

STATUS REPORT OF THE EINHELL GROUP

BUSINESS ENVIRONMENT

In 2006 the global business activity developed very well already for the third year in a row. The worldwide gross domestic product (GDP) grew by 3.9%. Hereby the growth could be supported in nearly all regions. The fundamental pillars of the world economy were in the last year once again the United States and certainly China. Moreover the business activity showed significant signs of revival. Still the world economy could rely on favourable financing conditions, whereas several central banks increased the interest rates in the course of the year. However, the effects of such interest increases appear only with delay so that in 2006 hardly any consequences were noticeable. In 2006 the good business activity also had a positive effect on the employment markets of the big economic areas which registered a partly substantial decrease of the unemployment rates. Moreover the oil price, which reached once again several peak quotations in 2006, had a repressive impact on the global business activity.

The GDP in the Euro zone went up by 2.7%. Here it was particularly striking that the differences between the growth rates of the respective Member States decreased considerably. Especially thanks to the good development on the employment market the private consumption increased distinctively by 2.1%. However, the real discretionary income only grew slightly, so that the risen consumption was partly financed by a decrease of the savings ratio. Also the development of the exports of the Euro zone benefited from the good global business activity. Like other central banks also the European Central Bank (ECB) raised since 2005 the prime rate in several steps by altogether 1.25%. Nevertheless the interests are still on a low level and therefore only a slight depressant impact of

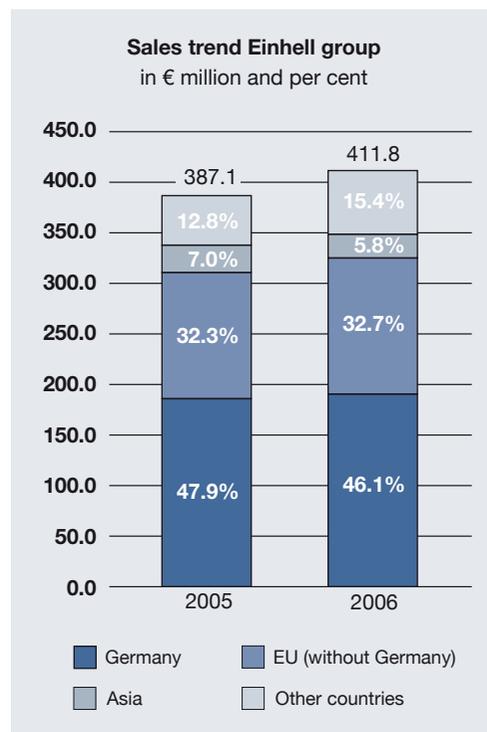
this measure on the business activity is to be expected. The pleasing economic development in the Euro zone also had a very positive effect on the public finances. The tax revenue of nearly all countries went up in comparison to the previous year so that the financing deficit of the Euro zone diminished. However, there are still Member States which didn't reach in 2006 the Maastricht criterion regarding the financing deficit.

Also the Federal Republic of Germany could participate at the global economic recovery.

So the GDP increased by 2.5% in 2006. This is the highest growth since the year 2000. In addition to the still strong rise of the exports, in 2006 also the domestic demand contributed to the good development of the economy. Also the employment market benefited from the economic recovery. In the last year especially a rise of employment which is subject to social insurance contribution could be registered. Nevertheless, the expenses for private consumption only went up slightly in

spite of the revival of the employment market. This rise came along with a reduction of the savings ratio. This rise took place mainly due to the pull-in effects with regard to the value-added tax increase of January 1st 2007 by 3%-points. By contrast the high energy prices have still a repressive effect on the whole national economy.

Due to the long winter the do-it-yourself sector suffered a decline in sales within the first



months of the new year which could be partly caught up again. The traditionally top-selling May proceeded extremely well, since July the turnovers continuously went up. In addition to the overall good consumption climate in Germany the pull-in effects of the value-added tax increase provided a very good annual balance sheet. Altogether an unadjusted sales plus of 1.2% was achieved. Within the different DIY-divisions both the class of goods "Tools and Machines" and the class of goods "Garden Hardware" could assert themselves well. The class of goods "Tools and Machines" reached an increase of 1%, the class of goods "Garden Hardware" even an increase of 1.9%.

The rise of the GDP in Austria amounted to approx. 3.2% in 2006. In addition to the still good growth of the exports, in 2006 also the domestic demand became more and more a support of the business activity. The unemployment rate went down from 7.3% in 2005 to 6.8% in 2006. Especially the part-time employment increased. For 2007 a GDP-growth of 2.8% is anticipated. Here the private consumption will prove to be a support for the growth of the continuing good business activity. By contrast, the exports will present themselves weaker due to a more restrictive economic policy of some Euro-countries.

After a year of stagnation the Italian economy could recover more than expected. Here mainly the positive impulses of the investments were noticeable. The government aspires a savings program in order to rehabilitate the national finances and therefore to beat down the new indebtedness under the 3% of the GDP according to the Maastricht-criteria. The GDP grew in 2006 by approx. 1.8%. For the year 2007 a growth of 1.5% is predicted.

In Croatia the national economy increased more than expected. The GDP-rise of about 4.7% in the year 2006 was mainly borne by the private consumption and by the investments. Thanks to the steady exchange rate and the reduction of the oil prices the inflation reached

with 2.0% the lowest level since 3 years. In the business year 2007 a growth of the GDP by 4.2% is predicted, what corresponds to a slight downturn in comparison to the year 2006. The text procedure of the EU could be finished in 2006. This is the foundation for the negotiations with Croatia concerning an accession to the EU. Overall the last inspection report attested Croatia a good development with regard to the EU-criteria. However, there still persists need for action particularly in the fields of administrative and legislative reforms and of corruption combat. However the fact that 2007 is an election year could turn out to be a brake block as far-reaching reforms are not predicted for this year. The conclusion of the negotiations with the EU is scheduled for the end of 2008.

Also in the year 2006 the growth in Poland was constantly strong what was mainly backed by the domestic demand. However, in the last year mainly political weak points emerged. In September 2006 after only 6 months in office the majority coalition under the guidance of the nationalistic spirited party PiS splitted up. Re-elections could be only prevented by the re-establishment of the old coalition which could be only reached after long and difficult negotiations. This results in an unstable political situation that could have also an impact on the economic development. The growth of the GDP reached in the year 2006 5.8%. The unemployment rate amounted in December to 14.9%. Salaries and wages went up in the private as well as in the public sector. Nevertheless the migration of workforce to Western Europe still increases. In December 2006 the inflation summed up to 1.4% and stayed low contrary to the forecasts. This is mainly based on fallen oil and energy prices. Due to the rising Euro-scepticism an accession of Poland to the Monetary Union before 2012 is not probable.

In the business year 2006 the economic growth of Romania went up above average by 7.8%. For this development both the pri-

vate consumption and the investments in the course of the damage repair of the flood catastrophe in 2005 were determining factors. In 2006 the inflation averaged 6.6% in comparison to 9.0% in the previous year and therefore was the lowest rate since 17 years. This proves the first big successes resulting from the inflation reduction. At the 1st January 2007 Romania acceded the EU. This should have a positive effect on the growth 2007. A GDP growth of 6.0% is expected for 2007. In spite of the good development regarding the Maastricht criteria an accession to the Monetary Union before 2014 is not probable.

In the last year the national economy of China could achieve with an increase of 10.6% the highest growth rate since several years. Especially the Chinese external trade attributed to the positive economic development. Compared to 2005 the exports went up by 27.2% to USD 969 billion. The surplus of foreign trade increased by 74% to an all-time high of USD 177.4 billion. Since the accession of China to the World Trade Organization in the year 2001 the trade volume of the People's Republic therefore more than tripled. Facing this rapid economic development, the political pressure on the Chinese government to continue the revaluation of the national currency will rise. For 2007 international observers assume that another revaluation of up to 5% will take place, what will not have a negative impact on the Chinese foreign trade thanks to the price competitiveness of the Chinese products on the world market.

BUSINESS DEVELOPMENT

Sales increase in the Einhell group

Also in 2006 the Einhell group could increase its turnover from EUR 387.1 million to EUR 411.8 million in spite of the difficult market environment and therefore surpassed its plans also in the previous business year. So a sales increase of 6.4%¹⁾ was achieved. A very important element of this development is the

continuous improvement of the internal quality standards which lead to a further sharpening of the brand Einhell. Thanks to new products with an unmistakable design and innovative product characteristics the Einhell group went on to stand out from the crowd of competitors. In spite of the quality improvements and the innovative products the brand Einhell continues offering brand quality for price-conscious people. The customers of the Einhell group are C+C markets, hyper markets and consumer markets, specialized markets and especially DIY-stores.

The Einhell group is an international company. This includes the parent company Hans Einhell AG based in Germany, the predominantly

Sales trend according to regions

in € million	2005	2006	alteration
Domestic sales	185.3	189.9	2.5%
EU (without Germany)	124.9	134.7	7.8%
Asia	27.1	23.7	-12.5%
Other countries	49.8	63.5	27.5%
Total Sales	387.1	411.8	6.4%

in Europe located distribution companies and the subsidiaries in Asia which mainly care for the purchasing. Accordingly also the quality assurance is residing in Asia in order to communicate directly on-site with the suppliers.

Sales trend according to divisions

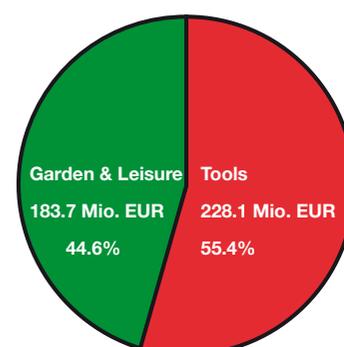
in € million	2005	2006	alteration
Tools	212.4	228.1	7.4%
Garden & Leisure	174.7	183.7	5.2%
Total Sales	387.1	411.8	6.4%

The Einhell group could rise its sales both at home and abroad.

Sales structure according to divisions

On the **primary market Germany** the turnover increased by 2.5% from EUR 185.3 million to EUR 189.9 million. So the proportion of the domestic companies of the whole group turnover amounted to percentaged 46.1%.

In the **European Union** the group could rise its sales from EUR 124.9 million to EUR 134.7 million. This corresponds to a growth of 7.8%. Among the biggest turnover sources counted



¹⁾ Alteration is based on million EUR

the companies Einhell Italia S.r.l., Einhell Österreich Gesellschaft m.b.H. and Einhell Polska Sp.z.o.o.

The sales figures in **Asia** decreased by 12.5% from EUR 27.1 million to EUR 23.7 million.

In the **other countries** the sales went up by 27.5% from EUR 49.8 million to EUR 63.5 million. Here the most successful turnover sources were Einhell Polska Sp.z.o.o., Einhell Schweiz AG, Einhell Croatia d.o.o. and Einhell Romania SRL.

The foreign share of the whole group turnover increased from 52.1% to 53.9%.

Increase of overall performance of both divisions

In the business year 2006 both the division "Tools" and the division "Garden and Leisure" achieved sales increases again.

In the division "Tools" the turnover rose by 7.4% from EUR 212.4 million to EUR 228.1 million. The best-selling products of this division were compressors, electric hand tools like hammer drills, angle grinders and cordless screwdrivers as well as woodworking devices.

Also the division "Garden and Leisure" increased its turnover by 5.2% to EUR 183.7 million (2005: EUR 174.7 million). This development is even more pleasant, as on the one hand the competition in this segment is very difficult and on the other hand the long winter had delayed the garden season. The best sales figures in this sector achieved gasoline chain saws, electric scarifiers, air conditions, heating devices and greenhouses.

Result development

In the business year 2006 the Einhell group achieved a profit on ordinary activities in the amount of EUR 23.8 million (2005: EUR 22.3 million). Therefore the group result went up by 6.7% in comparison to the previous year and in the business year 2006 a constant pretax rate of return of 5.8% was achieved (2005: 5.8%).

²⁾ ROI (Return on investment) = Profit on ordinary activities/total capital*100

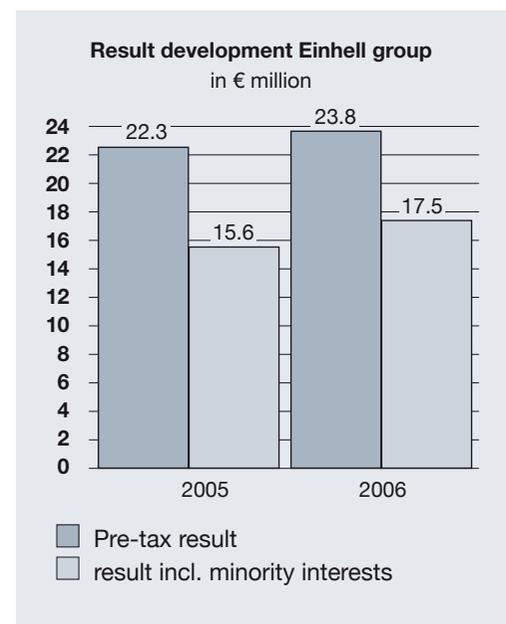
The annual surplus after minorities increased by 10.9% to EUR 16.3 million (2005: EUR 14.7 million). The ROI²⁾ amounts at the key date to 11.9% (2005: 10.8%). The result per share is calculated with EUR 4.3 per share (2005: EUR 3.9 per share).

In the fiscal year 2006 the financial result totalled to EUR -2.7 million (2005: EUR -2.8 million). This return is generated from the interest income of EUR -2.7 million (2005: EUR -2.4 million) and from the result of the currency translation which amounts to EUR 0 million (2005: EUR -0.4 million).

Organization and administration

A major point in the business year 2006 was the reform of the quality organization. So in the course of the year the product management was separated from the quality department and an independent organization unit was created. This unit exclusively takes care of the improvement of products and product processes.

In addition the sector of the product-near quality assurance was completed by two new



quality teams which are located closely to our Chinese suppliers in Shanghai. One of the two quality teams focusses on the end-consumer

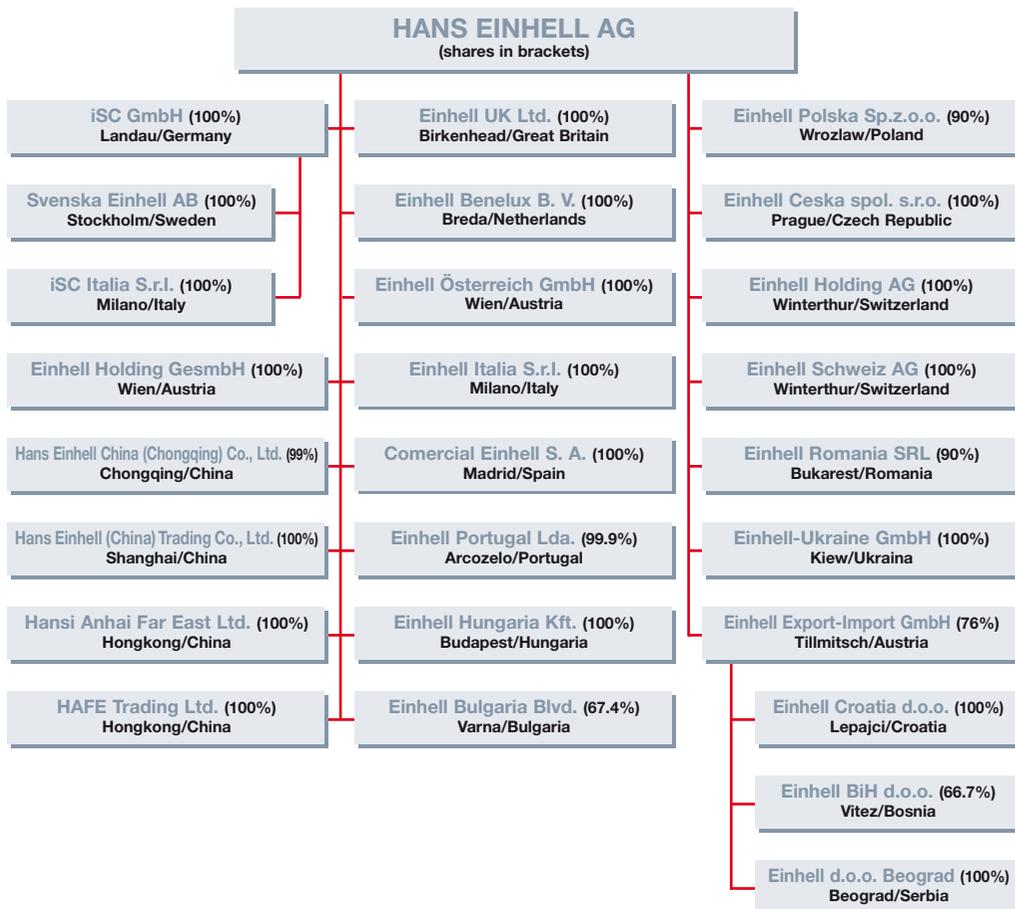
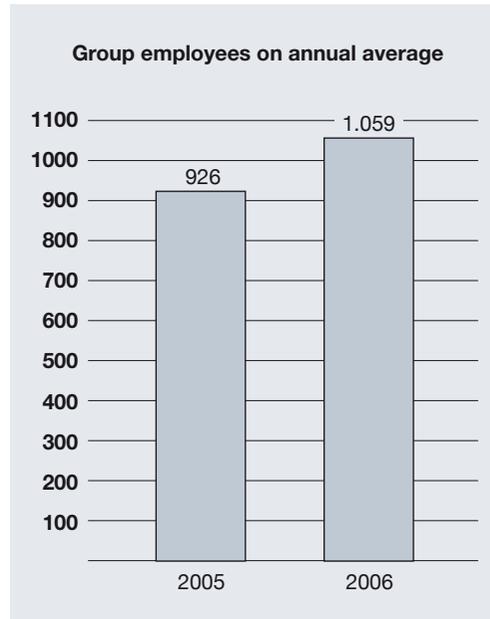
whereas the other one concentrates exclusively on the production processes in our production plants. Thanks to this reorientation of the examining and testing procedure a considerably stronger focus shall be laid on the quality requirements of our end-consumers.

By the registration at the “Elektro-Altgeräte-Register” (Waste Electric Equipment Register) the Hans Einhell AG has committed itself to obey the material prohibitions (ROHS) and to participate actively at the disposal and recycling of electric waste. So Einhell contributes once again to the improvement of our environment.

The Einhell group disposes of a portfolio of diverse German and European patents, petty patents, design patents and brands. It is a major task of the company strategy to expand significantly the patent applications.

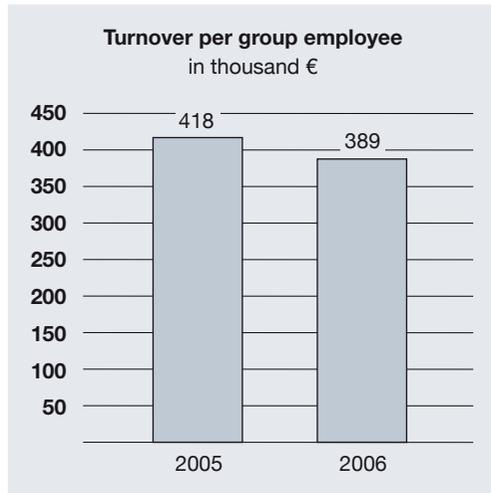
Personnel and Social Sector

Thanks to the growth of the group also in the reporting year the number of persons employed worldwide could be once again increased. In comparison to the last year the number of employees went up by 133 to averaged 1.059 (2005: 926). Especially the sectors technique and product processing were personally expanded. The turnover per employee amounted in the fiscal year 2006 to EUR 389 thousand.



Organization Chart of the Einhell group

The fluctuation of the employees of the Einhell group is constantly low what leads to very long job tenures. Regarding the salaries, the transition from conventional to modern, performance-related salary models was completed in the business year 2006. The group still



encourages strongly the apprenticeship in order to generate its own management trainees.

The employees of the different group companies are an important component for the success of the Einhell group. In order to maintain and strengthen this success factor, the Einhell

group exerts itself for the consequent promotion and training of its employees. Against this background in the business year 2006 EDP-courses were selectively offered for the employees. Due to the increasing internationalization of the Einhell group further attention was also turned to the English-knowledge of the employees. Already in 2006 language courses were organized for selective departments. In addition to that at the end of 2006 English grading tests for those employees were realized who applied for an English further training in 2007.

The executive board of the Einhell group expresses its gratitude towards all employees for their performance and commitment. Only thanks to their efforts the excellent result in the year under review could be achieved.

STATEMENT TO CORPORATE GOVERNANCE

The Corporate Governance Codex, elaborated by a government commission in Germany, shall contribute to a better transparency of the German regulations for company manage-

ment and controlling for national and international investors.

With the voluntary release of the Corporate Governance declaration the Hans Einhell AG obliged itself to guarantee a responsible, on a lasting added value oriented governance and control of the company. Thanks to this declaration the Hans Einhell AG creates transparency for the legal and company-specific business environment and encourages therefore the confidence of its national and international investors, its business partners and employees as well as the confidence of the public.

With this in mind the basic principles of the Einhell group regulate the relation to its shareholders and to the social and political surrounding of the company, the efficient cooperation between the executive board and the supervisory board and the demands concerning transparency and financial statements.

The Hans Einhell AG checks regularly its Corporate Governance declaration regarding new experiences and legal prescriptions as well as further developed national and international standards and adjusts them if necessary.

The declaration can be looked up at the internet site of the Hans Einhell AG (www.einhell.com).

RESULT SITUATION

The Einhell group could consolidate its profitability in the business year 2006. Especially against the background of the tightening competition on the markets this is an excellent achievement. This result could be reached mainly thanks to the increased strategical orientation of the group on the domains expansion, product range and quality.

As to the development of the sales revenue and the result development we refer to our comments on page 4 et seq. of the status report.

The Einhell group continued also in the business year 2006 its further expansion. In Eastern Europe the two companies Einhell-Ukraine GmbH and Einhell d.o.o. Beograd were founded. Therewith the market potential, that especially the East-European countries offer, could be further used. In Asia, the company Hans Einhell (China) Trading Co., Ltd. was founded.

In the field of the products mainly the expansion of the product line “New Generation” was pushed in the business year 2006. For the division “Garden and Leisure” the whole product range of this product line could be presented for the first time at the garden trade fair. In the division “Tools” the complete product range “New Generation” shall be introduced in the business year 2007.

A further strategical step in the range of the product range was the selling of the company weka Holzbau GmbH at the 29th of December 2006. Therewith the product range in the division “Garden and Leisure” was adjusted and concentrated on the core product line.

A further strategical focus in 2006 was laid on the sector quality. For this purpose the quality assurance was further expanded and organizationally rearranged. Therewith the high innovation and quality standards of the Einhell products shall be ensured. The intention is to realize the customer wishes as fast as possible and comprehensively and thus to strengthen the customer loyalty towards the Einhell group.

The earnings before interest and taxes (EBIT) went up by 5.6% to EUR 26.6 million in the business year 2006. The proportion of goods and material employed and costs stayed nearly unchanged.

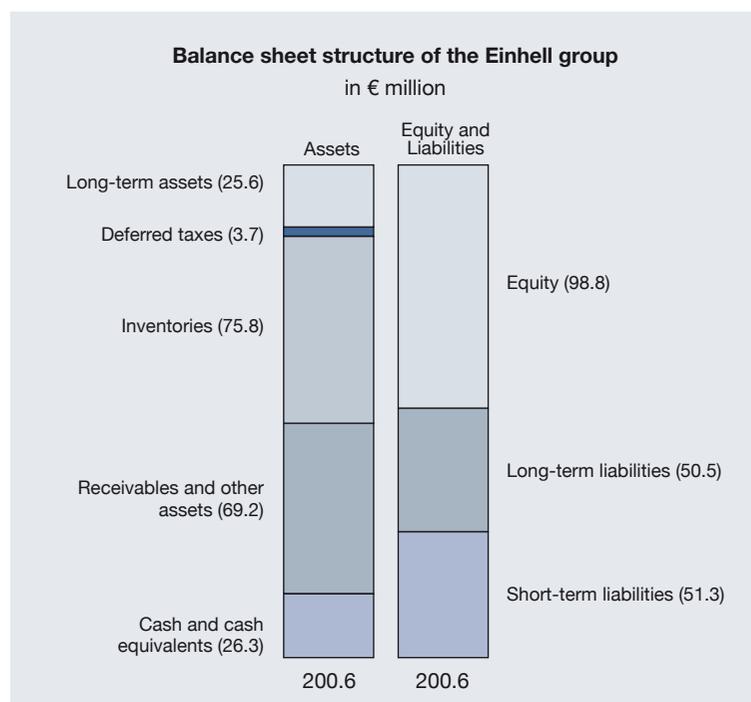
The executive board was very pleased that with this result development the Einhell group could reach its ambitious targets for the business year 2006.

FINANCIAL AND ASSETS POSITION

The most important items of the balance sheet presented themselves in the business years 2005 and 2006 as follows:

With respect to the figures for the business year 2006 attention should be paid to the fact that at the key date the company weka Holzbau GmbH did not belong to the Einhell group anymore and the respective figures were end-consolidated.

The group net profit was shown according to the net profit of the Hans Einhell AG. The sum in the amount of TEUR 31,717 was allocated to the group reserve.



Investments

In the business year 2006 the Einhell group made investments in the amount of EUR 5.3 million. EUR 2.5 million were allotted to the intangible assets and EUR 2.8 million to the tangible assets. At the intangible assets the investments consisted mainly of the goodwill resulting from the acquisition of further shares of the subsidiary Einhell Romania SRL as well as of the activated development costs for

products. At the tangible assets it was mainly invested in furniture and office equipment.

The depreciations increased compared to the previous year by EUR 0.8 million to EUR 4.7 million. This increase is mainly based on the complete depreciation on the goodwill of the

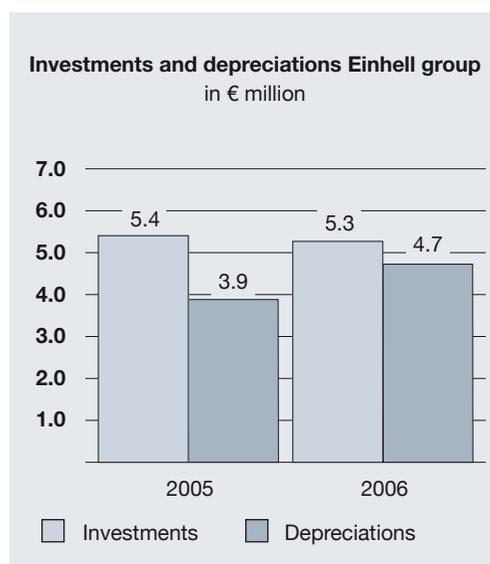
in € million	2005	2006
Fixed assets	26.4	21.1
Stock	91.2	75.8
Trade receivables	44.4	53.2
Cash on hand	24.5	26.3
Equity	88.7	98.8
Bank liabilities	47.4	46.8

Einhell Schweiz AG. In addition there can be also seen here the high investment volume of the previous years.

The cash-flow from investment activity went down considerably from EUR -5.0 million to EUR -1.5 million. That can be mainly attributed to the fact that from the selling of the company weka Holzbau GmbH results a net incoming payment amounting to TEUR 10.588.

Current assets

The stock decreased at the key date by EUR 15.4 million to EUR 75.8 million. Here it must be kept in mind that at the key date the weka Holzbau GmbH was end-consolidated and therefore the corresponding stock in the amount



of EUR 10.6 million was booked out. The result is a decrease – adjusted by this effect – of EUR 4.8 million. The trade receivables went up by EUR 8.8 million in the business year 2006. In addition to the effects from the end-consolidation of the weka Holzbau GmbH, it should be kept in mind here, that in 2006 no factoring was realized.

The cash-flow from current business activity summed up to EUR 6.6 million (2005: EUR 30.1 million). Thereby mainly the increased result and the decrease of the stock had a cash-flow-increasing effect, the increase of the trade receivables and the reduction of the trade payables had a cash-flow-decreasing effect.

Alterations in the group structure

In the business year 2006 the group structure altered considerably. In Italy the service company iSC Itala S.r.l. was founded as a 100% subsidiary of the iSC GmbH. In Shanghai the company Hans Einhell (China) Trading Co., Ltd. was founded. The Einhell Export-Import GmbH founded in Serbia the company Einhell d.o.o. Beograd. Already at the beginning of the business year 2006 the company Einhell-Ukraine GmbH was founded.

In Czechia it was decided to liquidate the existing subsidiary Einhell Ceska republika spol.s.r.o. and, by contrast, to buy in 2007 the company Unicore Narádí s.r.o. Already since years this company is well-positioned on the market segment which is relevant for us.

In Switzerland the group structure was adjusted as the Hans Einhell AG took over 100% of the shares in the Einhell Schweiz AG until the end of the year 2006. Until then 94% of the shares were held by Einhell Holding AG and 6% were held by a third party. Due to the purchase of the shares in the Einhell Schweiz AG the company Einhell Holding AG is not necessary anymore and that's why still in 2006 the liquidation of the company was decided.

Furthermore in Spain the company Einhell Espanola S.A. was liquidated. This company

held in the past shares in the operationally active Comercial Einhell S.A. These shares were taken over by the Hans Einhell AG. Thus, the company lost its importance for the Einhell group.

At the end of the year 2006 the company weka Holzbau GmbH was sold to an investor from outside the group. So the concentration on the core products of the Hans Einhell AG was further increased.

Financing

The financing structure of the Einhell group orientates itself at the planned growth of the group which therefore must be assured. At the key date the Einhell group could show a good equity base.

In the business year 2006 the Einhell group was mainly financed by long-term loans. To these belong in addition to the classical long-term bank loans mainly the bonded loan issued in the business year 2004. The most important liquidity, balance and P&L key data were maintained during the year under review or even improved. The financing of the group is effected predominantly in Euro. The Einhell group sees no difficulties in fulfilling the amortizations according to the loan contracts.

The cash-flow from financing activity summed up to EUR -3.2 million (2005: EUR -3.2 million). Here mainly the decrease of the loan liabilities and the dividend payment were essential.

The total assets amounted to EUR 200.6 million at the 31st of December 2006 (2005: EUR 207.4 million). The equity ratio was calculated at the key date with 49.3% (2005: 42.8%).

Purchasing

In the business year 2006 the value of the Chinese Yuan increased in comparison to the US-dollar by further 3.4%. For the current business year the experts assume that another revaluation of up to 5% will take place. Due to this revaluation the products which are purchased in China will become more expensive. Also in the future the Einhell

group will respond to this development with a respective prompt and at the same time flexible adjustment of the calculation bases.

In the last business year special attention was paid to the price development at the world commodity markets. The economic growth in China led to an immense commodity demand of China what boosted the prices for single raw materials at the international markets. Raw oil, metals and synthetics were highly demanded. In the past 20 years the Chinese raw material import increased twentyfold. Exports assume that China's hunger for raw materials will show a double-digit growth within the next years and that a slow-down at the commodity markets is not yet expected. However, the highest levels at the growth rates were reached and surpassed respectively.

The Einhell products are predominantly manufactured in China. The quality requirements that the Einhell group demands from its suppliers are determined by customer preferences. The further expansion of the quality assurance and quality management was further advanced also in 2006. Especially the expansion of the engagement in this sector in China had highest priority. Currently in China 49 employees work in the divisions quality assurance and quality control. To the tasks of department in China count in addition to the severe local shipping controls also – amongst others – the inspection of the compliance with customer-specific quality requirements, controls of the current production and the optimization of the process flows at the manufacturers. Thanks to the further improvement of the supplier audits also a constant optimization of the quality of the supplier base could be achieved. Efficient project settlement, delivery reliability and competitiveness characterized hereby reliable and good suppliers. Furthermore in the past business year the expansion of the preemptive, software-supported quality control FMEA was strengthened.

RESEARCH AND DEVELOPMENT

In the business year 2006 the expenses for Research and Development went up from EUR 2.3 million to EUR 2.5 million. As in the previous year EUR 1.2 million of these expenses were activated as development costs. Altogether 27 employees were engaged in this sector.

Within the business year the development of the product line “New Generation” was further pushed in the division “Tools” as well as in the division “Garden and Leisure”. At the garden trade fair 2006 already the complete product range for the garden segment could be presented. At the tools the sector processing technique could be largely finished. The next development focus lies on the new electric tool line. It is aimed that in 2007 also for the segment “Tools” the complete “New Generation” assortment can be presented. Thanks to the high quality, the modern design and the attractive prices the Einhell group anticipates that this product line will enthuse the customers worldwide.

Another focus in the division “Garden and Leisure” lay in the development of new electric chain saws and the expansion of the water technique program.

The division “Tools and Machines” concentrated not only on the “New Generation” line but also on the development and introduction of new private brand and laser assortments.

Already during the product development customer preferences are integrated right from the beginning in order to orientate our products consequently at the needs of our customers. Thanks to this strong involvement of customer preferences the Einhell group adapts itself constantly to the requirements of the market. By this strategy we became one of the fastest acting companies in the whole line of business. The good experiences with our trade partners encouraged us to pursue this way consistently.

MAIN FEATURES OF THE COMPANY'S COMPENSATION SYSTEM

The members of the executive board receive particularly compensations which are bound to the commercial profit and have short-term as well as long-term character. The members of the executive board hold shares of the Hans Einhell AG. Stock option programs or comparable arrangements do not exist. For further details we refer to the comments in the IFRS notes.

SUPPLEMENTARY REPORT

Between the end of the period under review until the completion of this status report no events took place which are important for the reporting.

DEPENDENCY REPORT

The majority of the shares of the Hans Einhell AG belong to the Thannhuber AG. We declare that the Hans Einhell AG had no legal transactions with the Thannhuber AG within the period under review and did not take or omit any measures that would have put the Hans Einhell AG at a disadvantage.

RISK REPORT

The in-house guidance system

The companies of the Einhell group plan during the respective current business year the ensuing business year. Based on a differentiated turnover planning a corresponding planning of the goods and material employed and the costs is effected. These target figures are brought together to form a planned profit and loss statement.

The effective figures are edited monthly by the respective companies. Consequently a complete profit and loss statement is generated in which the target figures and effective figures are opposed. The development of the backlog of orders, the margins etc. are also pointed out monthly.

This comparison is discussed with the members of the executive board as well as with the responsible persons of the different companies and divisions. By the analysis of the target figures and effective figures respective guidance measures are worked out and realized.

The risk management system

Each entrepreneurial action is connected with risks. The identification and effective control of these risks is the target of an efficient risk management. To achieve this the exposures must be detected at an early level in order to be minimized and to use the corresponding chances purposefully and successfully. This allows a value-oriented guidance of the Einhell group. The therefore necessary information must be supplied by a well-structured risk management system, both for individual enterprises and for the whole group.

The task of a risk management system consists in the registration, analysis, valuation and documentation of risks. Hereby the risk management system of the Einhell group is composed of two steps. At the first step the risks are registered locally at the respective companies before – at the second step – they are gathered across the group centrally at the parent company, analysed, valued and documented. The reporting for the risk management is done at regular intervals, structured according to the separate functional areas. For the respective functional area a risk officer was determined who is responsible for the continuous implementation of the risk management process. The central risk management at the group's parent company is responsible for the description of the overall risk within the group and for the reporting to the executive board.

The valuation of the potential risks is done by the determination of the amount of damages and of the occurrence probability of the damage, what allows the quantification both of the maximal and the expected amount of damages.

Another important point of the risk management is the risk coping which comprehends the risk prevention as well as the risk control. The risk prevention is only possible in a limited way as all economic chances are connected with risks. That's why the focus lies on the risk control together with the risk minimization. Thereby it is fallen back on measures from the active risk management (e.g. minimization of the occurrence probability of the damage or of the potential amount of damages) and from the passive risk management (e.g. transfer of the risk to insurances).

For the standardized registration, valuation and documentation of the risks within the group, the parent company delivered a risk management manual to the risk officers, in which the processes, structures and responsibilities are exactly defined.

Purchasing risks

The purchasing risks consist mainly of price, delivery and currency risks. As the Einhell group maintains already long-lasting relationships with its suppliers, the price and delivery risks can be minimized. Thanks to continuous controls these suppliers are integrated in the quality system of the Einhell group. A dependency of the Einhell group on individual suppliers does not exist. The risk of currency fluctuations at the purchasing is handled, if possible, by hedges in the form of forward transactions and options dealing. The currency hedging is carried out according to the IFRS prescriptions for Hedge Accounting for the respective hedging periods.

Sales market risks

The Einhell group faces at the sales market mainly the risk of bad debts and of the sales volume. The Einhell group meets the solvency risk with the conclusion of Hermes credit insurances. The risk of the decrease of the sales volume is reduced by innovative products which fulfill the customer preferences concerning design, functional equipment and price-performance-ratio. So the Einhell group

manages also in economic difficult times to increase its sales and to gain new market shares.

Financial risks

The constant growth course of the Einhell group is of course associated with risks in connection with the financing. In order to cope with the financial risks the Einhell group chooses long-term as well as short-term financing strategies. In the long-term financing sector exist long-term loans at credit institutes and the bonded loan issued in 2004. In the short-term sector the Einhell group disposes mainly of classical credit lines which were only used partially in the business year 2006. In the year under review the equipment both with liquid means and equity was very good.

Risks in connection with changes in interest rates and their fluctuations, are controlled with the aid of derivative financial instruments like interest-swap- and interest-cap-arrangements.

Also from the acquisitions of the Einhell group result risks for the Einhell group. These risks are reduced by the fact that the majority of the take-over candidates are long-term partners of the Einhell group. Therewith it is achieved that the new group companies are integrated in the group structures and strategies right from the very beginning. Moreover, elaborateness checks ("Due Diligence") take place at the companies that are up for acquisition which are realized by internal employees of the interest controlling assisted by external consultants.

Commitment risks

At the Einhell group commitment risks exist mainly in relation with product liability. The main supply market for Einhell products is the People's Republic China. In order to ensure the quality at site, a quality assurance system was built in China that controls the production directly at the supplier and creates correspondent product instructions.

The still remaining risk concerning claims from product liability was safeguarded in an economic reasonable way by respective assurances. In the year under review, as in the year before, no noteworthy product liability claims occurred.

FORECAST REPORT

Worldwide development

The forecast for the economic situation in the Federal Republic of Germany is positive for the year 2007. So a growth of the GDP of 1.8% is expected. As already in 2006 this increase is borne by the export as well as by the domestic demand. This development puts the business activity on a tightened basis. This is also confirmed by the companies which act on the assumption of a stable business development as they indicated in a survey commissioned in autumn 2006 by the German association of Chambers of Commerce and Industry. However, in 2007 the increase of the sales and insurance tax as well as the reduction of tax allowances have a negative impact mainly on the private consumption. So the private consumption spendings will grow only marginally in spite of the persisting relaxation on the employment market in 2007. In this context the pull-in effects 2006 regarding the increase of the value-added tax will be once again felt noticeably.

Also in 2007 the unemployment will presumably continue going down. This will also have a positive effect especially on the rate of employment which is subject to social insurance contribution. The gross wages and salaries will rise thanks to the slightly higher tariff agreements. However the contributions to the statutory pension insurance and compulsory health insurance will increase by 0.4% and 0.6% respectively. By contrast the rate of contribution to the unemployment insurance will be decreased by at least 2%.

Also the situation of the public finances will improve constantly in 2007. This is mainly

achieved by the increase of the sales and insurance tax, the reduction of tax allowances and a moderate spending policy.

In 2007 the economic expansion will continue also in the European Union. But at the end of the year also the consequences from the increases of the key interest rate by the ECB in 2006 and 2007 will be noticeable and will weaken the business activity. By contrast the situation on the employment market continues its positive development and leads so together with the increased consumer confidence to a growth of the private consumption.

A challenge for the DIY-sector in the future will be the increasingly price-aggressive competing offers of different food discounters.

According to a study commissioned by the Federal Institute for Employment Protection the customers demand increasingly for safety requirements of do-it-yourself-devices.

This can be observed mainly at female customers as well as at customers aged over 60. Hereby it's necessary to rise the awareness level of the respective certificates. Although still 83% of all respondents knew the significance of the "GS"-certificate, only scarcely half of the respondents could identify the certificate "CE" which attests the accordance with the EU Directives regarding safety and environmental compatibility.

Einhell continues growing

In the business year 2006 the Einhell group could once again reach its ambitious targets. Although the market will continue showing difficult general conditions also in 2007 the group management assumes that the Einhell group will assert itself internationally. The target is a steady growth in sales at a continuously constant rate of return. Hereby particularly the foreign companies are focused which form in the meantime the major part of the turnovers of the Einhell group.

One of the most important company targets in 2007 is the quality improvement which is a

major step towards the growth in sales. This includes the product improvements and innovations as well as the separation from competitive products. Thanks to a distinctive design and the equipment of the products with unique features, the Einhell group will continue standing out from the crowd of competitors. By these measures customers shall be tied to the company for a long time. Hereby the efforts of the Einhell group will concentrate also on further improvements regarding quality and customer service in order to further increase the customer satisfaction.

The Einhell group sees its chances mainly in a further organic growth. Particularly Eastern Europe offers here potential. Already in 2006 new companies in Serbia and the Ukraine were founded. In the near future subsidiaries in Eastern and South Eastern Europe shall be founded. Moreover in the foreseeable future also a subsidiary in South Africa is planned.

The management of the group assumes that both the sector "Tools" and the sector "Garden and Leisure" will develop positively within the next years. Especially the development of new products in both divisions, which are consistently oriented at the customer requirements, will accelerate this trend. For the business year 2007 a turnover of EUR 380 – 400 million at a continuous rate of return is aspired. Hereby attention must be paid to the fact that the turnovers of the weka Holzbau GmbH, which in 2006 are still completely included in the consolidated accounts of the group, won't belong to the group anymore in 2007. In the year 2008 a turnover of EUR 400 - 420 million shall be achieved.

Also in the next years the Einhell group will strategically strengthen its profile as manufacturer of electric tools and gardening implements. Herewith still connected is the target to specialize in key goods and key target groups and to be listed within the near future as most powerful supplier at all international DIY-chains. The Einhell group shall become within

the next years the most innovative and fastest supplier of gardening equipment and electric tools of the whole industry line.

Proposal on the allocation of the net profit

The executive board and the supervisory board of the Hans Einhell AG propose the general meeting to carry out a distribution in the amount of EUR 2,893,856.00 from the net profit of the Hans Einhell AG amounting to EUR 6,381,246.64. This corresponds to a dividend of EUR 0.80 per preference share and EUR 0.74 per ordinary share. The remaining amount of EUR 3,487,390.64 shall be carried forward.

Landau a.d. Isar, 16th March 2007

Hans Einhell AG

The Executive Board

Andreas Kroiss
Jan Teichert
Dr. Markus Thannhuber

GROUP BALANCE SHEET (IFRS) AT DECEMBER 31ST 2006

ASSETS	Appendix	31.12.2006 EUR	31.12.2005 EUR
FIXED ASSETS	(2.1)		
Intangible Assets			
Concessions, development costs, commercial protection rights and similar rights and values as well as licences over such rights and values	(2.2)	3,380,355.33	3,514,729.81
Goodwill	(2.3)	2,216,093.42	1,672,025.01
Prepaid expenses		0.00	25,964.37
		<u>5,596,448.75</u>	<u>5,212,719.19</u>
Tangible Assets			
Land, rights equivalent to land and constructions including the constructions on foreign land		11,065,157.36	14,378,001.75
Technical plants and machinery		481,274.20	2,413,725.27
Other plants, company and shop equipment		2,921,453.73	3,307,995.60
Prepaid expenses and plants under construction		66,088.66	140,496.26
		<u>14,533,973.95</u>	<u>20,240,218.88</u>
Financial assets			
Shares of the fixed assets		955,006.15	935,760.06
		<u>955,006.15</u>	<u>935,760.06</u>
Other long-term assets	(2.6)	4,475,426.81	788,042.44
		<u>4,475,426.81</u>	<u>788,042.44</u>
DEFERRED TAX ASSETS	(2.4)	3,704,346.35	4,302,476.09
		<u>29,265,202.01</u>	<u>31,479,216.66</u>
CURRENT ASSETS			
Inventories	(2.5)		
Raw materials and auxiliary materials		1,293,705.29	2,936,643.13
Unfinished products, unfinished services		290,038.19	533,420.25
Finished products and goods		74,212,652.70	87,505,430.73
Prepaid expenses		0.00	215,434.02
		<u>75,796,396.18</u>	<u>91,190,928.13</u>
Accounts receivable and other assets	(2.6)		
Trade accounts receivable		53,186,424.91	44,438,613.15
Other assets		16,036,844.32	15,833,049.25
		<u>69,223,269.23</u>	<u>60,271,662.40</u>
Cash in hand			
balances at credit institutes and cheques	(2.7)	26,325,040.86	24,455,432.78
		<u>171,344,706.27</u>	<u>175,918,023.31</u>
		<u>200,609,908.28</u>	<u>207,397,239.97</u>

EQUITY AND LIABILITIES	Appendix	31.12.2006 EUR	31.12.2005 EUR
EQUITY			
Subscribed capital	(2.8)	9,662,464.00	9,662,464.00
Capital reserves	(2.10)	26,676,696.37	26,676,696.37
Surplus reserves			
Legal reserve		54,708.23	54,708.23
Other surplus reserves		52,062,375.50	20,346,000.00
Minority interests	(2.11)	2,904,054.88	3,080,295.02
Other accumulated equity	(2.12)	-880,474.29	1,215,392.66
Adjustments due to exchange rates		-1,255,062.75	165,389.90
Retained earnings		9,569,360.51	27,537,650.68
		<u>98,794,122.45</u>	<u>88,738,596.86</u>
LONG-TERM LIABILITIES			
Long-term liabilities towards credit institutes	(2.13)	16,047,218.95	16,548,401.83
Bonded loans	(2.13)	30,000,000.00	30,000,000.00
Pension obligations	(2.14)	1,730,424.00	1,802,604.00
Other accruals	(2.15)	311,237.65	258,015.92
Long-term liabilities	(2.17)	245,001.00	1,244,839.60
Deferred tax liabilities	(2.4)	2,127,495.25	1,762,850.06
		<u>50,461,376.85</u>	<u>51,616,711.41</u>
SHORT-TERM LIABILITIES			
Tax provisions		2,408,047.69	6,340,269.94
Other accruals	(2.15)	17,594,533.04	20,563,108.48
Short-term liabilities towards credit institutes	(2.16)	770,684.22	813,592.12
Short-term trade payables	(2.17)	20,439,617.48	30,096,665.63
Other liabilities	(2.17)	10,141,526.55	9,228,295.53
		<u>51,354,408.98</u>	<u>67,041,931.70</u>
		<u>200,609,908.28</u>	<u>207,397,239.97</u>

GROUP PROFIT AND LOSS ACCOUNT STATEMENT (IFRS) FOR THE TIME FROM JANUARY 1ST TO DECEMBER 31ST 2006

	Appendix	01.01. - 31.12.2006 EUR	01.01. - 31.12.2005 EUR
Sales revenue	(3.1)	411,760,429.63	387,147,728.03
Increase (in 2005 decrease) of finished and unfinished goods		404,290.71	-192,368.21
Capitalized service		33,629.75	0.00
Other operating income	(3.2)	5,453,262.47	5,326,460.51
Material costs			
a) Expenses for raw materials, auxiliary materials and delivered goods		-293,572,489.47	-272,091,738.62
b) Expenses for delivered services		-246,322.26	-270,513.08
Personnel expenses	(3.3)		
a) Wages and salaries		-30,812,035.80	-28,579,439.83
b) Social duties and expenses for retirement benefits and support		-5,796,150.19	-5,081,936.65
Depreciations on intangible assets of fixed assets and on tangible assets	(2.1)	-4,736,438.40	-3,941,876.49
Other operating expenses	(3.4)	-55,923,056.38	-57,133,110.83
Financial result	(3.5)	-2,732,011.90	-2,836,495.85
Result of ordinary activities		<u>23,833,108.16</u>	<u>22,346,708.98</u>
Taxes on income and profit	(3.6)	-6,338,131.08	-6,358,038.39
Other taxes		0.00	-405,629.75
Annual result of the group		<u>17,494,977.08</u>	<u>15,583,040.84</u>
Profit attributed to minority interests		<u>-1,230,475.75</u>	<u>-903,453.07</u>
Group result after being attributed to minority interests		<u>16,264,501.33</u>	<u>14,679,587.77</u>
Retained earnings from the previous year		25,021,234.68	17,281,062.91
Classification in other surplus reserves		<u>-31,716,375.50</u>	<u>-4,423,000.00</u>
Retained earnings		<u>9,569,360.51</u>	<u>27,537,650.68</u>