



// FINANCIAL REPORT 2016

Einhell Germany AG



Einhell Germany AG, Landau a. d. Isar

Consolidated statement of financial position as of 31 December 2016

Assets	Notes	31.12.2016	31.12.2015
		EURk	EURk
Intangible assets	(2.2)	19.752	22.156
Property, plant and equipment	(2.3)	19.884	19.550
Non-current financial assets	(2.4)	388	380
Deferred tax assets	(2.5)	6.688	5.869
Other non-current assets	(2.9)	424	2.073
Non-current assets		47.136	50.028
Inventories	(2.6)	127.738	139.128
Trade receivables	(2.7)	67.857	62.711
Other financial assets	(2.8)	3.314	4.147
Other current assets	(2.9)	20.532	20.438
Cash and cash equivalents		54.704	24.306
Assets held for sale	(2.18)	1.982	0
Current assets		276.127	250.730
Total assets		323.263	300.758

Equity and liabilities	Notes	31.12.2016	31.12.2015
		EURk	EURk
Subscribed capital	(2.10)	9.662	9.662
Capital reserve	(2.10)	26.677	26.677
Retained earnings	(2.10)	132.905	128.484
Other reserves	(2.11)	-7.048	-8.544
Equity of shareholders of Einhell Germany AG		162.196	156.279
Non-controlling interest	(2.12)	1.882	1.655
Equity		164.078	157.934
Provisions for pensions	(2.13)	3.214	2.762
Provisions for other risks	(2.14)	837	830
Non-current financial liabilities	(2.15)	30.000	30.000
Deferred tax liabilities	(2.5)	3.051	3.152
Other non-current liabilities	(2.17)	715	4.316
Non-current liabilities		37.817	41.060
Trade payables		70.344	62.529
Provisions for income taxes		2.938	1.794
Provisions for other risks	(2.14)	14.938	10.793
Current financial liabilities	(2.15)	3.158	2.519
Other financial liabilities	(2.16)	2.382	2.698
Other current liabilities	(2.17)	27.250	21.431
Liabilities in connection with assets held for sale	(2.18)	358	0
Current liabilities		121.368	101.764
Total equity and liabilities		323.263	300.758

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of income (IFRS) for the period from 1 January to 31 December 2016

	Notes	2016 EURk	2015 EURk
Revenue	(3.1)	487.211	443.751
Own work capitalised	(2.2)	0	121
Other operating income	(3.2)	6.193	5.845
Cost of materials	(3.3)	-330.127	-303.066
Personnel expenses	(3.4)	-63.246	-61.343
Depreciation	(3.5)	-6.466	-5.156
Other operating expenses	(3.6)	-73.052	-66.260
Financial result	(3.7)	-3.531	-2.113
Profit before income taxes		16.982	11.779
Income taxes	(3.8)	-7.334	-4.136
Consolidated net profit		9.648	7.643
Thereof share of minority shareholders in consolidated net profit/loss		306	292
Thereof share of shareholders of Einhell Germany AG in consolidated net profit/loss		9.342	7.351

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of comprehensive income for the period from 1 January to 31 December 2016

	2016	2015
	EURk	EURk
Consolidated net profit	9.648	7.643
Items of other comprehensive income that were or can be reclassified to profit or loss		
Unrealised losses (previous year: losses) from currency translation	-1.422	-1.720
Unrealised gains (previous year: losses) from available-for-sale financial assets	2	-1
Unrealised gains (previous year: losses) from derivative financial instruments	1.008	-6.156
	-412	-7.877
Items of other comprehensive income that will not be reclassified to profit or loss in future periods		
IAS 19 revised - Employee Benefits	-302	263
Other comprehensive income, after taxes	-714	-7.614
Thereof share of other comprehensive income attributable to minority interests, after taxes	-26	3
Thereof share of other comprehensive income attributable to shareholders of Einhell Germany AG, after taxes	-688	-7.617
Consolidated comprehensive income	8.934	29
Thereof share of consolidated comprehensive income attributable to non-controlling interest	280	295
Thereof share of consolidated comprehensive income attributable to shareholders of Einhell Germany AG	8.654	-266

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of changes in equity for financial year 2016

				Other reserves						
	Subscribed capital	Capital reserve	Retained earnings	Adjustment for currency conversion	Financial assets available for sale	Remeasurement reserve pursuant to IAS 19	Derivative financial instruments	Equity of shareholders of Einhell Germany AG	Share of non-controlling interest	Total equity
	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk
1 January 2015	9.662	26.677	122.575	-3.171	31	-1.067	3.280	157.987	1.601	159.588
Consolidated net profit	-	-	7.351	-	-	-	-	7.351	292	7.643
Unrealised gains/losses	-	-	-	-1.723	-1	337	-8.544	-9.931	3	-9.928
Deferred taxes on unrealised gains/losses	-	-	-	-	-	-74	2.388	2.314	-	2.314
Comprehensive income	-	-	7.351	-1.723	-1	263	-6.156	-266	295	29
Dividends	-	-	-1.384	-	-	-	-	-1.384	-200	-1.584
Other changes	-	-	-58	-	-	-	-	-58	-41	-99
31 December 2015	9.662	26.677	128.484	-4.894	30	-804	-2.876	156.279	1.655	157.934
Consolidated net profit	-	-	9.342	-	-	-	-	9.342	306	9.648
Unrealised gains/losses	-	-	-	-1.396	2	-493	1.295	-592	-26	-618
Deferred taxes on unrealised gains/losses	-	-	-	-	-	191	-287	-96	-	-96
Comprehensive income	-	-	9.342	-1.396	2	-302	1.008	8.654	280	8.934
Dividends	-	-	-2.139	-	-	-	-	-2.139	-100	-2.239
Other changes	-	-	-2.782	-	-	-	2.184	-598	47	-551
31 December 2016	9.662	26.677	132.905	-6.290	32	-1.106	316	162.196	1.882	164.078

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of cash flows for financial year 2016

	2016	2015
	EURk	EURk
Cash flows from/used in operating activities		
Profit before taxes	16.982	11.779
+ Depreciation and amortisation of intangible assets and property, plant and equipment	6.466	5.156
- Interest income	-120	-187
+ Interest expenses	2.115	2.113
+/- Other non-cash expenses and income	-88	-10
Operating profit before changes in net working capital	25.355	18.851
+/- Decrease/increase in trade receivables	-5.850	-1.387
+/- Decrease/increase in inventories	9.665	-28.127
+/- Decrease/increase in other assets	2.450	-1.048
+/- Decrease/increase in assets held for sale	-1.982	0
+/- Increase/decrease in non-current liabilities	-3.143	-3.146
+/- Increase/decrease in current liabilities	14.558	6.222
+/- Increase/decrease in trade payables	9.177	4.750
+/- Increase/decrease in liabilities in connection with assets held for sale		
	358	0
Cash flows generated from operating activities	50.588	-3.885
- Taxes paid	-7.031	-1.670
+ Interest received	106	178
- Interest paid	-1.745	-1.573
Net cash from/used in operating activities	41.918	-6.950
Cash flows from/used in investing activities		
- Payments to acquire assets	-5.036	-4.729
+ Proceeds from disposal of assets	228	270
+/- Increase/decrease in goodwill	-315	0
Net cash used in investing activities	-5.123	-4.459
Cash flows from/used in financing activities		
+ Proceeds from taking out loans	1.010	2.360
- Payments for acquisition of equity investments	-4.282	-3.432
- Dividend payments to shareholders of Einhell Germany AG	-2.139	-1.384
- Dividend payments to non-controlling interests	-100	-200
Net cash used in financing activities	-5.511	-2.656
Changes to cash and cash equivalents due to currency exchange	-886	2.117
Net decrease/increase in cash and cash equivalents	30.398	-11.948
Cash and cash equivalents at beginning of reporting period	24.306	36.254
Cash and cash equivalents at end of reporting period	54.704	24.306

Additional details are shown in the Notes in item 5.

Einhell Germany AG, Landau a. d. Isar

Notes to the Consolidated Financial Statements for the Financial Year 2016

1. Principles and Methods

1.1 General information

Einhell Germany AG and its subsidiaries manufacture and sell manually operated, petrol-operated and electronic tools, electrical tool accessories, 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; its registered office is at Wiesenweg 22, 94405 Landau an der 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 applicable in the European Union.

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

The Board of Directors approved the consolidated financial statements on 31 March 2017 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 2016. The Group has applied the following standards and amendments to standards to be adopted for the first time from 1 January 2016.

- Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”; effective for annual periods beginning on or after 1 January 2016.
- Amendments to IFRS 11 “Accounting for Acquisitions of Interests in Joint Ventures”; effective for annual periods beginning on or after 1 January 2016.
- Amendments to IAS 1 “Disclosure Initiative”; effective for annual periods beginning on or after 1 January 2016.
- Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortisation”; effective for annual periods beginning on or after 1 January 2016.

- Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”; effective for annual periods beginning on or after 1 January 2016.
- Amendments to IAS 19 “Defined Benefit Plans: Employee Contributions”; effective for annual periods beginning on or after 1 February 2015.
- Amendments to IAS 27 “Equity Method in Separate Financial Statements”; effective for annual periods beginning on or after 1 January 2016.
- Improvements to IFRS 2010-2012; effective for annual periods beginning on or after 1 February 2015. The amendments refer to standards IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.
- Improvements to IFRS 2012-2014; effective for annual periods beginning on or after 1 January 2016. The amendments refer to standards IFRS 5, IFRS 7, IAS 19 and IAS 34.

All standards that had to be adopted for the first time in 2016 had no material effect on the consolidated financial statements.

Standards and interpretations not applied earlier than mandatory

The IASB has issued the following standards, interpretations and amendments to existing standards, for which the application was not mandatory as of 31 December 2016 and which have not been applied prematurely by the Einhell Group. The Einhell Group does not currently plan a premature adoption of standards, interpretations and amendments.

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 7 “Disclosure Initiative”; effective for annual periods beginning on or after 1 January 2017. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.
- Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealised Losses”; effective for annual periods beginning on or after 1 January 2017. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.
- Improvements to IFRS 2014-2016 “Amendments to IFRS 12”; effective for annual periods beginning on or after 1 January 2017. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.
- Amendments to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”; effective for annual periods beginning on or after 1 January 2018. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.
- Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”; effective for annual periods beginning on or after 1 January 2018. The application of the amendments is expected to entail adjustments to the disclosures in the notes.
- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”; adoption date to be determined. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.
- Amendments to IFRS 15 “Clarifications to IFRS 15”; effective for annual periods beginning on or after 1 January 2018. The application of the amendments is expected to entail adjustments to the disclosures in the notes.
- Amendments to IAS 40 “Transfers of Investment Property”; effective for annual period beginning on or after 1 January 2018. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration”; effective for annual periods beginning on or after 1 January 2018. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.
- Improvements to IFRS 2014-2016 “Amendments to IFRS 1 and IAS 28”; effective for annual periods beginning on or after 1 January 2018. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.

The effects of the following standards on the consolidated financial statements of the Einhell Group are being analysed at present.

- IFRS 9 “Financial Instruments”; effective for annual periods beginning on or after 1 January 2018. The endorsement in EU law has already been completed in compliance with the standard EU process. The standard IFRS 9 issued in July 2014 replaces the existing guidelines in IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 contains revised guidance on the classification and measurement of financial instruments, including a new model for expected defaults to calculate the impairment of financial assets, as well as new general hedge accounting provisions. It also replaces the guidelines for recognising and derecognising financial assets previously governed by IAS 39. We expect that IFRS 9 will have an effect on the classification and measurement of the Group’s financial assets, although the assessment of the effects on the consolidated financial statements has not yet been completed.
- IFRS 15 “Revenue from Contracts with Customers”; effective for annual periods beginning on or after 1 January 2018. The endorsement in EU law has already been completed in compliance with the standard EU process. IFRS 15 “Revenue from Contracts with Customers” contains a comprehensive framework on when to recognise revenue in what amount. It replaces the existing guidelines on recognising revenue, including those in IAS 18 “Revenue”, IAS 11 “Construction Contracts” and IFRIC 13 “Customer Loyalty Programmes”. The Einhell Group is presently analysing the effects thereof. No major impact is expected.
- IFRS 16 “Leases”; effective for annual periods beginning on or after 1 January 2019. According to this standard, all leases are recognised as a liability for the payment obligation on the liabilities side and, at the same time, as a right of use for the leased asset on the assets side of the balance sheet. This is depreciation on a straight-line basis, while the liability is reduced during its term through repayment and interest accruals. The Einhell Group has not yet analysed the effects of the new standard. We assume that liabilities from debt capital and intangible assets will increase.

Presentation

Presentation in the statement of financial position 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 income statement is drawn up using the total cost method.

For clarity and comprehensibility of the consolidated financial statements, individual line items in the statement of financial position and the statement of income have been summarised. These line items are listed separately in the notes to the consolidated financial statement.

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. In turn, 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 standard accounting and valuation policies pursuant to IAS 27. The reporting date for the consolidated companies is 31 December; Ozito Industries Pty Ltd acquired in 2013 and Einhell Holding Australia

Pty Ltd founded in 2013 have different financial years (30 June). Ozito Industries Pty Ltd and Einhell Holding Australia Pty Ltd prepare an interim financial statement as of 31 December. The 31 December is the reporting date of the parent company.

Capital consolidation is made using 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 asset-side balances are recognised as goodwill.

Within the consolidated group of companies, intra-group profits and losses, revenues, expenses and other income, all receivables and liabilities or reserves are eliminated. The income tax effects of consolidation transactions are recognised through profit or loss and appropriate deferred taxes are recognised.

1.4 Basis of consolidation

The companies included in the consolidation are Einhell Germany AG and a further 40 (previous year: 40) fully consolidated companies.

Einhell Germany AG, Landau, prepares the consolidated financial statements for the smallest and for the largest group of companies. The financial statements are published in the Bundesanzeiger (German Federal Gazette).

The Einhell Group took over 5% of shares from the Managing Director of Einhell France SAS in the year under review. Einhell Germany AG therefore now owns all of the shares in this company. The companies included in the consolidation have not changed.

The subsidiaries consolidated in the consolidated financial statements are listed in section 8 of the notes to the consolidated financial statement. The subsidiary iSC GmbH, Landau a. d. Isar partially uses the exemptions pursuant to section 264 (3) of the German Commercial Code (HGB).

1.5 Currency translation

The foreign investments within the consolidation group are financially, economically and organisationally autonomous. They 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 as at the reporting date are valued at reporting date at the relevant daily exchange rate. Conversion differences from monetary transactions or the valuation of monetary line 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 through profit or loss 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 income. All resulting translation differences are recognised in other comprehensive income and as an adjustment for currency conversion and in the difference (part of other reserves).

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

		Reporting date rate		Average rate	
		31.12.2016	31.12.2015	2016	2015
Australia	AUD	1.4617	1.4894	1.4886	1.4765
Brazil	BRL	3.4394	4.3139	3.8616	3.6916
China	CNY	7.3443	7.0724	7.3496	6.9730
Hong Kong	HKD	8.1945	8.4422	8.5900	8.6023
Poland	PLN	4.4180	4.2636	4.3636	4.1828
Switzerland	CHF	1.0754	1.0822	1.0902	1.0676
Turkey	TRY	3.7288	3.1815	3.3428	3.0219
USA	USD	1.0568	1.0892	1.1066	1.1096

1.6 Accounting and valuation principles

Purchased and self-developed intangible assets are capitalised pursuant to IAS 38 if there is an associated future economic benefit from these assets and the costs of the assets may be determined with certainty. The 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 processing costs are 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 (i.e. existence of a market for the product or evidence of product use by the company for internal purposes);
- There are sufficient technical, financial and other resources available to conclude the project.

Capitalisation of costs begins with the initial fulfilment of the above criteria. Costs recognised as expenses in prior reporting periods may not be capitalised retrospectively. Other than development costs, there are no self-developed 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. Usually, the depreciation period does not amount to 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 recognised in previous financial years 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 carrying amount of the net assets of a cash-generating unit exceeds 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 purchase or manufacturing 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 and machinery	3-20 years
Other equipment, operating and office equipment	3-10 years

Leasing. All agreements that transfer the right to use a specific asset for a fixed period for payment of a fee are deemed lease agreements. This also applies to agreements 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 almost 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 advance payments. 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 realisable value of inventories falls below acquisition costs.

Financial assets. Financial assets comprise in particular trade receivables, receivables from banks, cash in hand, derivative financial assets and marketable securities.

Financial assets measured 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 held for sale). Gains or losses from financial assets held 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 listed on an active market, such as trade receivables. After the first-time recognition, loans and receivables are valued at amortised cost using the effective interest method less impairment. Gains and losses are included in consolidated net profit when the loans and receivables are derecognised 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. Following initial recognition, financial assets available for sale are valued at fair value, whereby non-realised gains or losses are recognised in other comprehensive income. Where there are objective indications of a value impairment, or if there are changes to the fair value of a loan instrument due to exchange rate fluctuations, they are taken into account in the consolidated net profit or loss. Upon disposal of financial assets, cumulated gains or losses from the valuation at fair value that were recognised in other comprehensive income are recognised through

profit or loss. Interest received from 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 corresponds with the respective figure in the consolidated cash flow statement.

Impairment of financial assets. At each reporting date, the carrying amounts 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 carrying value of the asset and the cash value of expected future cash flow. 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 increase in 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 recognised in impairment accounts. The decision whether default risks will be taken into account for an impairment account or via a direct reduction in the receivable depends on the estimated level of default probability for the receivable. If a receivable is classed as unrecoverable, the corresponding impaired asset value is derecognised.

Deferred tax assets and liabilities are set aside pursuant to IAS 12 “Income Taxes” for temporary differences between the carrying values shown in the consolidated statement of financial position 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 earnings before or after taxes. This also applies to tax losses carried forward and tax credits if such can be determined with sufficient certainty. Deferred tax assets and liabilities are recognised in the amount of the probable tax burden or relief in future financial 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 adequate 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 equity in the same or another reporting period. Deferred tax liabilities and assets are only netted if they are deductible in the view of the fiscal authorities.

Assets held for sale. Non-current assets or disposal groups comprising assets and liabilities are classified as “held for sale” if it is most likely that they will be largely realised through disposal and not through continued use. In general, these assets or disposal groups are recognised at the lower of carrying amount and fair value less costs of disposal. A potential impairment loss is recognised in profit or loss when the asset is first classified as held for sale.

The **adjustment for currency conversion** results from 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 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 statement of financial position. The allocable consolidated net profit and allocable other comprehensive income is recognised separately in the income statement or in the

statement of comprehensive income. Non-controlling interest includes the share of minority shareholders in the fair 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 from changes in exchange rates.

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

A discount factor for interest rates for future beneficiaries of 2.03% (previous year: 2.71%) was used, along with 1.38% (previous year: 1.96%) for pensioners. As in the previous year, the rate for pension progression for commitments with adjustment guarantee was 3.00%. No rate of compensation increase was available for non-salary based obligations and for commitments without adjustment guarantee.

The pension provisions shown in the statement of financial position on the reporting date equal the defined benefit obligations offset against the fair value of plan assets. Pursuant to IAS 19.8, plan assets include assets of long-term funds independent of the reporting company that have been set up to render benefit payments to employees. Actuarial gains or losses are realised in the year they occur. The recognised fair value of the DBO is not secured by a pension fund, but to some extent by reinsurance policies.

Provisions for other risks 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 or circumstances have changed.

Provisions for warranty and guarantees are set up at the time the products are sold. The valuation of warranty 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, liabilities to banks, 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 measured 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 liabilities held for sale). Gains or losses from financial liabilities held for sale 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 planned transaction.

Upon initial recognition and at each subsequent reporting date, derivative financial instruments are recognised at fair value. The fair value of tradeable derivatives corresponds to the positive or negative market value. If there is no market value available, they are calculated on the basis of generally accepted actuarial methods, 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. Derivative instruments are recorded in the Treasury system on the day of trading.

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 Einhell Group's fair values are validated by financial institutions that have provided the Group with the relevant contracts.

If the provisions of IAS 39 on hedge accounting are met, Einhell Group 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 that is recognised in the statement of financial position or of an obligation that is recognised in the statement of financial position or a fixed obligation that is not included in the statement of financial position. A cash flow hedge secures highly probable future payment flows or fluctuating payment inflows or outflows in connection with a hedged asset or liability as recognised in the statement of financial position. 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 as well as a description of the method of measuring efficacy. Hedge accounting allows for effective estimation of risk compensation 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.

Fair value changes of the derivatives are taken into account in consolidated net profit or other comprehensive 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 consolidated net profit through profit or loss. The after-tax effective portion of changes in the fair value of derivative instruments that are allocated to a cash flow hedge are initially recognised in other comprehensive income. The reclassification to the statement of income is made at the same time as the underlying hedged item is recognised in profit or loss. The hedge-ineffective portions of fair value changes are recognised directly in consolidated net profit.

Revenue recognition. 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 sales deductions such as price discounts and favourable long-term purchase agreements.

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

Income taxes. Current income taxes are calculated on the basis of the relevant national taxable result for the year and national tax regulations. 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. The change of deferred tax assets and liabilities is reflected in income taxes. Changes to be recognised in other comprehensive income are an exception to this rule.

1.7 Estimates and assessments in accounting

The consolidated financial statements contain a certain amount of estimations, assessments and assumptions. These can affect the amount and recognition 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, assessments and assumptions are explained below. Actual results may differ from these estimations, assessments and assumptions; any changes may have a significant effect on the consolidated financial statements.

Fair value measurement. Several accounting methods and disclosures of the Group require that the fair values of financial and non-financial assets and liabilities are measured.

The fair value measurement of an asset or a liability is, to the extent possible, based on observable market data. Depending on the input factors used in the valuation models, the fair values are classified to different levels of the fair value hierarchy:

- Level 1: Quoted prices (unadjusted) on active markets for identical assets and liabilities;
- Level 2: Input other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as price) or indirectly (i.e. based on price);
- Level 3: Valuation parameters for assets or liabilities that are not based on observable market data.

With regard to the fair value measurement with non-observable input factors (Level 3), the Group monitors the key input factors on a regular basis and performs valuation adjustments. If information provided by third parties, such as price quotes provided by service agencies, is used to measure fair values, the Group checks the data provided by the third party in terms of whether it meets the requirements according to the IFRS, including the level in the fair value hierarchy to which this information is to be classified.

If the input factors used to measure the fair value of an asset or a liability can be allocated to different levels of the fair value hierarchy, the measurement of all fair values is classified at the lowest input factor level on which the valuation is based.

The Group records possible reclassification between different levels of the fair value hierarchy at the end of the reporting period in which the changes have occurred.

Further information on the assumptions underlying the measurement of fair values is provided in the following section:

- Section 6 Risk report and financial instruments

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 refer 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 2016, realisable values significantly exceed net asset values of the Group's cash generating units for all Group companies with the exception of kwb Germany GmbH.

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 profit.

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

Income taxes. Estimates of future taxable 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 profits from operating activities, effects on income from the reversal of taxable temporary differences and realisable tax strategies. As future business developments are uncertain and the Group has limited control over these developments, 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 is 50% or more that all or part of future tax benefits 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 several legal proceedings and claims. In our opinion, potential 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 statement.

2.2 Intangible assets

	2016	2015
	EURk	EURk
Acquired intangible assets (without goodwill)	6,757	8,703
Self-developed intangible assets	231	306
Acquired goodwill	12,764	13,147
	19,752	22,156

Acquired intangible assets include the customer base and the acquired Ozito brand value (EUR 3.3 million) from the acquisition of Ozito Industries Pty Ltd. The customer portfolio is systematically depreciated over five years.

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 2016, costs amounting to EUR 0 thousand (previous year: EUR 121 thousand) were capitalised for self-developed software that is to support the optimisation of service procedures within the Einhell Group. In financial year 2016, expenses for product processing amounted to EUR 6.1 million (previous year: EUR 5.5 million). As in the previous year, none of these costs were capitalised as development expenses in 2016. A total of 49 employees (previous year: 47 employees) were employed in this business unit.

Goodwill pertains to the following companies:

	2016	2015
	EURk	EURk
Ozito Industries Pty Ltd, Bangholme/Australia	5,808	5,699
Intratek Mühendislik ve Dis Ticaret A.S., Istanbul/Turkey	1,432	1,679
Einhell Export-Import GmbH, Tillmitsch/Austria	2,175	2,148
Einhell-Unicore s.r.o., Carlsbad/Czech Republic	2,174	2,174
Einhell Romania SRL, Bucharest/Romania	936	941
KWB-RUS OOO, St. Petersburg/Russia	239	192
kwb Germany GmbH, Stuhr/Germany	0	314
	12,764	13,147

Goodwill refers to companies that directly helped the Group to enter new markets or gain market shares. Assets and liabilities arising from hidden reserves are valued at fair value at the time of acquisition.

The cash flow forecasts contain specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was determined on the basis of estimates for the average annual EBIT growth rate made by the Board of Directors; these estimates correspond to forecasts that would be made by market participants.

The planned EBIT was estimated on the basis of past experience. Revenue growth was forecast on the basis of the average growth rate over the last few years and the estimates revenue volume and price increases in the next five years.

Sensitivity analyses have shown that, despite potential changes in the underlying assumptions, the recoverable amounts exceed the relevant carrying amounts, with the exception of kwb Germany GmbH.

The recoverability of goodwill is verified in the scope of an annual impairment test. Any value adjustments on goodwill have no effect on tax. An impairment is recognised if the realisable amount falls below the carrying amount of the cash generating units' goodwill. 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. We analysed economic developments in the markets relevant for the Einhell Group and took these findings into account. The following valuation factors were used for all companies:

	2016	2015
	%	%
Terminal growth rate	1.25	1.25
Base rate	1.00	1.50
Market risk premium	7.00	7.00

The post-tax discount rate is determined from figures such as weighted equity costs, borrowing costs after tax, base rate, market risk premium and a specific country risk. The following discount rates (before tax) were used to determine the goodwill items stated below:

	2016	2015
	%	%
Ozito Industries Pty Ltd, Bangholme/Australia	7.55	8.04
Intratek Mühendislik ve Dis Ticaret A.S., Istanbul/Turkey	10.35	10.74
Einhell-Unicore s.r.o., Carlsbad/Czech Republic	8.05	8.64

The base rate was adjusted to the current interest rate level.

A country-specific risk premium was considered in the calculation of the discount rate after taxes for each individual cash generating unit (CGU). In addition, the calculation of the discount rate is also based on the country-specific tax rate. An individual discount rate is therefore calculated for every CGU.

If there is a significant change in general interest rates, this could have effects on the determination of assessment parameters.

Pursuant to IAS 21.47, goodwill of non-euro countries is converted at the reporting date exchange rate. Goodwill impairments were applied in non-euro countries in financial year 2016. Goodwill of

Einhell Export-Import GmbH is derived from the takeover of Einhell Croatia d.o.o., which is a fully-owned subsidiary of Einhell Export-Import GmbH.

As the performance of kwb Germany GmbH has been unsatisfactory and its recoverability can no longer be ensured, the impairment test, which was carried out during the year, led to a full write-down of goodwill (cf. statement of assets) in the amount of EUR 314 thousand, which resulted from the accrual of kwb Germany GmbH & Co. KG in May 2012.

2.3 Property, plant and equipment

	2016	2015
	EURk	EURk
Land and buildings in company assets	10,972	10,645
Technical equipment and machinery	2,593	2,621
Other equipment, operating and office equipment	5,207	6,257
Advance payments and assets under construction	1,112	27
	19,884	19,550

An impairment test for kwb Germany GmbH, which was carried out during the year, indicated a need for impairment at the "kwb" CGU. In a first step, the recoverable amount for the CGU was determined based on the value in use. The tests carried out have shown that the values in use for this CGU fall significantly short of the carrying amounts in the statement of financial position, i.e. the value of the assets cannot be proven based on estimated future cash flows expected from the continued use. The alternative method of determining the recoverable amount based on the fair value less costs of disposal has not been used. In a second step, the impairment must be allocated to the individual assets of the CGU (IAS 36.104). However, according to IAS 36.105, the recognition of the impairment may not result in an asset being written down to a value below its fair value less costs of disposal or its value in use. Thus, the recoverable amounts for the individual assets were determined.

The fair values of the individual assets were obtained from the following sources:

- Comparative offers for land and buildings based on publicly available data. The values exceeded the carrying amounts by a fair margin.
- Comparable values on the markets (e.g. markets for used logistics equipment), which are similar to the asset. Some values fell short of the carrying amounts. For these cases, an impairment was recognised.

Consequently, property plant and equipment in the "kwb" CGU with a carrying value of EUR 2,169 thousand was not impaired. For the remaining assets of property, plant and equipment, an impairment of EUR 665 thousand was recognised. The impairments affect the Tools segment.

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 EUR 2 thousand (previous year: EUR -1 thousand). The expected yield on securities is 0% - 1% p.a.

2.5 Deferred taxes

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

	Deferred tax as- sets		Deferred tax lia- bilities		Net amount	
	2016	2015	2016	2015	2016	2015
Self-developed intangible assets and property, plant and equipment	9	18	1,998	2,323	-1,989	-2,305
Current assets	2,327	1,973	115	-29	2,212	2,002
Other financial assets (at their fair values)	340	84	773	805	-433	-721
Provisions for pensions	531	336	0	-6	531	342
Provisions for other risks	2,053	1,364	64	53	1,989	1,311
Other liabilities	420	198	101	6	319	192
Tax losses carried forward	1,008	1,896	0	0	1,008	1,896
	6,688	5,869	3,051	3,152	3,637	2,717

The deferred taxes on hedge accounting and available-for-sale securities - which are shown under deferred taxes on other financial assets - are exclusively recorded in other comprehensive income.

Deferred taxes with respect to the above line items result from the following circumstances:

- Capitalisation and amortisation of development costs.
- Increased tax depreciation on property, plant and equipment result in tax valuations falling under the carrying amounts.
- The valuation of trade receivables is different than in the tax base. This applies in particular to foreign group companies.
- Financial assets accounted for at fair value (available-for-sale assets and financial assets held for sale) show differing tax values and carrying amounts as a remeasurement is only carried out for accounting purposes and not for tax purposes.
- The 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 recognised in profit or loss in the financial statements over a longer period of time.
- Capitalisation of deferred taxes from loss carry forwards of subsidiaries.

2.6 Inventories

	2016	2015
	EURk	EURk
Raw materials and supplies (at acquisition cost)	311	323
Finished goods (at acquisition cost less impairment)	127,071	137,835
Advance payments	356	970
	127,738	139,128

In 2016, EUR 323 thousand (previous year: EUR 299 thousand) in raw materials and supplies, consisting primarily of packaging materials, were recognised as expense.

All in all, Einhell recognised impairments in the amount of EUR 5,603 thousand (previous year: EUR 5,007 thousand). No goods were transferred by way of security at the reporting date, as in the previous year. In financial year 2016, inventory write-downs of EUR 2,943 thousand (previous year: EUR 3,429 thousand) were recognised in profit or loss in the statement of income.

2.7 Trade receivables

Trade receivables are shown after deduction of impairment for bad debts. In financial year 2016, these impairments amounted to EUR 1,898 thousand (previous year: EUR 1,901 thousand). In addition, the company posted income from the receipt of receivables that had been written off and from the reversal of bad debt impairments in the amount of EUR 809 thousand (previous year: EUR 148 thousand) in the reporting period. The maximum default risk corresponds to the carrying amount of the receivables. Of the total gross receivables, 86% (previous year: 88%) are not yet been due on the reporting date.

Impairments are recognised when customers file for insolvency or if a default risk arises from the time frame in which amounts remain overdue.

At the reporting date, there are no indications of impairments on trade receivables that are neither overdue nor already impaired.

The maturity structure of trade receivables is as follows:

2016	Net receivables	Value adjustment	Gross receivables
	EURk	EURk	EURk
Receivables not due and due in 1-120 days	67,539	366	67,905
Receivables due in 121-360 days	318	422	740
Receivables due in more than 360 days	0	3,562	3,562
	67,857	4,350	72,207

2015	Net receivables	Value adjustment	Gross receivables
	EURk	EURk	EURk
Receivables not due and due in 1-120 days	61,810	471	62,281
Receivables due in 121-360 days	901	556	1,457
Receivables due in more than 360 days	0	3,365	3,365
	62,711	4,392	67,103

2.8 Other financial assets

	2016	2015
	EURk	EURk
Derivative financial instruments included in hedge accounting	3,044	3,077
Financial assets measured at fair value through profit or loss	270	1,070
	3,314	4,147

Unrealised gains/losses from derivative financial instruments included in hedge accounting are taken directly to equity after deduction of deferred taxes.

2.9 Other assets

	2016	2015
	EURk	EURk
Non-current		
Income tax claims	0	331
Other	424	1,742
	424	2,073

	2016	2015
	EURk	EURk
Current		
Income tax claims	1,734	781
Other	18,798	19,657
	20,532	20,438

Income tax claims include in particular corporation tax credits pursuant to section 37 (5) of the German Corporation Tax Act (KStG). The other assets item also includes VAT receivables amounting to EUR 12,731 thousand (previous year: EUR 12,478 thousand). VAT receivables of Einhell Brazil of EUR 1,598 thousand were fully written off as of the reporting date.

2.10 Equity

Subscribed capital

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

	2016	2016
	Number	EUR
Ordinary shares		
Ordinary bearer shares (no-par)		
each with an arithmetic interest in share capital of EUR 2.56	2,094,400	5,361,664.00
Preference shares		
Non-voting preference bearer shares (no-par)		
each with an arithmetic interest in share capital of EUR 2.56	1,680,000	4,300,800.00
	3,774,400	9,662,464.00

All shares are fully paid up. The dividend proposal for Einhell Germany AG amounts to EUR 2,893,856.00 for financial year 2016 (previous year: EUR 2,138,976.00). The distribution amount corresponds to a dividend of EUR 0.80 per preference share (previous year: EUR 0.60) and EUR 0.74 per ordinary share (previous year: EUR 0.54).

A minimum of EUR 0.15 per share must be paid out to the holders of preference shares and has preference over the dividend to ordinary shareholders. The dividend per preference share is EUR 0.06 higher than the dividend per ordinary share. If the net profit in one or several financial years does not suffice to pay a dividend of EUR 0.15 per preference share, the missing amounts will be paid without interest from the net profit of subsequent financial years after the minimum preference share dividend for these financial years has been paid and before distribution of a dividend for ordinary shares. There are no distributions from minimum dividends outstanding. The preference shares do not carry any voting rights. All shares are of equal rank with regard to residual assets of the company. The ordinary shares hold voting rights in the Annual General Meeting.

Authorised capital I

The Board of Directors is authorised until 10 June 2019 to raise the share capital of the company with the approval of the Supervisory Board by issuing new ordinary bearer shares and /or preference bearer shares without voting rights for cash on one or several occasions by a total amount of EUR 3,864,985.60 (authorised capital I). Here, the shareholders must be granted a subscription right. The Board of Directors is, however, authorised to exclude fractional amounts from the shareholders' subscription rights with the approval of the Supervisory Board and, where ordinary and preference shares are issued at the same time, to exclude shareholders of one class from subscribing to shares of the other class, provided the subscription ratio is the same for both classes. 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 in the distribution of profit or company assets.

Authorised capital II

The Board of Directors is authorised until 10 June 2019 to raise the share capital of the company with the approval of the Supervisory Board by issuing new ordinary bearer shares and /or preference bearer shares without voting rights for cash on one or several occasions by a total amount of EUR 966,246.40 (authorised capital II). Here, the shareholders must be granted a subscription right. The Board of Directors is, however, authorised to exclude fractional amounts from the shareholders' subscription rights with the approval of the Supervisory Board and, where ordinary and preference shares are issued at the same time, to exclude shareholders of one class from subscribing to shares of the other class, provided the subscription ratio is the same for both classes. The Board of Directors may further exclude the subscription right in general in order to issue new bearer preference shares without voting rights at an issue price that is not substantially below the stock market price (section 203 (2) and section 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 in the distribution of profit or company assets.

Capital reserve

The capital reserve consists of premiums on the issue of shares.

Retained earnings and consolidated net profit

This item includes the Group's accumulated net profit from previous years less dividend payments. The Annual General Meeting on 10 June 2016 resolved to pay a dividend in the amount of EUR 2,138,976.00. Dividend payouts are based on the equity that is available pursuant to German commercial law provisions.

Capital management

The capital management of the Group has the objective to safeguard the going concern of the Group in the long term and generate attractive returns for the shareholders. Capital management instruments include the distribution of dividends. In its capital management activities, the Group complies with the statutory regulations on capital maintenance. The articles of association state no capital requirements. Moreover, the Board of Directors is authorised until 10 June 2019 to raise the share capital of the company with the approval of the Supervisory Board by issuing new ordinary bearer shares and/or preference bearer shares without voting rights for cash on one or several occasions by up to a total amount of EUR 4,831,232.00 (authorised capital).

2.11 Changes to other reserves

	2016			2015		
	Before taxes	taxes	After taxes	Before taxes	taxes	After taxes
Unrealised gains/losses from currency translation	-1,396	0	-1,396	-1,723	0	-1,723
Unrealised gains/losses from available-for-sale financial assets	2	0	2	-1	0	-1
Unrealised gains/losses from derivative financial instruments	1,295	-287	1,008	-8,544	2,388	-6,156
Unrealised gain/losses from IAS 19 revised - employee benefits	-493	191	-302	337	-74	263
Other comprehensive income	-592	-96	-688	-9,931	2,314	-7,617

2.12 Non-controlling interest

	2016	2015
	EURk	EURk
1 January	1,655	1,601
Capital contributions	0	0
Disposals	47	-41
Dividends	-100	-200
Unrealised gains from currency translation (= share in other comprehensive income)	-26	3
Share in consolidated net profit	306	292
31 December	1,882	1,655

The total share of non-controlling interest in equity is insignificant at 1.1%.

2.13 Pension provisions

Benefits resulting from pension obligations are based on the length of employment. The obligations comprise both benefits from pensions that are being paid and rights to future pension payments.

Current and former members of the Board of Directors as well as a small number of employees of Einhell Germany AG and iSC GmbH, who entered the companies prior to 1993, have vested pension rights in the form of a direct benefit commitment. The benefit commitments are based on individual contractual stipulations. No claim to a universal benefit plan can be derived based on the entry date. The individual pension entitlement is defined based on a fixed pension amount in euro per year of employment. The Company took out reinsurance to cover the basic entitlements. The ultimate responsibility for the pension obligations lies with the Company. Einhell Schweiz AG has to enter a follow-up agreement with a pension fund to comply with statutory requirements. By law, the pension fund has to cover at least the occupational pension.

The defined benefit obligations (DBO) developed as follows in financial year 2016:

	2016	2015	2014	2013	2012
	EURk	EURk	EURk	EURk	EURk
1 January	5,129	3,235	2,573	2,624	2,049
Current service expense (personnel expenses)	120	249	44	45	30
Interest expense (personnel expenses)	85	75	75	70	87
Actuarial losses and gains from changes in financial assumptions	448	-217	647	-68	552
Pension payments	-147	-283	-104	-98	-94
Payments from employees	32	40	0	0	0
Other changes	0	1,827	0	0	0
Currency difference	14	203	0	0	0
31 December	5,681	5,129	3,235	2,573	2,624

Plan assets developed as follows in financial year 2016:

	2016	2015	2014	2013	2012
	EURk	EURk	EURk	EURk	EURk
1 January	2,367	668	664	659	650
Interest income	88	41	4	5	9
Other changes	0	1,493	0	0	0
Currency difference	12	165	0	0	0
31 December	2,467	2,367	668	664	659

	2016	2015	2014	2013	2012
	EURk	EURk	EURk	EURk	EURk
Cash value of defined benefit obligations	5,681	5,129	3,235	2,573	2,624
Less fair value of plan assets	-2,467	-2,367	-668	-664	-659
Net obligations	3,214	2,762	2,567	1,909	1,965

Actuarial gains and losses refer primarily to changes in the discount rate. Expenses from obligations regarding employee benefits are shown in personnel expenses. The pension provisions shown in the statement of financial position on the reporting date equal the defined benefit obligations offset against the fair value of plan assets. The actuarial assumptions to determine pension obligations are explained in section 1.6 Accounting and valuation principles. The Other changes item in the previous year pertains to the addition of pension provisions of Einhell Schweiz AG, which were set aside as at 1 January 2015.

The expected return on plan assets is between 0% and 1%.

Plan assets comprise

	2016	2015
	EURk	EURk
Pension funds	671	666
Qualified insurances	1,796	1,701
	2,467	2,367

Future payments

Benefits to be paid in the future are estimated as follows:

	Payments from plan assets
	EURk
2017	152
2018	157
2019	160
2020	164
2021	167
	800

Employer payments into plant assets will amount to around EUR 40 thousand in 2017.

In Germany, the weighted average term of defined benefit obligations for pensions is 15.0 years, in Switzerland it is 18.4 years.

Sensitivity analysis for benefit obligations

Sensitivity analyses are usually performed using the following parameters:

- Actuarial interest rate
- Salary trend
- Rate for pension progression
- Life expectancy

The existing benefit obligations of Einhell Germany AG are not linked to salary, making a calculation on the basis of the salary trend obsolete as the defined benefit obligations remain unchanged if the salary trend rises or falls by 0.25%. The guaranteed adjustment of current benefits for existing pension obligations by 3% p.a. is significantly higher than the current inflation trend. Therefore, a change in the rate for pension progression by +/- 0.25% has no effect on the obligation, likewise rendering a sensitivity analysis obsolete as the DBO remains unchanged.

Therefore, the sensitivity analysis only accounts for the actuarial interest rate and life expectancy, whereby the latter only applies to obligations regarding future pension payments as a longer life expectancy has no effect on capital commitments.

		EURk
Einhell Germany AG		
Actuarial interest rate +0.5%	2.53% future beneficiaries, 1.88% pensioners	3,141
Actuarial interest rate -0.5%	1.53% future beneficiaries, 0.88% pensioners	3,766
Life expectancy + 1 year		3,598
iSC GmbH		
Actuarial interest rate +0.5%	2.53% future beneficiaries, 1.88% pensioners	120
Actuarial interest rate -0.5%	1.53% future beneficiaries, 0.88% pensioners	144
Life expectancy + 1 year		137
Einhell Schweiz AG		
Actuarial interest rate +0.25		2,022
Actuarial interest rate -0.25		2,221
Life expectancy + 1 year		2,169
Life expectancy - 1 year		2,066

Risks

Risks from benefit obligations arise from the investment in plan assets. These risks might entail the requirement to pay additional capital into the plan assets to be able to meet current and future pension obligations.

Demographic/biometric risks

A large share of the benefit obligations pertains to life-long benefits and pensions for surviving dependants. Early claims and benefit payments over longer durations may lead to higher pension expenses and higher pension payments than previously anticipated.

The Einhell Group does not take any specific measures to balance out potential risks in the case of need. Given the overall amount of commitments, pension obligations are no major risk for the Einhell Group, and therefore no further reinsurance is needed.

2.14 Provisions for other risks

	Warranties	Other	Total
	EURk	EURk	EURk
1 January 2016	4,768	6,855	11,623
Claims	-1,578	-2,668	-4,246
Reversals	-336	-1,671	-2,007
Additions	3,558	6,982	10,540
Currency translation effects and other changes	-17	-118	-135
31 December 2016	6,395	9,380	15,775

	Warranties	Other	Total
	EURk	EURk	EURk
31 December 2016			
Non-current	0	837	837
Current	6,395	8,543	14,938
31 December 2015			
Non-current	0	830	830
Current	4,768	6,025	10,793

Long-term provisions contain primarily provisions for severance payments of Hans Einhell Österreich GmbH (EUR 79 thousand) and Einhell Italia (EUR 645 thousand). The last cash outflow is expected in 2039.

2.15 Liabilities from debt capital

	2016	2015
	EURk	EURk
Non-current		
Loans, secured	0	0
Loans, unsecured	30,000	30,000
	30,000	30,000

	2016	2015
	EURk	EURk
Current		
Loans and overdrafts, secured	714	447
Loans and overdrafts, unsecured	2,444	2,072
	3,158	2,519
Thereof non-current loans maturing in the short term	0	0
Thereof loans and overdrafts maturing in the short term	3,158	2,519

Collateral in the total amount of EUR 1,315 thousand consisting mainly of cheques was furnished to secure liabilities from debt capital.

The Einhell Group utilised the favourable interest level in financial year 2013 for refinancing. The Group concluded bilateral loan agreements totalling EUR 30.0 million with several banks, securing long-term financing until 2018 at extremely favourable conditions. The new financing did not require the provision of securities. The Group thus believes it has a sound basis to weather the continuously difficult market environment and therefore does not expect any problems in financing future business.

Financial covenants were stipulated in the loan agreements, the breach of which allows creditors to increase the credit margin in a first step and reduce the loan term in the subsequent year as a second step if the covenants are still not met. The covenant ratios are equity ratio, debt coverage ratio and interest coverage ratio. All covenants were met in financial year 2016.

2.16 Other financial liabilities

	2016	2015
	EURk	EURk
Derivative financial instruments included in hedge accounting	1,859	2,382
Financial liabilities measured at fair value through profit or loss	523	316
	2,382	2,698

Unrealised gains/losses from derivative financial instruments included in hedge accounting are taken directly to equity after deduction of deferred taxes.

2.17 Other liabilities

	2016	2015
	EURk	EURk
Non-current	715	4,316
Current	27,250	21,431
	27,965	25,747

Other liabilities consist mainly of tax liabilities, liabilities for wages and salary payments including those from employee profit participation and social security contributions, and liabilities from current customer bonuses and customer credits. In 2016, the other liabilities item also includes the contingent purchase price payment from the takeover of Ozito Industries Pty Ltd in the amount of EUR 5,626 thousand. The purchase price payment, which is due in 2017, is shown in current liabilities.

2.18 Disposal group classified as held for sale

In 2016, the management of the Einhell Group resolved to dispose of the Einhell Brasil Com. Distr. subsidiary. Therefore, Einhell Brazil is recognised as a held-for-sale disposal group. Efforts to sell the disposal group have already begun, and the Group expects the sale to be effected in the first half of financial year 2017.

Impairment loss recognised for the disposal group

Impairment losses of EUR 2,280 thousand arose in the write-down of the disposal group at the lower of its carrying amount and its fair value less costs of disposal; these impairment losses were recognised in other expenses (see note item 3.6), in cost of materials (see note item 3.3) and in depreciation and amortisation (see note item 3.5). The impairment losses led to reductions in the carrying amounts of property, plant and equipment, inventories, trade receivables and current assets. The financial assets of the disposal group (loans and receivables) are recognised at their carrying amounts, which equal their market value. No deferred tax assets were recognised in this respect.

Assets and liabilities of the held-for-sale disposal group

As at 31 December 2016, the disposal group was recognised at fair value less costs of disposal; it includes the following liabilities and assets.

	2016
	EURk
Inventories	417
Trade receivables	1,018
Cash and cash equivalents	547
Assets held for sale	1,982

	2016
	EURk
Other current provisions	233
Trade payables	34
Other current assets	91
Liabilities in connection with assets held for sale	358

Cumulative income or expenses included in other comprehensive income

Other comprehensive income does not include any cumulative income or expenses associated with the disposal group.

Fair value measurement

The non-recurring measurement of the disposal group at fair value in the amount of EUR 1,624 thousand was classified as a level 3 fair value. The determination of the fair value takes account of the expected sales proceeds.

3. Notes to the consolidated statement of income

3.1 Revenue

Segments	2016		2015		Change	
	EURk	%	EURk	%	EURk	%
Tools	306,955	63.0	269,600	60.8	37,355	13.9
Garden & Leisure	180,256	37.0	174,151	39.2	6,105	3.5
	487,211	100.0	443,751	100.0	43,460	9.8

Regions	2016		2015		Change	
	EURk	%	EURk	%	EURk	%
D/A/CH region	194,099	39.8	175,569	39.6	18,530	10.6
Other Europe	163,307	33.5	144,043	32.4	19,264	13.4
Oceania	93,072	19.1	86,048	19.4	7,024	8.2
South America	26,750	5.5	25,757	5.8	993	3.9
Other	9,983	2.1	12,334	2.8	-2,351	-19.1
	487,211	100.0	443,751	100.0	43,460	9.8

3.2 Other operating income

	2016	2015
	EURk	EURk
Income from the release of warranty provisions	336	132
Commission income	403	559
Income from costs for inspection of goods charged to suppliers	316	515
Income from the receipt of receivables that had been written off and from the reversal of the allowance for doubtful receivables	809	148
Proceeds from disposal of fixed assets	188	119
Income from the release of other provisions	1,672	566
Income from letting and leasing	313	318
Income from damage compensation	108	786
Income from PV plant	488	542
Other income	1,560	2,160
	6,193	5,845

3.3 Cost of materials

	2016	2015
	EURk	EURk
Expenses for raw materials and supplies and purchased goods	329,545	302,946
Expenses for purchased services	35	120
Impairment losses resulting from the remeasurement of the disposal group	547	0
	330,127	303,066

3.4 Personnel expenses

	2016	2015
	EURk	EURk
Wages and salaries	53,483	51,926
Social security contributions	9,632	9,289
Expenses for old-age pensions	131	128
	63,246	61,343

Number of employees (annual average)	2016	2015
	Number	Number
D/A/CH region	562	557
Other Europe	351	332
South America	81	83
Oceania	83	76
Other countries	287	272
	1,364	1,320

3.5 Depreciation and amortisation

	2016	2015
	EURk	EURk
Amortisation of intangible assets (without goodwill)	2,580	2,348
Depreciation of property, plant and equipment	3,724	2,808
Impairment losses resulting from the remeasurement of the disposal group	162	0
	6,466	5,156

The purchase price allocation pertains to amortisation of intangible assets in the amount of EUR 1,643 thousand (previous year: EUR 1,643 thousand) and depreciation of property, plant and equipment amounting to EUR 29 thousand (previous year: EUR 56 thousand). In the scope of an impairment test of kwb Germany GmbH carried out in the course of the year and on the basis of the annual impairment test performed by Einhell Germany AG, a EUR 665 thousand impairment was

recognised for the property, plant and equipment and a EUR 314 thousand impairment for the goodwill of kwb Germany GmbH.

3.6 Other operating expenses

	2016	2015
	EURk	EURk
Rent expenses	3,498	3,090
Expenses for buildings including maintenance of fixed assets	2,004	2,140
Legal and consulting expenses	2,609	2,267
Expenses for external stock keeping	6,909	7,125
Expenses on freight outward	16,069	15,804
Advertising expenses	8,654	6,644
Commission expenses	2,635	2,590
Fleet expenses	2,144	2,328
Expenses from purchase price adjustments	2,045	364
Expenses from bad debts and valuation allowances on receivables	1,212	2,778
Impairment losses resulting from the remeasurement of the disposal group	1,571	0
Miscellaneous other operating expenses	23,702	21,130
	73,052	66,260

Given the short-term nature of the trade receivables item and the fact that payments are expected to be received in the near future, interest effects are of no major significance in calculating impairments.

3.7 Financial result

	2016	2015
	EURk	EURk
Interest income	120	187
Interest expenses	-2,115	-2,113
Expenses/income from currency translation/hedging	-1,536	-187
	-3,531	-2,113
thereof interest income from hedging instruments	0	0
thereof interest expenses for hedging instruments	0	0
thereof interest expenses/income from hedging instruments	-1,525	1,662

The financial result also includes measurement results from derivative financial instruments not subject to hedge accounting and the ineffective share of value adjustments of hedging instruments that are subject to hedge accounting. The financial result includes financial income amounting to EUR 3,609 thousand and financial costs in the amount of EUR 7,140 thousand.

3.8 Income taxes

	2016	2015
	EURk	EURk
Actual tax expenses	6,551	4,128
Deferred taxes	708	3
Currency gains/losses	75	5
	7,334	4,136

In measuring a capitalised asset for future tax relief, the probability of recovery of the anticipated tax relief is also taken into account. Deferred taxes for hedge accounting and available-for-sale securities are only recognised in other comprehensive income. Deferred tax assets on changes in the fair value of cash flow hedges amount to EUR 340 thousand (previous year: EUR 84 thousand), while the corresponding deferred tax liabilities come out to EUR 773 thousand (previous year: EUR 805 thousand). Further deferred taxes in equity in the amount of EUR 1,735 thousand (previous year: EUR 2,233 thousand) refer to the initial consolidation of Ozito Industries Pty Ltd in 2013.

The subsidiaries capitalised deferred taxes from loss carryforwards in the amount of EUR 1,008 thousand (previous year: EUR 1,896 thousand). Loss carryforwards that are classified as non-recoverable, because either no profit is expected or they cannot be carried forward, are not included in the calculation of deferred tax assets. In 2016, no deferred tax assets were recognised for loss carryforwards in the amount of EUR 25,119 thousand (previous year: EUR 16,894 thousand).

The temporary differences between the IFRS carrying amounts of interests in subsidiaries and the tax-related values of such interests (so-called outside basis differences) amount to EUR 2,494 thousand as at the reporting date (previous year: EUR 2,216 thousand) and did not give rise to the recognition of deferred taxes.

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 applied, is as follows:

	2016	2015
	EURk	EURk
Expected tax expenses	5,095	3,534
Tax expenses/income from intra-Group income/expenses	878	640
Goodwill impairment	95	0
Other non-tax-deductible expenses	658	1,732
Differing foreign tax rates	-1,334	-640
Tax free income	1,656	-971
Changes in loss carryforwards	286	-96
Other	0	-63
Reported tax expenses	7,334	4,136

The table shows the reconciliation of tax expenses anticipated in the financial year with the respective reported tax expenses. The anticipated tax expense is calculated by multiplying profit before taxes with the domestic total tax rate applicable in that financial year of 30.0% (2015: 30.0%).

3.9 Earnings per share

Earnings per share as per IAS 33 refer to a company's ordinary shares. Since the ordinary shares of Einhell Germany AG are not publicly traded, earnings per share are not calculated.

4. Segment reporting

4.1 Segment reporting by division

The identification of reportable operating segments pursuant to IFRS 8 is based on the so-called management approach concept. The segmentation of the Einhell Group into the two segments Garden & Leisure and Tools reflects the Group's internal management and reporting structures. Einhell Group's product range is also divided into garden products and tools. The central management parameter of the Einhell Group is profit before taxes. The business activities of the Einhell Group are divided into the two segments of Tools and Garden & Leisure. Revenue is allocated to the individual segments. The items financial result, interest income and expenses, scheduled depreciation as well as non-cash income and expenses are usually allocated on a pro rata basis to the segment at the level of the individual company based on revenue. The Tools segment includes the areas of electronic hand tools, stationary tools and accessories. Garden & Leisure comprises the areas of garden and water technology as well as cooling and heating technology. The segment information is determined on the basis of the accounting and valuation principles that are also applied in the consolidated financial statements. Revenue between segments is generally invoiced on the basis of normal market conditions.

2016	Tools	Garden & Leisure	Total segments	Reconciliation	Einhell Group
	EURk	EURk	EURk	EURk	EURk
Segment revenue	306,955	180,256	487,211	0	487,211
POA for the segment (before taxes)	9,273	7,709	16,982	0	16,982
Financial result	-3,215	-316	-3,531	0	-3,531
Interest income	80	40	120	0	120
Interest expenses	-1,403	-712	-2,115	0	-2,115
Depreciation and amortisation	4,750	1,716	6,466	0	6,466
Non-cash income	-537	-429	-966	0	-966
Non-cash expenses	635	243	878	0	878
Inventories	83,888	43,850	127,738	0	127,738
Depreciation of inventories	1,843	1,100	2,943	0	2,943

2015	Tools	Garden & Leisure	Total segments	Reconciliation	Einhell Group
	EURk	EURk	EURk	EURk	EURk
Segment revenue	269,600	174,151	443,751	0	443,751
POA for the segment (before taxes)	8,080	3,699	11,779	0	11,779
Financial result	-2,454	341	-2,113	0	-2,113
Interest income	93	94	187	0	187
Interest expenses	-1,456	-657	-2,113	0	-2,113
Depreciation and amortisation	3,296	1,860	5,156	0	5,156
Non-cash income	-309	-138	-447	0	-447
Non-cash expenses	210	227	437	0	437
Inventories	93,387	45,741	139,128	0	139,128
Depreciation of inventories	2,207	1,222	3,429	0	3,429

4.2 Segment reporting by region

The geographic allocation of revenue for segment reporting by region is based on the registered office of the invoice recipient.

The procurement behaviour of international major customers has changed and as a result we have adjusted our reporting structure. The "Asia" region, which had previously been reported in separate, is now included in "Other countries". Because of the significance of the sales markets Australia and New Zealand, the "Oceania" region will now be treated as a region on its own. Revenues in this region had previously been included in "Other countries". The figures for the previous year were adjusted accordingly.

2016	D/A/CH region	Other Europe	Oceania	South America	Other countries	Reconciliation	Einhell Group
	EURk	EURk	EURk	EURk	EURk	EURk	EURk
External revenue	194,099	163,307	93,072	26,750	9,983	0	487,211
Non-current assets (excl. deferred tax assets)	13,623	11,847	12,528	733	1,717	0	40,448

Total group revenue generated in Germany amounts to EUR 165.5 million. The companies with the strongest revenue in Other Europe are Einhell France with EUR 27.1 million, Einhell Italy with EUR 19.5 million and Einhell UK with EUR 14.4 million.

The largest share of revenue in the South America region is generated by the subsidiaries in Chile, Argentina and Brazil. Revenue in the Other countries is largely generated by the subsidiaries in Hong Kong. In Australia and New Zealand, external revenue of EUR 93.1 million was generated and the share in non-current assets amounts to EUR 12.5 million.

The share of non-current assets pertaining to Germany is EUR 11,337 thousand.

2015	D/A/CH region	Other Europe	Oceania	South America	Other countries	Reconciliation	Einhell Group
	EURk	EURk	EURk	EURk	EURk	EURk	EURk
External revenue	175,569	144,043	86,048	25,757	12,334	0	443,751
Non-current assets (excl. deferred tax assets)	15,599	12,287	14,125	1,475	673	0	44,159

Total group revenue generated in Germany amounts to EUR 143.9 million. The companies with the strongest revenue in Other Europe are Einhell Italy with EUR 17.6 million, Einhell France with EUR 17.5 million and Einhell UK with EUR 11.9 million.

The largest share of revenue in the South America region is generated by the subsidiaries in Chile, Argentina and Brazil. Revenue in the Other countries is largely generated by the subsidiaries in Hong Kong. In Australia and New Zealand, external revenue of EUR 86.0 million was generated and the share in non-current assets amounts to EUR 14.1 million.

The share of non-current assets pertaining to Germany is EUR 13,362 thousand.

In financial year 2015, EUR 85,058 thousand was generated with one customer, corresponding to more than 10% of the Einhell Group's revenue. In the past financial year 2016, EUR 92,299 thousand was generated with one customer, corresponding to more than 10% of the Einhell Group's revenue. This revenue was generated in both the Garden & Leisure and the Tools segments.

4.3 Working capital

The financial requirements of the Einhell Group are driven in particular by the level of inventories and trade receivables. Stock turnover rates of inventories and the maturities of trade receivables play a major role here and have a significant impact on the financial requirements.

The Einhell Group's funding derives, on the one hand, from the equity that was provided by its shareholders when the Company was founded and the subsequent capital increases and retained earnings that are set aside in reserves or profits carried forward. In addition, the Einhell Group procures debt capital in the form of loans and short-term borrowings as well as, to some extent, supplier loans. Loans are largely denominated in euro. Supplier loans are mainly in USD or CNY. Anticipated cash flows from the payment of supplier liabilities are largely hedged with adequate hedge transactions.

5. Notes to the consolidated statement of cash flows

The consolidated statement of cash flows shows the development of cash flows by inflows and outflows in connection with operating, investing and financing activities. Effects from changes to companies included in the consolidation were eliminated.

Operating activities

Cash inflow from operating activities results from profit before taxes as well as the accumulated depreciation and amortisation of intangible assets and property, plant and equipment. Cash flow benefited from the reduction in inventories of EUR 9,665 thousand at the end of the year had, the increase in current liabilities of EUR 14,558 thousand and the increase in trade payables of EUR 9,177 thousand.

Investing activities

Cash outflows for investments in property, plant and equipment pertain primarily to operating and office equipment.

Financing activities

Cash flows from financing activities include mainly inflows and outflows associated with loans and the distribution of the dividend. Moreover, the item also includes the payment of the third tranche of the earn-out liabilities from the takeover of Ozito Industries Pty Ltd.

Changes in cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at banks with an original term of less than 90 days and cheques as of the reporting date. Effects from the changes in cash due to exchange rate fluctuation are shown separately.

6. Risk report and financial instruments

6.1 Financial risk management

The Einhell Group operates internationally and is thus exposed to market risks from changes to interest rates and exchange rates. The Group uses derivative financial instruments to manage these risks. The guidelines used for managing the associated risks are implemented with the approval of the Board of Directors by a central treasury department working in close cooperation with the Group companies. The Einhell Group monitors the current market environment to assess these risks. Further information on risk management is available in the management report.

6.2 Default risk

Company policy is to minimise default risk both from customers and suppliers by using instruments that are customary in international practice. They help the Company to evaluate default risks of the ordering company for each order, based on the relevant economic situation. To counter the risks associated with new customers and high-risk countries in particular, the Company sometimes uses letters of credits. In the offer phase, the sales and finance departments jointly decide on security requirements and adjust these requirements when the orders are placed. The Company also uses external information from banks and credit agencies to support the risk assessment. To minimise the supplier default risk, the procurement and project management departments work with the finance department to develop joint security concepts.

The maximum default risk corresponds to the carrying amount of the receivables. Trade receivables pertain to DIY chains, specialist traders and discounters and amount to EUR 67.9 million (previous year: EUR 62.7 million). In financial year 2016, there were no significant receivables for which new terms of payment were agreed.

Where possible, the Einhell Group uses Euler-Hermes credit insurance to mitigate credit risks.

As the derivatives are acquired from well-known financial institutions, the Group expects that the maximum default risk from derivatives will be covered by their positive market value.

The positive market value of all derivative financial instruments as of the reporting date is EUR 3,314 thousand.

Bank balances amounted to EUR 54.7 million on the reporting date (previous year: EUR 24.3 million). These assets are held at first-rate, well-known banks.

The Einhell Group counters price and supply risks in supply markets by maintaining long-term supplier relationships, which are monitored continuously as a key element of quality management.

6.3 Interest risks

The interest risk of the Einhell Group stems mainly from financial liabilities, loans and interest-bearing borrowings. The risk is reduced when required 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 fixed interests from concluded hedge transactions and the earmarked funds that are tied up in assets and liabilities.

The Group uses interest caps and swaps as required, either as an economic cash flow hedge or as an economic fair value hedge, and recognises them at fair value. On account of the low interest level and the current market forecasts, Group management decided not to extend the interest caps and interest swaps expired in 2014.

The Group is exposed to cash flow risk from variable interest positions. A change in market interest rates of 1% would have an effect on interests at the reporting date of EUR 221 thousand.

6.4 Liquidity risk

Liquidity risk refers to the possible scenario 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 having access to conventional credit lines with well-known banks. At the reporting date, the Group had about EUR 60.5 million in unsecured credit lines at its disposal for the operating business. The Group also keeps a constant eye on the financial markets for financing opportunities in order to ensure the financial flexibility of the Einhell Group and limit excessive refinancing risks.

The following table shows all contractual payments as of 31 December 2016 for amortisation, repayments and interest for financial liabilities in the statement of financial position. Derivative financial instruments are shown at market value. It is not anticipated that actual cash flows will significantly differ from the expected cash flows with regard to the time of payment.

	2017	2018	2019-2021	2022 ff.
	EURk	EURk	EURk	EURk
Non-current liabilities to banks	450	30,375	0	0
Trade payables	70,344	0	0	0
Other current liabilities	29,632	0	0	0

The risk associated with the cash flows shown in the table is limited to cash outflows. Trade payables and other financial liabilities result mainly from financing operating 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 the effective management of the total liquidity risk. Risk management was extended and strengthened by implementing a Group-wide, internet-based risk management information system.

Current liabilities to banks are not shown separately.

As of the reporting date, foreign exchange contracts for which we anticipate cash inflows corresponding to about EUR 296.0 million and cash outflows corresponding to about EUR 288.2 million were open. Sensitivities are specified under Foreign currency risks.

6.5 Foreign currency risks

Due to the international nature of its operations, the Einhell Group is exposed to currency risks. To manage and minimise these risks, the Einhell Group uses derivative financial instruments with a maximum maturity 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, which is usually denominated in USD and CNY. Einhell products, in contrast, are mainly sold in the relevant national currency. Planned purchases in USD and CNY are hedged, so there is no concentration of risk here.

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

All assets or liabilities of the Einhell Group are based on observed prices or derived and determined therefrom. This excludes earn-out liabilities, which are measured at fair value level 3 (in accordance with section 1.7).

Given the short-term nature of the USD and CNY payment terms, the USD and CNY exposure from financial instruments pertains mainly to derivative financial instruments. A 10% change in exchange rates would result in pre-tax exchange rate gains/losses of EUR 23,300 thousand or EUR -19,850 thousand; on account of the application of cash flow hedge accounting, this would be shown in equity. The derivative financial instruments are only used to hedge the procurement of goods. A 10% change in exchange rates for derivative financial instruments that are not shown under hedge accounting would result in pre-tax exchange rate gains or losses of EUR 1.113 thousand or EUR -1.361 thousand, respectively.

The nominal volume of derivative financial instruments is equivalent to the total of gross purchase price and sales price amounts (not offset against each other) agreed between the parties and is therefore not a reliable indicator for Group risk from the use of derivative financial instruments. Risks and opportunities are reflected in the market value, which is equivalent to the cash value of the derivative financial instruments at the reporting date.

Positive and negative market values of derivative financial instruments in 2016	Gross amount shown	Offsetting amount	Net amount shown
	EURk	EURk	EURk
Derivatives with positive market values	3,314	0	3,314
Derivatives with negative market values	2,382	0	2,382

The table shows the potential effects of the offsetting of financial assets and financial liabilities that are based on legally enforceable master netting arrangements or similar contracts. Einhell may only offset financial assets and financial liabilities as per IAS 32, if it has a legal right of set-off and Einhell actually intends to settle on a net basis.

Financial instruments with a positive market value to cash flow hedge	Nominal volume EURk		Market value EURk	
	2016	2015	2016	2015
Currency futures	124,135	97,238	2,336	2,759
Options	0	0	0	0
	124,135	97,238	2,336	2,759

Financial instruments with a negative market value to cash flow hedge	Nominal volume EURk		Market value EURk	
	2016	2015	2016	2015
Currency futures	111,138	100,817	1,854	2,571
Options	0	0	0	0
	111,138	100,817	1,854	2,571

The underlying transactions refer to contracted and planned purchases and sales. All the cash flows are expected within a period of 15 months and are recognised in the acquisition cost of inventories. Ineffectiveness of cash flow hedges is immaterial to hedge accounting due to their short-term nature.

EUR 1,008 thousand in changes in the value of financial instruments in relation to the cash flow hedge were recognised in equity in 2016. Retired items from equity through profit or loss amounted to EUR -680 thousand.

6.6 Market values and carrying amounts of financial instruments

Pursuant to IAS 39, financial instruments (assets and liabilities) are allocated to different measurement categories. The allocation to a particular measurement category determines whether the financial instrument is recognised at cost or at fair value. The following table shows the carrying amount and fair value for the individual categories and the measurement category in the statement of financial position. Non-current loans are subject to variable interest rates and the fair value thus corresponds to the carrying amount. The other fair values are provided by banks or determined on the basis of generally accepted measurement models. Options are measured using Black Scholes models. All other hedging derivatives are measured by discounting future cash flows. The initial recognition parameters used in these models are the relevant observable market prices at the reporting date, such as volatilities and forward rates and interest rates. For current assets and liabilities, the carrying amounts provide a good indication of the fair value.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities including their levels in the fair value hierarchy. It does not include any information on the fair values of financial assets and financial liabilities that were not measured at fair value, if the carrying amount provides an appropriate approximation to the fair value.

	Carrying amount	Fair value											
		Held for trading	Measured at fair value	Fair value - hedging instruments	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
2016													
in EURk													
Financial Assets measured at fair value													
Currency futures for hedging purposes			3,044						3,044		3,044		3,044
Options used for hedging purposes			0						0		0		0
Hedging derivatives not subject to hedge accounting	270								270		270		270
Financial instruments available for sale								388	388		388		388
	270		3,044					388	3,702				3,702
Financial assets not measured at fair value													
Trade receivables							67,857		67,857				67,857
Other assets							5,769		5,769				5,769
Cash and cash equivalents							54,704		54,704				54,704
							128,330		128,330				128,330
Financial liabilities measured at fair value													
Currency futures for hedging purposes			1,859						1,859		1,859		1,859
Options used for hedging purposes			0						0		0		0
Hedging derivatives not subject to hedge accounting	523								523		523		523
Contingent consideration							6,786		6,786				6,786
	523		1,859						9,168				9,168
Financial liabilities not measured at fair value													
Loans and overdrafts, secured								714	714				714
Loans and overdrafts, unsecured								32,444	32,444				32,444
Trade payables								70,344	70,344				70,344
								103,502	103,502				103,502

	Carrying amount					Fair value						
	Held for trading	Measured at fair value	Fair value - hedging instruments	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
2015												
in EURk												
Measured at fair value												
Other financial assets												
Currency futures for hedging purposes			3,077					3,077		3,077		3,077
Options used for hedging purposes			0					0		0		0
Hedging derivatives not subject to hedge accounting	1,070							1,070		1,070		1,070
Financial instruments available for sale						380		380		380		380
	1,070	0	3,077	0	0	380	0	4,527				
Financial assets not measured at fair value												
Trade receivables					62,711			62,711				
Other assets					8,397			8,397				
Cash and cash equivalents					24,306			24,306				
	0	0	0	0	95,414	0	0	95,414				
Financial liabilities measured at fair value												
Currency futures for hedging purposes			2,382					2,382		2,382		2,382
Options used for hedging purposes			0					0		0		0
Hedging derivatives not subject to hedge accounting	316							316		316		316
Contingent consideration		8,133						8,133			8,133	8,133
	316	8,133	2,382	0	0	0	0	10,831				
Financial liabilities not measured at fair value												
Loans and overdrafts, secured							447	447				
Loans and overdrafts, unsecured								32,072				32,072
Trade payables								62,529				62,529
	0	0	0	0	0	0	0	95,048	0	8,133		95,048

Net gains and net losses from financial instruments

Net gains and net losses from financial instruments include measurement results, the recognition of impairment losses, results from currency translation and interest, and any other effects on profit or loss in connection with financial instruments. The line item contingent consideration measured at fair value through profit or loss in the statement of financial position refers to earnings effects from the earn-out liabilities of Ozito Industries and Einhell Intratek.

Net gains and net losses from financial instruments	2016	2015
	EURk	EURk
Derivative hedge instruments held for trading and not subject to hedge accounting	-1,525	1,662
of which interest result	0	0
Loans and receivables	-2,940	-5,267
of which interest result	-1,837	-1,665
Conditional consideration recognised at fair value through profit or loss	-2,385	-414
of which interest result	-158	-261

Fair value measurement

a) Valuation techniques and material unobservable input factors

The following table shows the valuation techniques that were used to measure level 2 and level 3 fair values as well as the material unobservable input factors that were applied:

Financial instruments measured at fair value

Type	Valuation technique	Material unobservable input factors	Relation between material unobservable input factors and measurement at fair value
Contingent consideration	<p><i>Discounted cash flows:</i> The valuation model considers the cash value of expected payments, discounted for a rate that takes account of the risks and maturities.</p> <p>The anticipated cash flow is determined by considering the possible scenarios for forecast profit before taxes, the amount to be paid in each of these scenarios and the likelihood of occurrence.</p>	<p><i>Ozito Industries Pty Ltd:</i></p> <ul style="list-style-type: none"> • Forecast annual revenue growth rate (2016/17: growth rate of 15%) • Risk of termination of key account relations (2016/17: 0%) • EBIT margin forecast • Discount rate (2.7% p.a.) <p><i>Einhell Intratek Mühendislik ve Dis Tic. A.S.</i></p> <ul style="list-style-type: none"> • Forecast annual revenue growth rate (2017: growth rate of 6.32%) • EBIT margin forecast • Discount rate (2017: 4.8%) 	<p>The estimated fair value would rise (fall) if:</p> <ul style="list-style-type: none"> • the annual average revenue growth rate were higher (lower) • the risk of key account relations being terminated were lower (higher) • the EBIT margin were higher (lower) • the risk-related discount rate were lower (higher). <p>A change in the annual revenue growth rate automatically entails a change in the EBIT margin in the same direction.</p>

Type	Valuation technique	Material unobservable input factors	Relation between material unobservable input factors and measurement at fair value
Currency futures and options Financial instruments available for sale	<i>Market comparison method:</i> Fair values are based on price quotes by brokers. Similar contracts are traded on an active market, and the price quotes reflect actual transactions for similar instruments.	not applicable	not applicable

Financial instruments not measured at fair value

Other financial liabilities (secured and unsecured bank loans, liabilities from finance leases)	<i>Discounted cash flows</i>	not applicable	not applicable
---	------------------------------	----------------	----------------

b) Reclassifications between level 1 and level 2

No reclassifications were performed in 2015 and 2016 in either direction.

c) Fair values in level 3

Reconciliation of fair values in level 3

Contingent consideration	EURk
As of 1 January 2015	11,151
Earn-out payment Ozito Industries Pty Ltd	-3,332
Adjustment of earn-out liabilities Ozito Industries Pty Ltd	352
Loss recognised in borrowing expenses	261
Currency translation effects recognised in exchange equalisation item	-211
Earn-out payment Einhell Intratek	-100
Adjustment of earn-out liabilities Einhell Intratek	12
As of 31 December 2015	8,133
Earn-out payment Ozito Industries Pty Ltd	-3,266
Adjustment of earn-out liabilities Ozito Industries Pty Ltd	1,633
Loss recognised in borrowing expenses	158
Currency translation effects recognised in exchange equalisation item	182
Earn-out payment Einhell Intratek	-466
Adjustment of earn-out liabilities Einhell Intratek	412
As of 31 December 2016	6,786

There were no reclassifications from or to level 3.

Sensitivity analysis

Any changes to material, unobservable input factors that are deemed possible would have the following effects on the fair value of the contingent consideration, all other input factors being equal.

Fair value of the contingent consideration for Ozito Industries Pty Ltd	AUDk		EURk		
	Exchange rate = 1.4617	Increase to	Decrease to	Increase to	Decrease to
31 December 2016					
Annual revenue growth rate (change by 1 pp)		8,257	8,190	5,649	5,603
Risk of termination of key account relations (change by 10 pp respectively)		N/A	N/A	N/A	N/A
EBIT margin (change by 1 pp)		8,510	7,937	5,822	5,430
Discount rate (change by 1 pp)		8,298	8,151	5,677	5,576

Fair value of the contingent consideration for Einhell Intratek	EURk	
	Increase to	Decrease to
31 December 2016		
Annual revenue growth rate (change by 1 pp)	1,168	1,153
EBIT margin (change by 1 pp)	1,287	1,034
Discount rate (change by 1 pp)	1,167	1,154

7. Other notes

7.1 Other financial obligations

Other financial obligations from rents and leases are distributed as follows:

	Total	up to one year	one to five years	more than five years
	EURk	EURk	EURk	EURk
Obligations from rental contracts	3,686	1,575	2,111	0
Obligations from leasing contracts	2,436	1,314	1,122	0
	6,122	2,889	3,233	0

Einhell Germany AG and its subsidiaries have entered into various operating leases for company cars, office equipment and other facilities and equipment. The terms of the leases range between two and five years. Usually, the leases cannot be terminated. In financial year 2016, the payments for operating leases amounted to EUR 588 thousand (previous year: EUR 567 thousand).

7.2 Corporate Governance Code

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

7.3 Related party disclosures

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 the controlling shareholder of Einhell Germany AG. The following shareholdings and interlocking directorships exist between Thannhuber AG and Einhell Germany AG:

- Philipp Thannhuber (Deputy Chairman of the Supervisory Board of Einhell Germany AG) is a shareholder of Thannhuber AG.
- Dr Markus Thannhuber (member of the Board of Directors of Einhell Germany AG) is a shareholder and Deputy Chairman of the Supervisory Board of Thannhuber AG.

In the financial year 2016, Philipp Thannhuber and Dr Markus Thannhuber received remuneration for their activities as directors of Einhell Germany AG.

The value of transactions and balances outstanding in connection with Thannhuber AG and its related parties break down as follows.

EURk	Value of transactions		Outstanding balances as of 31 December	
	2016	2015	2016	2015
Consulting (*)	26	13	13	13

(*) The Group used consulting services provided by Josef Thannhuber, Chairman of the Supervisory Board of Thannhuber AG, for project planning and implementation of construction and property projects as well as with regard to corporate strategy. The fee invoiced for these services corresponded to normal market rates. The invoice amounts were due in line with normal payment terms.

Einhell Germany AG and its subsidiaries did not carry out any legal transactions with Thannhuber AG and its related parties during financial year 2016 that would have been to the disadvantage of Einhell Germany AG or its subsidiaries. Nor did Thannhuber AG take or fail to take any measures that would have negatively affected Einhell Germany AG or its subsidiaries.

7.4 Remuneration of the Board of Directors and Supervisory Board

Remuneration of members of the management team in key positions comprises:

	2016	2015
	EURk	EURk
Short-term payments	2,733	2,361
Payments after termination of employment	1,054	780
	3,787	3,141

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, segment earnings in the previous financial year, the development of the Group's asset structure and personal targets. The members of the Board of Directors hold shares in Einhell Germany AG. There are no share option programmes or similar schemes. In the financial year 2016, the total remuneration of the Board of Directors of Einhell Germany AG amounted to EUR 2,733 thousand (previous year: EUR 2,361 thousand). On 10 June 2016, the Annual General Meeting of Einhell Germany AG resolved to refrain from disclosing the remuneration of individual Board members for financial years 2016 until 2020. In addition, pension provisions for this group of persons totalling EUR 1,054 thousand were recognised in liabilities.

Pension provisions in the amount of EUR 1,973 thousand (previous year: EUR 1,893 thousand) were set aside for former members of the Board of Directors. Pension benefits in the amount of EUR 105 thousand were paid out to former members of the Board of Directors during the year under review.

The total remuneration of the Supervisory Board amounted to EUR 89 thousand (previous year: EUR 82 thousand) in the past financial year.

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

7.5 Auditor fees

Fees for the auditor KPMG AG entered as expense amount to EUR 158 thousand in the year under review (previous year: EUR 146 thousand). The fee pertains to the auditing of the financial statements. Fees for other services related to the audit of the system for compliance with requirements resulting from Section 20(1) of the Securities Trading Act (WpHG) were recognised in the amount of EUR 13 thousand (previous year: EUR 13 thousand). No tax consulting services were rendered to the Einhell Group. Other services amounting to EUR 0 thousand (previous year: EUR 0 thousand) were rendered.

7.6 Events after the reporting date

Einhell Germany AG has decided to acquire a 10% interest in the newly incorporated company Zhejiang Neo Energy Technology Co., Ltd with registered office in Ningbo/China.

8. Subsidiaries

	Capital share	Equity
	%	31.12.2016
iSC GmbH, Landau a. d. Isar/Deutschland	100.0	1,140
Hansi Anhai Far East Ltd., Hong Kong/China	100.0	1,120
HAFE Trading Ltd., Hong Kong/China	100.0	3,682
Hans Einhell China (Chongqing) Co. Ltd., Chongqing/China	100.0	1,531
Hansi Anhai Youyang Ltd., Chongqing/China	100.0	7,140
Hans Einhell (China) Trading Co., Ltd., Shanghai/China	100.0	1,762
Einhell Österreich Gesellschaft m.b.H., Vienna/Austria	100.0	1,114
Einhell Portugal – Comércio Int., Lda., Arcozelo/Portugal	100.0	2,961
Einhell Benelux B.V., Breda/Netherlands	100.0	-997
Einhell Italia s.r.l., Milan/Italy	100.0	7,003
Comercial Einhell S.A., Madrid/Spain	100.0	2,291
Einhell Polska Sp.z o.o., Wroclaw/Poland	90.0	7,608
Einhell Hungaria Kft., Budapest/Hungary	100.0	642
Einhell Schweiz AG, Winterthur/Switzerland	100.0	3,038
Einhell UK Ltd., Birkenhead/UK	100.0	1,718
Einhell Bulgarien OOD., Varna/Bulgaria	67.0	447
Einhell Export-Import GmbH, Tillmitsch/Austria	100.0	2,212
Einhell Croatia d.o.o., Sveti Križ Začretje/Croatia	100.0	6,271
Einhell BiH d.o.o., Vitez/Bosnia	66.7	2,768
Einhell d.o.o. Beograd, Belgrade/Serbia	100.0	2,124
Einhell Romania SRL, Bucharest/Romania	100.0	3,983
Einhell-Ukraine TOV, Kiev/Ukraine	100.0	12
Svenska Einhell AB, Gothenburg/Sweden	100.0	-1,073
Einhell Holding Gesellschaft m.b.H., Vienna/Austria	100.0	131
Einhell-Unicore s.r.o., Carlsbad/Czech Republic	100.0	2,018
Einhell Intratek Mühendislik ve Dis Ticaret A.S., Istanbul/Turkey	100.0	5,098
Einhell Hellas A.E., Athens/Greece	98.1	2,637
Einhell Chile S.A., Santiago/Chile	100.0	1,310
Einhell Danmark ApS, Silkeborg/Denmark	100.0	-1,495
Einhell France SAS, Villepinte/France	100.0	106
Einhell Australia PTY. Ltd., Bangholme/Australia	100.0	-155
Einhell Brasil Com. Distr. Ltda, Sao Paulo/Brazil	100.0	4,487
Einhell Norway AS, Larvik/Norway	100.0	-582
Einhell Argentina S.A., Buenos Aires/Argentina	100.0	1,910
kwb Germany GmbH, Stuhr/Germany	100.0	2,450
KWB-RUS OOO, St. Petersburg/Russia	100.0	975
Hans Einhell Ukraine TOV, Kiev/Ukraine	100.0	360
Einhell Holding Australia Pty. Ltd., Bangholme/Australia	100.0	21,567
Einhell Colombia S.A.S., Bogota/Columbia	100.0	9
Ozito Industries Pty Ltd, Bangholme/Australia	100.0	9,462

9. Executive bodies

9.1 The Board of Directors

In financial year 2016, the Board of Directors of Einhell Germany AG comprised:

The Board of Directors	
Andreas Kroiss, Linz/Austria (Chairman)	Sales and distribution, procurement, marketing, corporate strategy
Jan Teichert, Metten	Finance and accounting, taxes, internal audit, legal, controlling, investor relations, HR, supply chain management
Dr Markus Thannhuber, Landau a. d. Isar	Technology, product processing, quality management, services, IT and maintenance

Andreas Kroiss is Managing Director of KA-Invest GmbH, Linz.

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

Dr Markus Thannhuber is Deputy Chairman of the Supervisory Board of Thannhuber AG, Landau an der Isar.

9.2 Supervisory Board

In financial year 2016, the Supervisory Board of Einhell Germany AG comprised:

Supervisory Board	
Professor Dr-Ing. Dr-Ing. E.h. Dr h.c. Dieter Spath, Sasbachwalden, until 30 September 2016: Chairman of the Board of WITTENSTEIN AG, Igersheim since 1 October 2016: Director of Fraunhofer Institute for Industrial Engineering IAO and Director of Institute of Human Factors and Technology Management IAT at the University of Stuttgart since 8 February 2017: President of the National Academy of Science and Engineering	Chairman
Philipp Thannhuber, Landau an der Isar, Managing Director of Comedes GmbH, Landau an der Isar and WOTOX GmbH, Landau an der Isar	Deputy Chairman
Maximilian Fritz, Wallersdorf - Haidlfing, Team leader call centre	Employee representative

Professor Dr-Ing. Dr-Ing. E.h. Dr h.c. 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
- Zeppelin GmbH, Garching, member of the Supervisory Board

Landau a. d. Isar, 31 March 2017

Einhell Germany AG

The Board of Directors

Andreas Kroiss

Jan Teichert

Dr Markus Thannhuber

Statement of changes in non-current assets in the financial year 2016

	Acquisition and manufacturing cost				Depreciation				Cumulated depreciation				Carrying amounts		
	1.1.2016		31.12.2016		1.1.2016		in financial year		31.12.2016		31.12.2016		31.12.2015		
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	
I. Intangible assets															
1. Acquired intangible assets	21.187	544	-	21.489	1	12.484	2.267	-	14.732	-	6.757	8.703			
2. Self-developed intangible assets	5.400	-	-	5.400	-	5.094	75	-	5.169	-	231	306			
3. Acquired goodwill	15.254	-	-	15.185	-69	2.107	315	-	2.421	-	12.764	13.147			
	41.841	544	-	42.074	-68	19.685	2.657	-	22.322	-	19.752	22.156			
II. Property, plant and equipment															
1. Land and buildings in company assets	29.193	830	-	29.903	-120	18.548	440	-	18.931	-	10.972	10.645			
2. Technical equipment and machinery	5.407	203	-	5.566	-44	2.786	228	-	2.973	-	2.593	2.621			
3. Other equipment, operating and office equipment	22.730	2.345	20	24.369	-143	16.473	3.141	-334	19.162	-	5.207	6.257			
4. Assets under construction	27	1.106	-20	1.112	-1	-	-	-	-	-	1.112	27			
	57.357	4.484	-	60.950	-308	37.807	3.809	-334	41.066	-	19.884	19.550			
III. Financial assets (securities)															
	383	8	-	391	-	3	-	-	3	-	388	380			
	99.581	5.036	-	103.415	-376	57.495	6.466	-334	63.991	-	40.024	42.086			

Statement of changes in non-current assets in the financial year 2015

	Acquisition and manufacturing cost				Depreciation				Cumulated depreciation				Carrying amounts		
	1.1.2015		31.12.2015		1.1.2015		in financial year		31.12.2015		31.12.2015		31.12.2014		
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	
I. Intangible assets															
1. Acquired intangible assets	20.559	633	-	21.187	9	10.164	2.299	-12	12.484	-	8.703	10.395			
2. Self-developed intangible assets	5.257	143	-	5.400	-	5.045	49	-	5.094	-	306	212			
3. Acquired goodwill	15.489	-	-	15.254	-235	2.107	-	-	2.107	-	13.147	13.382			
	41.305	776	-	41.841	-226	17.316	2.348	-12	19.685	-	22.156	23.989			
II. Property, plant and equipment															
1. Land and buildings in company assets	27.946	1.105	83	29.193	59	18.098	393	-	18.548	-	10.645	9.848			
2. Technical equipment and machinery	5.247	68	19	5.407	-2	2.485	234	-1	2.786	-	2.621	2.12			
3. Other equipment, operating and office equipment	20.681	2.722	75	22.730	23	14.847	2.181	-579	16.473	-	6.257	5.834			
4. Assets under construction	174	52	-177	27	-	-	-	-	-	-	27	174			
	54.048	3.947	-	57.357	157	35.430	2.808	-580	37.807	-	19.550	18.618			
III. Financial assets (securities)															
	378	6	-	383	-1	3	-	-	3	-	380	375			
	95.731	4.729	-	99.581	-69	52.749	5.156	-592	57.495	-	42.086	42.982			

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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 markets products for DIY home improvers and craftspeople, for home, garden and leisure purposes. Its product policy is to react faster, more flexibly and with more innovation than its competitors. Einhell matches the global orientation of its customers with a high degree of internationalisation. Subsidiaries and associates across the world ensure the proximity to Einhell Germany AG's globally operating customers.

The subsidiaries comprise distribution companies mainly in Europe but also in South America and Australia as well as trading companies in Asia. The Asian subsidiaries are also responsible for product sourcing, product processing and procurement. As production is carried out in Asia, this is also where quality assurance takes place. Einhell employs around 1,400 employees worldwide. Group revenue amounted to EUR 487 million in financial year 2016 (previous year: EUR 444 million).

The Einhell Group divides its operations into the two business units 'Tools' and 'Garden & Leisure'.

Operational responsibility for each of the business units or segments, respectively, lies with the divisional heads or Managing Directors of the subsidiaries.

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 40 subsidiaries that are all legally independent companies. It holds 100% of the shares in subsidiaries with a centralised or special function such as services, product sourcing/product processing, procurement/purchasing and quality control/quality assurance. Einhell Germany AG also usually fully owns the global distribution companies.

In all subsidiaries where Einhell Germany AG does not hold all the shares, Einhell Germany AG has a direct or indirect majority shareholding. The minority shareholdings are almost exclusively held by the respective Managing Directors of the companies.

With regard 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 processing, the search for factories, auditing, certification, procurement, services, controlling, financing, IT and other administrative activities are centralised in Group companies in Germany and China. This organisational structure within the Group allows all distribution companies to focus on their core functions. Einhell is also in a position to press ahead with international expansion as each distribution company has a similar structure and the business model can be efficiently rolled out in additional 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 management's most important responsibilities.

The Group structure changed as follows during the 2016 financial year:

The Einhell Group took over 5% of shares from the Managing Director of Einhell France SAS in the year under review and Einhell Germany AG therefore now owns all of the shares in this company. The companies included in the consolidation have not changed.

Management and control

Responsibility for the business activities of the Einhell Group lies with the **Board of Directors** of Einhell Germany AG. 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 Group. Responsibilities within the Board of Directors are allocated based on the functional area the individual member is in charge of.

The Chairman of the Board of Directors is responsible for sales, procurement, marketing and corporate strategy.

The Chief Financial Officer is responsible for finance and accounting, tax, legal, internal audit, controlling, investor relations, human resources and supply chain management.

The Chief Technical Officer is responsible for technology, product management, product processing, quality control, services, IT and maintenance.

The Board of Directors manages specialists and managers in the relevant departments and relies upon the corresponding 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 makes sure to maintain direct contact with employees and specialist staff in all divisions. Regular meetings of the Board of Directors and of individual departments, as well as 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 Group's current situation, business transactions and corporate strategy.

The Supervisory Board also maintains on-going lines of communication with the Board of Directors outside of regular meetings and ensures an adequate level of communication and informational flows between the Board of Directors and the Supervisory Board.

The composition of the Supervisory Board did not change in financial year 2016:

Supervisory Board	2016
Professor Dr.-Ing. Dr.-Ing. E.h. Dr. h.c. Dieter Spath	Chairman
Philipp Thannhuber	Deputy Chairman
Maximilian Fritz	Employee representative

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, segment earnings in the previous financial year, growth of Group assets and personal targets. The evaluation system for variable remuneration components has essentially remained unchanged for several years and ensures transparent and sustainable accounting practices based on the Group's strategic aims. A pre-defined cap limits the impact of extraordinary one-off effects on the variable remuneration component. Members of the Board of Directors privately hold shares in Einhell Germany AG. There are no share option programmes or similar schemes. In the case of one of the Directors, an agreement exists, which stipulates that a proportion of the variable remuneration component must be used to purchase Einhell shares. If the employment contract of the Directors is not extended after twelve years, the relevant Director receives one year's salary plus the average management bonus paid over the last three years. If the employment contract is terminated before the twelve-year threshold, the proportional remuneration is calculated on a pro rata temporis basis. Further information about the members of the Board of Directors' remuneration can be found in the Notes.

Personnel changes to the Board of Directors

There were no personnel changes to the Board of Directors in financial year 2016. There was no change to the division of responsibilities between the members of the Board of Directors.

1.3 Corporate strategy and management

Trends and challenges

Einhell introduced a number of central measures in 2016 to pave the way for the desired **digital leadership** in the do-it-yourself market. The measures focus, among other things, on providing the best possible product data quality to trading partners, achieving strong brand awareness and reputation, and creating demand among end consumers. Another objective is providing a good customer experience for end consumers with the Einhell brand and its products. This positive customer experience is to be created consistently across all available and relevant channels and poses new challenges for the sales and marketing divisions of manufacturers.

Einhell is thus squarely facing the challenges of digital transformation for retailers and manufacturers in the still strongly growing do-it-yourself **online retail segment**. This transformation is marked, in particular, by new digital distribution channels, new ways of interacting between brand, consumers and retailers, new technologies and higher consumer expectations with regard to brand manufacturers and retailers. In order to fully exploit the sales potential arising from the new digital channels together with our international trade partners, the path towards digital transformation we have already embarked on must be pursued consistently, and sales and marketing activities must focus on meeting the needs of the Einhell consumers.

In 2016, Einhell initiated various strategic projects to create the foundation for further digital growth, such as interdisciplinary projects on customer typologies, customer journeys and customer touchpoint analyses, while simultaneously creating new forms of dialogue like product reviews and interactive newsletters. By further creating new “digital” functions and interdisciplinary digital teams, Einhell is now in an even better position to seize and fully use the business opportunities arising from the development of digital channels.

The revenue share of **battery-operated tools** in the do-it-yourself market has risen sharply over the last few years. Meanwhile, nearly half of the tools sold are operated with batteries. To make the Einhell Group’s successful Power X-Change concept even more attractive for customers, more and more products are added to the Power X-Change system. Development work further focuses on creating even more powerful accumulators to increase working time and efficiency. Stationary retail stores have also recorded a trend towards battery-

operated tools. Due to the limited power of batteries, this trend was late to set in and progressed more slowly, but battery-operated tools are now definitely on the rise.

Group management

Management of the business activities of the Einhell Group is mainly based on the **financial performance indicators** revenue and profit before taxes. The two key figures are the most significant performance indicators of the Einhell Group.

Further financial **performance indicators** are the gross profit margin and the significant growth drivers of working capital, inventories and trade receivables. However, these key performance indicators are subject to strong country-specific variations and are therefore interpreted within the context of the individual company. Inventories are analysed on an ongoing basis and monitored on the basis of stock turnover and inventory range with regard to possible impairment losses. Moreover, a sanity check is carried out on the order process for new goods involving checking and managing product availability and stock volumes. Trade receivables are constantly monitored on the basis of maturity structures and assessed according to standardised evaluation criteria. 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 Group's working capital. Einhell does not use any non-financial performance indicators to manage the Group. At the level of individual Group companies, however, non-financial performance indicators like the number of technology projects at Einhell Germany AG and Einhell China, for instance, or employee satisfaction at Einhell Germany AG are used to manage the companies.

The Einhell Group's basic objective is to generate sustainable and profitable growth of **revenue** and **profit**. Profitability takes priority over pure growth targets. The Group substantiated these objectives by stating the targets of a long-term stable pre-tax margin averaging at least 4%-5%, and long-term stable dividend distributions.

The management system has not been changed compared to the previous year.

Strategic orientation

In recent financial years, the long-term strategic objectives of the Einhell Group were drawn up by the Board of Directors in conjunction with management. The Board of Directors summarised these objectives and oversees and continually monitors the operational implementation of the strategy. Several strategic targets for 2017 were discussed and defined in detail when the bundle of objectives for 2017 was drawn up.

This includes the **centralisation of payment transactions** and **master data management**. The Einhell Group has its own subsidiaries in around 30 countries. These companies work together with approximately 50 different banks and a large number of different online banking systems. The current situation can be improved by creating a heterogeneous master data structure for accounts receivable and payable to optimise the transparency, effectiveness and security of payment transactions. This potential is being unlocked by centralising master data management and payment transactions, so that the Group's payment flows can be handled by only a few international top banks and one central payment factory. Centralised payments and master data management automatically increase the security and effectiveness of payments, while standardising master data quality across the Group and improving liquidity planning.

Another objective is the digitalisation of supply chain management. The ability to organise flows of goods from production to the customer in an efficient, high-quality and cost-efficient way remains one of the Einhell Group's core competences. The **supply chain management** subject area comprises information management as well as the management of the physical flow of goods and warehousing. The goal is to optimise time cycles, minimise capital tied to inventories, minimise transport costs and maximise availability for the customers. This requires consistent digitalisation of the supply chain. Following the introduction of a disposition tool and transport management system as scheduled in the past financial year, the system is now being implemented at additional subsidiaries. These measures and tools form the foundation for new projects and objectives aimed at improving cooperation with our strategic core suppliers.

We have also directed our attentions to our **international service organisations**. Spare parts processing is to be optimised by means of enhancing the quality of spare parts data in order to ensure faster delivery times. Moreover, we intend to further internationalise the spare parts online shop that is already available to customers on the German market. Cross

docking logistics will help to reduce spare parts inventories at the individual locations while simultaneously increasing parts availability in our international spare parts supply. We also intend to implement the ISP service management system in additional countries and add a ticketing component. The aim is to set up a standardised contact centre organisation. Another item on the agenda is to upgrade the Genesys CIM platform, enabling us to offer more modern communication channels like online chat, and to prepare the system for international use by the subsidiaries.

Our customers in both stationary and online retail wish to include as many Einhell products as possible into their product range. However, given their limited storage facilities, they are often unable to keep the entire product range on stock. In order to deliver products that our customers do not have on stock to the end consumers as fast as possible it would be expedient to deliver the goods directly to the end consumer rather than taking them to our customers' warehouses. While reducing processing costs in connection with deliveries for us and our retail partners, this method also ensures that the end customers receive their products much faster, which is an important factor nowadays. As a **drop-shipment**-ready supplier we enable our customers to supply our entire product range across all distribution channels in a fast and efficient manner, which sets us apart from our competitors and opens up new revenue potential.

1.4 Product processing and quality management

Product processing

Product processing expenses amounted to EUR 6.1 million (previous year: EUR 5.5 million) in financial year 2016. 49 employees (previous year: 47 employees) were employed in this division. The division is mainly sales-driven and customer-oriented. Therefore, cooperation with other departments, such as quality assurance, is important, as is 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 made Einhell one of the fastest reacting companies in the industry. This is also reflected in the launch of the Power X-Change concept, which is a master battery concept where a variety of tools can be operated with one and the same battery. Einhell's Power X-Change concept comprises devices in both the Tools and the Garden & Leisure segment, making it basically unique in the market.

Quality management

Most of the Einhell product range is currently produced in China. Quality standards stipulated by the Einhell Group to the Chinese suppliers are determined by customer requirements. Quality control and quality management meet high standards.

Since high priority is given to quality checks before shipping from China, this area is constantly monitored. In addition to strict shipping controls on site, there are also controls with regard to observance of customer-specific quality requirements, inspections of on-going production and optimisation of manufacturer processes.

Supplier quality is optimised on an on-going basis. Dependency on individual suppliers is avoided by maintaining an adequate number of suppliers and a broad distribution of orders. In order to create additional leeway for flexible procurement options, Einhell strives to further intensify its cooperation with select suppliers by forming strategic alliances in the field of product development.

1.5 Personnel and HR services

The headcount rose moderately in 2016 compared to the previous financial year. On average, the Einhell Group had 1,364 employees (previous year: 1,320). Revenue per employee was EUR 357 thousand (previous year: EUR 336 thousand).

Future-proof **organisational and personnel development** is crucial for implementing sustainable strategic measures. In addition to the efforts at the individual locations, we have also realised inter-company projects. Particular attention was paid to the geographical and functional integration of Hans Einhell Shanghai Trading into Einhell China. Since uniform procedures require the same structural way of thinking and individual integration of employees, we offered support via various personnel development projects at Group and company level.

In order to **offer the subsidiaries more efficient and effective support**, investment controlling and distribution-related subsidiary management were merged, and the new organisational structure will help to raise inter-company cooperation and management of inter-company activities to a new level. The merging of Group procurement and product management, which is supposed to be carried out in 2017, is a further step in the same direction. All Group functions are to cooperate closely to enhance international development and management of the Einhell product ranges while taking regional particularities and circumstances into account.

Inter-company cooperation was also one of the objectives of the management meeting in July 2016. The meeting of the various national management teams in Landau an der Isar has already become a tradition and, like last time, also included some team building components. A unique combination of product training, the opportunity to gain practical experience with our tools and a competition between the international teams made the meeting a truly memorable occasion.

The **Einhell Academy** strengthened its activities in the core areas of value-based management, corporate health management and individual vocational qualification in 2016. A series of manager workshops dealt with the integrated approach that management and organisation have a fundamental impact on the employees' well-being as well as their ability and willingness to perform and the resulting fields of action to be addressed by the managers.

In addition to realising numerous individual **personnel development measures**, spanning a wide range from software training to part-time academic studies, training measures focused particularly on proactively addressing the topic of digitalisation. Our strategic approach of striving for digital leadership in our sectors of activity should not be limited, in our view, to IT and marketing measures, but we need to revolutionise our thinking and be prepared to deal with these future-oriented trends at all levels. Our Einhell digital team has therefore organised a number of national and international training measures and workshops. The aim here is and was to prepare the employees at our headquarters and the subsidiaries for the upcoming changes, to reduce fears, arouse interest and to thus create the basis for tackling the future challenges, not by merely reacting to them, but by actively shaping the future and by using these opportunities for our Group. Given the strong dynamics of everything surrounding digitalisation, this will be a continuous process and must therefore be integrated sustainably into organisational and personnel development structures. One of the necessary and designated objectives for 2017 is therefore to further expand and support these issues in the international structures of our Group.

The employee survey conducted for the third time at the headquarters in Landau an der Isar in December 2016 will help us plan the targeted roll-out of organisational and personnel development measures at a local and international level.

Thank you to the employees:

The exceptional commitment of every single employee kept our businesses on track and enabled the Einhell Group to take the strong position it is holding today. Building on this, all of our employees can be very proud and look into the future with great confidence. **The Board of Directors of the Einhell Group would like to express its sincere thanks to all Group employees - without your excellent performance we would not have been able to achieve this!**

2. Economic report

General economic conditions

Global economy

The **global** economic trend continues to be slightly weaker than anticipated. According to the International Monetary Fund (IMF), global economic growth amounted to 3.1% in 2016.

The dismal employment situation in developing and emerging countries seems to be getting worse and is prompting people to leave their home countries. According to the International Labour Organisation (ILO), the number of persons looking for a better future in other countries has been on the rise since 2009. The global unemployment rate was 5.7% in 2016.

Germany

In 2016, heavy consumer spending led to the strongest growth of the German economy seen in the last five years. Figures by the Federal Statistical Office show that the gross domestic product rose by 1.9% in 2016. Growth has not been significantly stronger since 2010 (+4.1%). At the end of the year, the German economy gained even more momentum. GDP rose by about half a percentage point over the previous quarter in the last three months of 2016.

Once again, private consumer spending, which increased by 2.0% in 2016, was the main driver of the economy, accounting for 53.5% of the total economic output. Many consumers prefer to spend their money as savings earn such little interest these days. The purchasing power is further boosted by low inflation and positive trends on the labour market.

Consumer prices climbed again in the financial year under review, and consumers had to pay 0.5% more on annual average than in the previous year. The inflation rate was particularly high in December 2016, when it reached the highest level in more than three years at 1.7%. The surge at the end of the year was owed primarily to energy prices, which increased by 2.5% after having declined, partly substantially, in the months before.

Compared to December 2015, the harmonised index of consumer prices (HICP) for Germany, which is calculated for European purposes, increased by 1.7% in December 2016. Compared the previous month of November, the HICP climbed by 1.0%.

Total gross revenue of the **DIY trade** in Germany amounted to EUR 9.45 billion in the first half year of 2016. This means that revenue grew by 1.5% compared to the previous year in the first six months of the year, despite unfavourable weather conditions. According to the currently available data, the German association of DIY retailers (BHB) forecasts revenue totalling EUR 18.24 billion for construction and DIY stores in the 2016 financial year. This corresponds to a revenue increase of 1.5% year-on-year. At the beginning of the year, the association had forecast 1.3% to 1.5%. E-commerce emerged as the primary growth driver compared to the conventional mail-order business and was able to continue and even accelerate its upward trend in 2016. According to the forecasts of the German association of DIY retailers (BHB), e-commerce revenue will increase by 14.0% year-on-year in the core DIY ranges in 2016.

Europe

At the end of 2016, the economy in the eurozone started to grow again. Between October and December, the gross domestic product rose by 0.5% on the previous quarter. In the full year 2016, GDP grew by 1.7%, which was slightly weaker than in the year before (+2.2%).

Unemployment in the euro countries continued to decline. The unemployment rate dropped to 9.6% in December, according to the statistical authority Eurostat. Compared to the previous year, the unemployment rate declined by 0.9 pp.

The inflation rate in the eurozone rose sharply in December 2016. According to the European statistical authority Eurostat, consumer prices were 1.1% higher than only one year ago. This is the highest inflation rate since September 2013.

The annual inflation rate has therefore moved a little closer to the target level stated by the European Central Bank (ECB). The ECB strives for just under two per cent in the medium term.

Industrial production in the eurozone dropped slightly more than anticipated in December 2016. In November, production had still increased by 1.5%. Compared to the previous year, production rose by 2.0% in December.

Australia

The Australian economy has meanwhile been growing for many years in a row. High income was mainly generated because of the commodity boom. Falling commodity prices in recent

years led to lower tax revenue, however. Economic growth increased from 2.4% in 2015 to 3.1% in 2016. The labour market is still strong, with an unemployment rate of currently 5.8%.

Performance report

Einhell Group increases revenue and profitability

The Einhell Group was able to raise its revenue sharply compared to the previous year. Group revenue amounts to EUR 487.2 million in financial year 2016, compared to EUR 443.8 million in the previous year.

This means that the Einhell Group clearly exceeded its forecast for financial year 2016, in which the Board of Directors had stated a moderate increase in revenue to about EUR 455 million at the beginning of 2016. After a positive revenue trend had already become visible in the first quarters, the Einhell Group increased its forecast from EUR 455 million to EUR 470 million in the middle of the year 2016 and, after the end of the third quarter, once again to EUR 475 million.

Revenue of the Einhell Group exceeded the prior-year values in the first quarter. Revenue increased from EUR 112.8 million in the first quarter of 2015 to EUR 120.1 million, equivalent to 6.5% growth. Sales growth in the first quarter of 2016 was partly attributable to the positive performance of the Tools segment.

In the second quarter, revenue amounted to EUR 128.7 million, which also clearly exceeded the prior-year level (EUR 115.9 million). This was owed to a marked increase in revenue in Europe.

The positive revenue development in the first half of the year was confirmed in the third quarter, as the Einhell Group managed to expand its business volume once again. Some regions, especially the domestic region of Germany, Southern and Western Europe, and Australia, managed to significantly increase their revenue compared to the previous year. In the third quarter, revenue climbed from EUR 119.1 million in the prior-year period to EUR 125.1 million.

In the fourth quarter, revenue also showed a positive development compared to the prior-year period. Revenue increased from EUR 95.9 million to EUR 113.3 million and as a result overall group revenue amounted to EUR 487.2 million, which is substantially higher than in the previous year.

Since the procurement behaviour of international major customers has changed, we have adjusted our reporting structure. The “Asia” region, which was previously seen as separate, is now included in “other countries”. Because of the significance of the sales markets Australia and New Zealand, the “Oceania” region will now be treated as a region on its own. Revenues in this region had previously been included in “Other countries”. The figures for the previous year were adjusted accordingly.

The regional development of revenue in financial year 2016 was as follows:

	2016		2015		Change	
	EURk	%	EURk	%	EURk	%
D/A/CH region	194,099	39.8	175,569	39.6	18,530	10.6
Other Europe	163,307	33.5	144,043	32.4	19,264	13.4
Oceania	93,072	19.1	86,048	19.4	7,024	8.2
South America	26,750	5.5	25,757	5.8	993	3.9
Other	9,983	2.1	12,334	2.8	-2,351	-19.1
	487,211	100.0	443,751	100.0	43,460	9.8

The **D/A/CH** region posted revenue of EUR 194.1 million (previous year: EUR 175.6 million) in financial year 2016. The revenue contribution of the D/A/CH region therefore amounts to 39.8%.

Revenue in **Other Europe** increased significantly in financial year 2016 compared to the previous year. Overall, revenue growth amounted to 13.4%, from EUR 144.0 million to EUR 163.3 million. France, Italy and the UK are among the significant sales market in financial year 2016.

Revenue in the **Oceania** region amounted to EUR 93.1 million in the reporting period (previous year: EUR 86.0 million).

Revenue in the **Other countries and South America** declined. Revenue decreased by EUR 1.4 million to EUR 36.7 million year-on-year (previous year: EUR 38.1 million). The South American subsidiaries and our Hong Kong companies made the largest revenue contributions.

The Einhell Group succeeded in raising revenue in nearly all of the regions. Merely the Other countries region failed to see any revenue growth. The reason for this is that some of our major customers have reduced their procurement volumes from the Asian companies, buying more from our European Group companies instead. This change resulted in some shifts between the individual regions.

Total output development of the two segments

The development of revenue by segment was as follows in financial year 2016:

	2016		2015		Change	
	EURk	%	EURk	%	EURk	%
Tools	306,955	63.0	269,600	60.8	37,355	13.9
Garden & Leisure	180,256	37.0	174,151	39.2	6,105	3.5
	487,211	100.0	443,751	100.0	43,460	9.8

The Tools segment generated revenue of EUR 306.9 million in financial year 2016 (previous year: EUR 269.6 million). The share of Ozito Industries Pty Ltd amounts to EUR 61.6 million (previous year: EUR 55.6 million).

The most significant sales in this segment were generated by products in the electric power tools, compressed air technology and wood processing ranges. Products by kwb Germany GmbH are reported in the Tools segment.

The Garden & Leisure segment generated revenue of EUR 180.3 million in 2016 (previous year: EUR 174.2 million). Revenue of the Garden & Leisure segment contains revenue generated by Ozito Industries Pty Ltd of EUR 31.4 million (previous year: EUR 30.0 million). High revenues were mainly generated with lawn and garden care products. Lawn mowers, products from the tree and shrub care ranges as well as products related to water technology sold particularly well.

Both segments Tools and Garden & Leisure thus managed to clearly exceed their forecasts for financial year 2016.

3. Earnings

The Einhell Group managed to boost its profitability significantly compared to the previous year. The Einhell Group generated profit before taxes of EUR 17.0 million in financial year 2016 (previous year: EUR 11.8 million). The pre-tax margin amounts to 3.5% (previous year: 2.7%).

The following table shows the development of profit before taxes in the two segments:

	2016		2015		Change	
	EURk	%	EURk	%	EURk	%
Tools	9,273	54.6	8,080	68.6	1,193	14.8
Garden & Leisure	7,709	45.4	3,699	31.4	4,010	108.4
	16,982	100.0	11,779	100.0	5,203	44.2

Despite the marked increase in revenue, the Tools segment was only able to achieve a moderate improvement in 2016 over the previous year. The negative results of the Brazilian subsidiary and kwb Germany GmbH weighed heavily on the result of the Tools segment.

In the Garden & Leisure segment, in particular, the figures reveal a significant improvement over the previous year. Here, better margins and higher revenue had a positive impact on the result.

Purchase price allocation (PPA) effects resulting from Ozito Industries Pty Ltd squeezed earnings by EUR 1.8 million. Adjusted for PPA effects, profit before taxes amounts to EUR 18.8 million and the pre-tax margin is 3.9%.

At the beginning of 2016, the Einhell Group had expected an increase in revenue to EUR 455 million and profit before taxes of approx. EUR 13.0-14.0 million.

After the final figures for the second quarter had been presented, the revenue forecast was slightly lifted. It now stated expected revenue of approx. EUR 470 million and profit before taxes of about EUR 15.0 million.

In November 2016 - after the figures for the third quarter were available - the revenue forecast was again adjusted slightly upwards. The Einhell Group now expected revenue of EUR 475 million and profit before taxes of approx. EUR 14.0-15.0 million. The profit before taxes forecast of EUR 14.0-15.0 million was exceeded by another EUR 2.0 million as at the end of the financial year. Here, it must be considered that we assumed until the end of the financial year that the subsidiary in Brazil would be sold by the reporting date on 31 December 2016 and that the deconsolidation would have been accounted for in the 2016 financial year. Since the sale had not been realised by the end of the year, the company was not deconsolidated. Depending on the exchange rate of the Brazilian real, the deconsolidation is expected to entail expenses amounting to EUR 1.5-2.0 million.

The earnings development benefited mainly from the strong revenue growth, which, in turn, was attributable to a consistent product range policy and strong, innovative products. E-commerce also saw rising revenue in financial year 2016. A positive performance of the gross profit margin on the back of the differentiation of the Einhell product range likewise had a positive effect on earnings. Moreover, we managed to reduce freight costs due to internal logistics organisation projects, the consistent tendering of services and the use of IT instruments.

Negative effects on the earnings development originated from the high losses in the South America region as well as losses at some companies in Northern Europe and at kwb Germany GmbH.

The domestic market of Germany performed well in the past financial year. This applies to stationary retail as well as online trading. With its product range, Einhell is able to differentiate itself strongly from its competitors. This has a positive effect on product range decisions made by customers of the Einhell Group as well as with regard to the perception of the end consumers. With its highly individual and eye-catching point-of-sale appearance - both online and in stationary trade - Einhell distinguishes itself from its competitors.

Revenue in the Southern and Eastern Europe region increased significantly. The consolidation measures initiated in previous years and the adjustment of the product portfolio to market conditions allowed Einhell to significantly increase its gross profit margins in these regions. Group companies in Northern Europe did not manage to generate positive results, however.

South America is still facing major structural challenges of the organisational kind as well as on the market. The general economic situation continues to be strained and has not improved substantially in recent months. The difficult market situation is also affecting the subsidiaries' performances. Following the successful restructuring measures, the subsidiary in Chile succeeded in closing 2016 in the profit zone. The cooperation with a key customer was further strengthened in the past financial year. The company in Columbia continues to suffer from high start-up losses that are weighing on Group earnings, but is expected to reach breakeven in 2017. The planned sale of Einhell Brazil will presumably be completed in the first half of 2017. The Argentinian company operates in a difficult market environment. The massive depreciation of the Argentinian peso and high financing costs are placing an enormous strain on the company. It is not yet possible to say with certainty whether the economic reforms will have a positive effect on the market.

The revenue performance on the Australian market, which is of particular significance for us, was very good. This has a highly positive impact on consolidated net profit. Once again, Ozito Industries Pty Ltd acquired in financial year 2013 experienced strong growth in 2016, along with its most important customer.

The Asian subsidiaries were also able to make a positive contribution to consolidated net profit.

Overall, profit before taxes in the Einhell Group thus showed a highly positive performance. Although individual regions and companies are still facing challenges, we are actively working to improve their earnings situation.

The EUR 1,903 thousand increase in personnel expenses to EUR 63,246 thousand is mainly due to the general development of wages and salaries. In addition, a significant increase in profit also has an impact on potential provisions for variable remuneration of the staff.

Other operating expenses increased by 10.3% year-on-year to EUR 73,052 thousand. The increase is mainly due to an increase in revenue. In addition, the expenses incurred through provisions set aside for Einhell Brazil and additions to earn-out liabilities in connection with purchase price payments for Ozito Industries and Einhell Intratek increased.

The financial result deteriorated by EUR 1.4 million to EUR -3.5 million. The fact that some subsidiaries procured local financing in high-interest countries led to high refinancing costs. The financial result is mainly derived from the interest result of EUR -2.0 million (previous year: EUR -1.9 million) and losses/expenses from currency translation/currency hedging of EUR -1.5 million (previous year: EUR -0.2 million).

Consolidated net profit after non-controlling interests increased from EUR 7.4 million to EUR 9.3 million in financial year 2016. The ROI¹, taking into account PPA effects, was 5.3% (previous year: 3.9%) at the reporting date. Before PPA effects, the ROI amounted to 5.8%.

The EBIT margin on revenue amounted to 4.2% in financial year 2016 (previous year: 3.1%).

¹ ROI (Return on Investment) = profit before taxes / total capital * 100

4. Assets and financial position

The main line items in the statement of financial position for the financial years 2016 and 2015 are as follows:

in EUR million	31.12.2016	31.12.2015	Change
Assets	40.0	42.1	-2.1
Goods inventories	127.7	139.1	-11.4
Trade receivables	67.9	62.7	+5.2
Cash and cash equivalents	54.7	24.3	+30.4
Equity	164.1	157.9	+6.2
Liabilities to banks	33.2	32.5	+0.7

The balance sheet total increased by EUR 22.5 million or 7.5% to EUR 323.3 million.

Investments and non-current assets

Investments amounted to EUR 5.0 million in financial year 2016. This refers primarily to intangible assets and property, plant and equipment. For a new logistics centre under construction, Einhell Germany AG recognised EUR 1.0 million.

Depreciation amounted to EUR 6.5 million in 2016 and is therefore up EUR 1.3 million year-on-year (previous year: EUR 5.2 million). Purchase price allocation effects of EUR 1.7 million from the takeover of Ozito Industries Pty Ltd are included in the depreciation item. An impairment of EUR 1.3 million was recognised for kwb Germany GmbH. Further impairments were recognised for property, plant and equipment (EUR 1.0 million) and intangible assets (EUR 0.3 million).

Current assets

Inventories decreased from EUR 139.1 million to EUR 127.7 million on the reporting date. Fortunately, no major problems were encountered on the Asian procurement markets in financial year 2016. Excess stocks in some countries were reduced at the end of the year.

The below table depicts the development of inventories in the two segments Tools and Garden & Leisure:

	2016		2015		Change	
	EURk	%	EURk	%	EURk	%
Tools	83,888	65.7	93,387	67.1	-9,499	-10.2
Garden & Leisure	43,850	34.3	45,741	32.9	-1,891	-4.1
	127,738	100.0	139,128	100.0	-11,390	-8.2

Trade receivables increased as a result of higher revenue to EUR 67.9 million (previous year: EUR 62.7 million). As before, no factoring was carried out in financial year 2016.

Due to positive cash flow from the operating business, cash and cash equivalents at reporting date rose by EUR 30.4 million to EUR 54.7 million. Their share in total assets amounts to 16.9% (previous year: 8.1%).

Debt capital taken out by the Einhell Group increased to EUR 159.2 million (previous year: EUR 142.8 million).

Financing

The financial requirements of the Einhell Group, which also vary greatly depending on the season, are driven in particular by the level of inventories and trade receivables. Stock turnover rates of inventories and the maturities of trade receivables play a major role here and have a significant impact on the financial requirements.

The Einhell Group's funding derives, on the one hand, from the equity that was provided by its shareholders when the company was founded and the subsequent capital increases and retained earnings that are set aside in reserves. In addition, the Einhell Group procures debt capital in the form of loans and short-term borrowings as well as, to some extent, supplier loans. Loans are largely denominated in euro. Supplier loans are mainly in CNY or USD. Anticipated cash flows from the payment of supplier liabilities in foreign currencies are largely hedged with the corresponding hedge transactions.

Owing to the very healthy and solid financing structure of the Einhell Group - the Einhell Group traditionally has an excellent equity ratio that currently stands at 50.8% - the Board of Directors does not anticipate any problems with current business operations, nor does it

foresee any financing problems for future business volume in connection with the further expansion of the Group.

The Einhell Group utilised the favourable interest level in financial year 2013 for refinancing. The Group concluded bilateral loan agreements totalling EUR 30.0 million with several banks, securing long-term financing until 2018 at extremely favourable conditions. The financing did not require the provision of securities and the Group therefore does not expect any problems in financing future business.

Financial covenants were stipulated in the loan agreements, the breach of which allows creditors to increase the credit margin in a first step and reduce the loan term in the subsequent year as a second step if the covenants are still not met. The covenant ratios are equity ratio, debt coverage ratio and interest coverage ratio. All covenants were met in financial year 2016.

As of the reporting date, the Group had about EUR 60.5 million in unsecured credit lines at its disposal for the operating business. Overall, the Einhell Group had credit balances of EUR 54,704 thousand with banks and liabilities from debt capital in the amount of EUR 33,158 thousand on the reporting date.

The Group secured an optimisation of liquid funds and the related maximum reduction of debt capital through effective cash pooling and a cash concentration system. This means that the balances of the different Group companies' bank accounts are transferred to a Master Account of Einhell Germany AG. As a consequence, only the balance of the Master Account will have to be covered by borrowings on the capital market. The subsidiaries participating in the cash pooling scheme therefore do not need to make investment or borrowing transactions on the capital markets, but simply have receivables or liabilities with Einhell Germany AG. This procedure serves to protect credit lines provided by banks and optimise the interest result. All Einhell Group companies are currently included in the cash pooling, as far as this is legally possible and feasible.

The Board of Directors declares that all the Einhell Group's land and buildings are free from third-party security interests. Transfers by way of security or comparable third-party rights do not exist. All land charge agreements in favour of third parties were reorganised in financial year 2010 and cancelled in the land register. All inventories and receivables are also free from third-party security interests.

The summarised cash flow statement shows the development of the financial position in the 2016 financial year:

	2016	2015	Change
	in EUR m	in EUR m	%
Cash flow from operating activities	41.9	-7.0	+698.6
Cash flow from investing activities	-5.1	-4.4	-15.9
Cash flow from financing activities	-5.5	-2.7	-103.7
	31.3	-14.1	+322.0
Changes from currency translation	-0.9	2.1	-142.9
Net increase in cash and cash equivalents	30.4	-12.0	+353.3
Cash and cash equivalents at beginning of period	24.3	36.3	-33.1
Cash and cash equivalents at end of period	54.7	24.3	+125.1

Cash flow from operating activities mainly results from profit before taxes, the reduction in inventories, depreciation and amortisation of intangible assets and property, plant and equipment as well as an increase in current liabilities.

Cash flow from financing activities includes mainly inflows and outflows associated with loans and the dividend distribution. Moreover, the item also includes the payment of the third tranche of the earn-out liabilities from the takeover of Ozito Industries Pty Ltd.

Cash flow from investing activities mainly pertains to capex for operating and office equipment.

5. Overall economic situation

In summary, the Einhell Group managed to significantly increase revenue and profit in the 2016 financial year. The revenue and profit targets for 2016 were exceeded. Restructuring measures implemented at various Group companies in previous years had a positive effect on profit performance. The innovative product range policy in particular led to higher revenues and contribution margins.

The Einhell Group managed to slightly increase its gross profit margin compared to the previous year. The gross profit margin amounts to 32.2% (previous year: 31.7%).

Moreover, the Einhell Group has an excellent equity ratio of 50.8% (previous year: 52.5%) as well as a net cash position of EUR +21,546 thousand (previous year: EUR -8,213 thousand).

6. Responsibility Statement of the Board of Directors

The Responsibility Statement 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 corporate governance practices to ensure compliance with legal regulations that go beyond statutory requirements. In particular, Einhell Germany AG observes various guidelines and procedural rules that are aimed at all Group employees and are designed to avoid risks resulting from non-compliance with legal provisions. For example, compliance with legal requirements preventing 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. Corporate governance practices with regard to compliance are constantly monitored and amended.

The provisions of the new European Market Abuse Directive, which came into force in 2016, were implemented consistently in the Group.

7. Risk report

The risk management system of the Einhell Group seeks to identify and evaluate opportunities and risks at an early stage to be able to apply the required measures to exploit opportunities and limit any negative consequences on the business performance. This is aimed at ensuring the existence of the Group as a going concern and creating values for the long term by improving business decisions. The Einhell Group defines risk as any event that could negatively impact the achievement of operating or strategic objectives. The management decides on a case-by-case basis whether the risk is transferred (e.g. via insurances), recognised in the statement of financial position (e.g. via provisions, impairments) or deliberately accepted.

7.1 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 system, the risk management system is designed to identify the risk of misstatements in Group bookkeeping and external reporting with respect to Group accounting processes, and serves in particular to identify possible risks at an early stage. Seizing business opportunities is associated with risks. In order to make these risks controllable, a risk management system is needed. The risk management process of the Einhell Group was updated in the period under review. An Excel based risk management reporting system collects all relevant information and allows corporate executives and others responsible for the management of the company to access the data in a compact and timely manner. It is designed to simplify data collection in the individual companies and minimise the expenses of risk management in the Group.

The risk management process in the Einhell Group is split into two stages. The first stage is the decentralised recognition of risks in subsidiaries and the various departments of Einhell Germany AG by the risk officers appointed by the Board of Directors. They are responsible for risk identification and evaluation. The critical aspect here for the Einhell Group is identification, since no risk planning can be undertaken for risks that have not yet been identified. In the Einhell Group, risks are identified by linking a bottom-up and a top-down approach. This means that centrally determined risks must be assessed. In addition, the Einhell subsidiaries and the heads of department in the Group are called on to identify and

assess specific risks for their relevant subject areas and departments. The identified risks are evaluated by multiplying the probability of the damage occurring and the maximum amount of damage. The evaluation focuses on net risk, i.e. the risk that remains after various preventative measures have been taken. The second step comprises risk consolidation, analysis and control by risk managers and corporate management.

Einhell uses various methods of risk management. The first is risk avoidance, which means that risks, and associated opportunities, are not taken. Another management method is to minimise risk based on organisational measures, also referred to as risk reduction. Thirdly, risks can be transferred by means of insurance policies, contracts with suppliers, etc. Remaining risks are deliberately taken by the Einhell Group, depending on whether the risk/opportunity ratio is reasonable.

Risks are monitored regularly and reported on a quarterly basis. The most important risks are also discussed at meetings of the Board of Directors. Opportunities are not recorded separately in the risk management system.

Elements of the internal control and risk management system

The internal control system of the Einhell Group includes 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 system comprises integrated process controls and internal control systems.

The domestic controlling, investment controlling, finance, Group accounting and legal departments constitute the internal management system of the Einhell Group. The Einhell Group companies make a forecast in the relevant financial year to budget the following financial year. Based on differentiated revenue planning, the corresponding costs of sales and other costs are budgeted. These projected figures are collated for the Group into a budgetary statement of income.

The actual figures from the individual companies are processed on a monthly basis. As a result, a complete consolidated statement of income is devised that compares the budgeted and actual figures and allows for their analysis. The development of inventories, margins etc. is also reported for all companies on a monthly basis. The comparison is discussed

with the members of the Board of Directors and with the managers of the separate divisions and companies. The analysis of the budgeted and actual figures permits relevant measures to be developed and implemented.

The internal monitoring system is comprised of measures that are integrated into the processes and measures that are independent of the processes. In addition to automated IT process controls, manual controls also form an important part of integrated process measures which are, for example, also carried out by the internal audit department. The Supervisory Board, the Group auditors and other audit bodies, e.g. tax auditors, are involved in carrying out process-independent controls within the Einhell Group.

The audit of the consolidated financial statements by the Group auditors in particular is the main process-independent control measure with respect to Group accounting processes.

Use of IT systems

Accounting transactions are recorded based on individual accounts in the accounting programme Microsoft Business Solutions Navision or, in few exceptional cases, in local accounting systems. When drawing up the consolidated financial statements of Einhell Germany AG, the financial statements of the individual group companies are supplemented by further information in standard reporting packages, which are recorded centrally at Einhell Germany AG in the consolidation system KONSIS. The Group auditors regularly check the interfaces between the reporting system and the consolidation system and any reconciliation. The consolidation system KONSIS 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 employees for the recognition and valuation of assets and liabilities can also lead to other Group accounting related risks.

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

The internal control measures aimed at propriety and reliability of Group accounting ensure that transactions are fully recorded in compliance with statutory requirements and the stipulations of Einhell's articles of association as well as in a timely manner.

They also ensure that inventories are carried out in a proper manner, and that assets and liabilities are properly recognised, measured and shown in the consolidated financial statements. The rules also ensure that the accounting documentation provides reliable and transparent information.

The control activities to ensure propriety and reliability of Group accounting comprise example analyses of circumstances and developments on the basis of specific key figure analysis. The separation of administration, implementation, invoicing and authorisation functions and the fact that they are performed by different persons reduces the likelihood of wilful contravention. It also ensures that changes to the IT systems used for the underlying bookkeeping in Group companies are subject to full and timely logging of bookkeeping transactions in the relevant reporting period. The internal control system also guarantees 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) provide standardised accounting and valuation principles for the companies in Germany and other countries that are included in the Einhell consolidated financial statements. In addition to general accounting principles and methods, there are also regulations regarding the statement of financial position, statement of income, notes, management report, cash flow statement and segment reporting in place that comply with the legal requirements 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 also contain concrete rules about presentation and handling of Group billing transactions and any resulting reconciliation.

At Group level, specific control activities to ensure propriety 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 Einhell'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 restricted effectiveness and reliability of the internal control and risk management system. Therefore, the Group-wide application of these systems cannot with absolute certainty guarantee the correct, complete and timely representation of circumstances in Group accounting.

7.2 Description of risks

7.2.1 General economic and industry risks

The Einhell Group is subject to general risks from the global economy and specific risks for the building supplies, specialist trade and DIY store sector.

Risks remain largely unchanged compared to the previous year.

Political risks

The Einhell Group is subject to global economic risks from its international operations. These can take the form of political and economic risks. Political decisions in the countries in which the Einhell Group operates today can affect the stability and economies of these countries. Also, policies in the countries in which the Einhell Group hopes to expand its operations can affect its business strategy. This risk extends, for example, to the currency policies of countries or to import and customs duties 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 constantly keep up to date with current developments. The Einhell Group also pursues a strategy of limiting investment in non-current assets, such as real estate, in such countries. This gives the Group maximum flexibility to react to unfavourable developments and to be able to have current assets available to take appropriate action in any country at any time.

Industry risks

With respect to industry risks, the Einhell Group is subject to developments in the DIY sector and specialist stores in the relevant 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 therefore 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 market shares from Einhell, or existing competitors may affect the Group's market position. Einhell seeks to counter such changes by establishing on the market a relatively wide product range, extending from Tools to Garden & Leisure, and also driving its international expansion. It is very hard to find a competitor in the market that offers a comparable product range in conjunction with an international presence comparable to Einhell's.

7.2.2 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 objective of procurement is to ensure that products are acquired on time, are of sufficient quality and are reasonably priced.

One important factor is the suppliers. As the Einhell Group maintains long-term relationships with its suppliers, price and sourcing risks are minimised. With constant quality checks, suppliers are integrated into the quality control system of the Einhell Group. 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 regularly coordinated with the sales division, reconciled and planned via an internet-based order system. We also use a new disposition software that improves the coordination between procurement

and sales in determining quantities and further consolidates orders. In order to enhance the transparency of order processing over the entire supply chain from the supplier to the national warehouses, we work with a newly implemented transport management system. The risk of price increases, such as from changes in commodity prices, is countered where possible on the supply-side and demand-side by means of the Einhell Group 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.

7.2.3 Sales market risks

The Einhell Group sees the main 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. One of the customers accounted for more than 10% of the Einhell Group's revenue in the last three financial years. Nevertheless, the management has not identified any risk of dependency on this customer.

7.2.4 Strategic and expansion risks

Risks are also associated with implementing the Einhell Group strategy. They can result, for instance, from the fact that resources or elements required to implement the strategy are not available at a particular time or run up against realisation problems. The reasons for this could be related to personnel or technology issues.

The establishment and acquisition of subsidiaries also carries fundamental risks. Einhell seeks to counter these risks by conducting a fundamental investigation of the target country before it begins to identify new sales areas. This includes an assessment of the entire sales environment and market potential. The Group 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 that applies to internal processes and IT infrastructure. This reduces the risks associated with setting up a new subsidiary.

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

department and, in individual cases, other Einhell Group departments, supported by external advisors.

7.2.5 Financial, interest and currency risks

The continuing growth of the Einhell Group is also associated with financing risks. The Einhell Group is managing financing risks by combining short-term and long-term financing strategies.

The Group has bilateral agreements with banks on loans. It also has conventional lines of credit that were only partially utilised in 2016. Cash and cash equivalents and also the equity provision stood at very good levels in the reporting year.

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

Risks from interest rate changes and fluctuations are managed, if required, with derivative financial instruments such as non-current interest swaps and interest caps. No need was identified in financial year 2016 to enter into interest rate derivatives. Risks from currency fluctuation are mainly managed by using standard currency futures. The risk of currency fluctuation in procurement is covered where possible by hedging transactions in the form of currency futures and options. Currency hedging is carried out pursuant to IAS/IFRS regulations regarding hedge accounting for the individual hedge periods.

Please see the notes to the consolidated financial statements, item 6 “Risk report and financial instruments”, for more information on interest, financial and currency risks.

Default risk

Einhell's corporate policy is to minimise default risk both from customers and suppliers by using instruments that are customary in international practice. These help Einhell evaluate default risks of the ordering company for each order based on the relevant economic situation. To counter the risks associated with new customers and high-risk countries in particular, Einhell is sometimes using letters of credit. In the offer phase, the sales and finance departments jointly decide on security requirements and adjust these requirements when the orders are placed. Einhell also uses external information from banks and credit agencies to support the risk assessment process. To minimise the supplier default risk, both the procurement and project management teams work with the finance department to develop joint security concepts.

The maximum default risk corresponds to the carrying amount of the receivables. Trade receivables pertain to DIY chains, specialist stores and discounters and amount to EUR 67.9 million (previous year: EUR 62.7 million).

Where possible, the Einhell Group uses Euler-Hermes credit insurance to counter credit risk.

As the derivatives are acquired from well-known financial institutions, the Group expects that the maximum default risk from derivatives will be covered by their positive market value.

Bank balances amounted to EUR 54,704 thousand on the reporting date (previous year: EUR 24,306 thousand). These assets are held at first-rate, well-known banks.

The Einhell Group counters price and supply risks in supply markets by maintaining long-term supply relationships, which are constantly subjected to quality management.

Liquidity risk

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 the reporting date, the Group had about EUR 60.5 million in unsecured credit lines at its disposal for the operating business. The Group also keeps a constant eye on the financial markets for financing opportunities in order to secure the financial flexibility of the Einhell Group and limit excessive refinancing risks.

7.2.6 Liability risks

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 locally, a quality management system has been set up in China, which directly monitors supplier production and implements process controls. Our own quality control officers monitor rules and regulations on an on-going basis. The remaining risk for product liability claims is covered by economically sensible and appropriate insurance. Product liability claims are classified and efficiently processed on the basis of a clear organisation 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.

7.2.7 IT risks

Information and communications systems are the basis for many business processes of the Einhell Group. The subsidiary iSC GmbH operates a centralised IT service centre that is responsible for the implementation of the Group's international strategy. 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 specialist 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.

7.2.8 Legal risks

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

Einhell tries to minimise such risks by having its own legal department in Germany and by constantly checking and monitoring legal circumstances in China. Our own staff carries 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 conclusion, there are no risks that endanger the future of the Einhell Group as a going concern in our assessment.

To be able to effectively measure and control the identified risks, we evaluate them on the basis of the parameters probability of occurrence and the potential effects of occurrence on the results. Here, we rely on empirical data and forward-looking assumptions. The following table shows all risks with their potential effects on results and probability of occurrence. This enables us to take appropriate measures for risk control.

The Einhell Group does not expect any major changes in risks in 2017. Some risks were adjusted compared with the previous year according to current trends and expectations.

We expect a slight increase in political risk in 2017. Especially the political situation in Turkey has aggravated in our view. We are slightly more optimistic with regard to the circumstances in Russia, Argentina and the Ukraine, where the political situation seems to have stabilised.

Possible current effects on earnings before tax (EBT) of risks after taking measures

Possible effects concerning:	effects on EBT – 2017 +	incidence rate 2017
Environment & Industry		
Political risks	□□■ ■■	probable 20 % - 30 %
Industry risks	□□■ ■■	probable 10 %
Company-specific risks		
Procurement risks	□□□■ ■■	probable 20 %
Sales market risks	□■ ■■ ■■	probable 20 %
Strategic and expansion risks	□□■ ■■	probable 20 %
Liability risks	□□□□■	probable 10 %
IT risks	□□□□■	improbable
Legal risks	□□□■ ■■	probable 10 %
Finance		
Financial, interest and currency risks	□□□■ ■■	probable 10 % - 20 %
Default risks	□□□□■	probable 10 % - 20 %
Liquidity risks	□□□□■	improbable

Effects on EBT:

- < 1 million €
- ■■ ≥ 1 million € < 2 million €
- ■■ ■■ ≥ 2 million € < 3 million €
- ■■ ■■ ■■ ≥ 3 million € < 4 million €
- ■ ■ ■ ■ ■ ≥ 4 million €

Incidence rate:

- ≥ 0 % < 10 % improbable
- ≥ 10 % < 70 % probable
- ≥ 70 % very probable

In hindsight, the risk assessment made in the previous year proved to be justified. No major deviations were found and no unforeseen risks arose.

Possible current effects on earnings before tax (EBT) of risks after taking measures

Possible effects concerning:	effects on EBT – 2016 +		incidence rate 2016
Environment & Industry			
Political risks	□□□■		probable 20 % - 30 %
Industry risks	□□■■■		probable 10 %
Company-specific risks			
Procurement risks	□□□■		probable 20 %
Sales market risks	□■■■■		probable 20 %
Strategic and expansion risks	□□■■■		probable 20 %
Liability risks	□□□■		probable 10 %
IT risks	□□□■		improbable
Legal risks	□□□■		probable 10 %
Finance			
Financial, interest and currency risks	□□□■		probable 10 % - 20 %
Default risks	□□□■		probable 10 % - 20 %
Liquidity risks	□□□■		improbable

Effects on EBT:

- < 1 million €
- ≥ 1 million € < 2 million €
- ≥ 2 million € < 3 million €
- ≥ 3 million € < 4 million €
- ≥ 4 million €

Incidence rate:

- ≥ 0 % < 10 % improbable
- ≥ 10 % < 70 % probable
- ≥ 70 % very probable

8. Forecast

8.1 Global economic development

According to the International Monetary Fund (IMF), the **global economy** will grow by 3.4% in 2017. After disappointing global growth rates in recent years, the general economic outlook is now improving. Uncertainty remains with regard to the USA's future course as the largest economy in the world. The announcement of the new president that he intends to stimulate the economy with infrastructure projects, for instance, could lead to higher growth in the USA and therefore also at a global level. On the other hand, a trend towards increased protectionism could also be a great hurdle.

Expected development in %	2016	2017
GDP global economy	3.1%	3.4%

Although the global economy is forecast to grow, global unemployment will presumably continue to increase in the coming years. The International Labour Organization (ILO) predicts that the global unemployment rate will rise from 5.7% in 2016 to 5.8% in 2017. This means that 201 million people worldwide are expected to be without a job in 2017. While the situation on the labour markets in the industrialised countries is beginning to ease, the difficult employment situation in the developing and emerging countries is only getting worse.

8.2 Development in Europe

The economy in the **eurozone** experienced growth of 1.7% in 2016. According to the International Monetary Fund (IMF) forecast, the economy in the eurozone will grow by 1.6% in the current year. The IMF therefore confirmed its growth forecast for the eurozone.

The moderate growth is also expected to have a positive influence on the labour market. The EU Commission expects that the unemployment rate will drop to 9.6% in 2017.

The Chief Economist of the private bank Bankhaus Lampe forecasts an average inflation rate of 1.3% for 2017. This implies further significant price increases compared to 2016. The forecasts are still below the inflation rate of just under 2% targeted by the ECB for the medium term.

8.3 Development in Germany

Expected development in %	2016	2017
GDP Germany	1.9%	1.5%
Unemployment rate	6.1%	6.3%

The **German** economy experienced 1.9% growth in 2016. The International Monetary Fund expects the gross domestic product to amount to 1.5% in 2017. According to experts, consumer spending as well as public consumption will continue to be the primary drivers of the German economic upturn this year.

Labour market researchers expect that job expansion will slow somewhat in the coming months. While new jobs continue to be created, job expansion rates will fail to meet the levels achieved last year, according to the researchers.

8.4 Expected growth in the markets relevant to the Einhell Group

The developments expected in 2017 depend on a number of factors. The trends on the global markets remain fragile and hard to foresee in many respects. This applies to both economic changes and political developments. Political upheaval in particular, like in the USA, Turkey and Russia, for example, can lead to an unpredictable and mostly negative impact on the economy. Moreover, the last years have shown that the extremely fast developments in today's information technology have decreased the time lag between the occurrences of external shocks. The forecasts of the Einhell Group with its international activities are also clearly marked by the aforementioned uncertainty. Also the currencies that are relevant for the Einhell Group's procurement activities are hard to predict. The Federal Reserve System (FED) is expected to raise the interest rates in the USA, which could strengthen the US dollar. The economic problems in China, in turn, lead to expect a depreciation of the CNY. In the event of a trade and currency war between the USA and China, this would in all likelihood have an enormous impact on the global economy.

The Einhell Group expects revenue amounting to about EUR 500 million in financial year 2017. With regard to profit before taxes, the Einhell Group expects a margin before taxes and PPA of around 4% (approx. 3.6% after PPA), which would represent another improvement in earnings quality. This, however, requires a stable international economic environment. In order to reach the announced target, kwb Germany GmbH and the subsidiaries in the Nordic Region, which generated losses in financial year 2016, will have to start generating profits again. This already takes account of the possible course of action regarding a sustainable solution for Einhell Brazil. If the company were to be deconsolidated, the Group expects additional expenses of about EUR 1.5 million to EUR 2.0 million, predominantly in the Tools segment.

Expected development in EUR million	2016		2017	
	Revenue	Profit before taxes	Revenue	Profit before taxes
Business unit				
Tools	306.9	9.3	318.0	10.0
Garden & Leisure	180.3	7.7	182.0	8.0
	487.2	17.0	500.0	18.0

The Einhell Group forecasts total revenue of about EUR 318 million in the **Tools segment** and profit before taxes of about EUR 10.0 million. Revenue of kwb Germany GmbH, a supplier of power tool accessories, is included in the Tools segment.

The Einhell Group forecasts total revenue of about EUR 182 million in the **Garden & Leisure segment** and profit before taxes of about EUR 8.0 million.

Expected financial market trends

The performance of the financial markets in 2017 depends strongly on the monetary policy of the world's largest issuing banks in the USA, Europe and China. The US dollar is slated to stay strong in the course of 2017. It currently seems rather unlikely that the ECB will raise its interest rate, even though the inflation rate as one of the ECB's key indicators is expected to increase slightly.

Expected sales market trends

Change processes in the sales market are very dynamic. Digitalisation processes have an increasing impact on the distribution structures in the construction material and tools trade, and in the DIY sector. Online trading is gaining importance for wholesalers and specialist retailers as well as the DIY store sector as a whole. At present, the market share of e-commerce is still about 5%. By 2030, however, it is forecast to rise to 25% according to a survey by Roland Berger and the German association of DIY retailers (BHB). This will have various consequences for the market participants and will force them to take the corresponding actions (survey on changes in B2C/B2B market structures based on e-commerce).

Expected procurement market trends

We do not expect any general bottlenecks on the procurement side in 2017, provided that the economic situation of our Chinese suppliers does not deteriorate materially due to the weak Chinese economy. The Organisation of Petroleum Exporting Countries (OPEC) has further reduced oil production, which already reflects in higher oil prices and leads to a general increase in commodity prices. We expect an increase in energy and commodity prices in the coming year.

8.5 Aims and opportunities of the Einhell Group

The aims of the Einhell Group were defined in a strategy paper in the last couple of years. The core issues that Einhell has committed to are international expansion and the development of the Einhell brand with all associated measures. Einhell sees opportunities for the future in implementing this clearly defined strategy. The implementation of the strategy requires consistent approaches as well as investment in required resources.

The Einhell Group's primary objective is to generate sustainable and profitable revenue and profit growth. Profitability takes priority over pure growth targets. The long-term pre-tax margin is to average at least 4% to 5%, guaranteeing a stable dividend payout ratio.

Supporting the European subsidiaries in particular with regard to opening up digital distribution channels is high on the agenda in 2017. To this end, a comprehensive set of measures, sales support and training courses for the subsidiaries have been defined. Particular focus is placed here on the subsidiaries in the UK, France and Italy, as these markets offer high potential – especially with regard to online sales of DIY and garden products. The Group wants to concentrate on intensive and cooperative partnerships with strategic multi-channel and online distribution partners. It also plans to involve all of the subsidiaries in a long-term support and personnel development programme that focuses on online marketing and distribution topics. Einhell thus intends to consistently use the growth opportunities resulting from digitalisation processes, which provide faster access to new markets and customers, also in an international environment.

Future orientation

The Einhell Group will continue to push ahead with its **expansion** strategy in the future. In Europe, the Einhell Group already has an excellent position with a large number of own distribution companies. Based on its strong product range, the Einhell Group sees considerable growth potential on the European market. The Group plans to restructure existing subsidiaries in the Nordic region and to further drive the expansion process in this market. The North American market including Canada and Mexico accounts for more than half the global DIY volume. The Einhell Group is currently analysing the market environment, as it sees good business opportunities here and plans to enter this market in the future.

Einhell will definitely continue to work the Australian market via its Ozito subsidiary in order to optimally supply its key accounts there with modern and high-quality product ranges.

Thus, Einhell will be able to participate in the Australian DIY market growth and the expansive growth strategies of its main customers on this market.

The South American countries have not fulfilled the growth expectations. However, the Einhell Group continues to see growth opportunities, mainly in Argentina, Columbia and Chile. The Group wants to further drive its collaboration with important key customers in the region. After the Brazilian economy experienced a harsh setback, we do not expect to generate any profits here at the moment. The market environment in Brazil is extremely difficult and Einhell lacks an anchor customer in the market. The course of action that will be taken with regard to Einhell Brazil will again have a negative impact on profit.

Another focus is placed on the establishment and expansion of the **international service organisation**. Einhell has the objective to position itself on the international markets as a strong DIY brand. The foundation for this is a powerful and attractive combination of products and services. This is to be achieved by implementing the service concept that has been successfully introduced in Germany in other international markets to enhance the positive service experiences of end customers. We strive to offer a consistent, efficient and reliable service portfolio to our international retail customers across all sales countries. In order to be able to offer the required and attractive service range reliably and at low cost, we need to strengthen our internal logistics processes and service organisation. To this end, we will further centralise our spare parts supply in Europe over the next few years. Furthermore, we will restructure and further develop the local service organisations by establishing standardised service processes, thus reducing the organisational complexity of the subsidiaries.

The Einhell Group succeeded in generating increases in **online** revenue in the last few years and will systematically continue on its path towards digital leadership. Various projects and measures are planned to promote future revenue growth, which will increasingly be driven by digital distribution channels. The emphasis will be placed on data & analysis, customers & dialogue, content as well as the expansion and further development of our digital communication channels (web site, social media, YouTube etc.).

Expected financial situation

Efficient liquidity management remains a top priority of the Einhell Group in financial year 2017. We will concentrate on constantly forecasting cash flows from operating activities, as this is our main source of liquidity. Liquidity is forecast by means of a liquidity plan that covers a period of twelve months. In financial year 2018, we are due to repay liabilities

amounting to EUR 30.0 million. We will prepare an updated financial plan for the next five years in 2017. Based on this plan, we will examine whether we need to take out new long-term loans. We do not expect the financing measures to have a material impact on liabilities in the statement of financial position.

Driving the integration of kwb Germany GmbH

With a logistics project at kwb Germany GmbH not having been implemented properly, the company was unable to maintain the smooth operations of its warehouses. The situation was successfully solved in the meantime. As warehouse operations have now returned to normal, we will concentrate on the integration of kwb in 2017. Product management, procurement and Group-internal logistics structures are the main areas to be aligned to the Einhell systems. The distribution of kwb products via Einhell subsidiaries will also be significantly intensified. Internal project teams were established to drive this process.

Expected investments

Einhell commenced construction of a new logistics centre at the Landau an der Isar location in financial year 2016. The Group expects the building to be completed in the course of 2017. Moreover, the planning phase for the construction of a new showroom with demo workshops and training premises was initiated. The Group initiated an architects' competition for this, which is expected to provide for an attractive, future-oriented and sustainable solution.

8.6 Summary on expected developments

Outlook for financial year 2017

The Einhell Group with its international activities will benefit from rather favourable trends in the individual markets in financial year 2017.

General market sentiment in the German DIY sector, Einhell's domestic market, is positive at the moment. Private consumer spending has become a driving force of economic growth in Germany. Because of the low inflation rates, consumers have greater disposable income, which leads to an increase in purchase power. Revenue growth in the e-commerce sector

is expected to continue in 2017. DIY retailers are also increasingly focusing on e-commerce, which is likely to provide for even stronger growth in this sector.

The European market, which showed a positive performance in financial year 2016, will continue on this path, even though individual countries are still struggling economically. We do not expect a major negative impact from the UK leaving the European Union, as long as consumer spending in the UK will not go down dramatically. France and Italy showed a very strong performance in the past financial year and are expected to continue this positive trend. In southern Europe, especially in Spain and Portugal, the economic forecasts have improved once again, while they remain very restrained when it comes to Greece. The upswing of the economies in Eastern Europe is expected to be more broadly based, while the economic development in Turkey is expected to deteriorate dramatically due to the developments in the country. These basically positive trends in Europe are countered by some risk factors. Above all, the refugee crisis that is as yet unsolved and the threat of terrorism could dampen consumer sentiment.

At the moment, economic growth in Australia is still relatively robust, but there is a risk of the ailing Chinese economy, which is so important for the raw material industry, negatively impacting the economy in Australia.

The South American markets remain difficult and are not expected to improve in financial year 2017.

The procurement market China is still stable at present, although economic growth has deteriorated significantly in the country. The Chinese industry is struggling with declining capacity utilisation on the part of manufacturers. This may force some participants to drop out of the market and lead to further consolidation on the procurement markets.

Given the generally positive development, the Einhell Group expects a positive performance of revenue and profit. Taking all influencing factors into account, the Group expects revenue growth to approx. EUR 500 million. With regard to profitability, the Einhell Group forecasts a margin before taxes and PPA of around 4.0% (approx. 3.6% after PPA). This forecast is slightly higher once again than the margins generated in the last few years. This margin, however, can only be reached if the Group generates revenue growth and manages to successfully turn around or improve the loss-making situation at individual subsidiaries. The number of loss-making subsidiaries was further reduced and Einhell believes it will be able to find solutions for the few remaining unprofitable companies in 2017.

The Einhell Group expects the following revenue and profit performance for the two segments in 2017:

in EUR million	2017	
	Revenue	Profit before taxes
Tools	318.0	10.0
Garden & Leisure	182.0	8.0
	500.0	18.0

This already takes account of the possible course of action regarding a sustainable solution for Einhell Brazil. If the company were to be deconsolidated, the Group expects additional expenses of about EUR 1.5 million to EUR 2.0 million, predominantly in the Tools segment.

8.7 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 that are subject to uncertainty. 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. First, Einhell plans revenue. These plans are drawn up for each Group company at segment 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. In the same way gross profit margins for each Group company are forecast at segment 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 prior-year figures 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 changes in freight costs. General uncertainties related to market developments, price trends for important commodities

or the development of other important cost categories are estimated and budgeted according to the principles of commercial prudence.

Landau a. d. Isar, 31 March 2017

Einhell Germany AG
The Board of Directors

Andreas Kroiss

Jan Teichert

Dr Markus Thannhuber

Unqualified Auditor's Report on Statutory Audit of Consolidated Financial Statements Prepared Pursuant to § 315a HGB [Handelsgesetzbuch: German Commercial Code] (S2a)

We have audited the consolidated financial statements prepared by the Einhell Germany AG, Landau a. d. Isar, comprising consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows, notes to the consolidated financial statements and group management report, together with the group management report for the financial year from 1 January 2016 to 31 December 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch „German Commercial Code“] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a fair view of the Group's position and suitably presents the opportunities and risks of future development.

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Munich, 31 March 2017

KPMG AG
Audit firm

Hanshen
Auditor

Schwarzhuber
Auditor



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