,70		192.265.302,16
			253.381.789,61		226.459.216,64

Equity and liabilities

		Notes	31.12.2010		31.12.2009	
			€	€	€	€
A.	**Equity**					
I.	**Subscribed capital**	(2.8)		9.662.464,00		9.662.464,00
II.	**Capital reserves**	(2.10)		26.676.696,37		26.676.696,37
III.	**Retained earnings**					
	1. Legal reserve	(2.10)	54.708,23		54.708,23	
	2. Other earnings reserve		92.881.657,87	92.936.366,10	84.177.294,44	84.232.002,67
IV.	**Other cumulated equity**	(2.11)		-1.480.208,23		-64.011,46
V.	**Adjustment charges for foreign currency exchange**			-1.160.531,32		-4.653.653,80
VI.	**Consolidated net income of shareholders of Einhell Germany AG**			16.156.018,01		10.843.339,43
	Equity share of shareholders of Einhell Germany AG			142.790.804,93		126.696.837,21
VII.	**Minority interests**	(2.12)		2.243.433,24		2.958.359,37
				145.034.238,17		129.655.196,58
B.	**Non-current liabilities**					
1.	Non-current financial liabilities	(2.13)		41.337.990,89		41.733.486,66
2.	Pension obligations	(2.14)		1.257.702,28		1.831.131,00
3.	Other provisions	(2.15)		512.294,45		535.543,42
4.	Non-current liabilities	(2.17)		2.220.366,89		2.075.436,45
5.	Deferred taxes	(2.4)		905.572,84		634.456,33
				46.233.927,35		46.810.053,86
C.	**Current liabilities**					
1.	Provisions for taxes			1.714.803,59		968.611,11
2.	Other provisions	(2.15)		12.038.495,76		9.052.816,24
3.	Current financial liabilities	(2.16)		1.133.148,57		420.230,39
4.	Trade payables			27.814.042,07		27.530.714,55
5.	Other liabilities	(2.17)		19.413.134,10		12.021.593,91
				62.113.624,09		49.993.966,20
				253.381.789,61		226.459.216,64

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of comprehensive income for the period from 1 January to 31 December 2010

	Note	2010		2009	
		€	€	€	€
1. Revenues	(3.1)		365.434.142,81		315.692.779,09
2. Other operating income	(3.2)		10.354.267,10		10.361.086,25
3. Cost of materials					
a) Cost of raw materials and supplies		-259.079.889,07		-225.148.576,65	
b) Cost of purchased services		-516.067,14	-259.595.956,21	-498.885,75	-225.647.462,40
4. Personnel expenses	(3.3)				
a) Wages and salaries		-32.568.589,86		-27.912.340,60	
b) Social security, pensions and other benefit costs		-6.040.764,78	-38.609.354,64	-6.060.963,03	-33.973.303,63
5. Depreciation and amortisation costs and other write-offs on intangible assets, plant and equipment	(2.1)		-3.282.016,54		-3.424.875,48
6. Other operating expenses	(3.4)		-52.834.380,41		-45.006.342,99
7. Net finance costs	(3.5)		-1.290.703,39		-3.841.509,48
8. Profit from operations			20.175.998,72		14.160.371,36
9. Income taxes	(3.6)		-4.178.860,25		-3.300.836,37
10. Consolidated net profit			15.997.138,47		10.859.534,99

Allocation of consolidated net profit					
Share of shareholders of Einhell Germany AG			16.156.018,01		10.843.339,43
Minority interest share			-158.879,54		16.195,56
			15.997.138,47		10.859.534,99

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of income and accumulated earn
for the period from 1 January to 31 December 2010

	2010	2009
	€ thousand	€ thousand
Profit for the year	15.997	10.859
Gains/losses from hedge accounting	-2.029	-851
Currency exchange differences		
(Changes to unrealised gains/losses)	3.571	-172
Gains from sale of securities (available-for-sale)	6	3
	1.548	-1.020
Tax items to be directly offset against equity	607	254
Income and expenses recognised directly in equity (after tax)	2.155	-766
Consolidated comprehensive income	18.152	10.093
Share of shareholders of Einhell Germany AG	18.233	10.078
Share of minority shareholders	-81	15
Consolidated comprehensive income	18.152	10.093

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of changes in equity
for the financial year 2010

	Share of shareholders of Einhell Germany AG								Minority interest			Consolidated equity
	Subscribed capital	Capital reserve	Legal reserve	Other reserves	Other cumulated equity	Currency adjustment	Consolidated net profit	Total	Share of capital and reserves	Consolidated net profit	Total	
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	thousand	€ thousand	€ thousand	€ thousand	€ thousand
Position on 1 January 2009	9.662	26.677	55	72.159	530	-4.482	14.157	118.758	4.185	799	4.984	123.742
Profit/loss carried forwards				14.157			-14.157	0	799	-799	0	0
Hedge Accounting					-596			-596			0	-596
Currency adjustments						-171		-171	-1		-1	-172
Available-for-sale securities					2			2			0	2
Dividend payment				-2.139				-2.139	-200		-200	-2.339
Other changes								0	-1.841		-1.841	-1.841
Net profit							10.843	10.843		16	16	10.859
31.12.2009 / 1.1.2010	9.662	26.677	55	84.177	-64	-4.653	10.843	126.697	2.942	16	2.958	129.655
Profit/loss carried forwards				10.843			-10.843	0	16	-16	0	0
Hedge Accounting					-1.420			-1.420			0	-1.420
Currency adjustments						3.493		3.493	78		78	3.571
Available-for-sale securities					4			4			0	4
Dividend payment				-2.139				-2.139	-398		-398	-2.537
Other changes								0	-236		-236	-236
Net profit							16.156	16.156		-159	-159	15.997
Position on 31 December 2010	9.662	26.677	55	92.881	-1.480	-1.160	16.156	142.791	2.402	-159	2.243	145.034

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of cash flows for the financial year 2010

		2010	2009
		€ thousand	€ thousand
Net cash from/used in operating activities			
Profit before taxes		20.176	14.160
+	Depreciation of intangible assets and property, plant and equipment	3.282	3.425
-	Interest income	-384	-501
+	Interest expenses	2.043	2.539
+/-	Other non-cash income and expense	865	489
Operating profit before adjustment of net assets		25.982	20.112
+/-	Decrease/increase in trade receivables	-13.397	13.305
+/-	Decrease/increase in inventories	-18.358	38.773
+/-	Decrease/increase in other assets	-468	2.824
+/-	Decrease/increase in non-current liabilities	-610	-682
+/-	Decrease/increase in current liabilities	5.864	-5.460
+/-	Increase/decrease in trade payables	-1.539	-7.731
Cash flows from operating activities		-2.526	61.141
-	Taxes paid	-4.041	-7.880
+	Interest received	281	322
-	Interest paid	-1.375	-2.472
Net cash flows from operating activities		**-7.661**	**51.111**
Cash flows from investing activities			
-	Payments to acquire assets	-2.806	-4.585
+	Proceeds from disposal of assets	70	142
-	Payments for acquisition of investments	-292	-2.980
+/-	Increase/decrease in goodwill	0	445
Net cash flows from investing activities		**-3.028**	**-6.978**
Cash flows from financing activities			
+	Proceeds from taking out loans	1.133	40.000
-	Payments for repayment of loans	-816	-44.119
+	Proceeds from minority shareholders	49	132
-	Payments to shareholders including minority shareholders	-2.537	-2.339
-	Payment for liabilities for finance leases	-51	-47
Net cash flows from financing activities		**-2.222**	**-6.373**
Changes to capital funds due to currency exchange		-225	-133
Net decrease/increase of cash and cash equivalents		**-13.136**	**37.627**
Cash and cash equivalents at beginning of period		57.598	19.971
Cash and cash equivalents at end of period		**44.462**	**57.598**

Further information can be found under section 6 in the notes to the consolidated financial statements.

IFRS - Notes to the Consolidated Financial Statements

of

Einhell Germany AG, Landau/Isar

for the financial year 2010

TABLE OF CONTENTS

1. Principles and methods used in consolidated financial statements

1.1 General information

Hans Einhell AG, Landau/Isar, was established on 18 November 1986 and pursuant to a resolution of the Annual General Meeting of 20 June 2008 changed its name as of 25 June 2008 to Einhell Germany AG. The Einhell Group (hereinafter the "Group") manufactures and sells manually-operated, petrol-operated and electronic tools, metal and plastic products for DIY, garden and leisure activities, and air-conditioning and heating products.

The address of the parent company is:

Einhell Germany AG
Wiesenweg 22
94405 Landau/Isar
Germany
www.einhell.com

The Board of Directors of Einhell Germany AG approved the consolidated financial statements on 17 March 2011 for consideration by the Supervisory Board. The Supervisory Board is responsible for examining the consolidated financial statements and declaring whether it approves the consolidated financial statements.
The consolidated financial statements and the Group management report of Einhell Germany AG for the financial year 2010 will be published in the electronic German Federal Gazette (*Bundesanzeiger*). The consolidated financial statements 2010 were prepared in Euro (€), and some items are rounded to thousands of Euro (€ thousand).

1.2 Basis of preparation

The consolidated financial statements of Einhell Germany AG were prepared in accordance with the regulations of the International Accounting Standards Board (IASB), London, pursuant to Regulation Number 1606/2002 of the European Parliament and the Council regarding the amendment of International Reporting Standards in the European Union. The interpretations of the International Financial Reporting Interpretations Committee (IFRIC) were also used. In preparing the consolidated financial statements, all International Financial Reporting Standards (IFRS) and interpretations effective and applicable as of 31 December 2010 were applied.
In order to achieve homogeneity with consolidated financial statements prepared in accordance with the German Commercial Code (HGB), all further information and notes required by Section 315a HGB in excess of the IASB requirements are also included.

The following standards, interpretations and amendments to existing standards issued by the IASB and adopted by the European Union (EU) are applicable for the first time for financial years commencing on or after 1 January 2010:

- Newly structured IFRS 1: The newly structured IFRS 1 replaces the current IFRS 1, in order to simplify the use and amendment of this standards for future use. The newly structured IFRS 1 also deletes some out-of-date transitional guidelines and makes a few inconsequential text changes. The current requirements remain unchanged.
- IFRIC 18: IFRIC 18 clarifies and explains how the transfer of fixed assets or cash funds for the construction of acquisition of fixed assets by customers is to be recognised.
- IFRIC 17: IFRIC 17 clarifies and explains how non-cash assets distributed to owners of a company are to be recognised.
- Amendments to IAS 39: The amendments to IAS 39 clarify how to recognise hedging transactions with an inflation provision for financial instruments and options contracts used as a hedging instrument.

- IFRIC 15: IFRIC 15 outlines under which circumstances revenues from the construction of real estate are to be recognised in financial statements and whether a contract for the construction of real estate falls under the application of IAS 11 Construction contracts or IAS 18 Revenues.
- IFRIC 16: IFRIC 16 clarifies how to fulfil the requirements of IAS 21 and IAS 39 in cases in which a company hedges a net investment in a foreign operation.
- Revised IFRS 3: The revised IFRS 3 determine principles and rules regarding how a purchaser is to recognise and value elements of a business combination in its accounts (such as identifiable assets, assumed liabilities, non-controlled shares and goodwill). It also determines which information should be made in such a business combination.
- IFRIC 12: IFRIC 12 clarifies how provisions of IFRSs already adopted by the Commission with respect to service concession arrangements are to be applied. IFRIC 12 outlines how the underlying infrastructure facilities in such an agreement are to be recognised by the operator. It also clarifies that between the phases of a service concession arrangement (construction / operational phase) differentiation shall be made and shown between expenses and revenues in each of these circumstances. Accordingly, infrastructure facilities and associated expenses and revenues may be recorded in two ways, depending on whether the future revenues of the operator are uncertain or fixed (financial asset model and intangible asset model).
- Amendments to IAS 27: The amendments to IAS 27 clarify the circumstances under which a company must draw up consolidated financial statements, how parent companies are to recognise changes to their shareholdings in subsidiaries, and how losses of a subsidiary are to be divided up between the controlling and the non-controlling shareholdings.

The first time application of these Standards and Interpretations has no significant effects on the consolidated financial statements of Einhell Germany AG.

The IASB has published the following standards, interpretations and amendments to existing standards whose application was not mandatory as of 31 December 2010 and which were therefore not applied prematurely by the Einhell Group. Application would have no significant effect on the consolidated financial statements.

- IFRS 1 “Limited Exemption from Comparative IFRS 7”; applies to financial years commencing on or after 1 July 2010.
- IAS 24 “Related Party Disclosures”; applies to financial years commencing on or after 1 January 2011.
- IAS 32 “Classification of Rights Issues”; applies to financial years commencing on or after 1 February 2010.
- IFRIC 14 “Prepayments of a Minimum Funding Requirement”; applies to financial years commencing on or after 1 January 2011.
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”; applies to financial years commencing on or after 1 July 2010.

The IASB has issued the following standards, interpretations and amendments to existing standards that are not applicable within the EU until they have been adopted under the prescribed EU procedures.

- IFRS 1 “Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters”; applies to financial years commencing on or after 1 July 2011.
- IFRS 9 “Financial Instruments (replacement of IAS 39)”; applies to financial years commencing on or after 1 January 2013.
- IFRS 7 “Financial Instruments: Disclosures – Transfers of Financial Assets”; applies to financial years commencing on or after 1 July 2011.
- IAS 12 “Deferred Tax on Investment Property”; applies to financial years commencing on or after 1 January 2012.

Other varied improvements to IFRS have not yet been adopted under the EU endorsement procedures.

1.3 Basis of consolidation

The consolidated financial statements include Einhell Germany AG and the companies it controls. IAS 27 defines control as the possibility of influencing the economic and business policies of a company in order to derive a benefit. If the Group either directly or indirectly holds more than 50% of a company’s voting rights, it is deemed to have rebuttable control of that company.

The subsidiary iSC GmbH, Landau/Isar, partially applies the waiver of the limitations of Section 264(3) of the German Commercial Code (HGB).

Companies that were acquired or sold during the course of the financial year are included in the consolidated financial statements from the time of their acquisition until the date on which they are sold.

During the reporting period, 10% of the shares in Einhell Australia were transferred to the local managing director. All shares in Einhell Middle East Trading FZC and Einhell Romania SRL were taken over. These companies are now fully owned Group companies.

In the fourth quarter of the financial year 2010, we established Einhell Norway AS with its registered office in Larvik. Einhell Germany AG owns all of the shares in this company.

All changes to companies included in the consolidation as against the previous year were completely disclosed in the consolidated financial statements. The subsidiaries included in the consolidated financial statements are shown in note 14.

1.4 Principles of consolidation

The financial statements of the subsidiaries included in the consolidation were prepared using uniform accounting and valuation policies pursuant to IAS 27. The reporting date for all consolidated companies is 31 December; this is also the reporting date of the parent company.
Capital consolidation is made by the purchase method by offsetting investment book values with the pro rata newly valued equity of the subsidiary at the time of acquisition (IFRS 3). Remaining excess of cost of acquisition over net assets acquired is recognised as goodwill.
Intra-Group revenues, expenses and income, all receivables and liabilities and inter-company profits or losses held in inventory assets are eliminated.

1.5 Accounting and valuation policies

Currency conversion

The foreign investments within the consolidation group are financially, economically and organisationally autonomous and are therefore regarded as economically independent, foreign entities. Their reporting currency is their relevant local currency.
In the individual financial statements of the companies in the Einhell Group, all foreign currency transactions are converted from the local currency into the reporting currency at the rate of exchange applicable at the time of the transaction. Monetary foreign currency holdings existing at reporting date are valued at reporting date at the relevant daily exchange rate. Conversion differences from monetary transactions or the valuation of monetary items of a company which vary from the exchange rates during the period in which they were originally valued, or in previous transactions, are recognised in the period in which they arose.
Financial statements of foreign subsidiaries are converted at the exchange rates applicable at the end of the year for the statement of financial position, and at average rates of exchange during the reporting year for the statement of comprehensive income. All resulting conversion differences are recognised in equity as an adjustment for currency conversion.

Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are recognised at acquisition or production cost less cumulated deprecation and amortisation. Recognition is shown less cumulated depreciation and amortisation. Intangible assets are recognised when it is likely that a future benefit will be derived from the asset and the acquisition or production cost of the asset can be reliably determined.
Amounts paid for patents, trademarks and licences are capitalised and subsequently amortised by the straight-line method over their estimated useful life. Cost for new software are recognised and treated as intangible assets, so long as these costs are not an integral part of the relevant hardware.

Research and development costs are capitalised in the period in which they arise. This does not include project development costs that meet the following criteria in full:

- the product or process is clearly defined and relevant costs can be clearly allocated and determined with reliability;
- the technical feasibility of the product can be proven;
- the Group intends and is able to either market the product or process or to use it for its own purposes;
- the assets will generate a future economic benefit (i.e. existence of a market for the product or evidence of product use by the company for internal purposes);
- there are sufficient technical, financial and other resources available to conclude the project.

Capitalisation of costs begins with the initial fulfilment of the above criteria. Costs recognised as expenses in the prior reporting period may not be capitalised retrospectively. Other than development costs, there are no self-generated intangible assets.
Capitalised development costs are amortised by the straight-line method over the estimated useful life of the asset, but not normally for more than three years. The realisable amount of development costs is estimated if there are indications of impairment of the asset or indications that previous impairment losses no longer exist.

Goodwill from capital consolidation pursuant to the purchase method stipulated by IFRS 3 is capitalised at acquisition cost less cumulated amortisation and impairment expenses.

Pursuant to IFRS 3, goodwill is not amortised but examined annually, or if circumstances arise that indicate impairment, and subject to an impairment test pursuant to IAS 36. The goodwill is allocated to a cash generating unit (CGU) for the purposes of this impairment test. The cash generating units are the same as the individual companies.

Impairment is recognised if the book value of the cash-generating unit to which the goodwill is allocated exceeds the realisable value. The realisable value is the higher of the two values from fair value less disposal costs and utility.

Future cash flows (before interest and taxes) of cash generating units are determined for planning for the next five financial years. Planning is based on past empirical figures and best possible estimations of management about future development. In order to check for impairment, management estimates cash flows beyond the planning period in which no growth for following years is estimated. The utility of the underlying cash generating unit is calculated on the basis of the discounted cash flow process. Cash flows are discounted at 7.89%.

Property, plant and equipment is normally depreciated on a straight-line basis. If an item of property, plant or equipment is sold or destroyed, relevant acquisition costs and cumulated depreciation are derecognised; any realised profit or loss from the disposal is recognised in the statement of comprehensive income. Maintenance and repair costs for property, plant and equipment or maintenance costs for intangible assets are recognised as an expense when they arise.

Subsequent expenses that meet the criteria for an asset are recognised as subsequent acquisition costs for the relevant property, plant and equipment. IAS 38 distinguishes between assets with limited useful lives and assets with unlimited or undetermined useful lives. Except for land, basically all intangible assets and property, plant and equipment shown in the statement of financial position of the Einhell Group have only limited useful lives. Only goodwill is not amortised.

Depreciation and amortisation of assets of use for a limited period is made taking into account the estimated useful life of the assets. Estimated useful lives are:

	Estimated useful life
	Years
Intangible assets:	
Development costs, franchises, trademarks and similar and licences	3 – 5
Property, plant and equipment:	
Buildings	20 – 30
Technical equipment, plant and machinery	3 – 20
Other equipment, fixtures, fittings and equipment	3 – 10

Estimated useful lives and depreciation and amortisation methods for a depreciable intangible asset and property, plant and equipment must be checked periodically to see if the depreciation and amortisation periods and methods are in line with expected economic use of the asset for property, plant and equipment.

Property, plant and equipment that is no longer used is shown as the lower of book value or the estimated net realisable value less disposal costs.

Financial assets

Securities under investment assets refers mainly to a money market fund to hedge pensions, holiday and flexible working hours entitlement. Financial instruments are recognised on the day of transaction and derecognised upon realisation. Valuation is made at fair value against the new valuation reserve in equity. Determination of fair value is made by bank valuations. Earnings from the fund amounted to €4 thousand (previous year €2 thousand) and the expected yield is 1-2%.

Deferred taxes

The amount of income tax levied depends on the amount of profits and takes deferred taxes into account, which are determined in accordance with the asset and liability method. Determination of deferred taxes is made pursuant to IAS 12: temporary differences between the book values shown in the consolidated financial statements and the tax values of assets and liabilities are shown as future probable tax savings and charges.
Measurement of deferred tax assets and liabilities is made on the basis of tax rates for the period in which the temporary differences will probably be reversed. The expected tax rate is determined on the basis of tax rates applicable or mainly applicable at reporting date for this period. Deferred tax assets and liabilities are not discounted and are shown separately in the statement of financial position.

Actual taxes and deferred taxes are charged or credited directly in equity if the tax refers to items which are charged or credited directly in equity in the same or another period. No deferred tax liabilities may be set aside for undistributed profits from foreign investments that are to remain invested in this company for an indeterminate time.
A deferred tax liability is recognised for all temporary differences with the exception of temporary differences for goodwill, for which tax depreciation is not deductible.

Inventories

Inventories are valued at cost of acquisition or manufacturing or at net realisable value, whichever is the lower. Net realisable value is the sales price less costs up to completion and related sale costs. Raw materials and supplies are valued at weighted average acquisition cost. Acquisition costs are determined in accordance with the weighted average method.

Finished and unfinished goods are valued at actual cost of manufacture. Manufacturing costs include both directly attributable costs and overheads based on normal production capacity. The costs of interest for the period of manufacture are not included. Unsold inventories are written off in full.

Receivables and other assets

Receivables and other assets are recognised at fair value at the time of provision of the underlying consideration and valued at amortised cost after consideration of any impairment losses.
Receivables are examined regularly for indications of impairment. Such indications may, for example, be defaulted payments or economic difficulties of the debtor. Where such indications are present, an impairment loss is recognised if the book value is higher than the realisable amount of the asset. This is determined on the basis of anticipated future cash flows.
Where grounds for impairment no longer apply, a reversal of impairment is recognised. General credit risk is covered by valuation allowances on receivables based on statistical empirical values. An increase in value (or reduction of an impairment) of an asset is only recognised so long as it does not exceed the book value, which would have resulted (taking depreciation effects into account) if no impairment had been made in previous years.
Receivables from external third parties are mainly recognised in the local currency of the individual companies and thus cannot result in any significant currency differences.

Cash and cash equivalents

Cash and cash equivalents include cash in banks, cheques and bank balances. It includes all funds whose original maturity is not more than three months. Foreign currency amounts are converted at the exchange rate at the end of the period.

Adjustment for currency conversion

The adjustment for currency conversion results from the conversion of financial statements of consolidated companies, whose functional currency is different than the reporting currency of the Group. The consolidated companies are economically autonomous foreign entities.
Conversion differences from a monetary item that is a significant part of the net investment of the company in an economically autonomous foreign entity are recognised in equity in the consolidated financial statements until sale of the net investment. Upon sale of the relevant asset, the entire new valuation or the reserve for currency conversion is shown as income or expense in the same period in which the profit or loss from the disposal is shown.

Minority interests

Equity attributable to minority shareholders is shown in the statement of financial position within equity. The attributable portion of the annual earnings is shown separately in the statement of comprehensive income.
The minority interest includes shares of minority shareholders in the present value of identifiable assets and liabilities at the time of purchase of an affiliated company. Changes result from capital increases in which the minority shareholders participate, distributions and shares of the minority shareholders in earnings and currency changes.

Provisions

A provision is made if the company has a current (legal or constructive) obligation on the basis of a past event and is likely that the fulfilment of the obligation will result in an outflow of resources of economic value and if the amount of the obligation can be determined with certainty. Provisions are reviewed at each reporting date and adjusted to best current estimate. Where the present value of money is relevant, the provision amount shall be the current value of the expense necessary to meet the obligation.
As is clear from the definition, there is uncertainty about whether a provision will be needed and this is covered by necessary estimates. Provisions are based on statistical evaluation and years of experience about the probability of the likelihood of the underlying event causing a cash outflow and the amount of that outflow.
Income from the anticipated disposal of assets is not taken into account when setting aside provisions. When some or all of the economic benefit required to settle an obligation is expected to be recovered from a third-party, the reimbursement shall not be recognised until it is certain that the company will receive the reimbursement.

Company employee pension schemes include both defined benefit obligation and contribution plans, which are based on length of employment and salaries. In Germany, there is a contributory statutory basic pension scheme for employees, which provides pension payments dependent on income and contributions made. After payment of contributions to the statutory pension organisation, the company has no further obligations. Current contributions are shown as an expense in the relevant period.

The provisions shown in the consolidated financial statements for pension commitments concern defined benefit plans for pensions for retirement, invalidity and surviving dependents. Pension commitments are determined in consideration of anticipated future increases in premiums and pensions in line with IAS 19 and the international norm of projected unit credit method. A discount factor for interest rates for claimants of 4.91% (previous year 5.34%) was used, along with 4.65% (previous year 4.73%) for pensioners. As in the previous year, the rate of pension progression for commitments with adjustment guarantee was 3.00% and 2.00% for commitments without adjustment guarantee. No rate of compensation increase was available for non-salary based commitments.
The pension provision shown at reporting date is equivalent to the qualifying present value of pension commitments (defined benefit obligation). Actuarial gains or losses are realised in the year they are incurred. The statement of financial position obligation of the defined benefit obligation is not secured by a pension fund but there is partial pension plan reinsurance offset against the fair value of the plan assets. Pursuant to IAS 19.7, plan assets include assets of long-term funds independent of the reporting company that have been set up to reimburse services by employees. Actuarial gains or losses are realised in the year they occur. The recognised fair value of the defined benefit obligation is not secured by a pension fund, but there are partial reinsurance policies.

Liabilities

Valuation of additions to liabilities is made at fair value of compensation received; subsequent valuation is made at amortised cost. Valuation of liabilities in foreign currencies is made at reporting date at the closing rate on that day or at the hedged rate.

Realisation of revenues and revenue recognition

Revenues are recognised when it is likely that the economic benefit from the business transaction will accrue to the company and the amount of the revenue can be reliably determined. Revenues are recognised net (after value added tax (*Umsatzsteuer)*) and after deduction of any price reductions and general conditions. Revenues include income from the sale of goods. They are recognised after delivery of the goods has been made and all risks and opportunities have been transferred to the buyer.

Interest is included pro rata taking into account the effective interest rate of the asset. Licence income is included in the relevant period in accordance with the requirements of the underlying contract.

Derivative financial instruments

In the Einhell Group, derivative financial instruments are used only for hedging transactions as part of risk management. They hedge against risks from fluctuations in cash flows, and are allocated to the risk associated with a specific asset or liability or with the risk of a prior transaction.
All derivative financial instruments are recognised at fair value in accordance with the regulations under IAS 39. The fair value of currency futures is determined on the basis of the exchange rates applicable on the currency futures market at reporting date. For interest swaps, it is determined as the present value of estimated future cash flows. The fair value of options is calculated on the basis of option pricing models. For all the above instruments, the Group fair values are confirmed by financial institutions that have provided the Group with the relevant contracts.
Financial instruments are utilised on the day the transaction is concluded, and derecognition is undertaken upon realisation.
The positive market value of derivatives is recognised under other assets. A negative market value of derivatives is recognised under other liabilities. Any change in market value of derivatives recognised as an income or expense is shown under net financial income; derivatives taken directly to equity are recognised under other cumulated equity.

Any changes in market value are normally recognised as profit or loss in the statement of comprehensive income. Changes in market value of derivative financial instruments such as currency futures and currency options (inner value), which are classified as highly effective hedging instruments under cash flow hedges, are recognised directly to equity, adjusted for deferred taxes pursuant to IAS 39.95.
As the derivative financial instruments under cash flow hedges are current currency hedging instruments, these are included in the statement of comprehensive income within a year.

Leasing

Finance leases

A lease is classified as a finance lease when most risks and opportunities associated with ownership of an asset are transferred to the lessee. The classification of a lease depends on the economic content of the contract, not from a particular formal contract format.
The Einhell Group is a lessee and classifies finance leases in its statement of financial position from the start of the leasing arrangement equally as an asset and liability, at the present value of the leasing object at the start of the lease arrangement or at the present value of minimum leasing payments, whichever amount is lower. In calculating the present value of minimum leasing payments, the underlying interest rate of the leasing arrangement serves as discount factor insofar as it can be reliably determined. If this is not the case, the lessee's incremental borrowing rate of interest is used. Initial direct costs are shown as part of asset value. Leasing instalments are divided between finance costs and repayment of principal. Finance costs are divided throughout the period of the lease so that a constant rate of interest on the remaining principal is possible across all periods.
A finance lease creates a write-down expense and a financing expense for the recognised asset in each period. Principles governing write-downs for leased assets are the same as the methods used for similar depreciable assets owned by the company.
Finance leases are used mainly for fixtures and fittings and office equipment.
The relevant non-current assets are as follows (in € thousand):

Residual value 31.12.2010	Annual write-downs to 31.12.2010	future lease payments			thereof interest		
		within 1 year	between 1 and 5 years	after 5 years	within 1 year	between 1 and 5 years	after 5 years
20	49	14	4	0	1	0	0

Operating leases

A lease is classified as an operating lease if most risks and opportunities associated with ownership of an asset remain with the lessor. Leasing instalments during an operating lease arrangement are shown as an expense in a straight-line method throughout the term of the lease.

The monetary value of incentives which the lessor grants at conclusion of the leasing contract is recognised as a reduction in leasing expenses in a straight-line method throughout the term of the lease. Operating leases are used mainly for fixtures and fittings and office equipment (in € thousand).

	future leasing payments		
	within 1 year	between 1 and 5 years	after 5 years
Operating leases	467	609	0
Finance leases	14	4	0
Total leasing fees	481	613	0

Segment reporting

The segmentation of the Group into two segments mirrors the presentation of company divisions and internal control and reporting within the Group. The two segments are Tools and Garden & Leisure.
Financial information concerning the business segments and geographical segments is contained in notes 4 and 5.

Contingent liabilities and contingent assets

Contingent liabilities are not shown on the statement of financial position. As part of normal business operations, it is possible that the Einhell Group will be involved in litigation.
As of 31 December 2010, the company's management and its legal advisors were not aware of any claims against the company that could have a significant impact on the company, its net assets, financial position and earnings.

Events after reporting date

Significant events after reporting date that could have an impact on the position of the Group at reporting date are taken into account in the financial statements up to 17 March 2011. Insignificant events after reporting date are – where appropriate – included in the notes.

2. Notes to consolidated statement of financial position

2.1 Changes in non-current assets

Changes in non-current assets (not including other non-current assets) are shown in the appendix to the notes to the IFRS consolidated financial statements of Einhell Germany AG**.**

2.2 Capitalised development costs

Capitalised development costs consist mainly of expenses of the company for the development of new products. New product developments fulfil the criteria for recognition as intangible assets. Capitalised development costs are amortised over the expected life cycle of the product. In the financial year 2010, expenses for research and development amounted to €4.0 million (previous year: €3.6 million). Of these expenses, €0.0 million (previous year: €0.3 million) were capitalised as expenses in 2010. A total of 37 employees (previous year: 34 employees) were employed in this division.

Development costs are as follows (in € thousand):

Cost				Cumulated depreciation				Book value	
Gross value 01.01.2010	Additions 2010	Disposals 2010	Gross value 31.12.2010	Gross value 01.01.2010	Additions 2010	Disposals 2010	Gross value 31.12.2010	Net value 31.12.2010	Net value 31.12.2009
5,032	0	0	5,032	4,061	779	0	4,840	192	971

2.3 Goodwill

Goodwill as of 31 December 2010 amounted to €8,249 thousand (previous year: €7,478 thousand). Additions of €37 thousand refer to Einhell Romania and €800 thousand for Einhell Intratek Mühendislik ve Dis Ticaret A.S. Disposals refer to €66 thousand for Einhell Romania.
Disposal of goodwill for Einhell Romania SRL refers to the purchase in the financial year 2005 of 70% of the shares in Einhell Romania. The agreed purchase price consisted of a fixed portion due immediately and a variable portion in the following years. The goodwill recognised in 2005 was based on the total purchase price, based on available planning. The purchase price instalment due in the financial year 2010 was lower than planned, which is why goodwill was reduced by €66 thousand in the financial year 2010.
Additions of €37 thousand for goodwill refer to the purchase of the remaining 10% of Einhell Romania.
The additions of €800 thousand is based on the probable price increase for variable purchase price components for Einhell Intratek Mühendislik ve Dis Ticaret A.S. Due to current business developments in the Turkish company, both goodwill and the corresponding liabilities were increased by €800 thousand.

2.4 Deferred taxes

Deferred tax claims and liabilities of the company are as follows:

In € thousand	Deferred tax claims		Deferred tax liabilities		Net deferred taxes	
	2010	2009	2010	2009	2010	2009
Non-current assets	18	17	163	416	-145	-399
Current assets	2,660	3,120	538	243	2,122	2,877
Other financial investments at present value	1,183	-3	45	-24	1,138	21
Pension obligations	34	8	-1	-48	35	56
Provisions	846	623	90	104	756	519
Other liabilities	331	243	70	-56	261	299
Tax losses carried forwards	2,133	0	0	0	2,133	0
Total	**7,205**	**4,008**	**905**	**635**	**6,300**	**3,373**

Deferred taxes result from the above items from the following circumstances:

- capitalisation and amortisation of development costs.
- property, plant and equipment: increased tax write-offs result in tax valuations being less than book values.
- valuation of trade receivables is made differently than in the tax base.
- financial assets valued at present value (available-for-sale assets and financial trading assets) show differing tax and book values, as an impairment is only made for accounting purposes and not for tax purposes.
- valuation of pension provisions is different than in the tax base.
- in some local financial statements of foreign subsidiaries, deferred expenses may not be deducted for tax purposes until they occur, whereas they can be deducted for tax purposes in the financial statements over a longer period of time.
- capitalisation of deferred taxes from loss carry forwards of subsidiaries.

2.5 Inventories

	2010 € thousand	2009 € thousand
Raw materials and supplies (at acquisition cost)	1,063	924
Finished goods (at cost less impairment)	92,200	71,216
Prepayments	2,376	2,428
Total	**95,639**	**74,568**

Devaluations totalling €6,165 thousand (previous year: €5,642 thousand) were made. The book value of devalued goods amounts after devaluation to €37,656 thousand (previous year: €24,112 thousand). No goods were assigned by way of collateral at reporting date, as in the previous year.

2.6 Receivables and other assets

Trade receivables were shown after allowances for bad debt.
In the financial year 2010, impairments amounting to €2,596 thousand (previous year: €1,552 thousand) were recognised. Furthermore, during this reporting period cash flows from derecognised receivables and income from the reversal of impairment losses from receivables amounting to €2,705 thousand (previous year: €2,131 thousand) were recognised.
The maximum default risk is the book value of the receivables.
85% (previous year: 77%) of total receivables are not yet due.

The maturity structure of financial instruments from trade receivables:

31.12.2010	Net amount	Individual value adjustment	Lump sum value adjustment	Gross amount
Total receivables	**62,487**	**1,607**	**4,168**	**68,262**
Receivables not due or due between 1-120 days	60,523	153	609	61,285
Receivables due 121-360 days	1,254	119	493	1,866
Receivables due more than 360 days	710	1,335	3,066	5,111

31.12.2009	Net amount	Individual value adjustment	Lump sum value adjustment	Gross amount
Total receivables	**48,160**	**2,384**	**3,637**	**54,181**
Receivables not due or due between 1-120 days	44,418	963	550	45,931
Receivables due 121-360 days	1,722	103	1,007	2,832
Receivables due more than 360 days	2,020	1,318	2,080	5,418

Other assets are shown at nominal value less specific allowances for bad debt. Other current assets include income tax receivables of €1,561 thousand (previous year: €2,224 thousand), and other non-current assets include income tax receivables of €959 thousand (previous year: €1,098 thousand).

At reporting date there is no evidence of impairment of other assets that are neither overdue nor impaired.
Trade receivables and other current assets all have a maturity of up to one year.
Due to the short-term nature of the receivables, the interest effects of written-off receivables are insignificant.

2.7 Cash and cash equivalents

For the purposes of the statement of cash flows pursuant to IAS 7, all funds with an original maturity of up to three months are shown as cash. This item consists of cash in banks, cheques and bank accounts.

2.8 Subscribed capital

The share capital of Einhell Germany AG is unchanged from the previous year and divided as follows:

	€
Ordinary shares 2,094,400 ordinary bearer shares No-par shares each with a par value of €2.56	5,361,664
Preference shares 1,680,000 bearer preference shares No-par shares each with a par value of €2.56	4,300,800
Total share capital	**9,662,464**

All payments for shares have been made in full. For the financial year 2010, Einhell Germany AG is proposing a dividend payment of €2,893,856.00 (previous year: €2,138,976.00).
The dividend payment represents a dividend of €0.80 per preference share (previous year €0.60) and €0.74 per ordinary share (previous year €0.54).

A minimum dividend of €0.15 per share must be paid to holders of the preference shares and this has preference over payment of a dividend to ordinary shareholders. The dividend per preference share is €0.06 higher than the dividend per ordinary share. If the net retained profit is not sufficient over one or more financial years to pay a dividend of €0.15 per preference share, the amount will be made up without interest from the net retained profit of following financial years after payment of the minimum dividend for the preference shares for that financial year and before distribution of a dividend for ordinary shares. No distributions of minimum dividends are outstanding. The preference shares do not carry any voting rights. With regard to the remaining assets of the company, all shares are of equal rank.
The ordinary shares hold voting rights in the Annual General Meeting.

2.9 Authorised capital

Authorised capital I

The Board of Directors is authorised until 18 June 2014 to raise the capital of the company with the approval of the Supervisory Board by issuing new ordinary bearer shares and/or bearer preference shares without voting rights for cash in one or more tranches up to an amount of €3,864,985.60 (authorised capital I). A right of subscription is to be granted to shareholders. However, the Board of Directors is authorised with the approval of the Supervisory Board to exclude fractional amounts from the shareholders' rights of subscription, and where ordinary and preference share are being issued at the same time, to exclude shareholders of one class of share from subscribing to shares of the other class, so long as the subscription ratio for both classes of issue is determined. The authorisation also includes the authority to issue further preference shares which have priority over or are equal with previously issued preference shares without voting rights with regard to distribution of profit or company assets.

Authorised capital II

The Board of Directors is authorised until 18 June 2014 to raise the capital of the company with the approval of the Supervisory Board by issuing new ordinary bearer shares and/or bearer preference shares without voting rights for cash in one or more tranches up to an amount of €966,246.40 (authorised capital II). The Board of Directors is authorised with the approval of the Supervisory Board to exclude fractional amounts from the shareholders' rights of subscription and where ordinary and preference share are being issued at the same time to exclude shareholders of one class of share from subscribing to shares of the other class, so long as the subscription ratio for both classes of issue is determined. The Board of Directors may also exclude all subscription rights in order to issue new bearer preference shares without voting rights for an issue amount which is not substantially below the stock market price (Sections 203 (2) and 186 (3) sentence 4 of the German Stock Corporation Act (*AktG*)). The authorisation also includes the authority to issue further preference shares which have priority over or are equal with previously issued preference shares without voting rights with regard to distribution of profit or company assets.

2.10 Capital reserve and legal reserve

The capital reserve is unchanged as against the previous year at €26,676,696.37. As last year, the legal reserve amounts to €54,708.23 and together with the capital reserve this fulfils the requirements of 10% of share capital pursuant to Section 150 (2) of the German Stock Corporation Act (*AktG*).

2.11 Other cumulated equity

Other cumulated equity includes the market values of derivative financial instruments in the amount of €-1,501 thousand (previous year €-112 thousand) and available-for-sale securities of €21 thousand (previous year €48 thousand), each after consideration of deferred taxes.

As part of the application of cash flow hedge accounting for derivative financial instruments, €3,345 thousand (previous year €963 thousand) was taken from equity and recognised in the initial valuation of costs of inventories. Due to the application of cash flow hedge accounting, the change in equity taken directly to equity was €840 thousand (previous year €-73 thousand).

2.12 Minority interests

Shares of minority shareholders are as follows:

	2010 € thousand	**2009 € thousand**
Position 1 January	**2,958**	**4,984**
Capital contributions/additions	39	204
Payments	-398	-200
Currency adjustments	78	-1
Additions/disposals	-275	-2,045
Net profit/loss	-159	16
Position 31 December	**2,243**	**2,958**

2.13 Non-current financial liabilities

The following secured non-current loans exist as of 31 December 2010:

	2010 € thousand	2009 € thousand
Secured	25	46
Unsecured	41,313	41,687
Total	**41,338**	**41,733**

Loans carry charges over other assets in the amount of €25 thousand (previous year: €46 thousand). The securities are held in respect of current and non-current loans and from financial liabilities.

Non-current financial liabilities include non-current loans for over €41.3 million with contractual maturity of at least 5 years. These non-current loans are split between seven banks and replaced the promissory note that expired in July 2009. The loan agreements set out financial covenants which, if not met, permit the creditors to demand premature repayment of the loans before maturity.

All covenants were met in the financial year 2010.
Securing interest rate risks is made with derivative financial instruments in the form of interest cap agreements.

2.14 Pension commitments

See point 1.5 (provisions) for actuarial assumptions made in the course of expert reports.
Changes to commitments to employees are as follows:

Year	2010 € thousand	2009 € thousand
Qualifying present value of pension commitments at start of year	**1,831**	**1,547**
Current service expense	27	20
Interest expense	87	93
Actuarial gains and losses	73	293
Pension payments	-87	-108
Transfer/Settlement	-673	-14
Qualifying present value of pension commitments at end of year	**1,258**	**1,831**

Actuarial losses refer mainly to changes in the discount rate. Current service expenses are shown in personnel expenses. The provision for pensions at reporting date is equivalent to the defined benefit obligation offset against the fair value of plan assets.

2.15 Provisions

	Position on 1.1.2010 € thousand	Utilised € thousand	Allocations € thousand	Release €thousand	Currency differences € thousand	Position on 31.12.2010 € thousand
Guarantees	5,466	170	2,024	1,056	308	6,572
Other provisions	4,122	1,400	4,166	959	49	5,978
Total	**9,588**	**1,570**	**6,190**	**2,015**	**357**	**12,550**

The provisions of €12,550 thousand include non-current provisions of €512 thousand (previous year €536 thousand).

2.16 Current financial liabilities

	Notes	2010 € thousand	2009 € thousand
Secured		13	45
Unsecured		1,120	375
Total		**1,133**	**420**
thereof current part due of non-current loan	2.13	388	414
thereof current part due of loan or overdraft		745	6

Security is held in the form of an assignment pledge of other assets as security (see point 2.13).

2.17 Other liabilities

Other liabilities of €21,633 thousand (previous year: €14,097 thousand) consist mainly of tax liabilities, liabilities for wages and salary payments, including liabilities from employee profit participation and social security payments, the negative market valuation of financial derivatives, and liabilities from current customer bonuses and customer credits.

3. Notes to consolidated statement of comprehensive income

3.1 Revenues

Revenues are classified as follows:

	2010 € thousand	2010 %	2009 € thousand	2009 %
By segment				
Garden & Leisure	147,778	40	130,171	41
Tools	217,656	60	185,522	59
	365,434	100	315,693	100
By region				
Germany	145,348	40	122,494	39
European Union	144,956	40	132,174	42
Asia	23,659	6	21,381	7
Other	51,471	14	39,644	12
	365,434	100	315,693	100

3.2 Other operating income

This refers principally to income from costs for inspection of goods to be passed on to suppliers (€384 thousand; previous year: €345 thousand), income from the inclusion of released receivables and reversal of impairment of receivables (€2,705 thousand, previous year: €2,131 thousand), income from the disposal of non-current assets (€69 thousand, previous year: €87 thousand) and commission income (€1,805 thousand, previous year €1,297 thousand). Otherwise, there was no significant income from other periods.

3.3 Personnel expenses and average number of employees

Personnel expenses	**2010 € thousand**	**2009 € thousand**
Wages and salaries	32,568	27,912
Diverse social security payments and pension expenses	6,041	6,061
Total	**38,609**	**33,973**

Average number of employees	**2010**	**2009**
Germany	333	321
Other countries	672	678
Total	**1,005**	**999**

Pension expenses in the financial year 2010 amounted to €142 thousand (previous year: €137 thousand).

3.4 Other operating expenses

Other operating expenses include expenses for postage of goods, guarantees and customer services, impairment, advertising and product design. Expenses for the impairment of trade receivables amount to €2,596 thousand (previous year: €1,552 thousand).
Due to the short-term nature of the item trade receivables and the short-term expectation of payment receipts, the interest effect in calculating impairments is insignificant.

3.5 Net financial income

	2010 € thousand	**2009 € thousand**
Interest income	384	501
thereof from hedges	*0*	*0*
Interest expense	-2,043	-2,539
thereof from hedges	*-519*	*-273*
Gain/loss from currency conversion	368	-1,804
thereof from hedges	*-269*	*-188*
Impairment of financial assets	0	0
Net financial income	**-1,291**	**-3,842**

Net financial income also includes valuation income from derivatives for which hedge accounting is not applied, and for ineffective parts of changes to values of hedging instruments designated in hedge accounting.

3.6 Income taxes

	2010 € thousand	2009 € thousand
Actual tax expense	5,993	3,612
Deferred taxes	-1,814	-311
Total	**4,179**	**3,301**

In valuing a recognised asset for future tax relief, the probability of recovery of anticipated tax amounts is taken into account.

Deferred taxes for hedge accounting and available-for-sale securities were only recognised directly in equity.

Deferred tax assets on changes to present value of cash flow hedges amounted to €1,183 thousand (previous year: €-3 thousand) and deferred tax liabilities amounted to €70 thousand (previous year: €-101 thousand).

Subsidiaries capitalised deferred taxes from loss carry forwards of €2,133 thousand.

The reconciliation of the income tax amount with the theoretical amount that would have been applicable if the relevant tax rate in the company's country of domicile had been applied is as follows:

	2010 € thousand	2009 € thousand
Earnings before tax	20,176	14,160
Tax rate	30 %	30 %
Forecast tax expense/income	-6,053	-4,248
Tax expense/income from intra-Group income/expenses	109	-5
Impairment of goodwill	0	0
Other non-deductible expenses for tax purposes	-2,583	-2,033
Difference tax rates	2,084	1,920
Tax free earnings	913	1,065
Loss use	2,133	0
Other	-782	0
Tax burden	**-4,179**	**-3,301**

3.7 Earnings per share

Earnings per share pursuant to IAS 33 refer to the ordinary shares of a company. As the ordinary shares of Einhell AG are not publicly traded, we have waived this calculation.

4. Segment reporting by division

Identification of reportable operative segments pursuant to IFRS 8 is based on the concept of the "management approach". Segmentation in the Einhell Group into the segments Garden & Leisure and Tools is based on the Group's internal management structure and accounting.
Business operations of the Einhell Group are divided between the segments Tools and Garden & Leisure. The Tools segment comprises hand held electric tools, stationary tools and accessories. The Garden & Leisure segment includes the areas garden and water technology, machinery and greenhouses and air-conditioning and heating technology.
Segment information is determined on the basis of the accounting and valuation principles used in the consolidated financial statements.
Intra-segment transactions are usually carried out on an arms-length basis.

In 2010 in € thousand	**Tools**	**Garden & Leisure**	**Total segments**	**Reconciliation**	**Group**
Segment revenues	217,656	147,778	365,434	0	365,434
Operating segment revenues (EGT)	**12,350**	**7,826**	**20,176**	**0**	**20,176**
Financial result	-769	-522	-1,291	0	-1,291

In 2009 in € thousand	**Tools**	**Garden & Leisure**	**Total segments**	**Reconciliation**	**Group**
Segment revenues	185,522	130,171	315,693	0	315,693
Operating segment revenues (EGT)	**8,640**	**5,520**	**14,160**	**0**	**14,160**
Financial result	-2,259	-1,583	-3,842	0	-3,842

"Reconciliation" shows income and expenses that are not directly attributable to the segments.

5. Segment reporting by regions

The geographical allocation of revenues is made as previously on the basis of registered office of the invoice receiver. The sales market is decisive.

2010 **In € thousand**	**Germany**	**EU**	**Other Countries**	**Asia/ Pacific**	**Reconciliation**	**Group**
External revenues	145,348	144,956	51,471	23,659	0	365,434

The EU companies with the strongest revenues are Einhell Austria (€25.9 million), Einhell Italy (€15.1 million) and Einhell Poland (€12.5 million). Other countries with particularly strong revenues were the companies in Switzerland (€12.7 million) and Turkey (€10.2 million). Revenues of the Hong Kong companies (€48.3 million) were mainly generated in the Asia region.

2009 **In € thousand**	**Germany**	**EU**	**Other Countries**	**Asia/ Pacific**	**Reconciliation**	**Group**
External revenues	122,494	132,174	39,644	21,381	0	315,693

The EU companies with the strongest revenues are Einhell Austria (€21.5 million), Einhell Poland (€18.9 million), and Einhell Italy (€13.9 million). Other countries with particularly strong revenues were the companies in Turkey (€7.5 million) and Switzerland (€10.5 million). Revenues of the Hong Kong companies (€37.9 million) were mainly generated in the Asia region.
"Reconciliation" shows income and expenses that are not directly attributable to the segments.
During the financial years 2010 and 2009, no customer of the Einhell Group generated revenues of more than 10% of the revenues.

6. Notes to consolidated statement of cash flows

The consolidated statement of cash flows shows changes to cash flow divided by cash inflows and outflows from current operations, investment and financial activities. Effects arising from changes to companies included in the consolidation are eliminated.

Current operations

The cash inflow from current operations is derived mainly from operating profit, reduction of receivables and a significant reduction in inventories.

Investment activity

Payments for investments in property, plant and equipment and intangible assets refer mainly fixtures and fittings.

Financing activity

Cash flows from financing activity include mainly cash inflows and outflows from loans and payment of dividends.

Changes in cash and cash equivalents

Cash and cash equivalents include cash, cheques and cash in banks at reporting date. The effects of changes arising from exchange rates are shown separately.

7. Risk report and financial instruments

Financial risk management

The Group operates internationally and is thus subject to market risks from changes in interest rates and currency exchange rates.
The Group uses derivative financial instruments to manage these risks. The guidelines used for risk management are implemented with the authority of the Board of Directors by a central treasury department working closely with Group companies.
Current market developments are observed for the purposes of valuation of risks in the Einhell Group.
Further information regarding risk management can be found in the Management Report.

Default risk

Company policy is to minimise default risks both from customers and suppliers by using normal international instruments. These help the company to evaluate default risks of the ordering company for each order and the economic milieu. In particular, security or letters of credit are required with regard to new customers or risky countries. In the offer phase, sales and finance departments jointly decide on security requirements and adjust these requirements when orders are made. To support risk estimation, we also use external information from banks and credit agencies. In order to minimise default risk from suppliers, both buying and project management teams work with the finance department to develop joint security concepts.

The book values of receivables present the maximum default risk.

Trade receivables from DIY chains, specialist traders and discounters amount to €62.5 million (previous year: €48.2 million). In the financial year 2010 there were no significant receivables for which new payment targets were agreed.

As the derivatives have been acquired from renowned financial institutions, the Group expects that the maximum default risk will be covered by the positive market value of the derivatives.
At reporting date, cash in banks amounted to €44.5 million (previous year €57.6 million). The cash was held in first-rate, well-known banks.

Price and supply risks in supply markets are countered by the Einhell Group by long-term supply relationships, which are constantly subjected to quality management.

Interest rate risks

The interest rate risk of the Einhell Group stems mainly from financial liabilities, loans and interest on income. The risk is reduced by using derivative financial instruments such as interest caps and interest swaps.

The Group-wide treasury department manages interest risk for the Group, in order to optimise interest income and expenses for the Group and to minimise total interest rate risk. This also includes Group-wide interest overlay management, which is designed to directly connect interest from concluded hedge transactions to specific intended assets and liabilities.

The Group uses all interest caps and swaps either as an economic cash flow hedge or as economic present value hedge and applies them at present value. The nominal value of existing hedge transactions at reporting date is €40,000 thousand (previous year €40,000 thousand).

The Group is subject to an accounting cash flow risk from fluctuating interest rates. A change in market interest rates of 1% would have an effect on interest at reporting date of €20 thousand.

The Group is subject to accounting risk from the fair value valuation of derivatives. An increase in market interest rates of 1% would result in a positive effect on the statement of comprehensive income at reporting date of €442 thousand. A reduction in market interest rates of 1% would result in a negative effect on the statement of comprehensive income at reporting date of €278 thousand.

Liquidity risk

The liquidity risk is the possibility that a company will no longer be in a position to meet its financial obligations (such as repayment of financial liabilities or payment for orders). The Einhell Group limits this risk by using effective management of net working capital and cash and traditional credit lines from well-known banks. At reporting date, the Group’s operations had unsecured current credit lines amounting to around €36 million. The Group also keeps a close eye on opportunities available in the financial markets in order to secure flexibility of the Group’s finances and to limit unfavourable refinancing risks.

The following table shows all contractual payments as of 31 December 2010 for amortisation, repayments and interest for financial liabilities in the statement of financial position including derivative financial instruments with a negative market value. Derivative financial instruments are shown at market value. It is not anticipated that actual cash flows will significantly differ from the contractual cash flows.

Liabilities from finance leasing are included under other liabilities. A separate presentation of liabilities from finance leasing is shown in note 1.5.

	2010	2011	2012	2013-2015	2016 and later
Non-current liabilities to banks	1,627	1,654	1,628	43,399	0
Trade payables	27,814	0	0	0	0
Other liabilities	19,413	0	0	0	0

The risk to cash flows shown in the table is limited to cash outflows. Trade payables and other financial liabilities result mainly from financing for operative assets (such as property, plant and equipment) and from investments in working capital (such as inventories and trade receivables). These asset values are taken into account in effective management of total liquidity risk. Risk management was extended and strengthened by implementation of a Group-wide, internet-based risk management information system.
With the exception of the non-current loans, presentation of current liabilities to banks was waived.

At reporting date there were open foreign exchange contracts for which we anticipate cash inflows of around €217.5 million and cash outflows of around €223.6 million.

Foreign currency risk

Due to the international aspect of its normal business operations, the Einhell Group is subject to currency risks. To manage and minimise these risks, the Einhell Group uses derivative financial instruments with a maturity of up to one year. The foreign currency risk management system of the Einhell Group has been successfully operated for several years.
Fluctuations in exchange rates can lead to undesirable and unpredictable earnings and cash flow volatility. This affects each company in the Einhell Group that trades with international partners in a currency that is not the functional currency (the relevant national currency). Within the Group, this applies in particular to procurement made regularly in US dollars. In contrast, the sale of Einhell products is mainly made in the relevant national currency. The planned procurement in US dollars was hedged, so this contains no risk concentration.

Companies in the Einhell Group are forbidden to buy or sell foreign currencies for speculative purposes. Intra-Group financing or investments are made in relevant national currencies where possible or using currency hedges.

All assets or liabilities of the Einhell Group are based on observed prices or derived and determined therefrom.

Due to current US dollar payment terms, US dollar accounting exposure for financial instruments results mainly from derivatives. A change of 10% in exchange rates results in exchange rate gains of €17,584 thousand or a loss of €-15.301 thousand, which has been shown in equity due to the application of cash flow hedge accounting. The derivatives are used only to finance the purchase of goods. For derivatives not shown under hedge accounting, a change of 10% in exchange rates results in exchange rate gains of €546 thousand or a loss of €-245 thousand.

The nominal volume of derivative financial instruments is equivalent to the total of gross purchase and sale amounts between the parties and is therefore not a reliable indicator for Group risk from the use of derivative financial instruments. Risks and opportunities are expressed through market value, which is equivalent to the cash value of the derivatives at reporting date.

a) Financial instruments with positive market value to cash flow hedge

	Nominal volume		**Market value**	
	31.12.2010	**31.12.2009**	**31.12.2010**	**31.12.2009**
Currency futures	85,947	28,934	1,218	796
Options	19,575	0	82	0
Total	105,522	28,934	1,300	796

b) Financial instruments with negative market value to cash flow hedge

	Nominal volume		**Market value**	
	31.12.2010	**31.12.2009**	**31.12.2010**	**31.12.2009**
Currency futures	82,105	46,723	4,016	1,007
Options	0	0	0	0
Total	82,105	46,723	4,016	1,007

Designated hedged items are contracted and planned purchases and sales. All cash flows are anticipated in 2011 and are recognised as cost of inventories. Ineffectivity of cash flow hedges is insignificant due to their short-term nature.

Market value and book values of financial instruments

Pursuant to IAS 39, financial instruments are allocated to different valuation categories depending on whether they are recorded as assets or liabilities. The allocation to a particular valuation category affects whether the financial instrument is recognised at cost or fair value. The following table shows the book value and fair value for individual categories and valuation classification in the statement of financial position. Up to 90% of non-current loans are subject to variable rates of interest and therefore the fair value is set at the book value. Other fair values are provided by banks or determined on the basis of recognised valuation models. For current assets values and liabilities, the book value provides a good indication of the fair value.

Valuation category	Valuation	Book value 31.12.2010	Book value 31.12.2009	Fair Value 31.12.2010	Fair Value 31.12.2009
Assets and liabilities held for trading	Fair value				
- Hedge accounting derivates					
Other assets		1,300	117	1,300	117
Other liabilities		4,016	328	4,016	328
- Hedge derivatives without application of hedge accounting					
Other assets		518	843	518	843
Other liabilities		463	188	463	188
Loans and receivables	Amortised costs				
- Trade receivables		62,487	48,160	62,487	48,160
- Other assets		7,727	7,149	7,727	7,149
Available-for-sale financial instruments	Fair value				
- Investment securities		367	992	367	992
Other financial liabilities	Amortised costs				
- Liabilities to banks		42,471	42,154	42,471	42,154
- Trade payables		27,814	27,531	27,814	27,531
Cash and cash equivalents	Fair Value	44,462	57,598	44,462	57,598

8. Other obligations

Other financial obligations from leasing and rents are divided across the years as follows:

	€ thousand
2011	2,058
2012 to 2015	1,902
2016 and later	105
Total	**4,065**

The company and its subsidiaries have entered into various operating lease agreements for company cars, office equipment and other facilities and equipment. The terms for leased objects range from two to five years. Leasing agreements are not normally cancellable.

Other guarantees, open letters of credit for purchased goods at suppliers and possible obligations arising from bills of exchange amounted at reporting date to €5,523 thousand (previous year: €4,577 thousand). Other possible liabilities amounted to €13 thousand (previous year: €18 thousand).

Money market funds recognised as assets amounted to €644 thousand (previous year: €640 thousand), which were used to secure various pension commitments.

9. Corporate Governance Code

The Board of Directors and the Supervisory Board of Einhell Germany AG have made a prescribed declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (*AktG*) and made this permanently available to shareholders on the company's website at www.einhell.com.

10. Related party transactions

Remuneration paid to members of the Board of Directors

Members of the Board of Directors receive fixed and variable performance-based salary components. Members of the Board of Directors hold shares in Einhell Germany AG. There are no share option programmes or similar arrangements. For the financial year 2010, total salaries of members of the Board of Directors of Einhell Germany AG amounted to €2,490 thousand (previous year: €1,916 thousand). Pension provisions amounting to €164 thousand were also recognised for this group.

Pension provisions amounting to €1,408 thousand (previous year: €1,287 thousand) have been made for former members of the Board of Directors. In this financial year, €99 thousand was paid out in pension commitments to former members of the Board of Directors.

Total remuneration paid to members of the Supervisory Board in the past financial year amounted to €89 thousand (previous year: €84 thousand).

No loans or share options were granted to members of the Board of Directors or to members of the Supervisory Board.

11. Dependency report

As in 2002, pursuant to Section 21 (1) of the German Securities Trading Act (*WpHG*) the company was notified by Thannhuber AG, registered office in Landau/ Isar, that its shareholding had exceeded the threshold of 75% of ordinary shares.

Thannhuber AG holds the majority of shares in Einhell Germany AG. We confirm that during the reporting period Einhell Germany AG had no legal transactions with Thannhuber AG, nor did it take or fail to take any measures to the detriment of Einhell Germany AG.

12. Auditor’s fees

Auditors’ fees of KPMG AG included as an expense in the financial year for the auditing of the consolidated financial statements amount to €91 thousand (previous year: € 91 thousand). The fee for the auditing by the KPMG company in the KPMG LLP Group amounted to €167 thousand (previous year €161 thousand). The fees are due solely for auditing services. No other consultancy fees, tax advisory fees and other services were provided for the Einhell Group.

13. Events after reporting date

No further events took place after reporting date that could have a significant impact on net assets, financial position and earnings.

14. List of subsidiaries

	Investment direct	indirect	IFRS equity as at 31.12.2010
	%	%	€ thousand
iSC GmbH, Landau/Isar	100.0		1,285
Hansi Anhai Far East Ltd., Hong Kong/China	100.0		13,533
HAFE Trading Ltd., Hong Kong/China	100.0		1,506
Hans Einhell China (Chongqing) Co. Ltd., Chongqing/China	100.0		1,309
Hansi Anhai Youyang Ltd., Chongqing/China		100.0	5,570
Hans Einhell (China) Trading Co., Ltd., Shanghai/China	100.0		1,031
Einhell Österreich Gesellschaft m.b.H., Vienna/Austria	100.0		4,504
Einhell Portugal – Comércio Int., Lda., Arcozelo/Portugal	100.0		3,597
Einhell Benelux B.V., Breda/Netherlands	100.0		946
Einhell Italia s.r.l., Milan/Italy	100.0		3,972
iSC Italia s.r.l., Milan/Italy		100.0	61
Comercial Einhell S.A., Madrid/Spain	100.0		1,544
Einhell Polska Sp.z o.o., Wroclaw/Poland	90.0		13,665
Einhell Hungaria Kft., Budapest/Hungary	100.0		700
Einhell Schweiz AG, Winterthur/Switzerland	100.0		1,616
Einhell UK Ltd., Birkenhead/United Kingdom	100.0		1,024
Einhell Bulgarien ODD., Varna/Bulgaria	67.0		141
Einhell Export-Import GmbH, Tillmitsch/Austria	100.0		797
Einhell Croatia d.o.o., Lepajci/Croatia		100.0	3,814
Einhell BiH d.o.o., Vitez/Bosnia		66.7	2,149
Einhell d.o.o. Beograd, Belgrade/Serbia		100.0	264
Einhell Romania SRL, Bucharest/Romania	100.0		2,694
Einhell-Ukraine TOV, Kiev/Ukraine	100.0		100
Svenska Einhell AB, Gothenburg/Sweden	100.0		-209
Einhell Holding Gesellschaft m.b.H., Vienna, Austria	100.0		1,000
Einhell-Unicore s.r.o., Karlsbad/Czech Republic	100.0		2,383
Einhell Intratek Mühendislik ve Dis Ticaret A.S., Istanbul/Turkey	85.0		2,640
Anxall Hellas A.E., Athens/Greece	96.0		422
Einhell Chile S.A., Santiago/Chile	90.0		163
Einhell Scandinavia Aps, Arhus/Denmark	100.0		-35
Einhell Middle East Trading FZC, Ras Al-Khaima/United Arab Emirates	98.0	2.0	-103
Einhell Slovakia s.r.o., Pezinok/Slovakia	100.0		-248
Einhell France SAS, Villepinte/France	70.0		-1,035
Einhell Australia PTY. Ltd., Victoria/Australia	90.0		-3
Einhell Brasil Com. Distr. Ltda, Campinas/Brazil	90.0		-10
Einhell Norway AS, Larvik/Norway	100.0		189

15. Company bodies

The Board of Directors of Einhell Germany AG in the financial year 2010 comprised:

• Andreas Kroiss, Linz/Austria (Chairman)	Sales, purchasing, marketing product management and corporate strategy
• Jan Teichert, Metten	Finance and accounting, tax, legal, controlling, investor relations and personnel
• Dr. Markus Thannhuber, Landau/Isar	Technology and product manufacture, quality assurance, service, IT, production and maintenance
• York Boeder, Landau/Isar	Sales international until 31.12.2010

Jan Teichert is Deputy Chairman of the Supervisory Board of SÜSS MicroTec AG, Garching.

The Supervisory Board of Einhell Germany AG comprises:

• Josef Thannhuber, Landau/Isar Businessman	Chairman
• Univ.-Prof. Dr.-Ing. Dr.-Ing. E.h. Dieter Spath, Sasbachwalden Head of the Fraunhofer Institute for Industrial Engineering (IAO), Stuttgart	Deputy Chairman
• Maximilian Fritz, Wallersdorf - Haidlfing Call Centre team leader	Employee representative

Univ.-Prof. Dr.-Ing. Dr.-Ing. E.h. Dieter Spath is a member of the following Supervisory Boards and Administrative Boards:

- Christophsbad GmbH und Co., Göppingen, Member of the Administrative Board, until June 2010
- LIEBICH & PARTNER Management- und Personalberatung AG, Baden-Baden, Chairman of the Supervisory Board
- ict Innovative Communication Technologies AG, Kohlberg, Deputy Chairman of the Supervisory Board
- Zeppelin GmbH, Garching, Member of the Supervisory Board

Landau/Isar, 17 March 2011

Einhell Germany AG
The Board of Directors

Andreas Kroiss Jan Teichert Dr. Markus Thannhuber

Einhell Germany AG, Landau a. d. Isar

Statement of non-current assets in the financial year 2010

		Acquisition and production cost					
		1.1.2010	Additions	Disposals	Re classification	Currency differences	31.12.2010
		€	€	€	€	€	€
I.	**Intangible assets**						
	1. Franchises, development costs, trademarks patents and licences and similar rights and values and licences and similar rights and values	11.493.941,96	189.647,09	0,00	15.648,53	92.637,67	11.791.875,25
	2. Goodwill	9.584.646,94	836.796,69	-66.380,99	0,00	0,00	10.355.062,64
	3. Prepayments	18.514,43	0,00	-863,58	-7.000,00	0,00	10.650,85
		21.097.103,33	1.026.443,78	-67.244,57	8.648,53	92.637,67	22.157.588,74
II.	**Property, plant and equipment**						
	1. Land, leasehold rights and buildings, including buildings on non-owned land	26.144.540,73	413.899,35	0,00	0,00	146.920,65	26.705.360,73
	2. Technical equipment, plant and machinery	4.273.934,90	56.063,45	-15.159,89	0,00	94.618,26	4.409.456,72
	3. Other equipment, fixtures and fittings and equipment	10.250.133,84	2.078.738,66	-375.748,51	28.548,30	221.129,86	12.202.802,15
	4. Prepayments and machinery under construction	37.286,48	93.865,61	0,00	-37.196,83	-89,65	93.865,61
		40.705.895,95	2.642.567,07	-390.908,40	-8.648,53	462.579,12	43.411.485,21
III.	**Financial assets**						
	Securities	995.775,72	3.142,73	-627.935,55	0,00	0,00	370.982,90
		62.798.775,00	3.672.153,58	-1.086.088,52	0,00	555.216,79	65.940.056,85

Statement of non-current assets in the financial year 2009

		Acquisition and production cost					
		1.1.2009	Additions	Disposals	Re classification	Currency differences	31.12.2009
		€	€	€	€	€	€
I.	**Intangible assets**						
	1. Franchises, development costs, trademarks patents and licences and similar rights and values and licences and similar rights and values	11.315.553,83	449.791,37	-257.777,48	-9.727,26	-3.898,50	11.493.941,96
	2. Goodwill	9.931.275,16	445.191,11	-800.000,00	8.180,67	0,00	9.584.646,94
	3. Prepayments	34.122,01	7.000,00	-30.833,88	0,00	8.226,30	18.514,43
		21.280.951,00	901.982,48	-1.088.611,36	-1.546,59	4.327,80	21.097.103,33
II.	**Property, plant and equipment**						
	1. Land, leasehold rights and buildings, including buildings on non-owned land	26.181.961,56	135.785,58	-114.708,49	53.487,79	-111.985,71	26.144.540,73
	2. Technical equipment, plant and machinery	2.450.534,74	2.841.534,42	-1.005.239,46	0,00	-12.894,80	4.273.934,90
	3. Other equipment, fixtures and fittings and equipment	10.924.553,72	671.209,24	-1.232.561,76	-51.941,20	-61.126,16	10.250.133,84
	4. Prepayments and machinery under construction	15.161,47	26.930,23	-4.533,30	0,00	-271,92	37.286,48
		39.572.211,49	3.675.459,47	-2.357.043,01	1.546,59	-186.278,59	40.705.895,95
III.	**Financial assets**						
	Securities	987.930,49	7.845,23	0,00	0,00	0,00	995.775,72
		61.841.092,98	4.585.287,18	-3.445.654,37	0,00	-181.950,79	62.798.775,00

Cumulated depreciation						Book values	
1.1.2010	Depreciation in financial year	Disposals	Reclassification	Currency differences	31.12.2010	31.12.2010	31.12.2009
€	€	€	€	€	€	€	€
9.748.776,42	1.207.433,33	0,00	78,91	57.929,29	11.014.217,95	777.657,30	1.745.165,54
2.106.467,78	0,00	0,00	0,00	0,00	2.106.467,78	8.248.594,86	7.478.179,16
11.068,07	0,00	0,00	-417,22	0,00	10.650,85	0,00	7.446,36
11.866.312,27	1.207.433,33	0,00	-338,31	57.929,29	13.131.336,58	9.026.252,16	9.230.791,06
15.390.386,60	750.000,72	0,00	0,00	67.540,18	16.207.927,50	10.497.433,23	10.754.154,13
1.102.834,91	284.298,50	-1.496,61	0,00	52.432,91	1.438.069,71	2.971.387,01	3.171.099,99
7.645.036,41	1.040.283,99	-297.049,81	338,31	149.977,20	8.538.586,10	3.664.216,05	2.605.097,43
0,00	0,00	0,00	0,00	0,00	0,00	93.865,61	37.286,48
24.138.257,92	2.074.583,21	-298.546,42	338,31	269.950,29	26.184.583,31	17.226.901,90	16.567.638,03
3.845,03	0,00	0,00	0,00	0,00	3.845,03	367.137,87	991.930,69
36.008.415,22	3.282.016,54	-298.546,42	0,00	327.879,58	39.319.764,92	26.620.291,93	26.790.359,78

Cumulated depreciation						Book values	
1.1.2009	Depreciation in financial year	Disposals	Reclassification	Currency differences	31.12.2009	31.12.2009	31.12.2008
€	€	€	€	€	€	€	€
8.505.462,91	1.444.964,72	-185.635,45	-8.180,16	-7.835,60	9.748.776,42	1.745.165,54	2.810.090,92
2.098.287,11	0,51	0,00	8.180,16	0,00	2.106.467,78	7.478.179,16	7.832.988,05
6.947,76	417,22	0,00	0,00	3.703,09	11.068,07	7.446,36	27.174,25
10.610.697,78	1.445.382,45	-185.635,45	0,00	-4.132,51	11.866.312,27	9.230.791,06	10.670.253,22
14.726.399,68	754.729,11	-86.768,96	4.514,33	-8.487,56	15.390.386,60	10.754.154,13	11.455.561,88
1.926.985,20	182.833,33	-997.741,84	0,00	-9.241,78	1.102.834,91	3.171.099,99	523.549,54
7.734.634,22	1.041.930,59	-1.108.969,47	-4.514,33	-18.044,60	7.645.036,41	2.605.097,43	3.189.919,50
0,00	0,00	0,00	0,00	0,00	0,00	37.286,48	15.161,47
24.388.019,10	1.979.493,03	-2.193.480,27	0,00	-35.773,94	24.138.257,92	16.567.638,03	15.184.192,39
3.845,03	0,00	0,00	0,00	0,00	3.845,03	991.930,69	984.085,46
35.002.561,91	3.424.875,48	-2.379.115,72	0,00	-39.906,45	36.008.415,22	26.790.359,78	26.838.531,07

Einhell Germany AG, Landau a. d. Isar

Group Management Report for the financial year 2010

1. Business activities, structure, management and goals of the Einhell Group

1.1 General operations and business segments

Einhell Germany AG, with its registered office in Landau/Isar (Germany), is the parent company of the international Einhell Group.

Einhell develops and sells solutions for the handyman and tradesman for home, garden and recreational use. Its basic product principles are to react faster, more flexibly and with more innovation than its competitors. Einhell matches the global direction of its customers with a high degree of internationalisation. Subsidiaries and associates across the world cement contacts with the globally operating customers of Einhell AG.

The subsidiaries comprise sales companies mainly in Europe and trading companies in Asia. The Asian subsidiaries are also responsible for product development and procurement. As production takes place in Asia, we also established quality assurance at the same locations. Einhell employs around 1,000 employees worldwide. Group revenues amount to around €365 million.

Einhell Germany AG divides its operations into the two business segments Tools and Garden & Leisure.

Operational responsibility for each of the segments lies with the divisional heads or Managing Directors of the subsidiaries. Allocation of sales responsibilities is constantly revised for this management level and is based on the divisional classification between Tools and Garden & Leisure. The Einhell Group is also working on implementation of a Business Unit concept, whereby responsibilities are extended beyond sales to such areas as product management and procurement, based on the divisional classification between Tools and Garden & Leisure.

1.2 Legal structure and management of the Group

Legal structure and changes to Group structure

Einhell Germany AG, Landau/Isar, holds direct and indirect shareholdings in a total of 36 subsidiaries that are all legally independent companies.

It holds all the shares in subsidiaries with a centralised or special function such as service, product sourcing/product preparation, procurement/purchases and quality control and quality assurance. It also usually holds all the shares in global sales companies.

In subsidiaries where Einhell Germany AG does not hold all the shares, in all cases Einhell Germany AG has a direct or indirect majority shareholding. Minority shareholdings are almost exclusively held by the corresponding Managing Directors of the companies. This is an essential element of the Einhell Group strategy and is intended to promote entrepreneurial co-responsibility by direct investment in the company's capital and the success of the corresponding company.

With respect to the responsibilities of the Einhell Group companies, all activities that can be centralised are carried out at just one location. By way of example, product preparation, the search for factories, auditing, certification, procurement, service, controlling, financing, IT and other administrative activities are centralised in Group companies in Germany and China. This organisational structure within the Group allows all sales companies to focus on their core functions. Einhell is also in a position to press ahead with international expansion as each sales company has a similar structure and the business model can be efficiently rolled out in new countries. As organic growth offers huge potential, the organisational structure and efficient set up of the business model of the Einhell Group are one of the most important responsibilities of the management.

The Group structure changed as follows during the financial year 2010: 10% of the shares of Einhell Australia were transferred to the local Managing Director. All shares in Einhell Middle East Trading FZC and in Einhell Romania SRL were also taken over. These companies have therefore become fully owned Group subsidiaries.

During the fourth quarter of the financial year 2010, Einhell sets up the company Einhell Norway AS with its registered office in Larvik. This company is fully owned by Einhell Germany AG.

Management and control

Responsibility for the business activities of the Einhell Group lies with the Board of Directors. This comprised three members at the time of preparation of the annual financial statements, consolidated financial statements and management report. The Board of Directors manages, organises and monitors strategies and operational business processes for the whole company. Responsibilities within the Board of Directors are based on technical responsibility of the relevant Board of Directors member for the departments for which he has been given responsibility. The Chairman of the Board of Directors is responsible for sales, procurement, marketing, product management and corporate strategy. The Chief Financial Officer is responsible for finance and accounting, tax, legal, controlling, investor relations and personnel. The Chief Technical Officer is responsible for technology, product manufacture, quality control, service, IT, production and maintenance.

The Board of Directors manages the specialists and management of the relevant departments and relies upon an existing hierarchy of divisional and departmental management at Einhell Germany AG, and on Managing Directors and their specialists and managers in the subsidiaries. The Board of Directors seeks to ensure flat hierarchies and values the opportunity to maintain direct contact with employees and specialist staff in all divisions. Regular meetings of the Board of Directors, individual departments and divisional and cross-departmental meetings where required secure efficient communication and informational flows to all responsible parties.

The Supervisory Board of Einhell Germany AG, comprising three members, monitors and provides advice to the Board of Directors about legal requirements and the provisions of the German Corporate Governance Code.

At regular meetings of the Supervisory Board, the Board of Directors provides information to the Supervisory Board about the state of the company, business transactions and corporate strategy.

The Supervisory Board also maintains ongoing lines of communication with the Board of Directors outside of meetings and ensures an acceptable level of communications and informational flows between the Board of Directors and the Supervisory Board.

Principles of the remuneration system for the Board of Directors

Members of the Board of Directors receive fixed and performance-based variable remuneration with short-term and medium-term components. The performance-based components depend on consolidated net profit, earnings of the various divisions from the previous financial year, growth of Group assets and personal targets. The evaluation system for variable remuneration components has remained unchanged for several years and ensures transparent and sustainable accounting practices based on the Group’s strategic aims.

One-off effects derived from special circumstances are limited by a cap when calculating variable remuneration. Members of the Board of Directors receive shares in Einhell Germany AG. There are no share option programmes or similar schemes. Further information about the salaries of the members of the Board of Directors can be found in the Notes to the consolidated financial statements.

Personnel changes in the Board of Directors

At his own request, the former member of the Board of Directors with responsibility for international affairs, Mr York Boeder, did not extend his three-year contract that expired on 31 December 2010 and left the Company. The areas of responsibility formerly covered by Mr York Boeder were divided. Parts were transferred to the responsibility of the Chairman of the Board of Directors, and parts were allocated to the responsibility of the Chief Financial Officer. The Board of Directors and the Supervisory Board would like to thank Mr Boeder for his efforts on behalf of the Company and wish him all the best in his new endeavours.

1.3 Management, aims and strategy of the Einhell Group

Management

Management of the business activities of the Einhell Group is mainly based on the key figures revenues, gross profit margin, and earnings before taxes (EBT). The Einhell Group also monitors the significant growth drivers of working capital, inventories and trade receivables using key figures.

Inventories are analysed on an ongoing basis and audited on the basis of stock turnover and possibility of value write-down requirements. Inventory sampling also checks and manages the ordering of new goods with respect to product availability and checks inventory amounts for plausibility.

Trade receivables are constantly monitored on the basis of due dates and are subject to a fixed valuation scheme. Receivables are usually limited to the extent of the receivables insurance or subject to management based on internally set limits. Accounts receivable targets are also subject to constant monitoring and are an important management figure for the Company’s working capital.

Aims

The Einhell Group promotes sustainable profitable growth of revenues and profits. Profitability is more important than pure growth. The fixed aims of the Company are attaining long-term stable pre-tax yields of about 4 to 5% and long-term stable dividend distributions.

Strategy

Strategic aims of the Einhell Group over the next 3-5 years are developed by the Board of Directors in conjunction with management. The Board of Directors has summarised these aims in a strategy paper and will oversee and continually monitor the operative implementation of these strategies.

The most important strategic aim is the further internationalisation of the Company. As well as building up existing customer relationships, consistent efforts should be made to break into new markets. Einhell wants to further develop into a global player with an extremely attractive product range. The product range can be expanded to encompass appropriate and profit-generating areas. We will also focus our efforts on customer service and this will be expanded into an international service organisation. On the procurement side, the Einhell Group wants to minimise dependence on specific procurement regions and establish a global sourcing model.

1.4 Product preparation, procurement and quality management

Product preparation

Expenses for product preparation in the financial year 2010 amounted to €4.0 million (previous year: €3.6 million). This sector has 37 employees (previous year: 34 employees). This sector is mainly sales-driven and customer-oriented. Therefore, cooperation with other departments, such as quality security, is important, as its communication with customers. Customer requirements are taken into account from the outset during the design of new products and versions. The customer is regarded as a partner. This allows the entire Einhell Group to consistently adapt to markets, and meant that Einhell has become one of the fastest reacting companies in the industry. The positive feedback from our customers convinces us to retain this approach.

The “Blue” and “Red” product lines introduced at the end of 2008 have been well received by customers. The new product lines are differentiated by price and design. The product line “Blue” designates the medium and the product line “Red” designates the higher price segment. Prices remain below those of the current market leader but the products are distinguished by design, exclusivity and customer service. As well as generating desired effects with the customers, through the introduction of these lines we were also able to increase logistical and distribution efficiency. This allows Einhell to offer a full up-to-date range of attractive and modern products, which is rare for a company in this branch.

The Einhell Group holds a diverse portfolio of German and European patents, registered designs, design patents and brands. A principal focus of corporate strategy is to extend these patent applications, registered designs, and design patents significantly.

Procurement

In the procurement division, commodity prices are an important factor in global trade. The strong recovery of the global economy in 2010 resulted in significant price rises. China in particular needs commodities for its fast growing industries. Raw materials also became more expensive because of supply restrictions of some commodities. Speculation in the commodities markets has also led to fluctuations in prices. Generous fiscal policies also meant that financial markets had a lot of liquidity, so that some investors invested in raw materials out of inflationary fears. In 2010, the prices for cotton saw the strongest rises in the HWWI commodity price index with an increase of 95.8% in US dollars and 111.4% in Euro. Oil price rises were relatively moderate. Between January and December 2010, the HWWI commodity price index increased by 21% in US dollars and 30.7% in Euro.

Quality management

Most of the Einhell product range is currently produced in China. Quality standards stipulated by Einhell to the Chinese suppliers are determined by customer requirements. Quality control and quality management are improved continually. Since high priority is given to quality checks before shipping from China, this area is constantly under review. As well as strict shipping controls on site, there are also controls with regard to observance of customer-specific quality requirements, inspections of ongoing production and optimisation of manufacturer processes.

Supplier quality is also optimised on an ongoing basis. Dependency on individual suppliers is avoided by having an adequate number of suppliers and a broad distribution of orders. In order to generate additional flexibility for procurement, the Einhell Group has also had a presence in Vietnam since 2008.

1.5 Personnel and social

The number of employees was increased by 0.6% during the financial year 2010 in comparison with the previous year to an average of 1,005 (previous year: 999). Revenue per employee was €364 thousand (previous year €316 thousand).

Constant training of our staff provides the basis for successful future trading. The continuing education and training programmes offered in 2010 cover the areas of work processes, IT, languages and management. Increased efficiency of work processes and building on skills and knowledge of our employees gives us a firm foundation for long-term success of the company. The content and structure of internal company training was revised and improved, and the opportunities to participate in a dual-system period of study in conjunction with the dual-system Hochschule Baden-Württemberg Stuttgart were extended.

The performance and extraordinary commitment of each of its employees allowed the Einhell Group to achieve a remarkable result in the financial year 2010. The Board of Directors of Einhell Germany AG would like to express its thanks to all Group employees.

2. <u>Overview of business activities</u>

Business conditions

Global economy

After an unusually strong collapse in 2009, the **global economy** has stabilised surprisingly quickly. Gross domestic product (GDP) growth rates in emerging market economies of 7.6% were stronger than in industrial countries at 2.3%. Whilst the emergent economies in Asia did not even see a fall in economic performance, most industrial countries have not yet clawed back to pre-crisis levels.

Above all, growth in the first half-year 2010 was marked by an unexpected significant improvement in the global economy. Global production increased in comparison with the previous year by about 4.9% and was thus back at pre-crisis levels. This growth was supported by the expansive fiscal policies of the industrialised countries, low global interest rates, and the expansion of production in the emerging market countries. There was also a very strong expansion of global trade. Global trading volumes were almost back to pre-financial crisis levels by the middle of 2010 with growth of 12.3% as against the previous year.

The global economy improved by 3.9% across the full year 2010.

Germany

After the strongest fall in economic performance in the post-war period during the previous financial year, the **German** economy improved significantly in 2010. With an increase of 3.6% in price-adjusted GDP, this was the strongest result since the reunification of Germany.

Foreign trading provided important support for the German economy in 2010. After negative growth in 2008 and 2009, exports contributed 1.1 percentage points of positive growth to GDP. Price-adjusted exports increased by 14.2% and imports by 13%.

Consumer spending contributed greatly to overall economic growth in 2010. With price-adjustments, public spending increased by 2.2%, private spending by 0.5%. This increased disposition of consumers to buy was based on positive developments in the employment markets that still create a stable price climate and extensive fiscal advantages that offer private households a real improvement in income. Despite favourable economic growth, Germany was unable to meet EU debt criteria in 2010. The public deficit of 3.5% of GDP and deficit of €88.57 billion exceeded the debt limit of 3% specified in the EU stability pact.

After the crisis year 2009, the German economy saw a strong economic recovery that had a favourable effect on employment. The German employment markets have proven to be very robust. Employment and jobs with social security contributions increased by annual average in 2010 and the number of unemployed has fallen. Seasonally adjusted figures show that unemployment and employment figures are better than before the economic collapse. The average annual unemployment rate was 7.7%, which is 0.5 percentage points lower than in the previous year. The German Federal Employment Agency (*Bundesagentur für Arbeit*) expects a further improvement.

The German consumer price index rose by an average of 1.1% during 2010 in comparison with the previous year. Therefore, the annual rate of price increases was much higher than in the previous year, but under the annual rate of price increases for most years by historical comparison. Since German reunification, annual prices have on average increased by 1.9%. The greatest inflationary contribution towards rates of price increases has been increases in fuel prices. Discounting energy products and seasonal foodstuffs, the core inflation rate would be 0.7%.

The start of spring business in the German **DIY market** suffered again under the adverse weather at the beginning of 2010. Cold winter weather and unfavourable temperatures with ongoing snowfall affected revenue figures. After a difficult start, strong sales weeks in March resulted in a positive first quarter 2010. Unadjusted figures saw a revenue increase of 2.3% over the previous year, followed by a positive half-year result. Nearly all construction departments in DIY stores enjoyed revenue increases of 1.7% in comparison with the previous year. There was stable growth in the industry for the fourth consecutive quarter. In the first nine months, the DIY industry increased year-on-year revenues by 1.7%. The third quarter even managed to increase revenues by 3.9%. The German Federal Association of DIY, Building and Garden Centres (*Bundesverband Deutscher Heimwerker-, Bau- und Gartenfachmärkte*) anticipates a year-on-year increase in revenues for the full year 2010 of about 2.8%. All development indicators suggest ongoing growth in the DIY store industry.

Europe

The global financial and economic crisis has had an unusually massive effect on public budgets in **European** countries. In particular, Greece, Portugal and Ireland are suffering under strict public spending cuts. Without the massive bailouts in 2010 for Greece and the entire Euro zone, there might have been another financial crisis.

Due to high levels of tension in the Euro zone, doubts have also been raised as to the stability of the currency union. However, it should be noted that the massive increase in budgetary deficits and increases in public deficits are not restricted to the Euro zone. The USA, Japan and the United Kingdom are also suffering equally, if not more, from the consequences of the economic and financial crisis.

There is a visible recovery in the Euro zone economy. According to the European Statistical Office Eurostat, gross domestic product (GDP) increased by 1.9% in the third quarter 2010 in comparison with the previous year. Economic outlook in the Euro zone again improved in December 2010. The composite index to estimate economic growth rose to 106.2 points as compared with 105.1 points in the previous month. This index takes into account the estimates of industry, construction, service industries, consumer confidence and trade development in the EU. Growth dynamics in manufacturing industries saw significant increases in the Euro zone in December. At 57.1 points, the sales manager index was at its highest level for eight months. The total annual average for 2010 of 55.4 points was significantly better than the figure for the previous year of 43.3 points.

Industrial output increased by 2% in the fourth quarter 2010. According to Eurostat, capacity utilisation in the Euro zone and across the EU increased slightly in the fourth quarter 2010. For manufacturing industries, capacity utilisation in the EU increased to 77.9% in comparison with 77.3% in the previous quarter. The strongest countries in this respect were Austria (83.4%) and Germany (83.2%).

There was a strong increase in new orders for European industry at the end of the year. According to the EU statistical office, the Euro Zone Index increased by 2.1% in November 2010. There was also noticeable growth in December. Euro zone industrial companies saw the highest export orders for seven months.

In December 2010, the annual inflation rate in the EU was 2.6%, as against 1.5% in 2009. The lowest annual rates were in Slovakia, the Netherlands, Germany and Cyprus. By contrast, Rumania, Estonia and Greece were fighting the highest rates of price increases.

Poland is the only country in the EU that did not fall into recession due to the financial crisis. With growth of 4.2% in the third quarter 2010, Poland has the strongest economy in Eastern European. In the full year 2010, the Polish economy generated growth of 3.5% and is one of the drivers of the European economy, along with Germany. In 2011 and 2012, economies anticipate economic growth of up to 4.2%. The Warsaw stock exchange was also one of the strongest in Europe in 2010. With an increase of 20%, its growth exceeded even the German DAX share index. However, inflation in Poland has seen a significant leap towards the end of the year due to the significant increase in fuel prices and was at 3.1% in December 2010 as against 2.5% in November. The annual deficit increased to around 7% of GDP.

Whilst the Polish economy was able to defy the global crisis, the Polish statistical office warned of significant increases in unemployment across the country and it stood at 12.3% in December.

There is renewed growth in the **Austrian** economy after the global financial crisis and economic collapse in 2009. The recovery is mainly driven by the export-oriented economy. Austria is profiting from the strong growth of its most important export partner, Germany. In 2010, experts anticipate GDP growth of 1.9%, supported by a six per cent increase in industrial production. Austrian industry was also optimistic at the end of 2010. The sales manager index saw a hefty increase of 2.5 points and stood at 57.7 points in December. The increase in orders was particularly positive.

The prognosis for 2011 is a widespread recovery and GDP growth of 2%. Export growth in 2011 may fall slightly due to falling export indicators. Half of economic impulses in 2011 will result from domestic demand.

The **Romanian** economy has had to bear a fall in GDP over the past two years of €16 billion. Massive redundancies have lowered the number of salaried and waged employees. However, despite the cuts associated with the economic crisis, the unemployment rate has fallen to 6.9%, which is lower than the previous year.

The inflation rate in December 2010 was 8%, almost twice as high as in 2009. The most important price driver was the fact that value-added tax was increased from 19% to 24% in July 2010, by which Romania met the conditions of the International Monetary Fund (IMF) with respect to improvements to the public deficit. Despite a multitude of defaulted loans, the IMF certified the Romanian banking system as having robust capital resources. With the reforms already put in place, the structural deficit should fall within three year by seven GDP percentage points to 1.5%. After this initial progress, the IMF provided a further €904.08 million at the beginning of 2011, so that Romania has received a total of €12.4 billion. With forecast growth of between 0.2% and 1.7%, Romania will continue to be dependent on the IMF loan system in 2011.

The **British** economy grew more strongly than expected in 2010. In the third quarter alone, GDP increased two times more than expected and increased year-on-year by 2.7%. Sales managers in the industrial sector increased in December from 57.5 points to 58.3 points, the highest level since September 1994. Production increased again in December. New export orders increased above the historic record high in April. Investments increased by 8.9% in 2010 by year-on-year comparison. However, strong industry is countered by depressed domestic demand. Government cuts are hitting the pockets of consumers hard and causing difficulties in the retail sector. Private consumption barely improved in the second half-year 2010.

In 2011, the United Bank of Switzerland (UBS) expects growth of 1.5% and growth in 2012 should also still be below 2%. Although the inflation rate of 3% is far above the inflation target of the Central Bank, the Bank of England (BoE) expects no tightening of financial policies due to uncertain ongoing economic forecasts. The British Government increased value-added tax from 17.5% to 20% on 1 January 2011.

The Organisation for Economic Co-operation and Development (OECD) expects that **Spain** will be suffering for a long time under the effects of the deep recession that followed the financial crisis. Structural deficits mean that the recession has led to a massive increase in unemployment and a further worsening of public budgets.

At the end of 2010, there was a slight improvement in Spanish employment markets with 4.1 million unemployed and an unemployment rate of more than 18% that is more than twice the EU average.

Although the Spanish economy saw slight growth in the second half-year 2010, budgetary consolidation is impacting on economic growth. After a public deficit of over 11% in 2009, the socialist government is seeking to impose strict limits on the public deficit. The aim for 2011 is only 6% of GDP.

The global financial crisis hardly had any effect on the **Turkish** economy. The Turkish economic upswing is mainly due to the reforms of the past decade. After difficult economic times in 2000 and 2001, the Turkish economy profited during the financial crisis from its reformed banking sector.

There was economic growth of 11.7% in the first quarter 2010. The Turkish economy grew by 8.1% in the full year 2010, almost twice as strong as the global economy. Only the economies of China and India are currently growing as fast. The public deficit in Turkey of 3.6% of GDP was even lower than budgeted by the government. In 2011, the deficit is scheduled to fall to 2.8% of GDP. The inflation rate of 6.4% is lower than at any time in the past 41 years. Whilst price inflation 9 years ago was almost 100%, price increases of below 5% are anticipated for 2011. Turkey is already the 15th largest economy in the world.

Asia

China, as the world's second-largest economy, grew by 10.3% in 2010. Despite stricter fiscal policies, economic growth increased in the fourth quarter 2010. Between October and December, GDP was 9.8% over the previous year. Thanks to an economic stimulus programme of €460 billion and a massive expansion of loan availability of almost €2 trillion, China was mostly able to avoid the consequences of the global financial crisis in 2009. However, the economy is now threatened with overheating due to excess liquidity. In 2010, the People's Bank of China had stricter fiscal policies with reserve requirements being increased six times and base rates increased twice. Due to the dangers of inflation, the Government tries to further reduce liquidity in 2011 and has raised the issue of price controls for foodstuffs.

Inflation for the full year 2010 of 3.3% is anticipated. After the highest inflation for more than two years in November of 5.1%, price increases softened slightly in December and stood at 4.6% as against the previous year. Manufacturer prices also increased in 2010 by 5.5%.

A sign of growth in domestic demand was a year-on-year increase in retail turnover of 18.4%. Private income levels also increased. Urban residents saw an increase of 7.8%; country residents saw an increase of 10.9%. Chinese industrial production also grew more strongly than anticipated to the end of 2010. According to the Chinese national statistics office, industrial production increased year-on-year by 13.5%.
In the future, China's growth will focus on quality rather than quantity. Improvements are to be made with respect to environmental protection and working conditions.
A slight weakening of growth is expected in 2011 but growth should still be about 8-10%.

Performance report

Einhell Group significantly outperforms revenues of previous year

Due to high demand for products in the "Red" and "Blue" product lines, the Einhell Group saw a significant year-on-year increase in its revenues. Consolidated net revenues for the financial year 2010 amounted to €365.4 million as against €315.7 million in the previous year.
This means that Einhell outperformed its original prognosis for the financial year 2010 whereby, based on ongoing global economic uncertainty at the beginning of 2010, the Board of Directors expected similar revenues and profits as in 2009. The improvements in profitability anticipated for 2011 were already realised. The Board of Directors communicated these circumstances to the capital markets by regular current reporting.

The domestic market in **Germany** was able to increase revenues in the financial year 2010 by 19% over the previous year to €145.3 million (previous year: €122.5 million). The share of domestic revenues amounts to 40%. The products of the "Red" range sell particularly well in Germany.

Revenues in the **European Union** increased year-on-year during the course of the financial year 2010. There was a total revenue increase of 10% of €132.2 million to €145.0 million. The most important sales markets in the financial year 2010 were still Austria, Poland, and Italy.

Revenues in **Asia** in the reporting period amounted to €23.6 million (previous year €21.4 million).

Other countries generated significant increases in revenues. As against the previous period, revenues increased by €11.9 million to €51.5 million (previous year €39.6 million). The strongest countries for sales are once again Turkey and Switzerland.

The share of Group revenue generated in other countries amounted to 60% in the financial year 2010.

Development of both segments

The Tools segment achieved revenues in the financial year 2010 of €217.6 million (previous year €185.5 million). This represents a revenue increase of 17%. This segment includes strong sales from the product groups compressors, cordless screwdrivers, angle drivers, drill hammers, cleaning machinery products and wood-processing machines.

The Garden & Leisure segment generated increased revenues of €17.6 million to €147.8 million (previous year €130.2 million) in 2010. This segment includes strong sales from products from the product groups lawn mowers, electric scarifiers, electric trimmers, chain saws, petrol scythes and water technology products.

3. Earnings

The Einhell Group was able to considerably increase year-on-year earnings in the financial year 2010 and generated earnings from ordinary business activities in the financial year 2010 of €20.2 million (previous year: €14.2 million). The pre-tax yield increased from 4.5% in the previous year to 5.5%.

This positive earnings growth was mainly due to the increase in gross income by €15.8 million or 17.5% to €105.8 million, and an almost proportionate increase in other expenses in relation to revenue increases. The financial result also improved by €2.6 million to €-1.3 million. This result is mainly calculated from interest earnings of €-1.7 million (previous year: €-2.0 million) and from earnings from currency conversion of €0.4 million (previous year: €-1.8 million).

The consolidated net profit after minority shareholdings increased in the financial year 2010 from €10.8 million to €16.2 million. The return on investment (ROI)[1] at reporting date amounted to 8.0% (previous year: 6.3%).

In the financial year 2010, we attained an EBIT yield in relation to revenues of 5.9% (previous year 5.7%).

These earnings meant that the Einhell Group outperformed its targets for the financial year 2010. The Einhell Group has emerged from the financial crisis stronger and was again able to demonstrate its profitability.

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[1] ROI (Return on Investment) = Earnings from ordinary business activities / capital * 100

4. Assets and financial positions

The main items in the statement of financial position for the financial years 2009 and 2010 are as follows:

In € millions	31.12.2010	31.12.2009
Non-current assets	26.6	26.8
Inventories	95.6	74.6
Trade receivables	62.5	48.2
Cash and cash equivalents	44.5	57.6
Equity	145.0	129.7
Liabilities to banks	42.5	42.2

The balance sheet total increased as a result of increased business volume by €26.9 million or 11.9% to €253.4 million.

Investments and non-current assets

Investments in the financial year 2010 amount to €3.6 million, of which €1.0 million is for intangible assets and the remainder of €2.6 million is for property, plant and equipment. Intangible assets include mainly €0.8 million for goodwill of Einhell Intratek Mühendislik ve Dis Ticaret A. S. Property, plant and equipment comprises mainly investments in technical equipment and machinery, and fixtures and fittings and other equipment.

Depreciation and amortisation in 2010 amounted to €3.3 million and was reduced as against the previous year by €0.1 million (previous year: €3.4 million).

Current assets

At balance sheet date, inventories had increased from €74.6 million to €95.6 million. Trade receivables increased by €14.3 million to €62.5 million (previous year: €48.2 million). No factoring was carried out in the financial year 2010.

As a result of decreased cash flows from operating business, particularly from the increase in inventories and receivables, cash and cash equivalents at reporting date decreased by

€13.1 million to €44.5 million. Its share in total assets amounts to 17.6% (previous year: 25.4%).

Financing

The financial requirements of the Einhell Group are generated in particular by inventory holdings and trade receivables. Inventory turnover and outstanding time periods of receivables play an important role and have a significant effect on financial requirements.

The Einhell Group is financed firstly by way of equity capital generated from shareholders by the establishment of the company and subsequent capital increases, and by generated profits that are invested in reserves or balance sheet totals carried forwards. Secondly, the Einhell Group uses debt capital, mainly in the form of non-current loans, medium-term credit lines and supplier credits. Loans are mostly taken out in Euro. Supplier loans are mainly in US dollar or RMB. Expected cash flows from payment of supplier liabilities are mainly hedged with corresponding hedge transactions.

Due to its very healthy and solid finance structure, whereby the Einhell Group traditionally has an excellent equity ratio that currently stands at 57.2%, the Board of Directors does not anticipate any problems with current business operations, nor does it foresee any financing problems for future business volume during expansion of the company.
Therefore the Board is maintaining its extremely successful and long-term international expansion strategy.

In the financial year 2010, the Einhell Group was again mainly financed by non-current loans. The bonded loan that expired in 2009 was replaced with bilateral credit agreements that successfully replaced the expired bonded loan. This secures favourable terms for non-current financing for €40 million until mid-2014. The Group does not envisage any difficulties in meeting its repayment obligations under the loan agreements.

Pleased is that this non-current financing was secured without having to provide material securities, but just on the basis of a covenant structure. This structure provides the Einhell

Group with sufficient leeway for significant expansion of business volume. All covenants were met in this financial year.

The Board of Directors advises that all land and buildings of the Einhell Group are free from third party securities. There are no assignments of security or similar third party rights. All property agreements for the benefit of third parties that are in any case valued at zero, were reorganised during the financial year 2010 and removed from the Land Register.

The positive developments in the financial position in the financial year 2010 are clear from the summarised statement of cash flows:

in € millions	**2010**	**2009**
Cash flows from operating activities	-7.7	51.1
Cash flows from investment activities	-3.0	-7.0
Cash flows from financing activities	-2.2	-6.4
	-12.9	37.7
Changes from currency conversion	-0.2	-0.1
Net increase in cash	-13.1	37.6
Cash and cash equivalents at beginning of period	57.6	20.0
Cash and cash equivalents at end of period	44.5	57.6

The cash flow from financing activities results from the dividend payment for the financial year 2009.

5. Overall economic situation

In summary, the Einhell Group generated an extremely pleasing result in the financial year 2010. There were significant increases in both revenues and earnings. Gross income remained stable, despite ongoing difficult conditions in commodity and procurement markets.

Strategy for the next five years was also successfully implemented. In the opinion of the Board of Directors, this made a significant contribution to ensuring the ongoing security of the Company and its business.

6. Events after reporting date

Between the end of the financial year 2010 and the date of preparation of the Management Report, there were no events with any significance for reporting purposes.

7. Declaration of the Board of Directors

The Declaration of the Board of Directors pursuant to Section 289a of the German Commercial Code (HGB) is available on the website of Einhell Germany AG at www.einhell.com.

Einhell Germany AG applies company management practices to ensure compliance with legal regulations that go beyond statutory requirements. In particular, during this reporting period Einhell Germany AG drew up diverse guidelines and procedural rules that are aimed to all Group employees and seek to avoid risks of breaching laws. For example, compliance with legal requirements prohibiting insider trading is ensured by publication of insider trading rules governing trading with securities for executive body members and employees who have access to insider information. Company management practices underlying compliance are constantly monitored and amended.

8. Risk report

8.1 Description of the risk management system and significant characteristics of the internal monitoring and risk management system for Group accounting processes as per Section 315(2) no. 5 of the German Commercial Code (HGB)

Description of risk management process

As a vital component of the internal control systems, the risk management system with respect to accounting processes is designed to identify the risk of misstatements in the bookkeeping and external reporting and serves in particular to identify possible risks at an early stage. Seizing opportunities in companies is associated with taking risks. A risk management system is required in order to be able to take a calculated risk. The introduction of an IT-based risk management information system seeks to allow company and corporate management to gather all information required for management of the Group in a summarised, compact and timely format. It is designed to simplify data collection in the individual companies and minimise the expenses of risk management in the Group.

The process of risk management is divided into two steps in the Einhell Group. The first step is the decentralised recording of risks at subsidiaries and the departments of Einhell AG by the risk managers specified by the Board of Directors. They are charged with identifying risk and valuation. Identification is important for the Einhell Group, as no planning can be undertaken for unidentified risks. The valuation of existing risk is made by determination of the probability of the damage occurring and the maximum amount of damage. It is the net risk that is evaluated – the risk that remains after preventative measures have been taken. The second step comprises the consolidation, analysis and control of risk by the risk managers and corporate management. The company uses various methods of risk management. Risk avoidance means that risks, and associated opportunities, will not be taken.

Another management method minimises the risk by organisational methods and is called risk reduction. A further method is transferring risk by means of insurance, contracts with suppliers, etc. The remaining risk falls to the Einhell Group.

The presentation of risk by the risk management software is arranged according to integration in the company hierarchy. In this way, it is possible to present the risks of each individual subsidiary and the parent company along with cumulative risk. There is also a company-specific classification into departments relevant for risk: procurement, development, finances, IT, human resources, product management, sales and legal department. The risks are monitored regularly and reported quarterly. The most important risks are also discussed at Board meetings.

Elements of internal control and risk management systems

The internal control systems of the Einhell Group include all principles, processes and measures to ensure the effectiveness, economy and validity of its accounting and ensure compliance with applicable legal regulations.

The internal control systems comprise internal control and monitoring systems.

Domestic controlling, investment controlling, finance, Group accounting and legal departments comprise the internal control system of the Einhell Group. Einhell Group companies draw up plans for the following financial year during the current financial year. Relevant planning for cost of sales and expenses is drawn up on the basis of differentiated sales revenue planning. This target figures are used to draw up a projected statement of comprehensive income for the Group.

Actual figures from financial accounting of the individual companies are drawn up on a monthly basis. This results in a complete statement of comprehensive income in which projected and actual figures are compared and available for analysis. Changes in orders, and margins are also reported on a monthly basis. The members of the Board of Directors and the managers of the individual companies and divisions discuss this comparison. Analysis of the forecast and actual figures allow the development and implementation of suitable control measures.

The internal monitoring system comprises both integrated and independent process measures. As well as automated IT process controls, manual process controls also form an important part of integrated process measures that are also carried out during internal auditing. The Supervisory Board, Group auditors and other audit bodies, such as the tax auditors, are involved in independent procedural auditing checks on the control processes of the Einhell Group. In particular, the audit of the consolidated financial statements by the Group auditors forms a significant part of independent procedural auditing checks with respect to Group accounting procedures.

Use of IT systems

Recording of accounting transactions is made in the individual accounts in the accounting programme Microsoft Business Solutions Navision or local accounting systems. When drawing up the consolidated financial statements of Einhell Germany AG, the financial statements of the individual subsidiaries are supplemented by further information in standard reporting packages which are recorded centrally at Einhell Germany AG in the consolidation system CONSIS. Group auditors regularly check the interfaces between the reporting system and the consolidation system and any reconciliation. The consolidation system CONSIS generates and documents all consolidation transactions required for preparation of the consolidated financial statements, such as capital consolidation, asset and liability consolidation, or income and expense elimination.

Specific Group accounting risks

Specific Group accounting risks may arise from the conclusion of unusual or complex transactions. Transactions that are not normally carried out in the course of business also present a latent risk. The discretionary scope given to staff for the application and valuation of assets and liabilities can also lead to other Group accounting related risks.

Important regulatory and control activities to ensure regularity and reliability of Group accounting

The internal control measures aimed at correctness and reliability of Group accounting ensure that transactions fully comply in a timely manner with statutory requirements and the stipulations of the company's articles of association. They also ensure that inventories are carried out in a proper manner, and that assets and liabilities are properly allocated, valued and recognised in the consolidated financial statements. The rules also ensure that the accounting documentation provides reliable and transparent information.

For example, the control activities to ensure regularity and reliability of Group accounting comprise analysis of circumstances and developments on the basis of specific key figure analysis. The separation of administration, implementation, invoicing and authorisation functions and their perception by different persons reduces the likelihood of wilful contravention. They also still ensure that changes to the IT systems used for the underlying bookkeeping in Group companies are subject to full and timely logging of bookkeeping transactions. The internal control system also secures recognition of any changes in the economic or legal circumstances of the Einhell Group and the application of new or amended statutory regulations for Group accounting.

The International Financial Reporting Standards (IFRS) accounting standards provide uniform accounting and valuation policies for the companies from Germany and other countries that are included in the Einhell consolidated financial statements. As well as general accounting principles and methods, these also affect regulations about the statement of financial position, statement of comprehensive income, notes, management report, statement of cash flows and segment reporting as applicable in the EU.

The Einhell accounting policies also govern concrete formal requirements regarding the consolidated financial statements. As well as determining the companies included in the consolidation, there are detailed rules about the elements of reporting packages to be prepared by Group companies. The formal requirements also cover the mandatory application of standardised and complete form sets. The Einhell accounting principles still contain concrete rules about presentation and handling of Group accounting transactions and any resulting reconciliations.

At Group level, specific control activities to ensure regularity and reliability of Group accounting comprise the analysis and correction (where necessary) of the individual financial statements prepared by Group companies. Central implementation of impairment tests for the cash generating units identified by the Group allows the application of uniform and standardised valuation criteria. The preparation and aggregation of further data for the preparation of external information in the notes and management report, including significant events after reporting date, is also carried out at Group level.

Note on limitations

The internal control and risk management system made possible by the organisational, control and monitoring structures established by the Einhell Group allows for a full compilation, preparation and appraisal of the company's situation and an accurate representation in Group accounting.

However, it is not possible to totally exclude personal discretionary decisions, defective controls, criminal acts or other circumstances and these may result in a restrict effectiveness and reliability of the internal control and risk management system. Therefore, the group-wide application of these systems cannot with absolute security guarantee the correct, complete and timely representation of circumstances in Group accounting.

8.2 Description of risks

8.2.1 General economic and industry risks

The Einhell Group is subject to general risks from the global economy and specific risks for the construction market, specialist markets and DIY store sector.

The Einhell Group is subject to global economic risks from its international operations. These can take the form of political and economic risks. The politics of countries in which Einhell operates today can affect the stability and economies of these countries. Also, policies in the countries in which Einhell hopes to expand its operations can affect Einhell's business strategy. This risk extends, for example, to the currency policies of countries or to import and export regulations and their practical application. The same also applies to procurement countries where Einhell sources its products. The Einhell Group seeks to keep abreast of general political risks by way of Group management maintaining close contacts with responsible local managers in order to maintain a current picture of developments. The Einhell Group also pursues a strategy of limiting investment in non-current assets, such as property, in such countries. This gives the Einhell Group maximum flexibility to react to unfavourable developments and to be able to have assets available to take appropriate action in any country at any time.

With respect to industry risks, the Einhell Group is subject to developments in the DIY sector in the corresponding countries. It is also subject to the effects of behaviour and growth of competitors.

Changes in the sector, such as market concentration of customers, may affect Einhell's business. Einhell seeks to minimise dependence on such factors by expanding its strong international market position. The establishment of a strong product range and customer friendly service allows Einhell to strengthen its position with customers, even during changes in market concentration. Strategy changes by competitors may also affect the

Einhell Group. New competitors may be in a position to take over Einhell market shares or existing competitors may change their market share. Einhell seeks to counter such changes by offering a relatively wide product range extending from Tools to Garden & Leisure to the markets and also to expand strongly at an international level. There is scarcely a market competitor that offers such a product range in conjunction with Einhell's international presence.

8.2.2 Procurement risks

Procurement is a primary process in the Einhell business model and plays an important role in risk management within the Einhell Group. The purpose of procurement is to ensure that products are acquired on time, are of sufficient quality and are a reasonable price.

One important factor is the suppliers. As the Einhell Group maintains long-term relationships with its suppliers, price and sourcing risks are minimised. Suppliers are integrated into the quality control system of the Einhell Group with constant controls. The Einhell Group is not dependent on individual suppliers. Einhell started to implement a second source strategy several years ago, and this continues to be optimised.

In order to optimise procurement planning, purchase quantities are in a constant frequency coordinated with the sales division, reconciled and planned via an internet-based order system.

The risk of currency fluctuation for procurement, such as from changes in commodity prices, is countered where possible on the supply-side and demand-side by means of Einhell concluding timely supply-side transactions to cover demand-side requirements. A corresponding product mix, a wide customer base and a strong procurement structure support this process. This has allowed Einhell to maintain gross profit margins within a stable range for many years.

8.2.3 Sales market risks

The Einhell Group sees sales market risks in loss of receivables and sales volume. Where possible, the Einhell Group uses Euler-Hermes credit insurance to counter credit risk.

Innovative products that meet customer requirements in terms of design, functionality and value for money diminish the risk of a reduction in sales volume. This risk is being countered with the incremental introduction of two clearly defined product lines. In this way, the Einhell Group manages to gain additional market share even in difficult economic periods.

8.2.4 Strategic and expansion risks

Risks are also associated with implementation of the Einhell Group strategy. This may have the result that resources or elements required for implementation of the strategy are not available at a particular time or run up against realisation problems. This may be due to personnel or technical reasons.

The establishment and acquisition of subsidiaries also carries fundamental risks. Einhell seeks to counter these risks by undertaking a fundamental definition and investigation of the target country before it begins to identify new sales areas. This includes an estimation of the entire sales environment and market potential. It also begins the search for suitable managing directors and specialised staff at an early stage. With respect to infrastructure, Einhell selects a standard approach for each new sales subsidiary utilising internal processes and IT infrastructure. This reduces the risks of setting up a new subsidiary.

Risks also result from acquisitions of the Einhell Group. The company seeks to reduce these risks in that the takeover candidates are usually long-term partners of the Einhell Group. This ensures that new Group companies are integrated in Group structures and strategies from the beginning. Due diligence is also carried out at the companies to be acquired and these investigations are carried out by staff from our investment control department, supported by external advisors.

8.2.5 Financial, interest and currency risks

The continuing growth of the Einhell Group is also bound up with financing risks. The Einhell Group uses both non-current and current financial strategies in order to cope with financial risk. In the financing domain, there are non-current loans with banks with bilateral agreements. The Einhell Group also has classic lines of credit that were only partially utilised in 2010. Both cash reserves and equity provision stood at good levels in the reporting year.

The Einhell Group is also expanding its netting system and cash pool that was set up by the parent companies and its subsidiaries. Financing of the subsidiaries is made almost exclusively by inter-Group loans. This reduces the risk of non-transparent and inefficient loans structures in the Group. The partner company has set up internal credit lines for the subsidiaries, the amount of which is determined by planning and expected business volume of the corresponding subsidiaries.

Risks from interest rate changes and fluctuations were managed with derivative financial instruments such as non-current interest swaps and interest caps. Risks from currency fluctuations are mainly managed by using classic forward exchange transactions. The risk of currency fluctuations in procurement is covered where possible by hedging transactions in the form of futures and options. Currency hedging is made pursuant to IAS/IFRS regulations regarding hedge accounting for the individual hedge periods.

8.2.6 Liability risk

Liability risks arise for the Einhell Group mainly in connection with product liability. The main procurement market for Einhell products is the People’s Republic of China. In order to ensure quality on site, a quality management system has been set up in China, which directly monitors supplier production and implements process controls. Rules and regulations are monitored on an ongoing basis by our own quality control officers. The remaining risk for product liability claims is covered by appropriate insurance. Product liability claims are classified and efficiently processed on the basis of a clear organisations and procedural structure. This creates clear lines of responsibility and communication that are supported by written documentation of recall plans and checklists. This system also involves external specialist offices and experts.

8.2.7 IT risks

Information and communications systems are the basis for many business processes of the Einhell Group. iSC GmbH operates a centralised service centre that is responsible for the international strategy of the Group. Great importance is attached to the realisation of uniform international IT standards that are designed to ensure the effectiveness, efficiency and continuity of IT processes within a framework of corporate and statutory requirements.

A fixed part of these standards is the implementation of suitable measures within the area of physical security, use of high-performance and reliable hardware components, operation of carefully selected infrastructure and business applications, and provision of high-quality services and processes for the operation and further development of the entire information and communications structure.

The organisation of IT processes is designed around an ITIL process framework. Required special know how, such as in the area of local compliance requirements, is provided by qualified service partners, for whom the scope and extent of performance is contractually defined and who work closely with the IT organisation. Applications are operated in line with their criticality for business operations in highly dependable system environments and are subject to adequate business continuity mechanisms. IT-based precautions that are regularly checked and updated, in conjunction with the use of qualified staff and corresponding roles and legal concepts, ensure the most effective possible protection for confidential data.

The Einhell Group’s IT strategy is closely linked to the business strategy and is subject to regular controls and adjustments to take account of the business environment.

8.2.8 Legal risks

The Einhell Group is exposed to legal risks. These may arise from conclusion of company contracts with suppliers, customers and other business partners. Einhell is exposed to various different international legal systems during the negotiation and conclusion of contracts. This applies in particular to the conclusion of corporate contracts such as company establishment and patent agreements and similar contracts that are designed to protect the intellectual property of Einhell.

Einhell tries to minimise such risks by having its own legal department in Germany and by constantly checking and monitoring legal circumstances in China. Our own staff carry out coordination and checks, but we seek advice from external specialists from the relevant jurisdiction or legal system on a case by case basis.

In summary, we are of the opinion that there are no risks that endanger the continuation of the company as a going concern.

9. Forecast

9.1 Global economic development

In the opinion of the World Bank, **global economic growth** will be slightly subdued in 2011, but will remain on a solid course for growth. It sees global economic output growing by just 3.3%, after growth of 3.9% in 2010. In the opinion of the World Bank, economies will start to improve again in 2012, when the estimate is for growth of 3.6%.

Emerging market economies will again be an important growth driver in the future. Either forecast growth of 6% for 2011, growth is significantly higher in these countries than in industrialised countries with growth of only 2.4%.

Cash inflows from the industrialised countries are contributing to massive growth in emerging market economies. This also carries a risk that these cash flows will endanger medium-term recovery particularly if currencies suddenly appreciate or create investment bubbles. There are always many risks following on from the severe financial crisis. The continuing tension in the financial and property markets is still holding back economic dynamics in industrialised countries. Public deficits in many economies are still too high. In the opinion of the World Bank, the increase in commodity prices, and prices for foodstuffs and fuel, is a continuing cause for concern. Commodities have increased in price by about 25% since mid-2010. Oil price inflation up to 2015 with an annual increase of 6.1% will be greater than any other commodity.

Despite the rapid economic recovery, global unemployment remains high. Whilst during 2010, unemployment levels were not much lower than in the crisis year 2009 the International Labour Organisation (ILO) expects a slight reduction from 6.2% in the previous year to 6.1% in 2011.

9.2 European development

Solving the debt crisis is of special importance for the **European** economy.

The Council of the European Central Bank (ECB) has not changed its estimation of the growth and inflation outlook for the Euro zone, but considers that a further short–term increase in inflation rates may be possible. In December 2010, inflation exceeded the two per cent level for the first time for a long period. The European Central Bank has not changed the main rate of interest since June 2009 and has not changed the deposit rate since May 2009. It forecasts inflation of just fewer than 2% for the end of 2011. In the opinion of economists, a further increase in the inflation rate cannot be excluded in the long term, as the weak economies of many Euro countries has left the European Central Bank very little room for interest rate rises. Excess liquidity remains in the markets and increases inflationary pressure.

The positive basic dynamics of the economic recovery in the Euro zone lasted until the end of 2010. Euro zone exports will profit from the ongoing recovery of the global economy in 2011. Private domestic demand will also contribute towards positive growth.

However, development of the Euro could endanger sustained economic growth. France, a core EU country, recently attracted the attention of speculators. The cost of contingency insurance for French government bonds reached record levels after doubts about the creditworthiness of the country surfaced. Short-term relief was created by an offer from China to help some EU member states out of the debt crisis. A decisive contribution towards the stabilisation of the Euro will be if the Euro rescue system proves to be credible and if the European stability pact is reformed. Stabilisation of debt levels will be crucial, as a simultaneous return to growth and competitiveness.

9.3 Developments in Germany

Germany has emerged stronger from the global financial crisis. The Federal Government of Germany laid the foundations for this with the rescue package for the financial markets, the two economic packages, protection for employees and the Growth Acceleration Law (Wachstumsbeschleunigungsgesetz) in 2010. After economic growth of 3.6% in 2010, the recovery is continuing in 2011. The German Federal Government anticipates a rise in real GDP for the full year 2011 of 2.3%. Domestic demand will increasingly play an important role in the economy.

German public finances are recovering more quickly than anticipated as a result of the overall economic recovery. In the opinion of the German Institute for Economic Research (Deutsche Institut für Wirtschaftsforschung - DIW), the public deficit will remain well below 3% of GDP in 2011 and 2012.

With around 40.5 million employees in 2010, this was the highest number of citizens in work since the reunification of the country. 2011 should see a further increase in the employment figures and the lowest unemployment levels for 20 years. Increased job security has boosted the domestic economy. Economic forecasts for Germany increased by more than 11 points in January and now stand at 15.4 points. Private consumption should increase by 1.6% in 2011, after a 0.3% rise in 2010. Real available income of citizens will also rise by 3.4%, according to the estimates of the German Federal Government.

The Centre for European Economic Research (Zentrum für Europäische Wirtschaftsforschung - ZEW) regards growing investment in Germany and abroad as a main factor behind the positive outlook for the German economy. Slight falls in global dynamics will also have the effect of reducing exports. In the opinion of the German Federal Minister for Economics and Technology, export growth of 14.2% in 2010 will fall back to about 6.5% in 2011. Imports will also fall from 13% to 6.5%.

Germany’s opportunities for economic growth are also dependent on stables conditions in Europe. The German Federal Government is therefore promoting strengthening of the growth and stability packages in the European Union, along with a permanent crisis structure to extend beyond the present packages that expire in 2013.

9.4 Expected growth in the markets relevant to the Einhell Group

The Einhell Group anticipates general rising business volumes in the financial year 2011 that should be visible in higher revenues. However, Einhell does not expect uniform results in all areas. Germany seems to have a rather muted outlook and there are uncertainties such as further growth of private consumption and private savings ratios. Both are connected to and affected by uncertainty of consumers about the future progress of the debt crisis in Europe and resulting inflationary fears. If overall conditions improve, there is however considerable potential for further growth in Germany as these circumstances are mainly restricted by external factors. The same applies to direct neighbours Austria and Switzerland that are one of Einhell’s strongest west-European markets, along with Germany. Einhell already has extremely strong market saturation in Austria in particular, given the population levels of the country. In Southern Europe, Einhell expects stable to slightly improving revenue growth in Spain and Portugal, whilst much higher growth than the previous year is expected in Italy. The French subsidiary newly established a couple of years ago plans marked growth, although starting off from a relatively low level. Einhell expects solid lateral growth for all other countries in Western Europe.

Einhell expects positive growth in Eastern Europe in the financial year 2011. Not all Eastern European countries have recovered from the effects of the crisis, but stabilisation tendencies are visible in some countries. Einhell already expects revenue increases in countries such as Czech Republic, Poland or Croatia. Countries such as Bulgaria or Ukraine are approached with more care and we plan only moderate increases.

The Einhell Group expects significant improvements in Northern Europe. Einhell expects significant revenue increases in Sweden, Denmark and Norway, where business activities with previous business partners have been reorganised. Total revenues in all three countries are still at a relatively low level and are to be significantly expanded in the next years.

Einhell expects significant growth in Turkey. Revenues have almost tripled since acquiring a majority share in the Turkish company in 2007. A further significant improvement is also planned for the financial year 2011. Einhell also hopes to see similar significant increases in Australia where, in addition to solid business with an international discount chain, Einhell is also building up listing business with local DIY chains. Planned revenues for Chile and Brazil are also to be noted. In these emerging market economies, Einhell has recognised that a young population with increasing purchasing power desires products with an excellent cost effective ratio. Both these markets and the markets in other Central and South American countries offer extraordinary potential in the coming years.

Einhell has different plans with respect to the two divisions Tools and Garden & Leisure. Einhell is already strongly represented in both divisions in the active Western European markets and makes synchronised plans for both divisions, although Tools has slightly higher growth rates. However, it is stronger in the Tools division in Eastern Europe. These circumstances will continue until the Garden & Leisure division is able to catch up with the other division. The products in this division usually move into the focus of consumers at a later time, when there is increased purchasing power and freely disposable income. However, we still expect increases in Eastern Europe for the Garden & Leisure division. Planning meetings placed great value on improving access to the untapped potential in the Garden & Leisure division. However, this requires corresponding investment in the attraction of further suitable staff.

Newer subsidiaries, such as in Australia, Brazil or Chile, have larger planned increases for the Tools division; in France and Turkey we plan larger increases in the Garden & Leisure division. This gives an overall revenue planning that is higher for Tools than for Garden & Leisure.

9.5 Aims and opportunities of the Einhell Group

The aims of the Einhell Group for the next five years have been defined in a strategy paper. The core issue is international expansion with all derivate measures. Einhell sees opportunities for the future in implementation of this clearly defined strategy. The implementation of the strategy requires consistent approaches as well as investment in necessary resources. The employees are in the front line of implementation of our goals. Einhell will expand its pool of specially qualified staff over the next few years and invest in staff development. This is the only way to ensure that we can seize opportunities for further international expansion and exploit them in an efficient and profitable manner.

The implementation of the strategy is already underway and is being consistently applied in all divisions.

The entry into the South American market has already taken place. This strategically important region, a growth driver for the future, will also be expanded in coming years. Whilst sales companies have already been established in Chile and Brazil, we also intend to expand into Argentina in the near future. Longer term, we also hope to move into Peru, Columbia, Panama and Mexico. Einhell is seeking to ensure the successful implementation of this expansion strategy by building up staff in these markets.

In Australia, we are seeking to build upon the basic business by incorporating DIY chain stores and expanding the listing business.

In addition to countries in South America, Einhell is also looking at North African markets. In the Middle East, in addition to the existing Group company in the United Arab Emirates (UAE), we also plan to move into countries such as Egypt and Saudi Arabia. We also intend to increase preparatory activities in India and South Africa.

In light of the international outlook of the Einhell Group, a global service centre is required to take care of worldwide customer services. Realisation of this concept gives Einhell a prime opportunity to set itself further apart from its competitors. Therefore, we are seeking to establish an international service system with our own Group employees within a suitable IT environment. Einhell also seeks to increase effectiveness and efficiency in its international logistics and the increasing internationalisation of marketing.

The Einhell Group also recognises a good opportunity to expand the product range to accessories for electrical tools. This could be a profitable complement to the existing product range and generate high turnover by fully utilising the international distribution network of Einhell.

9.6 Summary of probable developments

Outlook for the financial years 2011 and 2012

The different countries in which Group companies operate show varying prospects. Whilst markets in some countries are functioning well, and have regained high turnover levels, this is not the case in all markets, particularly in Southern and Eastern Europe.

Further development of prices in international commodity markets that had already risen sharply in 2010 is still difficult to predict or calculate. The Einhell Group is proceeding with care and expects to see further steep price increases for commodities that will have a detrimental effect on prices and may depress revenues. Also, the risks associated with the stability of the Chinese Renminbi and the Euro is difficult to estimate. A weaker Euro could also lead to increased procurement costs. The Euro crisis means that there are increasing uncertainties about the stability of the currency union and the community current, the Euro.

The Einhell Group has proven over recent years that it is in a good position to deal with any risks that may arise. All divisions of the company are optimised on an ongoing basis and are set up to adapt to changes in economic environments. Therefore, Einhell is making plans for further revenue increases.

In the financial year 2010, Einhell generated total revenues of around €365 million. The Tools division generated around €217 million and the Garden & Leisure division generated around €148 million.

In the financial year 2011, Einhell plans further revenue increases of 5-10%. The tools division is expected to generate growth rates at the top end of this span and the Garden & Leisure division is expected to generate growth rates at the bottom end of this span. With respect to turnover margins, Einhell expects similar yields from earnings before taxes in 2011 as generated in 2010.

Expansion will continue in the financial year 2012. Inclusion of new regions will spread risk further, so that stronger Group companies can compensate for weaker companies. The Einhell Group expects to exceed revenues of €400 million by 2012 at the latest. The Einhell Group also hopes to again increase its rate of expansion that was cut back during the global economic crisis, and to press ahead with expansion in new countries and markets. Profitability is still the most important issue and, long-term, this should amount to at least 4 -5 % before taxes.

9.7 Forward-looking statements, assumptions, uncertainties and assessment methods

The management report and Group management report for Einhell Germany AG and the Einhell Group contain forward-looking statements and assumptions. These always bear an element of uncertainty and are based on estimates and assumptions made in order to draw up corporate planning. The Einhell Group hereby advises that the forward-looking assumptions and estimates may turn out to be incorrect. Einhell exercises great care with respect to assumptions when making forecasts about uncertain matters. However, the risk from incorrect estimations cannot be excluded.

Einhell proceeds as follows in order to control planning and forecast uncertainties during planning of budgetary figures. Einhell plans revenues first. These plans are drawn up for each Group company at divisional level (Tools and Garden & Leisure), and also in detail by product group. Revenues are also budgeted at customer group level and checked against article groups for plausibility. There is also similar budgeting of gross profit margins for each Group company at divisional level, article group level and customer group level. Detailed costs are derived from revenue plans on the basis of type of cost and cost centre or reporting entity. Costs are checked for plausibility on the basis of the figures for the previous year and checked for adequacy on the basis of relation to net revenues. Specific assumptions are made with respect to changes in costs, such as increases in salaries or freight costs. General uncertainty about market developments, price developments of important commodities or the development of other important cost categories are estimated and budgeted on the basis of general commercial caution.

Landau/Isar, 17 March 2011

Einhell Germany AG
The Board of Directors

Andreas Kroiss Jan Teichert Dr. Markus Thannhuber

Einhell Germany AG, Landau a. d. Isar

Consolidated Financial Statements to 31 December 2010
And Group Management Report

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and opportunities associated with the expected development of the Group.

Landau a. d. Isar, 17 March 2011

Einhell Germany AG

Board of Directors

....	....
Andreas Kroiss	Jan Teichert

....
Dr. Markus Thannhuber

Auditor's Certificate

We have audited the consolidated financial statements prepared by Einhell Germany AG, Landau a. d. Isar, - comprising the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of income and accumulated earn, the consolidated statement of changes in equity, and consolidated statement of cash flows and notes – and the Group management report for the financial year from 1 January to 31 December 2010. The company's legal representatives are responsible for the preparation and fair presentation of the consolidated financial statements and the Group management report in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union (EU), and also the German commercial regulations pursuant to Section 315a(1) of the German Commercial Code (HGB). Our responsibility is to express an opinion on the consolidated financial statements and Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code (HGB) and the generally accepted German standards for the audit of financial statements promulgated by the German Association of Public Auditors (Institut der Wirtschaftsprüfer - IDW). These require the audit to be planned and carried out in such a way that we obtain reasonable assurance that inaccuracies and breaches that have a significant effect on the presentation of the net assets, financial position, and results of operations determined by the consolidated financial statements under adherence to the applicable generally accepted German standards for the audit of financial statements and by the consolidated management report have been recognised.
In determining the audit procedure, we take account of information about business activities and the economic and legal circumstances of the company and expectations of potential errors are considered. Our audit also assesses the effectiveness of accounting-based internal control systems and supporting documentation relevant to the presentation of the consolidated financial statements and the Group management report, predominantly on the basis of random sampling. The audit includes an evaluation of the annual financial statements of the companies included in the consolidation, the determination of companies included in the consolidation, the accounting and consolidation principles applied, the significant estimates made by management, and an appraisal of the overall presentation of the consolidated financial statements and the Group management report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit raised no objections.

In our opinion, the findings from the audit show that the consolidated financial statements are prepared in accordance with IFRS, as adopted in the EU, and the German commercial regulations pursuant to Section 315a(1) of the German Commercial Code (HGB), and they give a fair view of the company's net assets, financial position, and results of operations. The Group management report is consistent with the consolidated financial statements, gives an accurate picture of the state of the company in general and correctly presents the risks and opportunities for future development.

Munich, 17 March 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft (Auditors)

Huber	Heipertz
Auditor	Auditor