Einhell Germany AG

Financial Report 2008

Einhell Germany AG, Landau a. d. Isar
(until 25 June 2008: Hans Einhell AG, Landau a. d. Isar)

Consolidated balance sheet to 31 December 2008

A s s e t s

		Notes	31.12.2008		31.12.2007	
			€	€	€	€
A.	**Non-current assets**	(2.1)				
I.	**Intangible assets**					
	1. Franchises, development costs, trademarks patents and licences and similar rights and values and licences for similar rights and values	(2.2)	2.810.090,92		3.050.054,76	
	2. Goodwill	(2.3)	7.832.988,05		7.548.412,47	
	3. Prepayments on intangible assets		27.174,25	10.670.253,22	43.901,43	10.642.368,66
II.	**Property, plant and equipment**					
	1. Land, leasehold rights and buildings, including buildings on non-owned land		11.455.561,88		12.982.803,86	
	2. Technical equipment, plant and machinery		523.549,54		354.489,37	
	3. Other equipment, fixtures and fittings and equipment		3.189.919,50		3.416.558,80	
	4. Prepayments and plant and machinery under construction		15.161,47	15.184.192,39	5.351,71	16.759.203,74
III.	**Non-current financial assets**					
	Security investments			984.085,46		976.223,95
IV.	**Other non-current assets**	(2.6)		2.733.343,29		2.953.468,12
V.	**Deferred tax assets**	(2.4)		5.236.475,62		4.960.829,91
				34.808.349,98		36.292.094,38
B.	**Current assets**					
I.	**Inventories**	(2.5)				
	1. Raw materials and supplies		1.134.282,02		465.310,64	
	2. Work in progress		0,00		219.069,27	
	3. Finished goods		111.418.009,04		98.139.818,62	
	4. Prepayments		791.058,93	113.343.349,99	678.585,71	99.502.784,24
II.	**Receivables and other current assets**	(2.6)				
	1. Trade receivables		61.351.694,16		67.591.973,08	
	2. Other current assets		16.010.766,25	77.362.460,41	13.943.696,26	81.535.669,34
III.	**Cash and cash equivalents**	(2.7)		19.971.096,88		14.591.975,40
				210.676.907,28		195.630.428,98
				245.485.257,26		231.922.523,36

Equity and liabilities

		Notes	31.12.2008		31.12.2007	
			€	€	€	€
A.	**Equity**					
I.	**Subscribed capital**	(2.8)		9.662.464,00		9.662.464,00
II.	**Capital reserves**	(2.10)		26.676.696,37		26.676.696,37
III.	**Retained earnings**					
	1. Legal reserve	(2.10)	54.708,23		54.708,23	
	2. Other earnings reserve		72.158.650,38	72.213.358,61	58.737.880,01	58.792.588,24
IV.	**Other cumulated equity**	(2.11)		530.495,08		-1.825.890,08
V.	**Adjustment charges for foreign currency exchange**			-4.482.088,39		-2.806.257,12
VI.	**Consolidated net income of shareholders of Einhell Germany AG**			14.157.620,06		16.692.066,37
	Equity share of shareholders of Einhell Germany AG			118.758.545,73		107.191.667,78
VII.	**Minority interest**	(2.12)		4.983.828,70		4.609.787,66
				123.742.374,43		111.801.455,44
B.	**Non-current liabilities**					
1.	Non-current liabilities to banks	(2.13)		15.067.922,91		15.437.500,00
2.	Bonded loans	(2.13)		0,00		30.000.000,00
3.	Pension obligations	(2.14)		1.546.928,00		1.598.044,00
4.	Other provisions	(2.15)		574.477,73		524.874,27
5.	Non-current liabilities	(2.17)		3.002.915,20		3.257.905,85
6.	Deferred taxes	(2.4)		2.271.593,58		1.960.542,77
				22.463.837,42		52.778.866,89
C.	**Current liabilities**					
1.	Provisions for taxes			3.273.441,77		1.486.367,09
2.	Other provisions	(2.15)		13.365.591,97		12.479.940,16
3.	Current liabilities to banks	(2.16)		31.203.709,37		2.397.432,36
4.	Trade payables			35.546.820,92		32.147.717,36
5.	Other liabilities	(2.17)		15.889.481,38		18.830.744,06
				99.279.045,41		67.342.201,03
				245.485.257,26		231.922.523,36

Einhell Germany AG, Landau a. d. Isar

(until 25 June 2008: Hans Einhell AG, Landau a. d. Isar)

Consolidated income statement for the period from 1 January to 31 December 2008

	Notes	2008		2007	
		€	€	€	€
1. Revenues	(3.1)		358.506.070,84		385.716.396,54
2. Decrease in finished goods and work in progress			-219.069,27		-70.968,92
3. Other operating income	(3.2)		9.508.639,19		7.074.983,25
4. Cost of materials					
a) Cost of raw materials and supplies		-248.580.957,77		-278.356.772,99	
b) Cost of purchased services		-453.633,11	-249.034.590,88	-599.589,27	-278.956.362,26
5. Personnel expenses	(3.3)				
a) Wages and salaries		-30.314.923,28		-27.983.120,15	
b) Social security, pensions and other benefit costs		-5.750.206,00	-36.065.129,28	-4.874.425,74	-32.857.545,89
6. Depreciation and amortisation costs and other write-offs on intangible assets, plant and equipment	(2.1)		-3.612.215,95		-4.532.102,73
7. Other operating expenses	(3.4)		-54.752.313,93		-49.618.776,91
8. Net finance costs	(3.5)		-5.931.011,21		-2.173.790,80
9. Profit from operations			18.400.379,51		24.581.832,28
10. Income taxes	(3.6)		-3.443.781,26		-6.627.243,84
11. Consolidated net profit			14.956.598,25		17.954.588,44

Allocation of consolidated net profit		
Share of shareholders of Einhell Germany AG	14.157.620,06	16.692.066,37
Minority interest share	798.978,19	1.262.522,07
	14.956.598,25	17.954.588,44

Einhell Germany AG, Landau a. d. Isar

(until 25 June 2008: Hans Einhell AG, Landau a. d. Isar)

Consolidated cash flow statement

	1.1. - 31.12.2008	1.1. - 31.12.2007
	€ thousand	€ thousand
Net cash from/used in operating activities		
Profit before taxes	18.400	24.582
+ Depreciation of intangible assets and property, plant and equipment	3.612	4.532
- Interest income	-870	-747
+ Interest expenses	3.459	3.380
+/- Other non-cash income and expense	3.205	250
Operating profit before adjustment of net assets	27.806	31.997
+/- Decrease/increase in trade receivables	4.656	-11.786
+/- Decrease/increase in inventories	-15.639	-20.476
+/- Decrease/increase in other assets	167	1.611
+/- Increase/decrease in non-current liabilities	-257	-523
+/- Increase/decrease in current liabilities	1.702	793
+/- Increase/decrease in trade payables	1.340	10.321
Cash flows from operating activities	19.775	11.937
- Taxes paid	-3.147	-8.613
+ Interest received	625	514
- Interest paid	-3.346	-3.383
Net cash flows from operating activities	**13.907**	**455**
Cash flows from investing activities		
- Payments to acquire assets	-3.258	-11.625
+ Proceeds from disposal of assets	163	110
- Payments for acquisition of investments	-1.129	-4.806
+ Increase in goodwill	285	5.332
Net cash flows from investing activities	**-3.939**	**-10.989**
Cash flows from financing activities		
+ Proceeds from taking out loans	1.100	1.017
- Payments for repayment of loans	-2.663	0
+ Proceeds from minority shareholders	254	0
- Payments to shareholders including minority shareholders	-3.591	-2.894
- Payments for liabilities for finance leases	-56	-88
Net cash flows from financing activities	**-4.956**	**-1.965**
Changes to capital funds due to currency exchange	367	-144
Net cash acquired from acquisitions	0	910
Net decrease/increase of cash and cash equivalents	**5.379**	**-11.733**
Cash and cash equivalents at beginning of period	14.592	26.325
Cash and cash equivalents at end of period	**19.971**	**14.592**

Further information can be found under section 6 in the notes

IFRS – Notes to the Consolidated Financial Statements

Einhell Germany AG, Landau/Isar

(until 25 June 2008: Hans Einhell AG, Landau/Isar)

for the financial year from

1 January to 31 December 2008

CONTENTS

1. Principles and methods used in consolidated financial statements

1.1 General information

Hans Einhell AG, Landau/Isar, was formed on 18 November 1986 and pursuant to a resolution of the Annual General Meeting of 20 June 2008 changed its name as of 25 June 2008 to Einhell Germany AG. The Einhell Group (hereinafter the "Group") manufactures and sells electronic goods, plastic goods and automobile accessories along with sporting and garden equipment.

The address of the parent company is:

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

The Board of Directors of Einhell Germany AG approved the consolidated financial statements on 19 March 2009 for consideration by the Supervisory Board. The Supervisory Board is responsible for examining the consolidated financial statements and to declare whether it approves the consolidated financial statements.

The consolidated financial statements and the Group management report of Einhell Germany AG for the financial year 2008 will be published in the electronic German Federal Gazette (*Bundesanzeiger*). The consolidated financial statements 2008 were prepared in euros (€), and some items are rounded to thousands of euros (€ thousand).

1.2 Basis of preparation

The consolidated financial statements of Einhell Germany AG were prepared in accordance with the regulations of the International Accounting Standards Board (IASB), London, pursuant to Regulation Number 1606/2002 of the European Parliament and the Council regarding the amendment of International Reporting Standards in the European Union. The interpretations of the International Financial Reporting Interpretations Committee (IFRIC) were also used. In preparing the consolidated financial statements, all International Financial Reporting Standards (IFRS) and interpretations effective and applicable as of 31 December 2008 were applied.

In order to achieve homogeneity with consolidated financial statements prepared in accordance with the German Commercial Code (HGB), all further information and notes required by § 315 a HGB in excess of the IASB requirements are also included.

The following standards and interpretations were applied for the first time in the financial year 2008:

- Amendments to IAS 39 and IFRS 7 – Reclassification of Financial Instruments. The amendments to the Standards relate to the possibility of reclassifying non-derivative financial instruments from "financial assets out of the fair value through profit or loss" category provided that they were not originally designated at fair value upon initial recognition and from the "available-for-sale" category.
- IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions. IFRIC 11 relates to accounting for share-based payment agreements, where the entity is required to buy its own treasury shares and accounting for share-based payment by shares granted by shareholders.
- IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. IFRIC 14 addresses the determination of the limit of defined benefit assets pursuant to IAS 19 and the effects of a legal obligation for a minimum-funding requirement on the valuation of assets and obligations from defined benefit plans.

The first time application of these standards and interpretations has no effect on the consolidated financial statements of Einhell Germany AG.

The IASB has published the following standards, interpretations and amendments to existing standards whose application was not mandatory as of 31 December 2008 and which were therefore not applied prematurely by the Einhell Group. Application would have no significant effect on the consolidated financial statements.

- IAS 23 “Borrowing Costs (revised)”; to be applied for qualified assets recognised as from 1 January 2009.
- IAS 32 “Financial Instruments: Presentation”/IAS 1 “Presentation of Financial Statements”; to be applied for financial years beginning on or after 1 January 2009. The amendments relate to the distinction between equity and borrowings and, from the German perspective, apply in particular to business partnerships.
- IFRS 2 “Share-based Payments”; applies to financial years beginning on or after 1 January 2009. The amendments relate mainly to the definition of option conditions and the regulations covering cancellation of a plan by a party other than the company.
- IFRS 8 “Operating Segments”; applies to financial years as from 1 January 2009. IFRS 8 replaces the previous applicable standard for segment reporting, IAS 14.
- IFRIC 13 “Customer Loyalty Programmes”; to be applied for financial years as from 1 July 2008.
- IFRIC 12 “Service Concession Arrangements”; to be applied for financial years beginning as from 1 January 2008. However, as of 31 December 2008, this had not yet been endorsed by the European Union.
- IFRIC 15 “Agreements for the Construction of Real Estate”; to be applied for financial years as from 1 January 2009.
- IFRIC 17 “Distributions of Non-cash Assets to Owners”; to be applied for financial years beginning as from 1 July 2009.
- IFRIC 16/IAS 39 “Hedges of a Net Investment in a Foreign Operation”; applicable for financial years beginning on or after 1 October 2008.

In October 2008, the IASB published amendments to the applicable IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures”. The amendments made relate to the need before the financial crisis to reduce the differences between IFRS and US-GAAP and seek to remove potential competitive advantages for US banks. The application of these amendments within the EU still requires the endorsement of the prescribed EU process.

The revised standard IFRS 3 “Business Combinations” was published in January 2008 and replaces IFRS 3 (2004) for business combinations in periods beginning on or after 1 July 2009. The IASB has published further amendments to IAS 27 “Consolidated and separate financial statements”.

1.3 Basis of consolidation

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

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

Companies that were acquired or sold during the course of the financial year are included in the consolidated financial statements from the time of their acquisition until the date on which they are sold.
At the beginning of 2008, the first company in South America was integrated in the Einhell Group. Einhell Germany AG holds 90% of the shares in Einhell Chile S.A., which has its registered office in Santiago, Chile. The group structure was expanded to include another four companies in the third quarter 2008. The planned establishment of Einhell Middle East Trading FZC, Ras Al-Khaima, in the United Arab Emirates, Einhell France SAS, Villepinte, in France, Einhell Scandinavia Aps, Arhus, in Denmark and Einhell Slovakia s.r.o., Pezinok, in Slovakia was carried out as planned. The Group holds 80% of the Emirates company and 70% of the company in France. The companies in Denmark and Slovakia are fully owned Group companies. In December 2008, Einhell Australia PTY Ltd., Victoria, was formed in Australia. This company is also a fully owned Group company.

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

1.4 Principles of consolidation

The financial statements of the subsidiaries included in the consolidation were prepared pursuant to IAS 27 in accordance with uniform accounting and valuation policies. The balance sheet date for all consolidated companies is 31 December; this is also the balance sheet date of the parent company.

Capital consolidation is made by the purchase method by offsetting investment carrying amounts with the pro rata newly valued equity of the subsidiary at the time of acquisition (IFRS 3). Remaining excess of cost of acquisition over net assets acquired is recognised as goodwill.

Intra-Group revenues, expenses and income, all receivables and liabilities and inter-company profits or losses held in inventory assets are eliminated.

1.5 Accounting and valuation policies

Currency conversion

The foreign investments within the consolidation group are financially, economically and organisationally autonomous and are therefore regarded as economically independent, foreign entities. Their reporting currency is their relevant local currency.

In the individual financial statements of the companies in the Einhell Group, all foreign currency transactions are converted from the local currency into the reporting currency at the rate of exchange applicable at the time of the transaction. Monetary foreign currency holdings existing at balance sheet date are valued at balance sheet date at the relevant daily exchange rate. Conversion differences from monetary transactions or the valuation of monetary items of a company which vary from the exchange rates during the period in which they were originally valued, or in previous transactions, are recognised in the period in which they arose.

Financial statements of foreign subsidiaries are converted at the exchange rates applicable at the end of the year for the balance sheet, and at average rates of exchange during the reporting year for the income statement. All resulting conversion differences are recognised in equity as an adjustment for currency conversion.

Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are recognised at gross acquisition or production cost less cumulated deprecation and amortisation. Intangible assets are recognised when it is likely that a future benefit will be derived from the asset and the acquisition or production cost of the asset can be reliably determined.

Amounts paid for patents, trademarks and licences are recognised and subsequently amortised by the straight-line method over their estimated useful life. Costs for new software are recognised and treated as intangible assets, so long as these costs are not an integral part of the relevant hardware.

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

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

Capitalisation of costs begins with the initial fulfilment of the above criteria. Costs recognised as expenses in the prior reporting period may not be capitalised retrospectively. Other than development costs, there are no self-produced intangible assets.

Capitalised development costs are amortised by the straight-line method over the estimated useful life of the asset, but not normally for more than three years. The realisable amount of development costs is estimated if there are indications of impairment of the asset or indications that previous impairment losses no longer exist.

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

Purchased goodwill is examined for impairment as part of the preparation of consolidated financial statements pursuant to IAS 36. The impairment test is made on the basis of a simple valuation of the company. Future anticipated cash flows are determined on the basis of long-term company planning. These cash flows are discounted with a weighted average cost of capital.

Property, plant and equipment are normally depreciated on a straight-line basis. If an item of property, plant or equipment is sold or destroyed, relevant acquisition costs and cumulated depreciation are derecognised; any realised profit or loss from the disposal is recognised in the income statement. Maintenance and repair costs for property, plant and equipment or maintenance costs for intangible assets are recognised as an expense when they arise. Subsequent expenses that meet the criteria for an asset are recognised as subsequent acquisition costs for the relevant property, plant and equipment. IAS 38 distinguishes between assets with limited useful lives and assets with unlimited useful lives. Basically, all intangible assets and property, plant and equipment that are shown on the balance sheet of the Einhell Group (with the exception of lands) have only limited useful lives. Only goodwill is not amortised.

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

	Estimated useful life
	Years
Intangible assets:	
Development costs, franchises, trademarks and similar and licences	3 – 5
Property, plant and equipment:	
Buildings	20 – 30
Technical equipment, plant and machinery	3 – 15
Other equipment, fixtures, fittings and equipment	3 – 10

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

Property, plant and equipment that is no longer used is shown as the lower of carrying amount or the estimated net realisable value less cost to sale.

Financial assets

Securities under investment assets refers mainly to a money market fund to hedge pensions, holiday and flexible working hours entitlement. Financial instruments are recognised on the day of transaction and derecognised upon realisation. Valuation is made at fair value against the new valuation reserve in equity. Determination of fair value is made by bank valuations. Earnings from the fund amounted to €3 thousand (previous year €19 thousand) and the expected yield is 2%.

Deferred taxes

The amount of income tax levied depends on the amount of profits and takes deferred taxes into account, which are determined in accordance with the asset and liability method. Determination of deferred taxes is made pursuant to IAS 12: temporary differences between the carrying amounts shown in the consolidated financial statements and the tax values of assets and liabilities are shown as future probable tax savings and charges.

Measurement of deferred tax assets and liabilities is made on the basis of tax rates for the period in which the temporary differences will probably be reversed. The expected tax rate is determined on the basis of tax rates applicable or mainly applicable at balance sheet date for this period. Deferred tax assets and liabilities are not discounted and are shown separately in the balance sheet.

Actual taxes and deferred taxes are charged or credited directly in equity if the tax refers to items which are charged or credited directly in equity in the same or another period. No deferred tax liabilities may be set aside for undistributed profits from foreign investments that are to remain invested in this company for an indeterminate time.

A deferred tax liability is recognised for all temporary differences with the exception of temporary differences for goodwill, for which tax depreciation is not deductible.

Inventories

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

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

Receivables and other assets

Receivables and other assets are recognised at the time of provision of the underlying consideration and valued at amortised cost after consideration of any impairment losses.

Receivables are examined regularly for indications of impairment. Such indications may, for example, be defaulted payments or economic difficulties of the debtor. Where such indications are present, an impairment loss is recognised, if the carrying value is higher than the realisable amount of the asset. This is determined on the basis of anticipated future cash flows.

Where the grounds for impairment no longer apply, a reversal of impairment is recognised. General credit risk is covered by valuation allowances on receivables based on statistical empirical values. An increase in value (or reduction of an impairment) of an asset is only recognised so long as it does not exceed the carrying amount, which would have resulted (taking depreciation effects into account) if no impairment had been made in previous years.

Receivables against external third parties are mainly recognised in the local currency of the individual companies and thus will not result in any significant currency differences.

Cash and cash equivalents

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

Adjustment for currency conversion

The adjustment for currency conversion results from the conversion of financial statements of consolidated companies, whose functional currency is different than the reporting currency of the Group. The consolidated companies are economically autonomous foreign entities.

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

Minority interests

Equity attributable to minority shareholders is shown on the balance sheet within equity. The attributable portion of the annual earnings is shown separately in the income statement.

The minority interest includes shares of minority shareholders in the present value of identifiable assets and liabilities at the time of purchase of an affiliated company. Changes result from capital increases in which the minority shareholders participate, distributions and shares of the minority shareholders in earnings and currency changes.

Provisions

A provision is made if the company has a current (legal or constructive) obligation on the basis of a past event and it is likely that the fulfilment of the obligation will result in an outflow of resources of economic value and if the amount of the obligation can be determined with certainty. Provisions are reviewed at each balance sheet date and adjusted to best current estimate. Where the present value of money is relevant, the provision amount shall be the current value of the expense necessary to meet the obligation.

As is clear from the definition, there is uncertainty about whether a provision will be needed and this is covered by necessary estimates. Provisions are based on statistical evaluation and years of experience about the probability of the likelihood of the underlying event causing a cash outflow and the amount of that outflow.

Income from the anticipated disposal of assets is not taken into account when setting aside provisions. When some or all of the economic benefit required to settle an obligation is expected to be recovered from a third-party, the reimbursement shall not be recognised until it is certain that the company will receive the reimbursement.

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

The provisions shown in the consolidated financial statements for pension commitments is determined by defined benefit plans for pensions, invalidity and surviving dependents. Pension commitments are determined in consideration of anticipated future increases in premiums and pensions in line with IAS 19 and the international norm of projected unit credit method. A discount factor for interest rates for claimants of 6.21% (previous year 5.46%) was used, along with 6.21% (previous year 5.09%) for pensioners. As in the previous year, the rate of pension progression for commitments with adjustment guarantee was 3.00% and 2.00% for commitments without adjustment guarantee. No rate of compensation increase was available for non-salary based commitments.

The pension provision shown at balance sheet date is equivalent to the qualifying present value of pension commitments (defined benefit obligation). Actuarial gains or losses are realised in the year they are incurred. The balance sheet obligation of the defined benefit obligation us not secured by a pension fund but there is partial pension plan reinsurance.

Liabilities

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

Realisation of revenues and revenue recognition

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

Interest is included, pro rata, taking into account the effective interest rate of the asset.

Licence income is included in the relevant period in accordance with the requirements of the underlying contract.

Derivative financial instruments

In the Einhell Group, derivative financial instruments are used only for hedging transactions as part of risk management. They hedge against risks from fluctuations in cash flows, and are allocated to the risk associated with a specific asset or liability or with the risk of a prior transaction.

All derivative financial instruments are recognised at fair value in accordance with the regulations under IAS 39. The fair value of currency futures is determined on the basis of the exchange rates applicable on the currency futures market at balance sheet date. For interest swaps, it is determined as the present value of estimated future cash flows. The fair value of options is calculated on the basis of option pricing models. For all the above instruments, the Group fair values are confirmed by financial institutions that have provided the Group with the relevant contracts.

Financial instruments are used on the day the transaction is concluded, derecognition upon realisation.

The positive market value of derivatives is recognised under other assets. A negative market value of derivatives is recognised under other liabilities. Any change in market value of derivatives recognised as an income or expense is shown under net financial income; derivatives taken directly to equity are recognised under other cumulated equity.

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

As the derivative financial instruments under cash flow hedges are current hedging instruments, these are included in the income statement within a year.

Leasing

Finance leases

A lease is classified as a finance lease when most risks and opportunities associated with ownership of an asset have been transferred to the lessee. The classification of a lease depends on the economic content of the contract, not from a particular formal contract format.

The Einhell Group is a lessee and classifies finance leases on its balance sheet from the start of the leasing arrangement equally as an asset and liability, at the present value of the leasing object at the start of the lease arrangement or at the present value of minimum leasing payments, whichever amount is lower. In calculating the present value of minimum leasing payments, the underlying interest rate of the leasing arrangement serves as discount factor if it can be reliably determined. If this is not the case, the lessee's incremental borrowing rate of interest is used. Initial direct costs are shown as part of asset value. Leasing instalments are divided between finance costs and repayment of principal. Finance costs are divided throughout the period of the lease so that a constant rate of interest on the remaining principal is possible across all periods.

A finance lease creates a write-down expense and a financing expense for the recognised asset in each period. Principles governing write-downs for leased assets are the same as the methods used for similar depreciable assets owned by the company.

Finance leases are used mainly for fixtures and fittings and office equipment.

The relevant non-current assets are as follows (in € thousand):

Residual value 31.12.2008	Annual write-downs to 31.12.2008	future lease payments			thereof interest		
		within 1 year	between 1 and 5 years	after 5 years	within 1 year	between 1 and 5 years	after 5 years
126	43	43	75	0	6	4	0

Operating leases

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

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

	future leasing payments		
	within 1 year	between 1 and 5 years	after 5 years
Operating leases	413	310	0
Finance leases	43	75	0
Total leasing fees	456	385	0

Segment reporting

The segmentation of the Group into two segments mirrors the presentation of company divisions and internal control and reporting within the Group. The two segments are Tools and Garden & Leisure.

Financial information concerning the business segments and geographical segments is contained in notes 4 and 5.

Contingent liabilities and contingent assets

Contingent liabilities are not shown on the balance sheet. As part of normal business operations, it is possible that the Einhell group will be involved in litigation.

As of 31 December 2008 the company's management and its legal advisors were not aware of any claims against the company that could have a significant impact on the company, its net assets, financial position and earnings.

Events after balance sheet date

Significant events after balance sheet date that could have an impact on the position of the Group at balance sheet date are taken into account in the financial statements up to 19 March 2009. Insignificant events after balance sheet date are – where appropriate – included in the notes.

2. Notes to consolidated balance sheet

2.1 Changes in non-current assets

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

2.2 Capitalised development costs

Capitalised development costs consist mainly of expenses of the company for the development of new products. New product developments fulfil the criteria for recognition as intangible assets. Capitalised development costs are amortised over the expected life cycle of the product. In the financial year 2008, expenses for research and development amounted to €4 million (previous year: €3.2 million). Of these expenses €0.7 million (previous year: €1.4 million) were capitalised as expenses in 2008. A total of 37 employees (previous year: 34 employees) were employed in this division.

Development costs are as follows (in € thousand):

Cost				Cumulated depreciation				Carrying amount	
Gross value 1.1.2008	Additions 2008	Disposals 2008	Gross value 31.12.2008	Gross value 1.1.2008	Additions 2008	Disposals 2008	Gross value 31.12.2008	Net value 31.12.2008	Net value 31.12.2007
4.069	679	0	4.748	2.068	991	0	3.059	1.689	2.001

2.3 Goodwill

Goodwill as of 31 December 2008 amounted to €7.833 thousand (previous year: €7.548 thousand). Additions of €244 thousand refer to Einhell Export-Import GmbH and €41 thousand for Einhell Romania SRL.

Additions to goodwill for Einhell Export-Import GmbH refer to payment of the variable part of the purchase price for the financial year 2007. Recognised costs refer to the share of the variable purchase price that exceeded expectations due to above-average earnings performance in the previous year. The amount of investment was not changed over the past financial year.

Additions to goodwill for Einhell Romania SRL refer to the purchase in the financial year 2005 of 70% of the shares in Einhell Romania. The agreed purchase price consisted of a fixed portion due immediately and of a variable portion for the following years. The goodwill recognised in 2005 was based on the total purchase price, based on available planning. The purchase price instalment due in the financial year 2008 exceeded this planning, which is why an extra €41 thousand of goodwill is also recognised in the financial year 2008.

2.4 Deferred tax claims and liabilities

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

In € thousand	Deferred tax assets		Deferred tax liabilities		Net deferred taxes	
	2008	2007	2008	2007	2008	2007
Non-current assets	91	58	661	935	-570	-877
Current assets	3.387	2.256	701	914	2.686	1.342
Other financial investments at present value	156	801	736	-57	-580	858
Pension obligations	9	0	32	-25	-23	25
Provisions *	939	1.720	-51	194	990	1.526
Other liabilities *	591	-	193	-	398	-
Tax losses carried forwards	63	126	0	0	63	126
Total	**5.236**	**4.961**	**2.272**	**1.961**	**2.964**	**3.000**

* As from 2008, deferred taxes for provisions and other liabilities are shown separately.

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

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

2.5 Inventories

	2008 € thousand	2007 € thousand
Raw materials and supplies (at acquisition cost)	1.134	465
Work in progress (at production cost)	0	219
Finished goods (at cost less impairment)	111.418	98.140
Prepayments	791	679
Total	**113.343**	**99.503**

Devaluation amounting to €7.039 thousand (previous year: €7.062 thousand) was made. The carrying amount of devalued goods amounts after devaluation to €41.508 thousand (previous year: €34.472 thousand). No goods were assigned by way of collateral at balance sheet date, as in the previous year.

2.6 Receivables and other assets

Trade receivables were shown after allowances for bad debt.

Other assets are shown at nominal value less specific allowances for bad debt. Other current assets include income tax receivables of €655 thousand (previous year: €971 thousand), and other non-current assets include income tax receivables of €1.231 thousand (previous year: €1.240 thousand).

Trade receivables and other current assets all have a maturity of up to one year.

2.7 Cash and cash equivalents

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

2.8 Subscribed capital

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

	€
Ordinary shares 2,094,400 ordinary bearer shares No-par shares each with a par value of € 2.56	5.361.664
Preference shares 1,680,000 bearer preference shares No-par shares each with a par value of € 2.56	4.300.800
Total share capital	**9.662.464**

All payments for shares have been made in full. For the financial year 2008 Einhell Germany AG is proposing a dividend payment of €2.138.976,00 (previous year: €3.271.296,00).

A minimum dividend of €0,15 per share must be paid to holders of the preference shares and this has preference over payment of a dividend to ordinary shareholders. The dividend per preference share is €0,06 higher than the dividend per ordinary share. If the net retained profit is not sufficient over one or more financial years to pay a dividend of €0,15 per preference share, the amount will be made up without interest from the net retained profit of following financial years after payment of the minimum dividend for the preference shares for that financial year and before distribution of a dividend for ordinary shares. No distributions of minimum dividends are outstanding. The preference shares do not have any voting rights. With regard to the remaining assets of the company, all shares are of equal rank.

Voting rights in the Annual General Meeting are held by the ordinary shares.

2.9 Authorised capital

Authorised capital I

The Board of Directors is authorised until 24 June 2009 to raise the capital of the company with the approval of the Supervisory Board by issuing new ordinary bearer shares and/or bearer preference shares without voting rights for cash in one or more tranches up to an amount of €3.864.985,60 (authorised capital I). A right of subscription is to be granted to shareholders. However, the Board of Directors is authorised with the approval of the Supervisory Board to exclude fractional amounts from the shareholders' rights of subscription, and where ordinary and preference share are being issued at the same time to exclude shareholders of one class of share from subscribing to shares of the other class, so long as the subscription ratio for both classes of issue is determined to be equal. The authorisation also includes the authority to issue further preference shares which have priority over or are equal with previously issued preference shares without voting rights with regard to distribution of profit or company assets.

Authorised capital II

The Board of Directors is authorised until 24 June 2009 to raise the capital of the company with the approval of the Supervisory Board by issuing new ordinary bearer shares and/or bearer preference shares without voting rights for cash in one or more tranches up to an amount of €966.246,40 (authorised capital II). The Board of Directors is authorised with the approval of the Supervisory Board to exclude fractional amounts from the shareholders' rights of subscription and where ordinary and preference share are being issued at the same time to exclude shareholders of one class of share from subscribing to shares of the other class, so long as the subscription ratio for both classes of issue is determined to be equal. The Board of Directors may also exclude all subscription rights in order to issue new bearer preference shares without voting rights for an issue amount which is not substantially below the stock market price (§ 203 (2), § 186 (3) sentence 4 of the German Stock Corporation Act (*AktG*)). The authorisation also includes the authority to issue further preference shares which have priority over or are equal with previously issued preference shares without voting rights with regard to distribution of profit or company assets.

2.10 Capital reserve and legal reserve

The capital reserve is unchanged as against the previous year at €26.676.696,37. As last year, the legal reserve amounts to €54.708,23 and together with the capital reserve this fulfils the requirements of 10% of share capital pursuant to § 150 (2) of the German Stock Corporation Act (*AktG*).

2.11 Other cumulated equity

Other cumulated equity includes the market values of derivative financial instruments to the amount of €484 thousand (previous year €-1.869 thousand) and available-for-sale securities of €46 thousand (previous year €43 thousand), each after consideration of deferred taxes.

As part of the application of cash flow hedge accounting for derivative financial instruments, €340 thousand (previous year €4.611 thousand) was taken from equity and recognised in the initial valuation of acquisition costs of inventories. Changes taken directly to equity due to the application of cash flow hedge accounting amounted to €3.156 thousand (previous year €-5.823 thousand).

2.12 Minority interest

Shares of minority shareholders are as follows:

	2008 € thousand	2007 € thousand
Position 1 January	**4.610**	**2.904**
Capital contributions/additions	0	199
Payments	-320	0
Currency adjustments	-329	65
Additions/disposals	224	179
Net profit/loss	799	1.263
Position 31 December	**4.984**	**4.610**

2.13 Non-current financial liabilities

The following secured non-current loans exist as of 31 December 2008:

	2008 € thousand	2007 € thousand
Secured	13.033	13.402
Unsecured	2.035	32.036
Total	**15.068**	**45.438**

Securities exist in the form of charges amounting to €14.960 thousand (previous year: €14.960 thousand), including charges against property, plant and equipment with a carrying amount of €4.760 thousand (previous year: €5.455 thousand). Assignment of goods and other assets by way of collateral to the amount of €10 thousand (previous year: €0) have been made with respect to these loans. The securities refer to both non-current and current financial liabilities.

2.14 Pension commitments

See point 1.5 (provisions) for actuarial assumptions made in the course of expert reports.

Changes to commitments to employees are as follows:

Year	**2008 € thousand**	**2007 € thousand**
Qualifying present value of pension commitments at start of year	**1.598**	**1.730**
Current service expense	30	32
Interest expense	83	77
Actuarial gains and losses	-99	-194
Pension payments	-65	-47
Qualifying present value of pension commitments at end of year	**1.547**	**1.598**

Actuarial losses refer mainly to changes in the discount rate. Current service expenses are shown in personnel expenses.

2.15 Provisions

	Position on 1.1.2008 € thousand	Utilised € thousand	Allocations € thousand	Release €thousand	Currency differences € thousand	Position on 31.12.2008 € thousand
Guarantees	9.107	850	1.226	749	296	9.030
Other provisions	3.898	3.099	4.265	248	94	4.910
Total	**13.005**	**3.949**	**5.491**	**997**	**390**	**13.940**

The balance sheet for 2007 was corrected with respect to current provisions and current liabilities pursuant to IAS 8. Consequently, provisions for holiday entitlement, employee profit participation and credits to customers totalling €5.380 thousand in the previous year were shown under other liabilities.

The provisions of €13.940 thousand include non-current provisions of €574 thousand (previous year €525 thousand).

2.16 Current liabilities to banks

	Notes	2008 € thousand	2007 € thousand
Secured		380	535
Unsecured		30.824	1.862
Total		**31.204**	**2.397**
thereof current part due of non-current loan	2.13	375	535
thereof current part due of loan or overdraft		30.829	1.862

Current liabilities to banks include a bonded loan of over €30 million with a term of five years that is due in 2009. The loan agreement defines financial covenants that, if not maintained, allow the grantor the right to call in the loan prematurely during the term of the agreement. All covenants were fulfilled in 2008.

Hedging of interest rate risk is made by using derivative financial instruments in the form of interest swaps and interest cap agreements.

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

2.17 Other liabilities

Other liabilities of €18.892 thousand (previous year: €22.089 thousand) consist mainly of tax liabilities (thereof income tax €225 thousand; previous year: €911 thousand), liabilities for wages and salary payments and social security liabilities.

3. Notes to consolidated income statement

3.1 Revenues

Revenues are classified as follows:

	2008		2007	
	€ thousand	%	€ thousand	%
By segment				
Garden & Leisure	147,820	41	144,849	38
Tools	210,686	59	240,867	62
	358,506	100	385,716	100
By region				
Germany	125,423	35	142,349	37
European Union	150,792	42	161,628	42
Asia	22,505	6	27,589	7
Other	59,786	17	54,150	14
	358,506	100	385,716	100

3.2 Other operating income

This refers principally to income from costs for inspection of goods to be passed on to suppliers (€497 thousand; previous year: €0 thousand), release of provisions (€997 thousand, previous year: €1.475 thousand), income from the disposal of non-current assets (€113 thousand, previous year: €61 thousand) and income from provisions (€1.641 thousand, previous year € 993 thousand). Otherwise, there was no significant income from other periods.

3.3 Personnel expenses and average number of employees

Personnel expenses	**2008** **€ thousand**	**2007** **€ thousand**
Wages and salaries	30.315	27.983
Diverse social security payments and pension expenses	5.750	4.875
Total	**36.065**	**32.858**

Average number of employees	**2008**	**2007**
Germany	342	342
Other countries	710	622
Total	**1.052**	**964**

3.4 Other operating expenses

	2008 € thousand	2007 € thousand
Operations	7.634	7.991
Administration	8.063	6.931
Sales	31.857	29.811
Other	7.198	4.886
Total	**54.752**	**49.619**

Other operating expenses include expenses for postage of goods, guarantees and customer services, impairment, advertising and product design. Expenses for the impairment of trade receivables amount to €5.010 thousand (previous year: €3.392 thousand).

Due to the short-term nature of the item trade receivables and the short-term expectation of payment receipts, the interest effect in calculating impairments is insignificant.

3.5 Net financial income

	2008 € thousand	2007 € thousand
Interest income	870	747
thereof from hedges	*0*	*31*
Interest expense	-3.459	-3.380
thereof from hedges	*-77*	*43*
Gain/loss from currency conversion	-3.342	460
thereof from hedges	*23*	*-156*
Impairment of financial assets	0	-1
Net financial income	**-5.931**	**-2.174**

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

3.6 Income tax

	2008 € thousand	2007 € thousand
Actual tax expense	3.408	8.050
Deferred taxes	36	-1.423
Total	**3.444**	**6.627**

Losses carried forwards that are expected to be recoverable in future are recognised. In valuing a recognised asset for future tax relief, the probability of recovery of anticipated tax amounts is taken into account.

Deferred taxes on changes to present value of cash flow hedges amounting to €431 thousand (previous year: €801 thousand) are recognised directly in equity.

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

	2008 **€ thousand**	**2007** **€ thousand**
Earnings before tax	18.400	24.582
Tax rate	30 %	38 %
Forecast tax expense/income	-5.520	-9.341
Tax expense/income from intra-Group income/expenses	-18	60
Impairment of goodwill	0	0
Other non-deductible expenses for tax purposes	-1.464	-1.926
Difference tax rates	2.318	3.598
Tax free earnings	1.240	982
Tax burden	**-3.444**	**-6.627**

3.7 Earnings per share

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

4. Segment reporting

Business operations of the Einhell Group are divided between the segments Tools and Garden & Leisure. The Tools segment comprises drive engineering, automobile accessories, processing cleaning and welding technology. The Garden & Leisure segment includes the areas garden technology, cold frames and greenhouses, metal tool sheds and water technology.

In 2008 in € thousand	**Tools**	**Garden & Leisure**	**Total segments**	**Reconciliation**	**Group**
Segment revenues	210.686	147.820	358.506	-	358.506
Operating segment revenues (EBIT)	**15.546**	**8.785**	**24.331**	**-**	**24.331**
Net finance cost	-	-	-	-5.931	-5.931
Income tax	-	-	-	-3.444	-3.444
Group earnings	**9.273**	**4.885**	**14.158**	**-**	**14.158**
Segment assets	141.225	74.839	216.064	29.421	245.485
Segment liabilities	38.508	29.844	68.352	53.391	121.743
Investments	1.747	1.226	2.973	285	3.258
Depreciation/amortisation/impairment	1.851	1.761	3.612	-	3.612

In 2007 in € thousand	**Tools**	**Garden & Leisure**	**Total segments**	**Reconciliation**	**Group**
Segment revenues	240.867	144.849	385.716	-	385.716
Operating segment revenues (EBIT)	**19.972**	**6.784**	**26.756**	**-**	**26.756**
Net finance cost	-	-	-	-2.174	-2.174
Income tax	-	-	-	-6.627	-6.627
Group earnings	**12.602**	**4.090**	**16.692**	**-**	**16.692**
Segment assets	135.614	74.808	210.422	21.501	231.923
Segment liabilities	41.673	25.569	67.242	52.879	120.121
Investments	4.048	2.245	6.293	5.332	11.625
Depreciation/amortisation/impairment	2.428	2.104	4.532	-	4.532

“Reconciliation” shows income and expenses that are not directly attributable to the segments, together with assets and liabilities that cannot be allocated. Assets and liabilities that were not allocable include financial receivables and liabilities and tax receivables and liabilities.

5. Segment reporting by region

Segment reporting by region is as follows:

2008 **in € thousand**	**Germany**	**EU**	**Other Countries**	**Asia/ Pacific**	**Reconciliation**	**Group**
External revenues	125.423	150.792	59.786	22.505	0	358.506
Operating assets	74.323	101.309	32.068	8.364	29.421	245.485
Investments	1.066	813	353	741	285	3.258

2007 **In € thousand**	**Germany**	**EU**	**Other Countries**	**Asia/ Pacific**	**Reconciliation**	**Group**
External revenues	142.349	161.628	54.150	27.589	0	385.716
Operating assets	71.318	100.328	24.590	14.186	21.501	231.923
Investments	2.025	3.582	374	312	5.332	11.625

“Reconciliation” shows income and expenses that are not directly attributable to the segments, together with assets and liabilities that cannot be allocated. Assets and liabilities that were not allocable include financial receivables and liabilities and tax receivables and liabilities.

6. Notes to consolidated cash flow statement

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

Current operations

The cash flow from current operations is derived mainly from operating profit.

Investment activity

Payments for investments in property, plant and equipment and intangible assets refer principally to land and buildings, development projects and fixtures and fittings.

The increase in goodwill to €285 thousand results from the investments in Einhell Export-Import GmbH and Einhell Romania SRL.

Financing activity

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

Changes in cash and cash equivalents

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

7. Risk report and financial instruments

Financial risk management

The Group operates internationally and is thus subject to changes in interest rates and currency exchange rates.

The Group uses derivative financial instruments to manage these risks. The guidelines used for risk management are implemented with the authority of the Board of Directors by a central treasury department working closely with Group companies.

Further information regarding risk management can be found in the Management Report.

Default risk

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

Trade receivables amount to €61,4 million (previous year: €67,6 million). In the financial year 2008 there were no significant receivables for which new payment targets were agreed. The share of receivables that was due for more than 60 days and not impaired amounts to 2.65% (previous year: 3.8%).

The maximum default risk for the derivative financial instruments used is the carrying amount of each financial asset recognised in the balance sheet including derivative financial instruments. As the derivatives have been acquired from renowned financial institutions, the Group expects that the maximum default risk is covered by the amount shown in the balance sheet.

At balance sheet date cash in banks amounted to €20,0 million (previous year €14,6 million). The cash was held in first-rate, well-known banks.

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

Interest rate risks

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

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

The Group uses all interest caps and swaps either as an economic cash flow hedge or as economic present value hedge and uses them at present value. The nominal value of existing hedge transactions at balance sheet date is €31.500 thousand (previous year €32.523 thousand).

Liquidity risk

The liquidity risk is the possibility that a company will no longer be in a position to meet its financial obligations (such as repayment of financial liabilities or payment for orders). The Einhell Group limits this risk by using effective management of net working capital and cash and traditional credit lines from well-known banks. At balance sheet date, the Group's operations had unsecured current credit lines amounting to ca. €60 million. The Group also keeps a close eye on opportunities available in the financial markets in order to secure flexibility of the Group's finances and to limit unfavourable refinancing risks.

The following table shows all contractual payments as of 31 December 2008 for amortisation, repayments and interest for financial liabilities in the balance sheet including derivative financial instruments with a negative market value. Derivative financial instruments are shown at market value.

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

in € thousand	2008	2009	2010	2011-2013	2014 and later
Bonded loans	1.825	30.604	0	0	0
Medium-term and non-current liabilities to banks	1.155	978	13.508	1.255	579
Trade payables	35.547	0	0	0	0
Other liabilities	15.889	0	0	0	0

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

With the exception of the bonded loan, presentation of current liabilities to banks was waived.

Foreign currency risk

Due to the international aspect of its normal business operations, the Einhell Group is subject to currency risks. To manage and minimise these risks, the Einhell Group uses derivative financial instruments with a maturity of up to one year. The foreign currency risk management system of the Einhell Group has been successfully operated for several years.

Fluctuations in exchange rates can lead to undesirable and unpredictable earnings and cash flow volatility. This affects each company in the Einhell Group that trades with international partners in a currency that is not the functional currency (the relevant national currency). Within the Group this applies in particular to procurement made regularly in US dollars. In contrast, the sale of Einhell products is mainly made in the relevant national currency.

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

A sensitivity analysis to market risks showed currency risk of an amount equivalent to €27,1 million. For an exchange rate fluctuation of 5%, there is an exchange rate impact of €1.004 thousand. This is determined by multiplication of currency fluctuations with purchases and sales in unsecured foreign currencies.

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

Deferred taxes based on these financial instruments amounted in the financial year 2008 to €431 thousand (previous year: €801 thousand).

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

	Nominal volume		Market value	
	31.12.2008	**31.12.2007**	**31.12.2008**	**31.12.2007**
Currency futures	45.259	9.923	1.899	771
Options	10.732	2.039	818	6
Total	55.991	11.962	2.717	777

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

	Nominal volume		Market value	
	31.12.2008	**31.12.2007**	**31.12.2008**	**31.12.2007**
Currency futures	72.179	55.338	1.875	3.376
Options	5.366	1.019	16	71
Total	77.545	56.357	1.891	3.447

Designated hedged items are contracted and planned purchases and sales. All cash flows are anticipated in 2009 and are recognised as cost of inventories. Ineffectivity of cash flow hedges is insignificant due to their short-term nature.

Market value and carrying amounts of financial instruments

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

in € thousand **Valuation category**	**Valuation**	**Carrying amount**		**Fair Value**	
		31.12.2008	**31.12.2007**	**31.12.2008**	**31.12.2007**
Assets and liabilities held for sale	Fair value				
- Derivatives in other assets		1.988	98	1.988	98
- Derivates in other liabilities		1.122	2.932	1.122	2.932
Loans and receivables	Amortised costs				
- Trade receivables		61.352	67.592	61.352	67.592
- Other assets		9.045	6.593	9.045	6.593
Available-for-sale financial instruments	Fair value				
- Investment securities		984	976	984	976
Other financial liabilities	Amortised costs				
- Liabilities to banks		15.068	15.438	13.579	14.785
- Bonded loans		30.000	30.000	30.000	30.000
- Trade payables		35.547	32.148	35.547	32.148
Cash and cash equivalents	Fair Value	19.971	14.592	19.971	14.592

The significant net profit from the financial instrument “assets and liabilities held for trading” amounts to €23 thousand (previous year: €-157 thousand).

With the exception of the bonded loan, a presentation of current liabilities to banks was waived.

8. Other obligations

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

	€ thousand
2009	1.224
2010 to 2013	1.667
2014 and later	210
Total	**3.101**

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

Other bank guarantees at balance sheet date amounted to €3.208 thousand (previous year: €4.367 thousand) and open letters of credit for purchased goods at suppliers and possible obligations arising from bills of exchange amounted to €231 thousand (previous year: €718 thousand).

Money market funds recognised as assets amounted to €631 thousand (previous year: €628 thousand), which were used to secure various pension commitments.

Further possible obligations amounted to €547 thousand (previous year: €3.929 thousand).

9. Corporate Governance Code

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

10. Related party transactions

Remuneration paid to members of the Board of Directors

Members of the Board of Directors receive fixed and variable performance-based salary components. Members of the Board of Directors receive shares in Einhell Germany AG. There are no share option programmes or similar arrangements. For the financial year 2008, total salaries of members of the Board of Directors of Einhell Germany AG amounted to €2.200 thousand (previous year: €2.234 thousand). As of 1 January 2008, the Board of Directors was extended by one member. Pension provisions amounting to €148 thousand were also recognised for this group. Pursuant to resolution of the Annual General Meeting of 22 June 2006, no disclosure is made of individual salaries of members of the Board of Directors.

Pension provisions amounting to €1.282 thousand (previous year: €1.202 thousand) have been made for former members of the Board of Directors. In this financial year, €77 thousand was paid out in pension commitments to former members of the Board of Directors.

Total remuneration paid to members of the Supervisory Board in the past financial year amounted to €84 thousand (previous year: €77 thousand).

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

11. Dependency report

As in 2002, pursuant to § 21(1) of the German Securities Trading Act (*WpHG*) the company was informed by Thannhuber AG with registered office in 94405 Landau/ Isar, that it had exceeded the threshold of 75% of ordinary shares.

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

12. Auditors' fees

Auditors' fees of KPMG AG included as an expense in the financial year 2008 for the auditing of the consolidated financial statements are as follows:

	2008 **€ thousand**	**2007** **€ thousand**
Audit	91	91
Other audit services	0	29
	91	**120**

13. Events after balance sheet date

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

14. List of subsidiaries

31.12.2008	Investment direct %	indirect %	IFRS equity as of 31 December 2008 € thousand
iSC GmbH, Landau a.d. Isar	100,0		1.373
Hansi Anhai Far East Ltd., Hong Kong, China	100,0		18.561
HAFE Trading Ltd., Hong Kong, China	100,0		3.895
Hans Einhell China (Chongqing) Co. Ltd., Chongqing, China	100,0		-4.812
Hansi Anhai Youyang Ltd., Chongqing, China		100,0	7.788
Hans Einhell (China) Trading Co., Ltd., Shanghai, China	100,0		710
Einhell Österreich Gesellschaft m.b.H., Vienna, Austria	100,0		5.347
Einhell Portugal – Comércio Int., Lda., Arcozelo, Portugal	100,0		6.169
Einhell Benelux B.V., Breda, Netherlands	100,0		656
Einhell Italia s.r.l., Milan, Italy	100,0		4.043
iSC Italia S.r.l., Milan, Italy		100,0	32
Comercial Einhell S.A., Madrid, Spain	100,0		2.277
Einhell Polska Sp.z o.o., Wrozlaw, Poland	90,0		12.223
Einhell Hungaria Kft., Budapest, Hungary	100,0		1.522
Einhell Schweiz AG, Winterthur, Switzerland	100,0		1.020
Einhell UK Ltd., Birkenhead, UK	100,0		603
Einhell Bulgarien ODD., Varna, Bulgaria	67,0		828
Einhell Export-Import GmbH, Tillmitsch, Austria	76,0		744
Einhell Croatia d.o.o., Lepajci, Croatia		76,0	5.389
Einhell BiH d.o.o., Vitez, Bosnia		50,7	2.075
Einhell d.o.o. Beograd, Belgrade, Serbia		76,0	1.009
Einhell Romania SRL, Bucharest, Romania	90,0		4.804
Einhell-Ukraine TOV, Kiev, Ukraine	100,0		-698
Svenska Einhell AB, Gothenburg, Sweden	100,0		15
Einhell Holding Gesellschaft m.b.H., Vienna, Austria	100,0		625
Einhell-Unicore s.r.o., Karlsbad, Czech Republic	100,0		2.158
Intratek Mühendislik ve Dis Ticaret A.S., Istanbul, Turkey	85,0		1.130
Anxall Hellas A.E., Athens, Greece	96,0		53
Einhell Chile S.A., Santiago, Chile	90,0		-289
Einhell Middle East Trading FZC, Ras Al-Khaima, United Arab Emirates	80,0		172
Einhell Scandinavia Aps, Arhus, Denmark	100,0		10
Einhell Slovakia s.r.o., Pezinok, Slovakia	100,0		-61
Einhell France SAS, Villepinte, France	70,0		317
Einhell Australia PTY. Ltd., Victoria, Australia	100,0		0

15. Company bodies

The Board of Directors of Einhell Germany AG in the financial year 2008 comprised:

• Andreas Kroiss, Linz/Austria (Chairman)	Purchase, marketing and sales
• Jan Teichert, Metten	Finance
• Dr. Markus Thannhuber, Landau a. d. Isar	Technology and development
• York Boeder, Landau a. d. Isar	International

York Boeder, Landau a. d. Isar, was appointed to the Board of Directors with effect from 1 January 2008 and is responsible for the international department.

Jan Teichert is a member of the Supervisory Board of SÜSS Micro Tec AG, Garching.

The Supervisory Board of Einhell Germany AG comprises:

• Josef Thannhuber, Landau a. d. Isar Businessman	Chairman
• Professor Dr Dieter Spath, Sasbachwalden Head of the Fraunhofer Institute for Industrial Engineering (IAO), Stuttgart	Deputy Chairman
• Heribert Lukas, Wallersdorf - Haidlfing Worker's Council	Employee representative

Professor Dr Dieter Spath is a member of the following Supervisory Boards and Management Boards:

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

Landau a. d. Isar, 19 March 2009

Einhell Germany AG
The Board of Directors

Andreas Kroiss Jan Teichert Dr. Markus Thannhuber York Boeder

Einhell Germany AG, Landau a. d. Isar

(until 25 June 2008: Hans Einhell AG, Landau a. d. Isar)

Group Management Report for the financial year 2008

Business conditions

In 2008, the growing financial and real estate crisis dominated **global** economic conditions. Its effects on the real economy are now also being felt outside of the United States. As well as the USA, a number of other countries that are important trading partners for Germany, such as other EU countries and Japan, are also now on the brink of or in recession. The global economy is suffering a noticeable downturn and it fell sharply in 2008 with growth of only 2.8%. In comparison with the previous year, economic growth in the G7 countries fell from 2.2% to 1.2% and the downward trend continues. The slowdown in the United States was initially somewhat weaker than expected, but downshift in the euro zone was more abrupt and stronger than expected. Also, previous strong growth in important large emerging markets saw some significant falls. In Hungary and the Ukraine, the situation became so severe that international intervention was necessary in the form of IMF programmes.

Economic dynamics within the **European Union** weakened noticeably in 2008. In the fourth quarter 2008, the European economy suffered its heaviest collapse in years. According to the European statistical agency Eurostat, gross domestic product in the euro zone fell by 1.5%. The weak economy in the United States as well as the global real estate and financial crisis slowed the economies of all member states in the euro zone, though some were affected more strongly than others. Countries that had experienced a real estate boom, such as Spain and Ireland, were hit hard by the correction of real estate prices. In contrast, Germany and Austria felt the delayed indirect reaction to the crisis in the form of falling foreign demand. The situation on the employment markets continues to be satisfactory. At 7.0%, the unemployment rate in the European Union was at the lowest level ever, but the effects of the economic crisis have begun to be noticed since the beginning of 2009. In 2008, the European Union was fighting strongly rising inflation rates in the euro zone: at 3.8% and 3.5%, they were far above the inflation target of the European Central Bank. In particular, rising commodity and food prices exerted strong inflationary pressure.

Numerous shocks from abroad – the deepening of the financial markets crisis, the fall in the global economy and ongoing rises in commodity prices - put the **German** economy under pressure and are having a noticeable effect on general economic activity. GDP growth in Germany in 2008 was

1.7%. A surprisingly strong first quarter was followed by a delayed but all the more abrupt weak period that was initially driven by exports but also harboured cyclical components. One consequence of the economic gloom was an end to the three-year easing of the unemployment markets. The average number of registered unemployed in 2008 was 3.27 million. The average unemployment rate for the civilian labour force in 2008 was 7.8%. In comparison with the previous year, this represented a reduction of 1.2 percentage points. However, at the end of 2008, there was evidence that the financial crisis had reached the employment markets. Price increases – measured by the harmonised consumer price index – had increased significantly in 2008 over the previous year by 2.6%. This was due mainly to the rise in energy prices caused by the hike in the oil price in the first half of the year and the simultaneous strong increase in food prices. The fall in the oil price was not felt until the fourth quarter with a fall in the inflation rate to 2.5%.

There was a quiet start to 2008 for the German **DIY business**. Unseasonably cold temperatures well into April meant that large-scale building and DIY markets achieved gross revenues in the first quarter of around €3,8 billion, which was 5.8% below the previous year. Almost all product groups of the DIY range of goods saw falling revenues in the first three months. Classic DIY products such as tools and machinery remained on the shelves with increasing frequency. This product groups showed a fall of 9.3%. From April to June, the building and DIY markets were able to increase their gross revenues by 0.5% as against the previous year. The best month was May, with revenues of over €2 billion. The positive trend continued in the third quarter, where the DIY market sector was able to improve revenues by an average 2.8%. In the fourth quarter, there was a collapse in revenues in the areas of electrical tools, electrical appliances and gardening equipment. This led to annual revenues in these areas showing a fall of 3 – 5%.

The **Chinese** economy showed the first signs of weakening in 2008. GDP growth in 2008 of 9.7% lay significantly below the 11.9% of the previous year and was below double figures for the first time in five years. The current account surplus measured against nominal GDP fell as against the previous year by 2.9% to 8.4%. Private consumption proved robust due to rising income levels. It increased by 10.3% as against the previous year, though it is still at relatively low levels. Due to falling economic dynamics, the Chinese central bank reduced interest rates in 2008 for the first time in six years. After a hefty rise in the inflation rate in the first half of 2008, this fell during the rest of the year due to falling economic dynamics and the annual average rate was 6.4%. One important influence on consumer prices was the price of energy and food. In order to avoid shortages and to reduce energy consumption, the Chinese government increased fuel prices in the middle of 2008 by a hefty 25%, which had the effect of increasing production prices. Despite additional expenditure for the Olympic Games and high levels of government investment in infrastructure, the budget surplus over nominal GDP came to 0.6%. Despite global economic cooling and the financial crisis, China's exports from January to September 2008 increased by 22.3% to US$1,074 billion and imports increased by 29% to US$893.1 billion. This gave China a trading surplus of US$181 billion, which was down (-2.6%) on the comparable period in the previous year.

After record growth in 2007, the international financial and economic crisis had a delayed impact in **Poland**. GDP growth in 2008 fell to about 5.1%. The Polish currency lost about 20% of its external value against the euro from July to December 2008 and has been drastically devaluing for some time. The turbulence in the currency markets has led to many investors withdrawing their funds from Central Europe and above all also from Poland. The inflation rate, which increased to 4.8% in September 2008 due to the worldwide increase in energy and food prices and strong salary increases, fell to about 4% by the end of the year due to slowing of growth, the restrictive money policies of the Polish central bank and the trends in global price developments. Private consumption in the first three quarters increased by 15%, but growth across the whole year declined steadily. Polish trade over recent years has seen dynamic growth both on the import and export sides. The trading focus has shifted to the EU countries whereby Germany occupies a position as Poland's largest trading partner by far (26% of all Polish exports and 24 % of all imports).

The economic slowdown is gathering pace in **Italy.** With a reduction in GDP of 1%, the country is heading for recession. Italy's deficit in 2008 came to 2.7% of GDP. Private consumption has slowed considerably as a result of the international financial crisis. According to the trading association Confcommercio, the fall in the first nine months was 1.9%. As a result of the chronic budget deficit and high levels of government debt, the scope for stimulating public consumption figures is limited. External trade makes up about a quarter of Italian GDP. For the first time in years, exports in 2008 increased more than imports.

For the full year 2008 there was still growth of real GDP in **Austria** of almost 2%, but this was due to brisk growth at the beginning of the year. The projected economic collapse in Austria is resulting in significant falls in exports and weak growth of domestic demand. In June 2008, price increases reached a high of 4%. Inflation was 3.2% for the full year 2008. The high level of price increases in the middle of the year continued to dampen consumer confidence. Real consumer growth of 1.1% is forecast for 2008, which represents a cut in demand of 50% for private consumption as against the long-term average. Due to unexpectedly high inflation, real net salaries in 2008 are falling by 0.7%, despite higher salary agreements during the autumn wage rounds. According to Austrian statistics, the unemployment rate in 2008 was 5.8%.

Economic growth in the new EU recruit **Romania** increased by 8.8% in the first half-year 2008 and rose by an annual average of around 8.5%. The building industry again provided a boost and is currently showing real growth of 30%, which is considerably faster than in any other EU country. According to Eurostat, this puts Romania in first place in the EU. However, experts are warning about an overheating of the economy. Industrial production grew in the first six months of 2008 by 5.9%. Productivity increased by 9.3%, but real salaries rose by 14.5%. The average net salary per head amounts to about €360. According to the Romanian national bank, in 2008 the inflation rate was 6.3%. A total higher trading volume as against the previous year still resulted in a considerable increase in export deficit, despite an increase in export volume, which is due to strong domestic demand. According to estimates by the Romanian national bank, the resulting trade deficit amounts to about €16,88 billion in 2008. Despite continuing economic growth, the trade deficit for 2008 will be about the same as in the previous year.

The **Spanish** economy as per GDP is still one of the ten largest economies in the world but it must expect extremely modest economic growth. Residential construction, which at its peak gave double-digit annual growth figures, has collapsed in some regions by up to 70% as a result of the bursting real estate bubble. The economy grew by only 1.2% for the full year 2008 and has not been this weak since the last recession 16 years ago. The cooling economy has already had a strong effect on employment. On top of this, there is further uncertainty as a result of the US sub-prime property crisis, which has created considerable difficulty for refinancing of the trading deficit. Government debt has been falling consistently in recent years due to the stability-oriented fiscal policy. During the budgetary year 2008, debt was to fall to 34% but this could not be attained. In particular, the balance of trade left a huge hole that could not be compensated by traditional service surpluses from tourism, as the falling income is pitted against a growing trade deficit.

Organisation of the Einhell Group

The parent company of the international Einhell Group is Einhell Germany AG, which has its registered office in Landau a. d. Isar/Germany. Its subsidiaries consist mainly of distribution companies located in Europe and trading companies in Asia. The Asian subsidiaries are responsible for product search, development and procurement. As production is in Asia, quality management also takes place there. This allows for quality defects to be addressed and remedied promptly on location.

Changes to Group structure

The structure of the Group changed in 2008 with the addition of seven new subsidiaries. As organic growth presents considerable opportunities, the organisation of the Einhell Group is an important task for management. In particular, business areas and information flows have to be re-evaluated constantly during continual expansion. During the integration of new subsidiaries, great emphasis is placed on integration into the company software systems in order to permit a smooth flow of information.

Anxall Hellas A.E., established in December 2007, was able to take up full operations in April 2008. This newly formed company allows Einhell to cover the entire south-east European market using its own subsidiaries.

The establishment of Einhell Chile S.A. has allowed Einhell to have a presence in South American markets with its own subsidiary since January 2008. For several years, a partner company of Einhell has served the Chilean market. The successful past cooperation is now being continued in a newly established company.

In the middle of the year, Einhell Skandinavia ApS was set up in Denmark. Einhell Skandinavia ApS is registered in Arhus in Denmark. The company has been operating since January 2009.

Two further subsidiaries were set up in August 2008. The establishment of Einhell Middle East Trading FZC gives Einhell a presence in the Middle East. The company formation in the United Arab Emirates gives the Group access to a market with high growth potential and its optimal geographic location allows coverage of many countries. After the company was set up in August 2008, it commenced full operations.

The establishment of Einhell Slovakia s.r.o., completed in August 2008 with the registration of the company in the Commercial Register, allowed the company improved access to the Slovakian market. Whereas Slovakian customers had previously been served by the existing Czech subsidiary Einhell Unicore s.r.o., this business will in future be carried out by Einhell Slovakia s.r.o.

Einhell France SAS fills the last remaining space in the western European distribution network. After completion of establishment formalities in October 2008, the company commenced full operations.

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December 2008 saw the establishment of Einhell Australia PTY Ltd. The company will commence operations during the course of 2009.

New management division

York Boeder has been the Board member responsible for the international division since the financial year 2008. After studying at the Technical University in Darmstadt, Mr Boeder began his career in the automotive supply industry. In 1999, he moved to the office supply manufacturer Herlitz AG as a restructuring specialist. After successful restructuring the company, he assumed responsibility for the sales and trade marketing division. Later he set up the service subsidiary eCom Logistik with over 1,000 employees, where he spent three years as CEO. Finally, York Boeder moved to Einhell Germany AG in September 2006, first with responsibility for mergers and acquisitions and later as head of merger and acquisitions and international sales. Since 1 January 2008, York Boeder has been a member of the Board of Directors of Einhell Germany AG.

Performance report

Einhell Group revenues are slightly lower than the previous year but the company remains very profitable

Despite turbulence in the global economy, the Einhell Group also developed well in 2008. Group revenues for the financial year 2008 amount to €358,5 million as against €385,7 million in the previous year.

The main priority of the Einhell Group, the profitable orientation of the company, is achieved through various secondary goals. These allowed the Einhell brand to stay true to its motto “brand quality for the price conscious” in the financial year 2008. Another focus of the Einhell Group in 2008 was the improvement of quality, as this leads to stronger customer loyalty and the securing of new customers. Einhell Group customers are cash and carry stores, hypermarkets and discount stores, specialist stores and, above all, DIY stores. These customers are a decisive factor in many areas of the Einhell Group, from product development through to the after-sales customer service of iSC GmbH.

In **Germany**, the domestic market in 2008 was unable to match the revenues of the previous year. Revenues in the reporting period decreased from €142,3 million to €125,4 million. The share of domestic revenues amounts to 35%.

Whilst revenues could still be increased at the beginning of the year in the **European Union,** during the course of the financial year 2008 they fell below the level of 2007. In total, there is a reduction of 6.7% from €161,6 million to €150,8 million. The most important sales markets in 2008 were Poland, Italy, Austria and Romania.

Revenues in **Asia** amounted to €22,5 million (previous year €27,6 million) during the reporting period. This reduction is above all due to the lower sales volume of the international building market chains in Asia.

Other countries saw a revenue increase to €59,8 million (previous year €54,2 million). This represents growth of 10.3%. The strongest countries for sales are the Ukraine, Turkey, Switzerland and Croatia.

The share of revenue generated abroad amounted to 65.0% in the financial year 2008.

Development of the total output of both segments

The segment “Tools” achieved revenues in the financial year 2008 of €210,7 million (previous year €240,9 million). The fall in sales in this segment is due mainly to the increase in EU anti-dumping taxes on Chinese compressors to 77%.

The strongest products in this segment are mainly rotary hammers, cordless screwdrivers, drills, angle grinders, woodworking machinery and generators.

Growth in the segment “Garden & Leisure” was better. In the financial year 2008, it was able to generate revenues of €147,8 million (previous year €144,8 million). This segment includes products from the product groups petrol trimmers, chain saws, petrol motor tillers, effluent pumps, heating machinery and lawn care products.

Earnings performance

In the financial year 2008, the Einhell Group generated a profit from ordinary operations of €18,4 million (previous year €24,6 million). The pre-tax yield was reduced from 6.4% to 5.1%.

The consolidated net profit after minority interests was reduced in the financial year 2008 by 15% from €16.7 million to €14,2 million. At balance sheet date, the ROI[1] amounted to 7.5% (previous year 10.6%). The financial result amounted to €-5,9 million (previous year €-2,2 million). This results mainly from the interest earnings to the amount of €-2,6 million (previous year €-2,6 million) and from earnings from currency conversion of €-3,3 million (previous year €0,4 million). Earnings from currency conversion result from the fall in exchange rates of various currencies due to the financial crisis and are not wholly liquidity-related.

Human resources

In 2008, logistics was transferred from Landau to Hamburg in order to achieve substantial savings for transportation costs, as a large part of goods arrive from China in the port of Hamburg. Despite the cost-related move of the logistics operation to Hamburg, employee numbers remained stable. Due to the expansion of the Group, the number of employees increased by 9% to an average of 1.052 (previous year 964). Therefore, revenue per employee was €341 thousand (previous year €400 thousand).

Overall, there was little fluctuation in the number of employees in the Einhell Group and in 2008 the company again celebrated anniversaries with long-time employees. In order to retain such pleasant data in the future, the company has been working intensively on a human resources concept since the beginning of 2007. This has been approved by the Board of Directors and was introduced incrementally. Complete implementation was finished in 2008. One component of this programme is the training of qualified new staff. This should continue to be improved and so new Einhell Germany AG trainees also started with an introductory week in September 2008. They received information about the company, the products, customers and IT systems. Also in

[1] ROI (Return on Investment) = profit from ordinary operations / total capital * 100

September 2008, there was a traineeship for grammar school graduates with various training paths offered at a vocational academy (Berufsakademie). A trainee programme where participants could gain intensive experience of the various departments within the company was also extended. In order to secure future recruitment, a further basis of the company's scheme is the internal identification of potential high flyers. This concept has already been implemented in the parent company. The intensive recognition and promotion of high flyers will be extended to subsidiaries incrementally.

The commitment and extraordinary efforts of each member of staff in the Einhell Group under difficult economic circumstances led to the excellent result of the financial year 2008. The Board of Directors of Einhell Germany AG thanks all members of staff across the whole Group.

Earnings

Despite the general economic crisis, the Einhell Group was able to maintain its high level of earnings to the end of the year. Crucial to this development were the strategic steps introduced in the past to focus on core competencies, further expansion and continual improvement of quality management.

In the financial year 2008, an EBIT yield in relation to revenues of 6.8% (previous year 6.9%) was achieved. The cost of sales was improved due to increased quality and new product lines. Costs increased due to the introduction of new product lines and additional protection against risk.

These earnings meant that the Einhell Group did not attain its ambitious targets for the financial year 2008. However, in light of the economic conditions, earnings were still very stable.

Assets

Main items in the balance sheet for the financial years 2007 and 2008 are as follows:

In € millions	2007	2008
Non-current assets	28,4	26,8
Inventories	99,5	113,3
Trade receivables	67,6	61,4
Cash and cash equivalents	14,6	20,0
Equity	111,8	123,7
Liabilities to banks	47,8	46,3

Investments

Investments in the financial year 2008 amount to €3,3 million, of which €1,6 million is for intangible assets and the remainder of €1,7 million for property, plant and equipment. Intangible assets include capitalised product development costs. Property, plant and equipment comprises mainly investments in buildings, fixtures and fittings.

Depreciation and amortisation in 2008 amounted to €3,6 million and was reduced as against the previous year by €0,9 million.

The cash flow from investment activity was reduced from €-11,0 million to €-3,9 million. This is due mainly to the lower levels of investment in assets and equity investments compared to the previous year.

Current assets

At balance sheet date, inventories had increased from €99,5 million to €113,3 million. The increase was due to reduced sales in the fourth quarter 2008. Trade receivables were reduced by €6,2 million to €61,4 million. Factoring was again not conducted in the financial year 2008.

The cash flow from current operations was €13,9 million (previous year €0,5 million.). The cash flow was increased due to a fall in receivables and reduced tax payments. The increase in inventories had the effect of decreasing cash flow.

Financial position

Financing

Due to the healthy and solid financing structure of the Einhell Group with a traditional sound equity ratio that is currently about 50%, the Board of Directors does not anticipate any problems with current business operations, nor does it foresee any financial problems if business volume begins to pick up again. Therefore, the Board is maintaining its extremely successful and long-term international expansion strategy.

In the financial year 2008, the Einhell Group was again mainly financed by bonded loan and non-current loans. As well as the classic non-current bank loans, this also includes the bonded loan issued in the financial year 2004. The most important liquidity and balance figures were maintained in 2008 or even improved. The Einhell Group does not envisage any difficulties in meeting its repayment obligations under loan agreements. Due to its solid financial structure, the Group has been able to achieve an equity ratio of 50%. Net indebtedness was slightly reduced as against the previous year. The Group sees itself as well placed to survive the current difficult economic conditions. Therefore, the Group sees no problems in financing its future business transactions.

The cash flow from financing activities amounted to €-5,0 million (previous year €-2,0 million.). Particularly relevant were the reduction of loan obligations and the dividend payment.

On 31 December 2008, the balance sheet total amounted to €245,5 million (previous year €231,9 million.). At balance sheet date the equity ratio was 50.4% (previous year 48.2%).

Procurement

As Einhell products are procured from factories in China, attention was also paid in the financial year 2008 to development of the Chinese Renminbi. Since the easing of the tie-up with the US Dollar in July 2005, it has gained about 15% in value against the US Dollar. Since the middle of the year, the USD/RMB rate has remained stable.

An important factor is commodity prices in global markets. In the middle of the year most commodities climbed to record high prices but by the end of the year they had again lost a great deal of value. Despite rapid declines in the second half of the year, the average annual value of the HWWI Index of World Market Prices of Commodities reached an all-time high in 2008. In comparison with the previous year, commodity prices in euros increased by 23%, in dollars by as much as a third. Necessary price increases for products are hitting global markets, thus affecting all companies dependent on commodities.

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

Supplier quality is also optimised on an ongoing basis. Dependency on individual suppliers is avoided by having an adequate number of suppliers and a broad distribution of orders. Generally, due the global financial crisis and the resulting overcapacity at suppliers, the overall default risk of individual suppliers has nevertheless risen slightly. In order to generate additional flexibility for procurement and to counter the slight rise in supplier risk, the Einhell Group has also had a presence in Vietnam since 2008.

Product research and development

Expenses for product research and development increased during the financial year 2008 from €3,2 million to €4,0 million. The product research and development division is mainly customer oriented. Cooperation with other divisions, such as quality management, is therefore important, as well as communication with customers. Customer requirements are integrated from the beginning during the development of new products and versions. The customer is regarded as a partner. This permits consistent market adjustment across the whole Einhell Group and has made the Group one of the fastest reacting companies in its field. The positive feedback from our customers has convinced us to continue this approach.

Our corporate objective of differentiation from competitive products was particularly important in the financial year 2008. An examination of product colours and the closely-linked divisions brands portfolio and package design during the third quarter 2006 led to two new product lines. The existing lines were replaced gradually and this resulted in a coordinated appearance of the Einhell brand on the market. This decision was necessary as the previous Einhell products had presented a diffuse portfolio to the end customer. The two new product lines differ in price and design. The “Blue” product line designates the lower priced product line and the “Red” product line designates the higher price segment. Prices remain below those of the current market leaders but the products are distinguished by design, exclusivity and customer service. As well as generating the desired customer reaction, through the introduction of these lines we were also able to increase logistical and distribution efficiency. The new product lines were introduced at the end of the year.

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

Main features of the company's compensation system

Members of the Board of Directors receive fixed and performance-based variable remuneration. Members of the Board of Directors hold shares in Einhell Germany AG. There are no share option programmes or similar arrangements. For further details, refer to the particulars in the IFRS notes to the consolidated financial statements.

Events after balance sheet date

Between the end of the financial year 2008 and the date of preparation of the Management Report, there were no events with any significance for reporting purposes.

Dependency report

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

Risk report

Internal control system

The companies of the Einhell Group plan ahead for the following financial year during the current financial year. Based on differentiated revenue planning, there is a corresponding planning of the cost of sales and expenses. These target figures are consolidated for the Group in one projected profit and loss statement.

Individual companies prepare the actual figures on a monthly basis. Subsequently, a complete income statement is prepared which contrasts forecast and actual figures and may be analysed accordingly. Changes in orders on hand, margins etc. are also presented on a monthly basis.

The members of the Board of Directors and the persons in charge of the individual companies and divisions discuss this comparison. Analysis of the forecast and actual figures allows for the development and implementation of suitable measures for the regulation.

Risk management system

In a company, the seizing of opportunities means taking risks. A risk management system is required to be able to take a calculated risk. The introduction of an IT-based risk management information system allows company and corporate management to gather all information required for the management of the Group in a summarised and compact format. It is designed to simplify data collection in the individual companies and minimise the effort for the risk management in Einhell Germany AG.

The process of risk management is divided into two steps in the Einhell Group. The first step is the decentralised recording of risks at the subsidiaries and departments of the AG by the risk managers appointed by the Board of Directors. Their task is to identify and evaluate risks. Identification is important for the Einhell Group, as no planning can be undertaken for unidentified risks. The evaluation of the existing risk is effected by means of the calculation of the product of the probability of the damage occurring and the maximum amount of damage. It is the net risk that is evaluated – the risk that remains after preventative measures have been taken. The second step comprises the consolidation, analysis and management of the risks by the risk manager and corporate management. The company uses various methods of risk management. Risk avoidance means that risks, and associated opportunities, will not be taken. Another management method minimises the risk by organisational methods and is called risk reduction. A further method is transferring risk by means of insurance, contracts with suppliers, etc. The remaining risks are deliberately borne by the Einhell Group.

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

Procurement risks

Procurement is a primary process in the business model of the trade and takes an important place in risk management within the Einhell Group. The purpose of procurement is to ensure that products are acquired on time with sufficient quality at a reasonable price. One important factor in this is the suppliers. As the Einhell Group maintains long-term relationships with its suppliers, price and sourcing risks are minimised. Suppliers are integrated into the quality control system of the Einhell Group with constant controls. The Einhell Group is not dependent on individual suppliers. In order to optimise procurement planning, purchase quantities are coordinated with the sales division every two weeks. The risk of currency fluctuation for procurement is hedged where possible with hedge agreements in the form of futures and options. Currency hedging is made pursuant to IAS/IFRS regulations regarding hedge accounting for the individual hedge periods.

Sales market risks

The Einhell Group sees sales market risks mainly in loss of receivables and sales volume. The Einhell Group uses Euler-Hermes credit insurance to counter credit risk. However, generally it is becoming difficult to secure relevant limits. Timely management of accounts receivable counters the increased risk of loss of receivables from prevailing economic circumstances. Innovative products that meet customer requirements in terms of design, functionality and value for money lessen the risk of a reduction in sales volume. Market analysis has identified an inconsistent brand profile as far as end-customers are concerned. This risk is being countered with the incremental introduction of two clearly defined product lines. In this way, the Einhell Group manages to gain additional market shares even in difficult economic periods.

Financial risk

The continuing growth of the Einhell Group is bound up with financing risks. The Einhell Group uses both long-term and short-term financial strategies in order to cope with financial risks. In the financing domain, there are non-current loans with banks and also the 2004 bonded loan. The Einhell Group also has classic lines of credit that were only partially utilised in 2008. Both the endowment with liquid funds and with equity has been sound in this reporting year. Risks from interest rate changes and fluctuations were managed with derivative financial instruments such as non-current interest swaps and interest caps. At the moment, the Board of Directors is negotiating with various lenders for a refinancing of the bonded loan, which matures in July 2009. Due to a sound balance sheet and the very stable financial provision of the Einhell Group, the Board of Directors expects to secure reasonable refinancing terms, despite the difficult economic circumstances.

Expansion risks

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

Liability risks

Liability risks arise for the Einhell Group mainly in connection with product liability. The procurement market for Einhell products is the People's Republic of China. In order to ensure quality on site, a quality management system has been set up in China, which directly monitors supplier production and implements process controls. The remaining risk for product liability claims is covered economically reasonable by appropriate insurance. In this reporting year, as in the previous year, there were no significant product liability claims.

Declaration concerning Corporate Governance

The Corporate Governance Code drawn up by a German government commission is designed to make legally effective regulations about corporate governance and controlling transparent for national and international investors. In issuing a voluntary Corporate Governance Declaration, Einhell Germany AG is committed to ensuring responsible management and control of the Group with a view to generating sustainable increase in value. With this Declaration, Einhell Germany AG creates transparency with regard to legal and company-specific general conditions and facilitates the trust of its national and international investors, business partners, employees and the general public.

In this sense, the principles of the Einhell Group govern relations with its shareholders and the social and political environment of the company, efficient cooperation between the Board of Directors and the Supervisory Board and transparency and accounting requirements.

Einhell Germany AG regularly reviews its Corporate Governance Declaration for compliance with new stipulations and legal requirements, improved national and international standards and makes adjustments where necessary.

The Declaration may be viewed on the website of Einhell Germany AG (www.einhell.com).

Forecast

Global economic development

Expanding from its origins in the USA, the downturn has now reached out across all economies. The financial crisis is worsening the slow-down of international economies. According to International Monetary Fund (IMF) forecasts, the **global economy** is heading for recession. It will hit developed nations hardest and for the first time since the end of the Second World War their economic performance will shrink for a full year. In the opinion of the World Bank, the global economy will grow by only 0.9% in 2009 – after 2.5% in 2008. Forecasts predict that global trade will contract for the first time since 1982. Investment volume should see growth of only 3.4%. The IMF forecast predicts that some emerging markets and developing countries will also be affected by the crisis because of weaker export demand. Also, due to increasingly risk-averse approaches by investors, decreasing levels of capital are flowing into these countries. At the same time, share of the global economy will continue to shift in favour of these country groups as their growth will not be so badly affected. Growth of 9.3% is forecast for China in 2009. There is unlikely to be a global economic recovery until the second half of the year, as despite government rescue measures in various countries, it will take some time until market confidence is restored. Many commodity prices have fallen sharply since the summer of 2008 due to economic recession. The oil price has now stabilised after having fallen about 50% since the middle of July 2008. It is expected that the oil price will rise during 2009 to an average price of $68 per barrel.

The EU Commission expects gloomy growth forecasts for the **euro zone** in 2009. Due to the sharp downturn, the inflation rate in the euro zone will also fall significantly. The annual rate of inflation at 2.2% will almost hit the European Central Bank’s target, which sees medium-term stable prices at a rate of just under 2%. The European Commission forecasts a rise in unemployment rates in the euro zone in 2009 of almost one percentage point to 8.4%. Also, with weaker economic performance we will see government debt levels rise significantly.

The Federal Republic of Germany expects GDP to fall in 2009. There is a shift of growth factors in the composition of GDP. Next year, growth will come less from the domestic economy and here mainly from private consumption. It is in private consumption that the first signs of the effect of falling inflation will be felt. Due to strong falls in energy and food prices and weak economic growth, inflation will weaken in 2009 significantly. The inflation rate, measured against the consumer price index, will amount to an annual average of 2.1%. Salaries will also rise strongly, which will lead to a moderate increase in disposable income. However, the support from the employment markets will fall away during the course of the year and private consumption will only increase slightly. Therefore, private consumption can only provide a minimal amount of support to economic growth in 2009. Unlike previous years, there will be no growth in foreign trade in 2009. There have been positive effects on competitive pricing for German exporters since the euro started to devalue in August 2008 but they have been overwhelmed by the significant effects of a weakening global economy. Exports will probably fall in 2009.

Goals of the Einhell Group

Goals for the financial year 2008 included the improvement of quality and further organic growth. The formation of new subsidiaries in Greece, Chile, Denmark, France, Slovakia, the United Arab Emirates and Australia allowed the Group to continue its expansion policy.

The Einhell Group has again set itself new and ambitious corporate targets in order to thrive in the current difficult economic conditions. The goals for the financial year 2009 are as follows:

In order to minimise risks from difficult global economic markets, there will be a focus in 2009 on security and the optimal application of financial funds. This will involve cost reduction and an optimisation of inventory holdings throughout the whole Group.

Goals for the financial year 2009 include in particular the establishment of the new product lines with a further expansion of the RED and BLUE product lines.

The complete integration of the companies set up in 2008 will continue. It is planned to set up another Group company in Brazil in the financial year 2009. The Einhell Group also plans to set up partnerships with companies in India and South America in order to continue to improve sales and distribution.

In order to reduce its dependence on China for procurement purposes, the Einhell Group will in future maintain a presence in Vietnam. The first projects should be realised in the financial year 2009.

Group Management expects continued growth in the segments “Tools” and “Garden & Leisure” in coming years. The development of the new product lines sees Einhell products directed towards the requirements of its customers. Taking into account the opportunities and risks arising from the difficult global economic conditions, the Group Management stands by its international expansion strategy.

The Board of Directors points out the extreme difficulty of making forecasts, especially in the light of extreme fluctuations in global currencies and the global economic crisis. The resulting effects on revenues, cost of sales and the financial result cannot be reliably estimated.

Strategically, the Einhell Group will continue to sharpen its profile as a producer of electrical tools and garden machinery. Its goal remains to continue to specialise on core goods and core target markets and to be listed as the highest-performing supplier with all international DIY chains in the following years. Also, the introduction of the “Blue” and “Red” product lines should improve market presence and recognition value. In the next few years, the Einhell Group shall become one of the most innovative and fastest suppliers of garden equipment and electrical tools in its field.

The Group’s aim is to continue to increase its market share in existing markets.

Proposal on the Allocation of profits

The Board of Directors and the Supervisory Board of Einhell Germany AG recommend to the Annual General Meeting that from the net profits of Einhell Germany AG (HGB) amounting to €13.786.409,16, it effects a distribution of €2.138.976,00. This represents a dividend of €0,60 per preference share and €0,54 per ordinary share. The remaining amount of €11.647.433,16 is to be carried forward.

Landau a. d. Isar, 19 March 2009

Einhell Germany AG

The Board of Directors

Andreas Kroiss   Jan Teichert

Dr. Markus Thannhuber   York Boeder

Unqualified auditor's opinion

We have audited the consolidated financial statements, prepared by Einhell Germany AG, Landau a. d. Isar, - consisting of the balance sheet, income statement, the statement of changes in equity, cash flow statement and notes – as well as the group management report for the fiscal year from 1 January to 31 December 2008. The accounting and preparation of the consolidated financial statements and the group management report in accordance with IFRS, as applicable in the EU, and additionally the German commercial rules pursuant to § 315 a (1) of the German Commercial Code (HGB) are the responsibility of the legal representatives of the company. We have been assigned the duty of issuing an assessment of the consolidated financial statements and the group management report on the basis of our audit.

We have carried out our audit of the consolidated financial statements in accordance with § 317 of the German Commercial Code (HGB) under adherence to the German rules of orderly bookkeeping determined by the Institut der Wirtschaftsprüfer (IDW). The audit is to be planned and carried out in such a way that inaccuracies and offences that have significant effect on the presentation of the asset, financial and profit situation determined by the consolidated financial statements under adherence to the rules of orderly bookkeeping applicable and by the consolidated management report are recognised with sufficient assurance. In determining the audit procedure, knowledge of the business activities and the economic and legal environment of the company as well as expectations regarding potential errors are considered. Within the scope of the audit, the effectiveness of the accounting-based internal control system and supporting documents for the data in the accounting, consolidated financial statements and the consolidated management report are predominantly assessed on the basis of random sampling. The audit includes the evaluation of the annual financial statements of the companies included in the consolidation, the determination of companies to be consolidated, the applied accounting and consolidation principles and the significant assessments by the legal representatives as well as the appraisal of the overall presentation of the consolidated financial statements and the group management report. We are of the opinion that our audit forms a sufficiently secure basis for our assessment.

Our audit has not resulted in any objections.

In our opinion, the findings from the audit show that the consolidated financial statements are in accordance with IFRS, as applicable in the EU, and the additionally applicable rules of orderly bookkeeping as set forth in § 315 a (1) of the German Commercial Code (HGB) and, under adherence of said provisions give a fair view of the company's asset, financial and profit situation, which reflects the actual circumstances. The group management report is consistent with the consolidated financial statements, gives an accurate picture of the state of the company in general and correctly presents the opportunities and risks of the future development.

Munich, 19 March 2009

KPMG AG
Auditing company

(Formerly KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft)

Huber	Heipertz
Auditor	Auditor