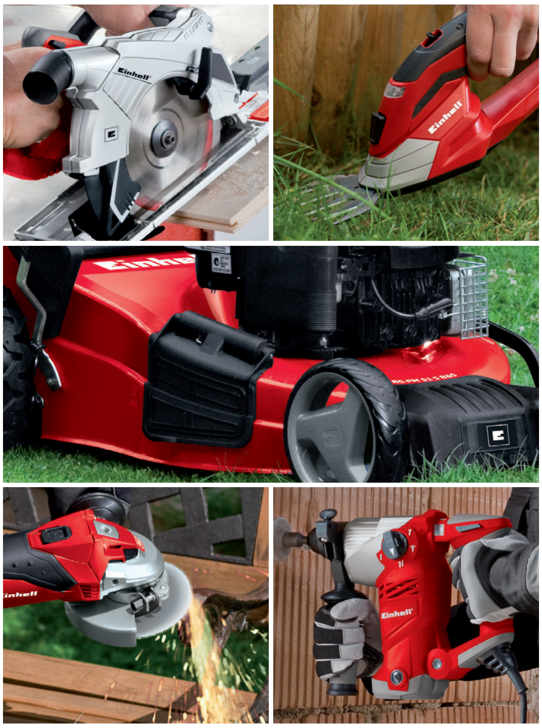
Einhell Germany AG



Financial Report 2011

Einhell

Einhell Germany AG, Landau a. d. Isar

Consolidated Statement of Financial Position to 31 December 2011

A s s e t s	Notes	31.12.2011	31.12.2010
		€ thousand	€ thousand
Intangible assets	(2.2)	9.033	9.027
Property, plant and equipment	(2.3)	17.943	17.226
Non-current financial assets	(2.4)	353	367
Deferred tax assets	(2.5)	6.942	7.205
Other non-current assets	(2.9)	2.319	1.762
Non-current assets		36.590	35.587
Inventories	(2.6)	110.449	95.639
Trade Receivables	(2.7)	62.180	62.487
Other financial assets	(2.8)	9.872	1.818
Other current assets	(2.9)	12.389	13.388
Cash and cash equivalents		13.709	44.462
Current assets		208.599	217.794
Total assets		245.189	253.381

Equity and liabilities	Notes	31.12.2011	31.12.2010
		€ thousand	€ thousand
Subscribed capital	(2.10)	9.662	9.662
Capital reserves		26.677	26.677
Retained earnings		120.740	109.092
Other reserves	(2.11)	3.713	-2.640
Equity of shareholders of Einhell Germany AG		160.792	142.791
Minority interests	(2.12)	2.390	2.243
Equity		163.182	145.034
Provisions for pensions	(2.13)	1.399	1.258
Provisions for other risks	(2.14)	476	512
Non-current financial liabilities	(2.15)	20.960	41.338
Deferred taxes	(2.5)	3.339	905
Other non-current liabilities	(2.17)	2.200	2.220
Non-current liabilities		28.374	46.233
Trade payables		27.707	27.814
Provisions for income taxes		1.365	1.716
Provisions for other risks	(2.14)	8.218	12.038
Current financial liabilities	(2.15)	996	1.133
Other financial liabilities	(2.16)	1.657	4.479
Other liabilitites	(2.17)	13.690	14.934
Current liabilities		53.633	62.114
Total equity and liabilities		245.189	253.381

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of comprehensive income for the period from 1 January to 31 December 2011

	Notes	2011	2010
		€ thousand	€ thousand
Revenues	(3.1)	365.261	365.434
Other operating income	(3.2)	9.628	10.354
Cost of materials	(3.3)	-253.552	-259.596
Personnel expenses	(3.4)	-43.119	-38.609
Depreciation and amortisation costs	(3.5)	-2.513	-3.282
Other operating expenses	(3.6)	-53.048	-52.834
Net finance costs	(3.7)	-3.550	-1.291
Profit before income taxes		19.107	20.176
Income taxes	(3.8)	-4.688	-4.179
Consolidated net profit		14.419	15.997

	2011	2010
Minority interest share of consolidated net profit	-123	-159
Share of consolidated net profit of shareholders of Einhell Germany AG	14.542	16.156

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of income and accumulated earn for the period from 1 January to 31 December 2011

	2011	2010
	€ thousand	€ thousand
Profit for the year	14.419	15.997
Unreaslised losses (previous year: gains) from currency translation	-507	3.571
Unrealised gains from financial assets (available-for-sale)	3	4
Unrealised gains (previous year: losses) from derivative financial instruments	6.653	-1.420
Other income, after taxes	6.149	2.155
Thereof share of income due to minority interests, after taxes	-204	78
Thereof share of income due to shareholders of Einhell Germany AG, after taxes	6.353	2.077
Consolidated comprehensive income	20.568	18.152
Thereof share of consolidated comprehensive income due to minority interests	-327	-81
Thereof share of consolidated comprehensive income due to shareholders of Einhell Germany A	20.895	18.233

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of changes in equity
for the financial year 2011

				Other reserves					
	Subscribed capital	Capital reserve	Retained earnings	Currency adjustment	Financial assets available for sale	Derivative financial instruments	Equity share of shareholders of Einhell Germany AG	Share of minority interests	Total equity
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
1 January 2010	9.662	26.677	95.075	-4.653	17	-81	126.697	2.958	129.655
Consolidated net profit	-	-	16.156	-	-	-	16.156	-159	15.997
Unrealised gains/losses	-	-	-	3.493	6	-2.029	1.470	78	1.548
Deferred taxes on unrealised gains/losses	-	-	-	-	-2	609	607	-	607
Total earnings	-	-	16.156	3.493	4	-1.420	18.233	-81	18.152
Dividends	-	-	-2.139	-	-	-	-2.139	-398	-2.537
Other changes	-	-		-	-	-	-	-236	-236
31 December 2010	9.662	26.677	109.092	-1.160	21	-1.501	142.791	2.243	145.034
Consolidated net profit	-	-	14.542	-	-	-	14.542	-123	14.419
Unrealised gains/losses	-	-	-	-303	4	9.504	9.205	-204	9.001
Deferred taxes on unrealised gains/losses	-	-	-	-	-1	-2.851	-2.852	-	-2.852
Total earnings	-	-	14.542	-303	3	6.653	20.895	-327	20.568
Dividends	-	-	-2.894	-	-	-	-2.894	-	-2.894
Other changes	-	-	-	-	-	-	-	474	474
31 December 2011	9.662	26.677	120.740	-1.463	24	5.152	160.792	2.390	163.182

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of cash flows for the financial year 2011

		2011	2010
		€ thousand	€ thousand
Net cash from/used in operating activities			
Profit before taxes		19.107	20.176
+	Depreciation of intangible assets and property, plant and equipment	2.513	3.282
-	Interest income	-453	-384
+	Interest expenses	2.179	2.043
+/-	Other non-cash income and expense	3.171	865
Operating profit before adjustment of net assets		26.517	25.982
+/-	Decrease/increase in trade receivables	-856	-13.397
+/-	Decrease/increase in inventories	-17.776	-18.358
+/-	Decrease/increase in other assets	650	-468
+/-	Increase/decrease in non-current liabilities	92	-610
+/-	Increase/decrease in current liabilities	-4.340	5.864
+/-	Increase/decrease in trade payables	-1.251	-1.539
Cash flows from operating activities		3.036	-2.526
-	Taxes paid	-5.758	-4.041
+	Interest received	351	281
-	Interest paid	-1.612	-1.375
Net cash flows from operating activities		**-3.983**	**-7.661**
Cash flows from investing activities			
-	Payments to acquire assets	-3.674	-2.806
+	Proceeds from disposal of assets	153	70
-	Payments for acquisition of investments	-554	-292
+/-	Increase/decrease in goodwill	53	0
Net cash flows from investing activities		**-4.022**	**-3.028**
Cash flows from financing activities			
+	Proceeds from taking out loans	10.996	1.133
-	Payments for repayment of loans	-31.397	-816
+	Proceeds from minority shareholders	467	49
-	Dividend payments to shareholders of Einhell Germany AG	-2.894	-2.139
-	Dividend payments to minority shareholders	0	-398
-	Payment for liabilities for finance leases	-19	-51
Net cash flows from financing activities		**-22.847**	**-2.222**
Changes to capital funds due to currency exchange		99	-225
Net decrease/increase of cash and cash equivalents		**-30.753**	**-13.136**
Cash and cash equivalents at beginning of period		44.462	57.598
Cash and cash equivalents at end of period		**13.709**	**44.462**

Further information can be found under section 5 in the notes to the consolidated financial statements.

Einhell Germany AG, Landau a. d. Isar

Notes to the Consolidated Financial Statements for the financial year 2011

1. Principles and methods used in consolidated financial statements

1.1 General information

Einhell Germany AG and its subsidiaries manufacture and sell manually operated, petrol-operated and electronic tools, metal and plastic products for DIY, garden and leisure activities, and air-conditioning and heating products.

Einhell Germany AG is a public limited company (*Aktiengesellschaft*) pursuant to the laws of the Federal Republic of Germany. The company is registered in the Commercial Register of the Local Court (*Amtsgericht*) in Landshut under number HRB 2171 and its registered office is at Wiesenweg 22, 94405 Landau a. d. Isar, Germany.

The consolidated financial statements of Einhell Germany AG and its subsidiaries (the Einhell Group) were drawn up in accordance with section 315a of the Commercial Code (*Handelsgesetzbuch* - HGB) (consolidated financial statements in accordance with international accounting standards). It is also consistent with International Financial Reporting Standards (IFRS) and their interpretations, as published by the International Accounting Standards Board (IASB) and applicable in the European Union.

The consolidated financial statements of Einhell Germany AG are drawn up in Euros (€). Unless otherwise stated, figures are given in € thousands. Amounts are rounded up or down where applicable.

The Board of Directors approved the consolidated financial statements on 19 March 2012 to be passed on to the Supervisory Board.

1.2 Basis of preparation

Standards applied

The accounting and valuation policies used in the consolidated financial statements are in accordance with the IFRSs applicable as of 31 December 2011. The standards applicable for the first time in 2011 had no significant effects on the consolidated financial statements.

Standards and interpretations not used before they are mandatory

The IASB has published the following standards, interpretations and amendments to existing standards whose application was not mandatory as of 31 December 2011 and which were therefore not applied prematurely by the Einhell Group. Application would have no significant effect on the consolidated financial statements.

- Amendments to IFRS 7 ‘Disclosures – Transfers of Financial Assets’; applies to financial years commencing on or after 1 July 2011.

The following standards, interpretations and amendments to existing standards are not applicable within the EU until they have been adopted under the prescribed EU procedures (endorsement process):

- Amendments to IAS 1 ‘Presentation of Items of Other Comprehensive Income’; applies to financial years commencing on or after 1 July 2012.
- Amendments to IAS 12 ‘Deferred Tax on Investment Property’; applies to financial years commencing on or after 1 January 2012.
- IAS 19 (rev. 2011) ‘Employee Benefits’; applies to financial years commencing on or after 1 January 2013.
- Amendments to IAS 27 ‘Separate Financial Statements’; applies to financial years commencing on or after 1 January 2013.
- Amendments to IAS 28 ‘Investments in Associates and Joint Ventures’; applies to financial years commencing on or after 1 January 2013.
- Amendments to IAS 32 ‘Offsetting Financial Assets and Financial Liabilities’; applies to financial years commencing on or after 1 January 2014.
- Amendments to IFRS 1 ‘Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters’; applies to financial years commencing on or after 1 July 2011.
- Amendments to IFRS 7 ‘Disclosures – Offsetting Financial Assets and Financial Liabilities’; applies to financial years commencing on or after 1 January 2013.
- IFRS 9 ‘Financial Instruments’; applies to financial years commencing on or after 1 January 2015.
- IFRS 10 ‘Consolidated Financial Statements’; applies to financial years commencing on or after 1 January 2013.
- IFRS 11 ‘Joint Arrangements’; applies to financial years commencing on or after 1 January 2013.
- IFRS 12 ‘Disclosure of Interests in Other Entities’; applies to financial years commencing on or after 1 January 2013.
- IFRS 13 ‘Fair Value Measurement’; applies to financial years commencing on or after 1 January 2013.
- IFRIC 20 ‘Stripping Costs in the Production Phase of a Surface Mine’; applies to financial years commencing on or after 1 January 2013.

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

Presentation

Presentation in the balance sheet differentiates between current and non-current assets and liabilities. Assets and liabilities are classified as current if they are due within one year. Deferred tax assets and liabilities and provisions for pensions are usually recognised as non-current line items.

The consolidated statement of consolidated income is drawn up using the total cost method.

For clarity and comprehensibility of the consolidated financial statements, individual items in the balance sheet and statement of consolidated income are recorded jointly. These line items are listed separately in the Notes to the consolidated financial statements.

The presentation of some individual line items in these consolidated financial statements has changed since the previous year. Also certain jointly stated line items from the previous year have been stated separately in these consolidated financial statements, and some line items stated separately in the previous consolidated financial statements have been stated jointly in these consolidated financial statements, and described in the Notes. These changes have been made to reflect terminology used in IFRSs and to increase the comprehensibility of the consolidated financial statements and improve the presentation of net assets, financial position, and results of operations.

1.3 Principles of consolidation

The consolidated financial statements include Einhell Germany AG and its subsidiaries for which Einhell Germany AG fulfils the respective criteria pursuant to IAS 27. These companies are included in the consolidated financial statements from the time when there is a possibility of control being exercised. Contrarily, subsidiaries are no longer included in the consolidated financial statements when this possibility is no longer applicable.

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. The income tax effects of consolidation transactions are recognised through profit or loss and appropriate deferred taxes are set aside.

1.4 Basis of consolidation

The companies included in the consolidation include Einhell Germany AG and a further 37 (previous year 36) fully consolidated companies.

In the third quarter of the financial year 2011 was the set up the company Einhell Argentina S.A. in Buenos Aires, Argentina, and this was included in the consolidated financial statements for the first time as at 31 December 2011. Einhell Germany AG currently holds all of the shares in Einhell Argentina S.A., but has given a local Managing Director an option to buy 10% of the shares depending on certain performance targets being reached. Furthermore, during the financial year 2011, 10% of the shares in Einhell Danmark ApS were transferred to the Managing Director of this company.

The subsidiaries included in the consolidated financial statements are shown in section 8 of the Notes. The subsidiary iSC GmbH, Landau a. d. Isar, makes partial use of the exemptions under section 264(3) of the German Commercial Code (*HGB*).

1.5 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 other results and as an adjustment for currency conversion and in the difference (part of other reserves).

The following exchange rates apply for the most important currencies for the Einhell Group:

		Reporting date rate		Average rate	
		31.12.2011	31.12.2010	2011	2010
Brazil	BRL	2.4158	2.2102	2.3308	2.3344
China	CNY	8.1485	8.7697	9.0139	8.9805
Hong Kong	HKD	10.0513	10.3382	10.8575	10.3077
Poland	PLN	4.4553	3.9675	4.1226	3.9950
Switzerland	CHF	1.2162	1.2442	1.2349	1.3823
Turkey	TRY	2.4424	2.0625	2.3438	1.9973
USA	USD	1.2938	1.3282	1.3945	1.3268

1.6 Accounting and valuation policies

Purchased and self-developed intangible assets are capitalised pursuant to IAS 38 if there is an associated future economic benefit from the asset and the costs of the assets may be determined with certainty. These assets are recognised at acquisition or development cost and amortised over their expected useful life. The period of use is usually three to five years.

Development expenses and product preparation costs were recognised 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 (ie. 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 prior reporting periods 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 company acquisitions is the difference between the purchase price and the ratio of fair value to stated equity at the time of the purchase. Goodwill is allocated to cash generating units and tested annually for impairment. When the book value of the assets of a cash-generating unit exceed the realisable value, impairment is made in accordance with the provisions of IAS 36. The cash generating units are the individual companies.

Property, plant and equipment is normally depreciated at cost on a straight-line basis or by extraordinary depreciation where required. Depreciation is normally made on a straight-line basis in line with the expected useful life. Depreciation is made on the basis of the following ranges of expected useful life:

	Useful life
Buildings	20-30 years
Technical equipment, plant and machinery	3-20 years
Other equipment, fixtures, fittings and equipment	3-10 years

Leasing. All agreements that transfer the right to use a specified asset for a fixed period for payment of a fee are deemed leasing agreements. This also applies to agreement where the transfer of such a right is not expressly stated. An assessment of whether the risks and opportunities of a leased object are transferred to a lessee (for a finance lease) or remain with the lessor (for an operating lease) determines who is allocated the economic ownership of a lease object.

The Einhell Group as lessee uses property, plant and equipment solely on the basis of operating lease agreements. Lease payments under these operating leases are taken into account on a straight-line basis over the term of the lease. For further details about lease obligations, see section 7.1.

Inventories comprise raw materials and supplies, goods and prepayments. Inventories are valued at acquisition cost determined in accordance with the weighted average method. Inventory and sales risks resulting from reduced merchantability are taken into account with impairments. Further impairments are made if the net sale value of inventories falls below the acquisition cost.

Financial assets. Financial assets comprise trade receivables, liabilities to banks, cash in hand, derivative financial assets, and other marketable securities.

Financial assets recognised at fair value through profit or loss. Financial assets recognised at fair value through profit or loss comprise derivatives not recognised as collateral instruments in hedge accounting (financial assets available for sale). Gains or losses from financial assets available for sale are recognised in profit or loss.

Loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, such as trade receivables. After the method is applied for the first time, loans and receivables will be valued at amortised cost using the effective interest method less impairment. Gains and losses will be included in consolidated net income when the credits and receivables are recognised or impaired. Interest effects from the application of the effective interest method are also recognised in profit or loss.

Financial assets available for sale. Financial assets available for sale are non-derivative financial assets available for sale and not allocated to one of the above categories. This category includes shares in a money market fund. At initial recognition, financial assets available for sale are valued at fair value, whereby non-realised profits or losses are recognised under other results. Where there are objective indications of a value impairment, or if there are changes to the current value of a loan instrument due to exchange rate fluctuations, there are taken into account in consolidated net income through profit or loss. Upon disposal of financial assets, cumulated gains or losses from the valuation at fair value are recognised through profit or loss in other results. Interest received from the sale of financial assets available for sale is usually taken into account through profit or loss as interest income derived from the application of the effective interest method.

Cash and cash equivalents. Cash and cash equivalents includes in particular cash in banks, checks and bank deposits with an original maturity of up to three months. Cash and cash equivalents correspond to the payments in the consolidated cash flow statement.

Impairment of financial assets. At each reporting date, the book values of financial assets that are not recognised in profit or loss at fair value are examined to see if there are objective indications of impairment in value. The amount of the value impairment for loans and receivables is the difference between the book value of the asset and the cash value of expected future cash flows. A value impairment is recognised in profit or loss. If the amount of value impairment falls again during a subsequent reporting period and if this lowering of value can objectively be traced back to a circumstance occurring after the impairment was recognised, the impairment recognised in the earlier period may be reversed in profit or loss. The impairment of loans and receivables are largely made in impairment accounts. The decision whether default risk will be taken into account for an impairment account or via a direct reduction in the receivable depends on how high the probability of the default of the receivable is assessed. If a receivable is assessed as unrecoverable, the corresponding impaired asset value is derecognised.

Deferred tax assets and liabilities are set aside pursuant to IAS 12 for temporary differences between the book values shown in the consolidated financial statements and the tax values of assets and liabilities unless these result from the first-time inclusion of an asset or a liability from a business transaction that is not a business merger and at the time of the business transaction did not affect either the pre-tax result nor the taxable result. This also applies to tax losses carried forwards and tax credits if such can be determined with sufficient certainty. Deferred tax assets and liabilities are set aside in the amount of the probable tax burden or relief in future business years. The basis is the tax rate at the time of realisation. Tax consequences of profit distributions are normally not taken into account until the resolution for disbursement of profits is passed. If the realisation of deferred tax assets is uncertain, an appropriate value adjustment is made. Actual taxes and deferred taxes must be directly taken to equity or credited if the tax refers to line items that are credited or charged directly to capital in the same or another reporting period.

The **differences arising from currency conversion** arise out of the conversion of annual financial statements of consolidated companies whose functional currency varies from the reporting currency of the Group. The consolidated companies are economically independent foreign entities. Currency conversion differences from monetary line items that are essentially net investments of the company in an economically independent foreign entity are recognised in the consolidated financial statements as equity until sale of the corresponding net investment. Upon sale of the corresponding assets, the pro rata difference arising from currency conversion is recognised as income or an expense in the same period in which the gain or loss from the disposal of the asset is recognised.

The percentage of equity allocated to **non-controlling interests** (minority shareholders) is recognised under equity in the balance sheet. The allocable consolidated net interest and allocable other income is recognised separately in the income statement or in the overall result. Non-controlling interests include the share of minority shareholders in the current value of identifiable assets and liabilities at the time the affiliated company is acquired. Changes result from capital increases in which minority shareholders participate, distributions and shares of minority shareholders in profits and changes due to exchange rates.

Pension provisions are set aside in accordance with IAS 19 using the Projected Unit Credit Method for defined benefit plans based on commitments for pensions for retirement, invalidity and surviving dependents.

A discount factor for interest rates for claimants of 4.45% (previous year 4.91%) was used, along with 4.28% (previous year 4.65%) 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) 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.

Provisions for other risks and contingent liabilities are set aside if there is an obligation to a third party and when the outflow of resources is probable and may be reliably estimated. The amount set aside as a provision is the best possible estimate of the potential liability at reporting date. Provisions with an original term of more than one year are recognised at discounted settlement amount at reporting date. Provisions are checked on a regular basis and amended where there is new information of circumstances have changed.

Provisions for guarantees are set up at the time the products are sold. The valuation of guarantee expenses recognised as a liability is based largely on historical values.

Income from anticipated disposal of assets is not taken into account in setting up the provisions. If there is an expectation that expenses necessary to meet an obligation for which a provision has been set aside will be reimbursed either in part or in full by a third party, the reimbursement will be recognised when it is as good as certain that the company will receive the reimbursement.

Financial liabilities. Financial liabilities include in particular trade payables, derivative financial liabilities and other liabilities.

Financial liabilities valued at amortised cost. After initial recognition, financial liabilities are valued using the effective interest method at amortised cost.

Financial liabilities valued at fair value through profit or loss. Financial liabilities valued at fair value through profit or loss comprise derivatives that are not used as a hedging instrument in hedge accounting (financial instruments held for trading). Gains or losses from financial liabilities held for trading are recognised in profit or loss in the consolidated net profit.

Derivative financial instruments and hedge accounting. In the Einhell Group, derivative financial instruments are used only for hedging transactions as part of interest and currency risk management arising from normal operations. 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.

Upon initial recognition and at each subsequent reporting date, derivative financial instruments are recognised at fair value. The fair value of listed derivatives corresponds to the positive or negative market value. If there is no market value, these are calculated on the basis of estimated future cash flows such as discounted cash flow models or option pricing models. Derivatives are recognised as assets if their fair value is positive and as a liability if the fair value is negative.

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.

If the provisions of IAS 39 on hedge accounting are met, Einhell AG designates and documents the hedge from this point on either as a fair value hedge or as a cash flow hedge. A fair value hedge secures the fair value of an asset or liability or fixed obligation not included in the balance sheet. A cash flow hedge secures highly probable future payment flows or fluctuating payment inflows or outflows in connection with a hedged asset or liability. Documentation of the hedge accounting includes the aims and strategy of risk management, the type of hedge relationship, the hedged risk, designation of the hedge instrument and the underlying transaction and a description of the method of measuring efficacy. Hedge accounting allows effective estimation of compensation for risk for changes in the fair value or payment flows in relation to the hedged risk and regularly checks that the hedge remains effective during the whole reporting period for which the hedge is designated.

Current value changes of the derivatives are taken into account in consolidated net income or other income depending on whether the hedge is a fair value hedge or a cash flow hedge. For fair value hedges, the changes in market value of derivative financial instruments and underlying transactions are recognised in equity in the consolidated net profit. The after-tax effective portions of the current value of derivative instruments that are allocated to a cash flow hedge are recognised in other income. The reclassification to profit or loss is made at the same time as the underlying hedged item is recognised in profit or loss. The ineffective portions of current value changes are recognised directly in profit or loss.

Revenues. Revenues are realised upon delivery of products and goods or provision of services, when ownership and risk has passed to the customer, the amount of revenue can be reliably determined and it is to be expected that payment should follow. Revenues are shown net of income reductions such as price reductions and favourable terms.

Interest income and expenses. Interest income and expenses includes interest income from cash and cash equivalents and interest expenses from loans. Interest and changes in market values in connection with interest hedges are also included under this line item. Interest income and expenses are recognised in accordance with contractual arrangements pro rata where applicable.

Income taxes. Current income taxes are calculated on the basis of the relevant national annual results and national tax rates. They also include current taxes for the year and any adjustments for tax payments or credits for other years and interest payments on payment of additional taxes. Changes to deferred tax assets and credits is reflected in the line item income taxes, except for the changes to other results.

1.7 Estimates and judgments in accounting

The consolidated financial statements contain a certain amount of estimations, judgments and assumptions. These can affect the amount and proof of carrying amounts of assets and liabilities, statement of contingent receivables and liabilities at reporting date and the stated income and expenses for the reporting period. Important circumstances affected by such estimations, judgments and assumptions are explained below. Actual results may differ from these estimations, judgments and assumptions; any changes may have a significant effect on the consolidated financial statements.

Impairment of cash generating units. Estimates are made as part of impairment tests for non-financial assets in order to determine the realisable amount of a cash-generating unit. The main assumptions are with respect to future cash inflows and outflows for the planning period and for subsequent periods. The estimations refer mainly to future market shares and growth in the respective markets. On the basis of impairment tests carried out during 2011, realisable values significantly exceed net asset values of Group cash generating units.

Impairment of receivables. The Group regularly estimates the default risk of its trade receivables. Many factors are taken into account in this respect, including historical values for actual defaults, the size and composition of individual portfolios, current economic events and conditions, and the scope of current credit insurances. Changes to economic conditions may affect the creditworthiness of customers. If estimates and assessments of these factors change, this affects the amount of impairment and has an effect on consolidated net income.

Pension obligations. One matter to be taken into account in determining the cash value of defined benefit pension obligations is discount factors. Discount factors are determined on the basis of yields that can be generated in the relevant markets at reporting date for first rank fixed interest bonds. The amount of the discount factor has a significant influence on the finance status of pension plans.

Income taxes. Estimates of future income and the time at which deferred tax assets are to be realised are used as a basis for calculating deferred tax assets. This includes taking into account planned results from business operations, effects on the result from the reversal of taxable temporary differences and realisable tax strategies. As future business development is uncertain and tax is party payable through the Group, the assumptions made in connection with the recognition of deferred tax assets are made with a significant degree of uncertainty. The Einhell Group assesses for impairment of deferred tax assets at each reporting date on the basis of planned taxable income for future reporting years; when the Group believes that the probability of 50% or more that all or part of future tax revenues will not be realised, it carries out an impairment of deferred tax assets.

Claims and risks from legal action. Einhell Germany AG and its subsidiaries face risks from various legal proceedings and claims. In our opinion, any liabilities that may result from these will not have a sustained effect on the Group's net assets, financial position and results of operations.

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 and deferred tax assets) are shown in the appendix to the notes to the consolidated financial statements.

2.2 Intangible assets

	2011	2010
Acquired intangible assets (excluding goodwill)	675	585
Self-developed intangible assets	56	193
Acquired goodwill	8,302	8,249
	9,033	9,027

Development costs for self-developed intangible assets mainly comprise expenses arising from the development of new products that are amortised over the expected life cycle of the product. In the financial year 2011, expenses for development and product development amounted to €4.5 million (previous year: €4.0 million). As in the previous year, none of these costs were capitalised as expenses in 2011. A total of 38 employees (previous year: 37 employees) were employed in this division.

Goodwill is with respect to the following companies:

	2011	2010
Intratek Mühendislik ve Dis Ticarret A.S., Istanbul/Turkey	3,013	3,013
Einhell-Unicore s.r.o., Karlovy Vary/Czech Republic	2,141	2,141
Einhell Export-Import GmbH, Tillmitsch/Austria	2,026	1,973
Einhell Romania SRL, Bucharest/Rumania	1,122	1,122
	8,302	8,249

The addition to goodwill of Einhell Export-Import GmbH of €53 thousand results from an additional purchase price payment for the purchase of the remaining 24% of shares in 2009.

Goodwill is subject to an annual impairment test with impairment being made if the realisable amount falls below the book value of the companies' goodwill (Cash Generating Units). The realisable amount is derived from future cash flows. Determination of the cash flows is based on economic planning with a planning horizon of five years. The following evaluation factors were used for all companies:

	2011	2010
	%	%
Growth rate after end of planning period	1.25	1.25
Pre-tax discount rate	7.93	8.10
Basic interest rate	3.00	3.00
Market risk premium	5.00	5.00
Typical tax rate	30.00	29.41

The annual impairment test did not reveal any need for impairment for goodwill in the financial year 2011.

2.3 Property, plant and equipment

	2011	2010
Land and buildings on company land	10,153	10,497
Technical equipment and machinery	3,397	2,972
Other equipment, operating and office equipment	4,335	3,663
Prepayments and assets under construction	58	94
	17,943	17,226

2.4 Financial assets

There is no change to shares in a money market fund to hedge against pensions, holiday and flexible time entitlements that are recognised at fair value. Income from the fund amounts to €3 thousand (previous year: €4 thousand). The expected yield of securities is 1% to 2% per annum.

2.5 Deferred taxes

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

	Deferred tax claims		Deferred tax liabilities		Net deferred taxes	
	2011	2010	2011	2010	2011	2010
Self-developed intangible assets and tangible fixed assets	20	18	96	163	-76	-145
Current assets	3,065	2,660	135	538	2,930	2,122
Other financial investments at present value	761	1,183	2,865	45	-2,104	1,138
Pension obligations	68	34	0	-1	68	35
Provisions for other risks	599	846	238	90	361	756
Other liabilities	517	331	5	70	512	261
Tax losses carried forward	1,912	2,133	0	0	1,912	2,133
	6,942	7,205	3,339	905	3,603	6,300

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.

2.6 Inventories

	2011	2010
Raw materials and supplies (at acquisition cost)	568	1.063
Finished goods (at cost less impairment)	106,597	92,200
Prepayments	3,284	2,376
	110,449	95,639

Devaluations totalling €6,886 thousand (previous year: €6,165 thousand) were made. The book value of devalued goods amounts after devaluation to €36,894 thousand (previous year: €37,656 thousand). No goods were assigned by way of collateral at reporting date, as in the previous year.

2.7 Trade receivables

Trade receivables were shown after allowances for bad debt. In the financial year 2011, impairments amounting to €2,118 thousand (previous year: €2,596 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 €207 thousand (previous year: €2,705 thousand) were recognised.
The maximum default risk is the book value of the receivables. 80% (previous year: 85%) of total receivables are not yet due at reporting date.

The maturity structure of financial instruments from trade receivables is as follows:

2011	Net amount	Value adjustment	Gross amount
Receivables not due or due between 1-120 days	60,621	1,209	61,830
Receivables due 121-360 days	989	1,669	2,658
Receivables due more than 360 days	570	4,739	5,309
	62,180	7,617	69,797

2010	Net amount	Value adjustment	Gross amount
Receivables not due or due between 1-120 days	60,523	762	61,285
Receivables due 121-360 days	1,254	612	1,866
Receivables due more than 360 days	710	4,401	5,111
	62,487	5,775	68,262

2.8 Other financial assets

	2011	2010
Derivative financial instruments used in hedge accounting	9,460	1,300
Financial assets valued at fair value through profit or loss	412	518
	9,872	1,818

2.9 Other assets

	2011	2010
Non-current		
Income tax credits	1,546	959
Other	773	803
	2,319	1,762

	2011	2010
Current		
Income tax credits	910	1,561
Other	11,479	11,827
	12,389	13,388

Income tax claims include in particular corporation tax credits pursuant to section 37(5) of the Corporation Tax Act (*KStG*). At reporting date, there were no indications of impairment of other assets that were neither overdue nor already impaired.

2.10 Subscribed capital

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

	Number	€
Ordinary shares		
Ordinary bearer shares		
No-par shares each with a par value of €2.56	2,094,400	5,361,664.00
Preference shares		
Non-voting bearer preference shares		
No-par shares each with a par value of €2.56	1,680,000	4,300,800.00
	3,774,400	9,662,464.00

All shares are fully paid up. For the financial year 2011, Einhell Germany AG is proposing a dividend payment of €2,893,856.00 (previous year: €2,893,856.00). The dividend payment represents a dividend of €0.80 per preference share (previous year €0.80) and €0.74 per ordinary share (previous year €0.74).

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.

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). A right of subscription is to be granted to shareholders. 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.

2.11 Changes to other reserves

	2011			2010		
	Before taxes	Taxes	After taxes	Before taxes	Taxes	After taxes
Unrealised gains from currency conversion	-303	0	-303	3,493	0	3,493
Unrealised gains/losses from financial assets held for sale	4	-1	3	6	-2	4
Unrealised gains/losses from derivative financial instruments	9,504	-2,851	6,653	-2,029	609	-1,420
Other results	9,205	-2,852	6,353	1,470	607	2,077

2.12 Minority interests

	2011	2010
Position 1 January	2,243	2,958
Capital contributions	474	39
Disposals	0	-275
Dividends	0	-398
Unrealised gains from currency conversion (= share of other results)	-204	78
Share of consolidated net profit	-123	-159
Position 31 December	2,390	2,243

2.13 Pension provisions

Defined benefit obligations (DBO) were as follows in the financial year 2011:

	2011	2010	2009	2008	2007
Position 1 January	1,901	1,831	1,547	1,598	1,730
Current service expense (Personnel expenses)	26	26	20	30	32
Interest expense (Personnel expenses)	87	87	93	83	77
Actuarial gains and losses (Personnel expenses)	124	73	293	-99	-194
Pension payments	-89	-87	-108	-65	-47
Transfer/Settlement	0	-29	-14	0	0
Position 31 December	2,049	1,901	1,831	1,547	1,598

Plan assets were as follows in the financial year 2011:

	2011	2010	2009	2008	2007
Position 1 January	643	640	631	628	616
Gains / losses	7	3	9	3	12
Position 31 December	650	643	640	631	628

	2011	2010	2009	2008	2007
Cash value of defined benefit obligations	2,049	1,901	1,831	1,547	1,598
Less fair value of plan assets	-650	-643	-640	-631	-628
Net obligation	1,399	1,258	1,191	916	970

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.

Actuarial assumptions to determine pension obligations are presented in section 1.6 Accounting and valuation policies

The expected yield of plan assets is between 1-2%.

2.14 Provisions for other risks

	Guarantees	Other	Total
Position 1 January 2011	6,572	5,978	12,550
Utilised	-519	-3,802	-4,321
Release	-3,671	-462	-4,133
Allocations	1,369	3,274	4,643
Effects of currency translation and other changes	14	-59	-45
Position 31 December 2011	3,765	4,929	8,694

	Guarantees	Other	Total
31 December 2011			
Non-current	0	476	476
Current	3,765	4,453	8,218
31 December 2010			
Non-current	0	512	512
Current	6,572	5,466	12,038

2.15 Financial liabilities

	2011	2010
Non-current		
Loans, secured	23	25
Loans, unsecured	20,937	41,313
	20,960	41,338

	2011	2010
Current		
Loans and overdrafts, secured	621	13
Loans and overdrafts, unsecured	375	1,120
	996	1,133
Thereof current position of non-current loan	385	388
Thereof current loans or overdrafts	611	745

Security is held in the form of an assignment pledge of other assets as security.

The Einhell Group continued to use non-current loans as a main source of financing in the financial year 2011. The bond that expired in 2009 was at that time replaced by long-term refinancing with bilateral credit agreements until mid-2014. Due to a sound cash position and changes to the interest market during the financial year 2011, a decision was made to repay a part of the non-current loans prematurely and to take out a new loan at even better terms. This means that non-current financing for the amount of €21 million has been guaranteed to mid-2014 at very good terms. The loan agreements define Financial Covenants for which non-compliance means that creditors have the right to demand premature repayment of loans prior to maturity. All covenants were met during the financial year 2011. Changes in interest risks are hedged by means of derivative financial instruments in the form of interest cap agreements.

2.16 Other financial liabilities

	2011	2010
Derivative financial instruments included in hedge accounting	911	4,016
Financial liabilities valued at fair value through profit or loss	746	463
	1,657	4,479

2.17 Other liabilities

	2011	2010
Non-current	2,200	2,220
Current	13,690	14,934
	15,890	17,154

Other liabilities consist mainly of tax liabilities, liabilities for wages and salary payments, including liabilities from employee profit participation and social security payments, and liabilities from current customer bonuses and customer credits.

3. Notes to consolidated statement of comprehensive income

3.1 Revenues

Segments	2011		2010	
		%		%
Tools	220,466	60.4	217,656	59.6
Garden & Leisure	144,795	39.6	147,778	40.4
	365,261	100.0	365,434	100.0

Regions	2011		2010	
		%		%
Germany	131,721	36.1	145,348	39.8
European Union	153,286	42.0	144,956	39.7
Asia	14,402	3.9	23,659	6.4
Other	65,852	18.0	51,471	14.1
	365,261	100.0	365,434	100.0

3.2 Other operating income

	2011	2010
Income from release of provisions for guarantees	3,671	1,056
Commission income	1,531	1,805
Income from costs for inspection of goods to be passed on to suppliers	405	384
Income from the inclusion of released receivables and reversal of impairment of receivables	207	2,705
Income from the disposal of non-current assets	48	69
Other income	3,766	4,335
	9,628	10,354

3.3 Cost of materials

	2011	2010
Expenses for raw materials, consumables and supplies and purchased goods	253,167	259,080
Expenses for purchased services	385	516
	253,552	259,596

3.4 Personnel costs

	2011	2010
Wages and salaries	35,778	32,568
Social security contributions	7,228	5,899
Expenses for old-age pensions	113	142
	43,119	38,609

Number of employees (annual average)	2011	2010
Germany	377	333
Other countries	762	672
	1,139	1,005

3.5 Depreciation and amortisation

	2011	2010
Amortisation of intangible assets (excluding goodwill)	452	1.207
Depreciation of tangible fixed assets	2,061	2,075
	2,513	3,282

None extraordinary depreciation and amortisation were necessary in the financial year 2011, as in the previous year.

3.6 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 €2,118 thousand (previous year: €2,596 thousand). Due to the short-term nature of the item trade receivables and the current expectation of payment receipts, the interest effect in calculating impairments is insignificant.

3.7 Net financial income

	2011	2010
Interest income	453	384
Interest expenses	-2,179	-2,043
Gains/losses from currency conversion	-1,824	368
	-3,550	-1,291

thereof interest income from hedges	0	0
thereof interest expenses from hedges	-279	-519
thereof losses from currency conversion of hedging instruments	-746	-269

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.

3.8 Income taxes

	2011	2010
Actual tax expense	5,281	5,993
Deferred taxes	-593	-1,814
	4,688	4,179

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 taxes assets on changes to present value of cash flow hedges amounted to €761 thousand (previous year: €1,183 thousand) and deferred tax liabilities amounted to €2,760 thousand (previous year: €70 thousand).

Subsidiaries capitalised deferred taxes from loss carry forwards of €1,912 thousand (previous year: €2,133 thousand).

Losses carried forward that are not classified as of value due to lack of expectation of profits, are not included in the determination of deferred tax assets.

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:

The following table shows a reconciliation of the tax expense anticipated in a financial year with the actual tax expense. The anticipated tax expense is calculated by multiplying the pre-tax result with the domestic tax rate applicable in the respective financial year of 30.0% (previous year: 30.0%).

	2011	2010
Anticipated tax expense	5,732	6,053
Tax expenses/income from intra-Group income/expenses	-293	-109
Other non-deductible expenses for tax purposes	2,110	2,583
Different tax rates from other countries	-1,408	-2,084
Tax free income	-1,984	-913
Changes to loss carry forwards	136	-2,133
Other	395	782
Actual tax expense	4,688	4,179

3.9 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 of earnings per share.

4. Segment report

4.1 Segment report 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. The main control parameter of the Einhell Group is the result from ordinary business operations. 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.

2011	Tools	Garden & Leisure	Total segments	Reconciliation	Einhell Group
Segment revenues	220,466	144,795	365,261	0	365,261
Profit from operation (EBT)	10,399	8,708	19,107	0	19,107
Financial result	-2,575	-975	-3,550	0	-3,550
Scheduled depreciation	1,493	1,020	2,513	0	2,513
Non-cash income	-322	-218	-540	0	-540
Non-cash expenses	2,743	968	3,711	0	3,711

2010	Tools	Garden & Leisure	Total segments	Reconciliation	Einhell Group
Segment revenues	217,656	147,778	365,434	0	365,434
Profit from operation (EBT)	12,350	7,826	20,176	0	20,176
Financial result	-769	-522	-1,291	0	-1,291
Scheduled depreciation	1,857	1,425	3,282	0	3,282
Non-cash income	-139	-46	-185	0	-185
Non-cash expenses	660	390	1,050	0	1,050

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

4.2 Segment report by region

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

2011	Germany	EU	Other countries	Asia Pacific	Reconciliation	Einhell Group
External revenues	131,721	153,286	65,852	14,402	0	365,261
Non-current assets	11,685	12,680	4,451	832	0	29,648

The EU companies with the strongest revenues are Einhell Austria (€23.5 million), Einhell Italy (€15.5 million) and Einhell Poland (€10.4 million). Other countries with particularly strong revenues were the companies in Switzerland (€12.3 million) and Turkey (€13.1 million). Revenues of the Hong Kong companies (€37.0 million) include mainly revenues generated in the Asia region.

2010	Germany	EU	Other countries	Asia Pacific	Reconciliation	Einhell Group
External revenues	145,348	144,956	51,471	23,659	0	365,434
Non-current assets	11,079	12,585	3,829	890	0	28,383

The EU companies with the strongest revenues were 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) include mainly revenues generated in the Asia region.

During the financial years 2011 and 2010, no customer of the Einhell Group generated revenues of more than 10% of the revenues. More than half of Group revenues were generated with the ten largest customers.

4.3 Capital management

The finance requirements of the Einhell Group are driven in particular by the level of inventories and the level of trade receivables. The stock turnover of inventories and amount of time before receivables are paid plays a significant role and has a major effect on finance requirements.

The Einhell Group is financed by the subscribed capital of the company, including on the one hand capital made available by shareholders during capital increases and retained profits allocated to provisions or to retained earnings as profit carried forwards. On the other hand, the Einhell Group uses borrowings in the form of non-current loans, current loans and partly by supplier loans. Loans are usually made in Euro. Supplier loans are mainly in USD or RMB. Anticipated cash flows due from payment of supplier liabilities are largely hedged by corresponding hedge transactions.

5. 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 a significant increase in inventories.

Investment activities

Payments for investments in property, plant and equipment and intangible assets refer principally to technical equipment and machinery, and fixtures and fittings.

Financing activities

Cash flows from financing activities 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 with an original maturity of less than 90 days. The effects of changes arising from exchange rates are shown separately.

6. Risk report and financial instruments

6.1 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.

6.2 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, Einhell also uses 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 €62.2 million (previous year: €62.5 million). In the financial year 2011 there were no significant receivables for which new payment targets were agreed.

As the derivatives have been acquired from well-known 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 €13.7 million (previous year €44.5 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.

6.3 Interest rate risks

The interest rate risk of the Einhell Group results 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 €90 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 €201 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 €38 thousand.

6.4 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 €51 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 2011 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.

	2012	2013	2014-2016	2017 and later
Non-current liabilities to banks	849	836	20,833	0
Trade payables	27,707	0	0	0
Other current liabilities	15,347	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 €312.6 million and cash outflows of around €304.8 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 the maximum of two years. 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 pre-tax exchange rate gains/losses of €21,946 thousand or a loss of €-20,459 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 €125 thousand or a loss of €-109 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.

Financial instruments with positive market value to cash flow hedge

	Nominal volume		Market value	
	2011	2010	2011	2010
Currency futures	221,013	85,947	7,836	1,218
Options	0	19,575	0	82
	221,013	105,522	7,836	1,300

Financial instruments with negative market value to cash flow hedge

	Nominal volume		Market value	
	2011	2010	2011	2010
Currency futures	5,226	82,105	397	4,016
Options	0	0	0	0
	5,226	82,105	397	4,016

Designated hedged items are contracted and planned purchases and sales. All cash flows are anticipated in 2012 and are recognised as cost of inventories. Ineffectivity of cash flow hedges is insignificant due to their short-term nature.

6.5 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. Over 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.

		Book value		Fair Value	
Valuation category	Valuation	2011	2010	2011	2010
Assets and liabilities held for trading	Fair Value				
Hedge accounting derivatives					
Other financial assets		9,460	1,300	9,460	1,300
Other financial liabilities		911	4,016	911	4,016
Hedge derivatives without using hedge accounting					
Other financial assets		412	518	412	518
Other financial liabilities		746	463	746	463
Loans and receivables	Amortised costs				
Trade receivables		62,180	62,487	62,180	62,487
Other assets		5,347	7,727	5,347	7,727
Available-for-sale financial instruments	Fair Value				
Financial assets		353	367	353	367
Other financial liabilities	Amortised costs				
Liabilities to banks		21,956	42,471	21,956	42,471
Trade payables		27,707	27,814	27,707	27,814
Cash and cash equivalents	Fair Value	13,709	44,462	13,709	44,462

7. Other notes

7.1 Other financial obligations

Other financial obligations from leasing and rents are comprised as follows:

	Total	Up to 1 year	1 to 5 years	Over 5 years
Rental obligations	2,688	1,560	1,128	0
Leasing contract obligations	1,319	611	569	139
	4,007	2,171	1,697	139

Einhell Germany AG 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. In the financial year 2011, operating lease payments amounted to €394 thousand (previous year: €369 thousand).

7.2 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.

7.3 Related party transactions

On 24 October 2002, Thannhuber AG, Landau a. d. Isar, submitted a notification pursuant to section 21(1) of the Securities Trading Act (*WpHG*) that its share of voting rights in Einhell Germany AG had exceeded the 75% threshold on 13 October 2002. Thannhuber AG is therefore a controlling shareholder of Einhell Germany AG. The following personal connection exists between Thannhuber AG and Einhell Germany AG:

- Josef Thannhuber (Chairman of the Supervisory Board) is a shareholder and Chairman of the Supervisory Board of Thannhuber AG
- Dr. Markus Thannhuber (Member of the Board of Directors) is a shareholder of Thannhuber AG.

In the financial year 2011, Josef Thannhuber and Dr. Markus Thannhuber received remuneration for their activities as directors of Einhell Germany AG.

We confirm that during the reporting period Einhell Germany AG and its subsidiaries did not carry out any legal transactions with Thannhuber AG and related parties, nor did Thannhuber AG take or fail to take any measures to the detriment of Einhell Germany AG or its subsidiaries.

7.4 Remuneration of the Board of Directors and Supervisory Board

Members of the Board of Directors received fixed salary components and variable components that are performance-dependent. Members of the Board of Directors receive shares in Einhell Germany AG. There are no share options programmes or similar arrangements. In the financial year 2011, total remuneration for the Board of Directors of Einhell Germany AG amounted to €2,171 thousand (previous year: €2,490 thousand). Pension provisions amounting to €237 thousand have also been set aside for this group of persons.

Pension provisions totalling €1,541 thousand (previous year: €1,485 thousand) have been set aside for former members of the Board of Directors. In the financial year 2011, pensions payments totalling €102 thousand were paid out to former members of the Board of Directors.

Total remuneration for the Supervisory Board over the past year amounted to €89 thousand (previous year: €89 thousand).

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

7.5 Auditor 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 fees are due solely for auditing services. No other consultancy fees, tax advisory fees and other services were provided for the Einhell Group.

7.6 Events after reporting date

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

8. Subsidiaries

	Share of capital	Equity 31.12.2011
	%	€ thousand
iSC GmbH, Landau a.d. Isar	100.0	1,226
Hansi Anhai Far East Ltd., Hong Kong/China	100.0	18,713
HAFE Trading Ltd., Hong Kong/China	100.0	2,657
Hans Einhell China (Chongqing) Co. Ltd., Chongqing/China	100.0	920
Hansi Anhai Youyang Ltd., Chongqing/China	100.0	6,647
Hans Einhell (China) Trading Co., Ltd., Shanghai/China	100.0	1,140
Einhell Österreich Gesellschaft m.b.H., Vienna /Austria	100.0	4,157
Einhell Portugal – Comércio Int., Lda., Arcozelo/Portugal	100.0	3,194
Einhell Benelux B.V., Breda/Netherlands	100.0	569
Einhell Italia s.r.l., Milan/Italy	100.0	4,307
iSC Italia s.r.l., Milan/Italy	100.0	75
Comercial Einhell S.A., Madrid/Spain	100.0	2,101
Einhell Polska Sp.z o.o., Wroclaw/Poland	90.0	12,399
Einhell Hungaria Kft., Budapest/Hungary	100.0	620
Einhell Schweiz AG, Winterthur/Switzerland	100.0	2,698
Einhell UK Ltd., Birkenhead/United Kingdom	100.0	1,186
Einhell Bulgarien OOD., Varna/Bulgaria	67.0	146
Einhell Export-Import GmbH, Tillmitsch/Austria	100.0	754
Einhell Croatia d.o.o., Lepajci/Croatia	100.0	4,182
Einhell BiH d.o.o., Vitez/Bosnia	66.7	2,435
Einhell d.o.o. Beograd, Belgrade/Serbia	100.0	30
Einhell Romania SRL, Bucharest/Rumania	100.0	2,709
Einhell-Ukraine TOV, Kiev/Ukraine	100.0	157
Svenska Einhell AB, Gothenburg/Sweden	100.0	322
Einhell Holding Gesellschaft m.b.H., Vienna/Austria	100.0	376
Einhell-Unicore s.r.o., Karlsbad/Czech Republic	100.0	2,401
Einhell Intratek Mühendislik ve Dis Ticaret A.S., Istanbul/Turkey	85.0	2,177
Anxall Hellas A.E., Athens/Greece	96.0	1,737
Einhell Chile S.A., Santiago/Chile	90.0	-346
Einhell Danmark ApS, Silkeborg/Denmark	90.0	339
Einhell Middle East Trading FZC, Ras Al-Khaima/ United Arab Emirates	100.0	-54
Einhell Slovakia s.r.o., Pezinok/Slovakia	100.0	-188
Einhell France SAS, Villepinte/France	70.0	-1,026
Einhell Australia PTY. Ltd., Victoria/Australia	90.0	167
Einhell Brasil Com. Distr. Ltda, Campinas/Brazil	90.0	1,897
Einhell Norway AS, Larvik/Norway	100.0	-10
Einhell Argentina S.A., Buenos Aires/Argentina	100.0	447

9. Executive bodies

9.1 Board of Directors

The Board of Directors of Einhell Germany AG in the financial year 2011 comprised:

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

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

9.2 Supervisory Board

In the financial year 2011, the Supervisory Board of Einhell Germany AG comprised:

• Josef Thannhuber, Landau a. d. 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:

- 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 a. d. Isar, 19 March 2012

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 2011

	Acquisition and production cost					
	1.1.2011	Additions	Disposals	Re-classification	Currency differences	31.12.2011
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
I. Intangible assets						
1. Purchased intangible assets	6.771	421	-142	-	9	7.059
2. Self-developed intangible assets	5.032	-	-	-	-	5.032
3. Acquired goodwill	10.355	53	-	-	-	10.408
	22.158	474	-142	-	9	22.499
II. Property, plant and equipment						
1. Land, leasehold rights and buildings	26.706	486	-	-	-239	26.953
2. Technical equipment, plant and machinery	4.409	668	-	-	73	5.150
3. Other equipment, fixtures and fittings and equipment	12.202	2.024	-379	50	17	13.914
4. Prepayments and machinery under construction	94	14	-	-50	-	58
	43.411	3.192	-379	-	-149	46.075
III. Financial assets (securities)	371	8	-22	-	-	357
	65.940	3.674	-543	-	-140	68.931

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
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
I. Intangible assets						
1. Purchased intangible assets	6.481	189	-1	9	93	6.771
2. Self-developed intangible assets	5.032	-	-	-	-	5.032
3. Acquired goodwill	9.584	837	-66	-	-	10.355
	21.097	1.026	-67	9	93	22.158
II. Property, plant and equipment						
1. Land, leasehold rights and buildings	26.146	414	-	-	146	26.706
2. Technical equipment, plant and machinery	4.273	56	-15	-	95	4.409
3. Other equipment, fixtures and fittings and equipment	10.250	2.079	-376	28	221	12.202
4. Prepayments and machinery under construction	37	94	-	-37	-	94
	40.706	2.643	-391	-9	462	43.411
III. Financial assets (securities)	996	3	-628	-	-	371
	62.799	3.672	-1.086	-	555	65.940

	Cumulated depreciation						Book values	
	1.1.2011	Depreciation in financial year	Disposals	Re-classification	Currency differences	31.12.2011	31.12.2011	31.12.2010
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
	6.186	315	-130	-	13	6.384	675	585
	4.839	137	-	-	-	4.976	56	193
	2.106	-	-	-	-	2.106	8.302	8.249
	13.131	452	-130	-	13	13.466	9.033	9.027
	16.209	573	-	-	18	16.800	10.153	10.497
	1.437	257	-	-	59	1.753	3.397	2.972
	8.539	1.231	-233	-	42	9.579	4.335	3.663
	-	-	-	-	-	-	58	94
	26.185	2.061	-233	-	119	28.132	17.943	17.226
	4	-	-	-	-	4	353	367
	39.320	2.513	-363	-	132	41.602	27.329	26.620

	Cumulated depreciation						Book values	
	1.1.2010	Depreciation in financial year	Disposals	Re-classification	Currency differences	31.12.2010	31.12.2010	31.12.2009
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
	5.700	428	-	-	58	6.186	585	781
	4.060	779	-	-	-	4.839	193	972
	2.106	-	-	-	-	2.106	8.249	7.478
	11.866	1.207	-	-	58	13.131	9.027	9.231
	15.392	750	-	-	67	16.209	10.497	10.754
	1.102	284	-1	-	52	1.437	2.972	3.171
	7.645	1.041	-297	-	150	8.539	3.663	2.605
	-	-	-	-	-	-	94	37
	24.139	2.075	-298	-	269	26.185	17.226	16.567
	4	-	-	-	-	4	367	992
	36.009	3.282	-298	-	327	39.320	26.620	26.790

Einhell Germany AG, Landau a. d. Isar

Group Management Report for the financial year 2011

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 an der Isar (Germany), is the parent company of the international Einhell Group.

Einhell develops and sells solutions for the handyman and tradesman for the 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 1,100 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 37 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 2011:
A new subsidiary, Einhell Argentina S.A., registered in Buenos Aires was set up. Einhell Germany AG currently holds all the shares in Einhell Argentina S.A., but has given the local Managing Director the option to take up a 10% shareholding that comes into play if defined performance targets are met.
Furthermore, Einhell Germany AG has given the local Managing director of Einhell Denmark a 10% holding in the company.

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 have private shareholdings 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

There were no personnel changes to the Board of Directors in the financial year 2011. There was no change to division of responsibilities between the members of the Board of Directors.

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 parameters 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 parameters.

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 parameter 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 were drawn up 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 Production, procurement and quality management

Production

Expenses for production in the financial year 2011 amounted to €4.5 million (previous year: €4.0 million). This sector has 38 employees (previous year: 37 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 “Blue” line designates the medium priced product line and the “Red” line 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. Average commodity prices rose sharply in 2011. According to the Hamburgisches Weltwirtschaftsinstitut (HWWI), the commodity prices increased in comparison with 2010 by 22.4% in Euro and 28.6% in US dollars. Without energy components, the index increased in 2011 by 12.4% in Euro and 18% in US dollars.

In addition to high liquidity, growth in emerging markets was fed by developments in the commodity markets. According to the HWWI, China needs copper, steel and aluminium for its strongly growing economy. Changing expectations about further global economic development and speculation have contributed to price fluctuations for commodities. The debt crisis in Europe has made investors fear that decreasing economic performance will mean that fewer commodities will be required.

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 13.3% during the financial year 2011 in comparison with the previous year to an average of 1,139 (previous year: 1,005). Revenue per employee was €321 thousand (previous year €364 thousand).

Constant training of our staff provides the basis for successful future trading. The continuing education and training programmes offered in 2011 cover the areas IT and languages. 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 are popular and secure a stream of qualified staff for the company.

The performance and extraordinary commitment of each of its employees allowed the Einhell Group to achieve a remarkable result in the financial year 2011. The Board of Directors of Einhell Germany AG would like to express its thanks to all Group employees.

2. Overview of business activities

Business conditions

Global economy

Optimism was still winning out at the start of 2011. **Global** economic recovery since the spring of 2009 was faster and much stronger than expected. By 2010, global production had already recovered to pre-crisis levels. The positive growth ended during the first quarter 2011 as numerous shocks hit the global economy and speeded up the first signs of a slowdown. Due to political upheavals in various countries in the Middle East and North Africa, there was a strong increase in the oil price. Even more significantly, large parts of the Japanese economy were brought to a standstill by the earthquake and tsunami in March 2011.
In industrial countries there was an expansion of sovereign debt, in part past levels that could be sustained in the long term. In 2011, economic growth was dominated by a vicious circle of sovereign debt and bank crises.

Due to sustained growth rates in emerging markets, the global economy grew by a total of 2.7% in 2011. Economies in South American countries remained very robust in 2011. With growth of about 3% to 3.5% Brazil, the largest economy in South America, moved up to the sixth largest economy in the world.
Although the global economy grew in 2010 and 2011, employment rates stagnated at 6.0%. According to the International Labour Organisation (ILO), more than 197 million people were without a job in 2011. That is the same amount as in 2010 and 27 million more than before the financial and economic crisis in 2007.

Germany

The **German** economy grew by 3.0% in 2011. Despite the Euro crisis and the debt crisis, growth for 2011 was almost as strong as in the previous year. However, economic growth was constrained to the first half of the year and by the end of the year the economic slowdown had halted growth. In the fourth quarter, the German economy decreased for the first time since the financial crisis. On the basis of preliminary figures, according to the Federal Office of Statistics (*Statistisches Bundesamt*) GDP fell by about 0.25%.

Growth impulses in 2011 came from the domestic economy. Private consumption supported economic growth. With an inflation-adjusted increase of 1.5%, it was the strongest figure for 5 years. In the previous year, growth had only been 0.6%. State expenditure increased in 2011 by 1.2% and investment in equipment also saw an increase of 8.3%.

Exports continued to remain dynamic in 2011 but played a less important role in GDP growth than domestic demand. In 2011 Germany exported 8.2% more goods and services (inflation-adjusted) than in the previous year. Despite turbulent conditions, exports reached record levels. For the first time, goods worth in excess of a trillion Euros were sold to other countries.

Due to good economic growth, Germany was able to avoid taking on further debt in 2011. The national debt stood at about 1% of GDP. For the first time in three years, the 3% debt limit from the stability pact was met. Germany's total debt amounted to €26.7 billion.

The German employment markets saw some success in 2011. Unemployment in Germany fell to the lowest level in 2011 for 20 years. According to the Federal Employment Agency (*Bundesagentur für Arbeit*) the annual average number of registered unemployed was 2.976 million. Across the full year, the unemployment rate fell 0.6 percentage points in comparison with the previous year to an average of 7.1%. Employment also increased in 2011 and demand for staff from companies was at a high level. Provided that there is no massive collapse in the global economy, the German government expects that employment markets will remain stable in 2012.

The German consumer price index rose by an average of 2.3% during 2011 in comparison with the previous year. This was the highest average rate of price increases since 2008. In 2011, the overall inflation rate and rates for individual months was 2% or more. The main cause of the significant increase in the annual inflation rate for 2011 was rising energy prices.
The European Harmonised Index of Consumer Prices (HICP) increased by 2.5% over the previous year.

After a successful financial year 2010, the start of 2011 was once again promising for the German **DIY market.** By the end of February 2011, there was already a revenue increase of almost 3%. In the first quarter 2011, industry growth of 3.3% was a strong increase in contrast to the previous year. From April to June 2011, growth was 1.1% according to the German Federal Association of DIY, Building and Garden Centres (*Bundesverband Deutscher Heimwerker-, Bau- und Gartenfachmärkte*). For the full first half-year 2011 this represents a revenue increase of 2.0%. By the end of September gross revenues for DIY stores were up 1% year-on-year. Total revenues amounted to €14.17 billion.
In total, the full year 2011 was marked by contrary developments. After sales records in the spring, the summer months fell far below trading expectations. Since August the building market industry has seen constantly improving sales figures. The Association remains optimistic for the next year that present gentle levels of growth will continue.

Europe

Europe’s economies are declining. The Munich Ifo Institute is forecasting a short recession in the Euro zone. GDP of the 17 states of the currency union decreased in the fourth quarter 2011 and is expected to continue this trend for the following quarter. In the third quarter, the economy had still increased by 0.1%, but lost 0.3% in the fourth quarter. A further drop of 0.2% is expected in the first quarter 2012.

In the Euro zone, the debt problems originally confined to Greece began to spread. Budgetary reform of the highly indebted Greece was more difficult than anticipated. At 9.6%, the budgetary deficit 2011 is a half percentage point higher than intended. Spain is also fighting high levels of public debt. New debt in 2011 was more than 8% over GDP. The Portuguese economy is also suffering and has registered the highest inflation in 10 years. GDP apparently fell by 1.6% in 2011.

Unemployment in the EU has reached a historical highpoint. Seasonally adjusted, the unemployment rate in the Euro zone was 10.3% in November, which is 0.3% over the previous year. There was a similar increase in the EU. Austria (4.1%) and the Netherlands (4.9%) have the lowest unemployment rates, whereas Spain (22.9%) and Greece (18.8%) have the highest numbers of unemployed.

According to the European statistics authority Eurostat, prices in the Euro zone increased less strongly than originally thought. In December 2011, the inflation rate fell to 2.7%, as against 3.0% in November. In 2010, the inflation rate was still 2.2%. The lowest average was Sweden with 1.4%, Slovenia and the Czech Republic each with 2.1%, whilst the highest rate was Rumania with 5.8%. In total, the European Central Bank target of 2.0% could not be met.

For the first time in two years, industrial production in the Euro zone has fallen in comparison with the previous year. According to Eurostat, industrial production in November fell by 0.1%. Experts see this as clear evidence of a recession. New industrial orders in November are also 1.3% behind the previous month.

During the last crisis in 2009, **Poland** was the only economy not to fall into recession. Poland has a fundamentally diversified economy and a solid set up with a stable banking system. Furthermore, the Polish state is only slightly dependent on foreign lenders. One weak point for the country’s creditworthiness is fiscal discipline. The weak fiscal

performance is due to high levels of charges on the public purse from the social security and pensions system.
At the end of the year there was a slight increase in economic growth. According to the Polish Finance Ministry, the Polish economy grew by 4.2% in 2011 and therefore more strongly than originally projected. In November industrial production and retail sales saw a surprisingly strong increase. However, there was also an increase in inflation. An inflation rate of 4.8% was determined for 2011. However, despite higher inflation, the Polish Central Bank left interest rates unchanged in January at 4.5%. Interest rates were last raised in June 2011 by 25 basis points.

In 2011 the **Austrian** economy grew by around 3.3%. The strong and above-average growth in the full year 2011 is based mainly on the strong start to the year. However, Austria cannot avoid the negative conditions in Europe. The Wifo economic research institute (*Wirtschaftsforschungsinstitut*) expects stagnation of economic output in 2012 with the Austrian economy growing by only 0.4%. For 2013 economic analysts expect a rise in GDP of 1.6%. In particular, the restrictive economic path followed by Austria's second most-important trading partner, Italy, will affect economic performance. Due to the economic fall, the number of unemployed will increase noticeably in 2012. With an unemployment rate of 4.1%, Austria had the lowest unemployment rate in the EU in 2011.

For a long time, the **Swiss** economy was relatively unaffected by turbulence in the Euro zone but the crisis has now hit home. On the basis of pessimistic expected sales, companies are holding back on investment. Capital expenditure and exports have been falling since the second quarter 2011.
In December, the number of registered unemployed rose from 0.2% to 3.3%. For the full year 2011, this represents and average unemployment rate of 3.1% and lies under the previous year's rate of 3.9%.
Due to the debt crisis, demand in the Euro zone is collapsing. Switzerland, for which more than a quarter of GDP is earned by exports to the EU, cannot remain unaffected. In total, the outlook for 2012 is less rosy. Important early indicators have been falling since the autumn. The economic barometer of the KOF Swiss Economic Institute fell in December

to its lowest point for two years. In the opinion of the government, GDP in 2012 will only rise by 0.5%.

The **British** economy grew more strongly than expected in the third quarter 2011. Between June and September the economy improved by 0.6% after zero growth in the second quarter 2011.
The balance of trade deficit in November was GBP 8.6 billion after GBP 7.9 billion the previous month. Export prices fell by 0.4% and import prices by 0.2% in comparison with the previous month.
Inflation weakened in December to 4.2%, the lowest level for six months. Despite the fall, annual inflation was more than twice as high as the 2% target of the British Central Bank.
Retail sales also fared better in December than expected. In December, sales increased by 2.2% as against December 2010. Across the full year 2011, this represents a plus of 4.1%. However, the position in retail remains uncertain due to the high level of British unemployment. According to the International Labour Organisation (ILO), unemployment has continued to rise. From September to November the unemployment rate increased to 8.4% and is thus at the highest level for almost 16 years. In December, the unemployment rate was 8.3%.
The economic collapse due to the debt crisis in the Euro zone is the background to the poor growth. The government continues to cut public spending in order to reduce the national debt.

The **Spanish** economy is faring more badly than anticipated. According to government figures, the public debt in 2011 will be at least 8% of GDP and thus two percentage points over the government's target. Additional cuts are unavoidable: spending cuts and tax increases totalling €16.5 billion are planned for 2012. In this way Spain hopes to meet its obligations to the EU to lower new debt to 4.4% of GDP by the end of 2012.
Employment market data also confirms the worsening economic conditions. Unemployment increased by 4.4 million in December alone and with it 7.86% more than in the previous year. In 2011 the increase in unemployment was almost twice as high as in the previous year and was the highest in the EU. According to the government, the fourth

largest economy in the Euro zone has contracted by 0.3% in the fourth quarter 2011. No improvement is expected for the first quarter 2012.

The **Turkish** economy is growing strongly. In 2011 economic performance increased by 7.5% and inflation also grew at a fast pace. At the end of the year, the rate of inflation speeded up and reached its highest point for three years. The cost of living increased in December by 10.45% in comparison with the previous year. Inflation had increased at twice the rate as the Central Bank had hoped. Rising inflation and the increasing deficit in the trade balance means that the Turkish economy threatens to lose pace in 2012. Growth will probably fall to 4% in 2012. As the Turkish economy is closely interlinked with the European economy, its export economy will have to deal with a fall in demand from Europe.

The Turkish Lira also lost 19% of its value against the Euro in 2011 and 22% against the US dollar. The reasons for the fall are the concerns of international investors about monetary policy of the Central Bank aimed at reducing the deficit in the trade balance.

Asia

Economic growth in **China** has fallen to the lowest level for two and a half years. There was still growth of 8.9% in the fourth quarter 2011. The most populous country on earth increased its total GDP in the full year 2011 by 9.2% after 10.4% in the previous year. Growth in the fourth quarter was the slowest since the height of the financial crisis in early 2009, when there was only growth of 7.9%. The fall in demand caused by the debt crisis in Europe and uncertainty in the USA is hitting the world export leader even harder. Tight monetary controls in the fight against inflation and the controls over the overheated Chinese real estate market are also stifling growth.

In December inflation in China fell for the fifth month in a row. Consumer prices only increased in December by 4.1% and in the full year 2011 by 5.4%. However the Target set by the Peking Government of 4% was significantly overshot. After inflation rates reached a record level of 6.5% by July, racing inflation was once again brought under control. This reduction gives the government more leeway to support the economy, which will weaken further due to cooling of global growth. The Chinese Central Bank reduced reserve requirements of the banks in December 2011 in order to stimulate lending.

Due to the debt crisis in industrial countries and the difficult real estate market, experts anticipate a further cooling of the economy. Due to global uncertainty and the fall in demand for Chinese goods, growth of no more than 8% is expected for 2012. The American Conference Board forecasts further slowing of growth for 2012 to 2016 to only 6.8%.

Performance report

Einhell Group holds revenues at previous year level

Due to difficult market conditions, the Einhell Group was not able to increase its revenues over the previous year's level. Consolidated net revenues for the financial year 2011 amounted to €365.3 million as against €365.4 million in the previous year.
This means that the Einhell Group failed to meet forecast revenues for the financial year 2011, whereby the Board of Directors expected an increase in revenues and profits at the start of 2011. In the first quarter 2011 there was still an increase in revenues of 4.3% in comparison to the previous year's quarter and the Board of Directors expected that this positive trend of the previous year would continue. The second quarter was already weaker with an increase of 1.4% in comparison to the previous year's quarter and cumulative increases as of the second quarter amounted to 2.7%. In the subsequent quarters there was a further increase in overall uncertainty in the markets. The debt crisis in many states in the European Union led to extreme consumer uncertainty and significant falls in sales. One important customer also suffered massive falls in revenues and earnings that also effected significant falls in revenues for the Einhell Group to this customer. The forecast worsened as the year went on. An unexpectedly weak October and November meant that the forecast for the full year could no longer be met. This result was reported in full to the capital markets in current reporting by the Board of Directors.

The domestic market in **Germany** was able to generate revenues in the financial year 2011 of €131.7 million (previous year: €145.3 million). The share of domestic revenues amounts to 36%. 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 2011. There was a total revenue increase of 5.7% of €145.0 million to €153.3 million.

The most important sales markets in the financial year 2011 were still Austria, Poland, and Italy.

Revenues in **Asia** amounted to €14.4 million (previous year €23.6 million) in the reporting period.

Other countries generated significant increases in revenues. As against the previous period, revenues increased by €14.4 million to €65.9 million (previous year €51.5 million). The strongest countries for sales are once again Turkey and Switzerland. The new South American subsidiaries and the Australian subsidiary were also able to generate a revenue contribution of around €19.5 million.

The share of Group revenues generated in other countries amounted to 64% in the financial year 2011.

Development of both segments

The Tools segment achieved revenues in the financial year 2011 of €220.5 million (previous year €217.6 million).

This segment includes strong sales from the product groups compressors and pressure accessories, generators, cordless screwdrivers, drill hammers, cleaning machinery products and wood-processing machines.

The Garden & Leisure segment generated revenues of €144.8 million (previous year €147.8 million) in 2011.

This segment includes strong sales from products from the product groups lawn mowers, electric scarifiers, garden pumps, leaf vacuums, products for tree and bush care and water technology products.

3. Earnings

Due to difficult market conditions, the Einhell Group was unable to increase year-on-year earnings in the financial year 2011 and generated earnings from ordinary business activities in the financial year 2011 of €19.1 million (previous year: €20.2 million). The pre-tax yield amounts to 5.2% (previous year: 5.5%).

These results were due mainly to a disproportionate increase in personnel costs with revenues mainly static and increased gross profit. The increase in personnel costs amounts to €4.5 million or 11.7% to €43.1 million. The Einhell Group has invested heavily in personnel to improve the quality of products, to expand sales channels such as specialised shops, and to make further structural developments within the Einhell Group. Staff in the areas of procurement and marketing was increased significantly. Other operating expenses remained almost constant in relation to the previous year. The financial result was reduced by €2.2 million to €-3.5 million and was strongly affected by global currency fluctuations. In particular, the Turkish Lira, the Hungarian Forint and South American currencies were subject to significant fluctuations. The financial result is calculated mainly on the basis of interest earnings of €-1.7 million (previous year €-1.7 million) and from earnings from currency conversion of €-1.8 million (previous year €0.4 million).

The consolidated net profit after minority shareholdings decreased in the financial year 2011 from €16.2 million to €14.5 million. The return on investment (ROI)[1] at reporting date amounted to 7.8% (previous year: 8.0%).

In the financial year 2011, an EBIT yield in relation to revenues of 6.2% (previous year 5.9%) was attained.

These earnings meant that the Einhell Group did not quite meet its targets for the financial year 2011. The Einhell Group is still very profitable and is in a good position to meet the challenges of global economic developments. With a view to the long-term development of the company, we believe that the Einhell Group has proven for many years, and continues

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

to demonstrate, that it can generate long-term and sustainably positive earnings and cash flows.

4. Assets and financial position

The main items in the statement of financial position for the financial years 2011 and 2010 are as follows:

in € millions	**31.12.2011**	**31.12.2010**
Non-current assets	27.3	26.6
Inventories	110.4	95.6
Trade receivables	62.2	62.5
Cash and cash equivalents	13.7	44.5
Equity	163.2	145.0
Liabilities to banks	22.0	42.5

The balance sheet total decreased by €8.2 million or 3.2% to €245.2 million.

Investments and non-current assets

Investments in the financial year 2011 amount to €3.7 million, of which €0.5 million is for intangible assets and the remainder of €3.2 million is for property, plant and equipment. Intangible assets comprise mainly additional software. Property, plant and equipment includes mainly investments in technical equipment and machinery, and fixtures and fittings and other equipment.

Depreciation and amortisation in 2011 amounted to €2.5 million and was reduced as against the previous year by €0.8 million (previous year: €3.3 million).

Current assets

At balance sheet date, inventories had increased from €95.6 million to €110.4 million. Trade receivables decreased by €0.3 million to €62.2 million (previous year: €62.5 million). No factoring was carried out in the financial year 2011.

As a result of negative cash flows from operating business, particularly from the increase in inventories and repayment and renegotiation of non-current loan commitments, cash and cash equivalents at reporting date decreased by €30.8 million to €13.7 million. Its share in total assets amounts to 5.6% (previous year: 17.6%).

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 in 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 USD 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 66.6%, 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 of Directors is maintaining its extremely successful and long-term international expansion strategy.

In the financial year 2011, 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 until mid-2014. Due to a surplus of cash and changes in the interest markets in the financial year 2011, a decision was made to part of the non-current financing prematurely and to take on a reduced loan amount under better terms. This means that non-current financing of €20 million is now secured to mid-2014 on very good terms. The Group does not envisage any difficulties in meeting its repayment obligations under the loan agreements.

It is also pleased that the Group's 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 development in the financial position in the financial year 2011 is clear from the summarised statement of cash flows:

in € millions	**2011**	**2010**
Cash flows from operating activities	-4.0	-7.7
Cash flows from investment activities	-4.0	-3.0
Cash flows from financing activities	-22.9	-2.2
	-30.9	-12.9
Changes from currency conversion	0.1	-0.2
Net increase in cash	-30.8	-13.1
Cash and cash equivalents at beginning of period	44.5	57.6
Cash and cash equivalents at end of period	13.7	44.5

The cash flow from financing activities results from the repayment of loan liabilities and the dividend payment for the financial year 2010.

5. Overall economic situation

In summary, the Einhell Group generated an encouraging result in the financial year 2011 despite difficult market conditions. Both revenues and earnings remained stable. Gross income remained stable. The increase in personnel expenses is linked to the expansion and strategic development of the Group.

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 2011 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 (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 at 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 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 Group accounting processes is designed to identify the risk of misstatements in the Group 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 company 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. During the current financial year, Einhell Group companies draw up plans for the following 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 allows for 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 for 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 the financial year 2011. 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. The subsidiary 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 staffs 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. <u>Forecast</u>

9.1 Global economic development

The European debt crisis may tip the **global economy** into recession, according to the United Nations. World Bank experts anticipate weaker global economic growth in 2012 than previously thought. The economy should grow worldwide by 2.5%, although earlier forecasts had foreseen growth of 3.6%. An increase of 3.1% is forecast for 2013.

Emerging market economies are seen as important growth drivers but faltered in 2012. Economic weakness in Europe is threatening to impact on the exports of emerging economies. The forecast of World Bank experts saw a downward correction of 0.8 percentage points and expect growth of 5.4% for 2012 and 6% for 2013.

World Bank experts consider that the debt crisis in the Euro zone has for the time being been dampened by the European Financial Stability Facility (EFSF) and the intervention of the European Central Bank, but country insolvencies in the Euro countries or a collapse of the Euro zone could plunge the banking sector into heavy turbulence as in 2008 and cause a global credit seizure.

In the opinion of the World Bank, growth in less developed countries will be stronger than in the large industrial states. However, it also lowered growth expectations for these states too. Due to lower capital flows and less stable trade, less developed countries are even more vulnerable to a crisis than in 2008. Economic development is strongly linked to political decisions in Europe and the USA. If debt in the industrial countries and uncertainty in the financial sector continues to expand, the global economy could fall into recession. There is a fear that the downturn in Europe and the weaker growth of emerging market countries could have a mutually negative effect and lead to even weaker results.

9.2 Development in Europe

The effects of the sovereign debt crisis are hitting the E**uro zone** harder than anticipated. The World Bank is warning of recession. The Euro zone economies will shrink by 0.3% in 2012 according to its forecast, and grow again slightly by 1.1% in 2013. In June 2011 it still expected growth of 1.8% for the full year 2012.

Due to its close interlinks with the Currency Union states, many experts regard Eastern Europe as particularly under threat. The recession in Western Europe has been a hard knock for the new economies. According to the World Bank, in 2012 a total of 17 countries in the Euro zone will fall into recession with an average fall in growth of 0.3%. The International Monetary Fund (IMF) expects that Italy's economy will fall by 2.2% in 2012 and Spain's will fall by 1.7%. Stringent cuts and weak loan availability will plunge these countries into a two-year recession. Portugal could also fall into the sights of the speculators. The cut in the country's rating by the US rating agency Standard & Poor's (S&P) has pushed up interest for 10-year bonds to almost 15%. Despite reform of the labour markets and other attempts to cut back on public deficits, Portugal will no longer be able to maintain stability. According to a Citygroup economist, the Portuguese economy will probably shrink by 5.8% in 2012 and by 3.7% in 2013. The Greek economy will also probably fall in 2012 for the fifth year in a row. Despite an expectation of a fall of 3%, the economy in 2011 must have fallen by at least 6%. The Government states that GDP will fall by around 2.8% in 2012, but economists expect the actual fall to be around 7%.
Due to the sovereign debt crisis in many Euro zone countries, many EU countries are seeking to drastically sink their level of cuts so as not to put further strain on the interest burdens of public budgets. According to Wifo, this will dampen domestic demand in the Euro zone in coming years. The Euro zone will profit from stronger global economic dynamics in 2013, but public budgetary savings will continue to impede growth.

9.3 Development in Germany

There was a break in growth in the **German** economy in 2012. The Federal government anticipates economic performance to grow by 0.7% in 2012. Despite all uncertainties, the European debt crisis should only weaken growth for a temporary period. The German government is convinced that growth will pick up during the course of the year. In 2013, it already expects there to be hefty positive growth of 1.6%.
Experts anticipate that German GDP will probably fall by 0.1% in the first quarter. According to the Federal Statistical Office, at the end of 2011 there had already been negative growth of 0.25%. Technically, Germany is already in recession. However, economists expect that the fall in growth will only be mild and that the economy will pick up again during the course of the year. Growth of 0.2% is expected for the spring of 2012

and this should double by the summer. This tempo should be maintained until the end of 2013.

The German economy is supported by private consumption. According to forecasts, private consumption will increase in 2012 by 1.0%, a little slower than in the previous year. According to the Federal government, private households will have around 3% more income in 2012. As inflation should fall to around 1.8%, consumers should actually have access to more real funds.

Due to the weaker global economy and reduced demand from many European partners, exports will be below figures for 2011. The expected increase for 2012 is only 2.9% after 8.2% in 2011. As imports are growing faster than exports, exports in 2012 will depress GDP.

Despite weak growth, experts anticipate that employment markets will remain stable. In 2012 unemployment will fall to its lowest level for 20 years at 6.8% and should fall further to 6.7% in 2013. The number of employed will probably rise in 2012 to about 41.3 million, which is another record.

However, German economic growth is also dependent on European partner countries maintaining stability and growth.

9.4 Expected growth in the markets relevant to the Einhell Group

The estimation of expected growth for 2012 remains swathed in considerable uncertainty due to the escalating sovereign debt crisis and turbulences in global markets.

In the financial year 2012, the Einhell Group expects an overall constant to slightly increasing business volume, which under normal circumstances would result in stable or slightly higher revenues. However, Einhell expects varying results from the different regions.

According to this, Germany should see a slight increase in revenues. However, there are uncertain factors such as the further growth of private consumption and private savings ratios. Both are connected to and are heavily affected by uncertainty of end-consumers as regards the further battle against the debt crisis in Europe and resulting inflation expectations. In addition, one of our important customers is suffering from significant revenue and income problems. Sales of Einhell goods at this customer have been heavily affected and this is resulting in poor sales for the Einhell Group with respect to this customer. A lot rests on whether or not this customer can recover and whether other German customers can make up these revenue shortfalls. However, this and other related factors are uncertain.

A similar situation affects consumption of end-customers for the immediate neighbour countries Austria and Switzerland, which with Germany make up Einhell's strongest markets in Western Europe. In Austria in particular, Einhell has achieved a strong market presence in relation to population and is reacting sensibly to any weakness in overall markets.

In Southern Europe, Einhell expects at least stable revenues in Italy, Spain, Portugal and Greece. But these four countries are particularly affected by the sovereign debt crisis and we cannot be reliably certain that plans will be realised. Revenues and income in these countries may fall well below expectations if the situation in these countries becomes worse.

The subsidiary set up several years ago in France is also planning on expansion. Einhell plans a solid sideways expansion into the other countries in Europe.

In Eastern Europe, Einhell expects that the financial year 2012 will show slight growth. Not all countries in Eastern Europe have recovered from the effects of the crisis and some countries are being hit by a new crisis wave, but some countries are showing signs of stability. For example, in the Czech Republic, Poland and Slovakia, Einhell anticipates slight revenue increases. Countries such as Hungary, Bulgaria or Ukraine, however, should remain at a constant level.

However, the Einhell Group expects increases in Northern Europe. In Sweden, Denmark and Norway, where business activities were reorganised in the previous year with a pre-standing business partner, we expect to see revenue increases. However, total revenues in the three countries remain at a relatively low level and are supposed to be drastically extended in the coming years.

However, Einhell expects significant growth in Turkey. After takeover of a majority stake in the Turkish company in 2007, revenues have almost tripled. Further increases are planned for the financial year 2012.

Einhell is also planning for similar increases in Australia where a solid business with an international discount chain is now also being supported by listing business with local DIY chains.

Plans for Chile and Brazil should also see an increase in revenues. The newly founded Argentinean subsidiary is also expected to make a fair revenue contribution in 2012. In these emerging market countries, Einhell has recognised that a young population with increasing purchasing power is seeking products with excellent price-performance ratios. The specified markets and also markets in other emerging markets in South and Central America offer significant potential for 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. Newer subsidiaries, such as in Australia, Brazil or Chile, have larger planned increases for the Tools division.

9.5 Aims and opportunities of the Einhell Group

The aims of the Einhell Group for the next three to 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.
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, and we have now expanded into Argentina. Longer term, in Central and South America, we also hope to move into Peru, Columbia and Mexico. In other regions the Einhell Group is weighing up market entry in Russian, India and South Africa. Einhell is seeking to ensure the successful implementation of this expansion strategy by building up staff in these markets.

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 competition. 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 2012 and 2013

The different countries in which Group companies operate show varying prospects. Whilst markets in some countries are stable, and have showed renewed growth, this is not the case in all markets, particularly in Southern and Eastern Europe.
There has been some let up with freight rates in recent times. However, the further development is still difficult to predict or calculate. The Einhell Group is being careful and is calculating on the basis of rising commodity prices, which has a detrimental effect on prices and at the very least can dampen revenues. Also risks about the stability of the

Renminbi and the Euro are difficult to assess. Above all, a weaker Euro could lead to higher prices. The Euro crisis means that there are uncertainties about the stability of the currency union and the common currency (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 stable or slightly increasing revenue increases in 2012, but with greater uncertainty than previously.

In the financial year 2011, Einhell generated total revenues of around €365 million. The Tools division generated around €220 million and the Garden & Leisure division generated around €145 million.

In the financial year 2012, Einhell plans constant or slightly increasing revenues. The Tools division is expected to generate growth rates that are higher for the Tools division than for the Garden & Leisure division. With respect to turnover margins, Einhell expects similar yields from earnings before taxes in 2012 as generated in 2011.

As planned for 2012, expansion will continue in the financial year 2013. Inclusion of new regions will spread risk further, so that stronger Group companies can compensate for weaker companies. The Einhell Group expects to generate revenues of €380-400 million in 2013; it had hoped to reach this target earlier but this was not possible due to difficult market conditions. The Einhell Group also hopes to again increase its rate of expansion 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 a. d. Isar, 19 March 2012

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