



**Einhell**<sup>®</sup>

Financial Report 2007





# GROUP MANAGEMENT REPORT OF HANS EINHELL AG, LANDAU A. D. ISAR, FOR THE FINANCIAL YEAR 2007

## BUSINESS CONDITIONS

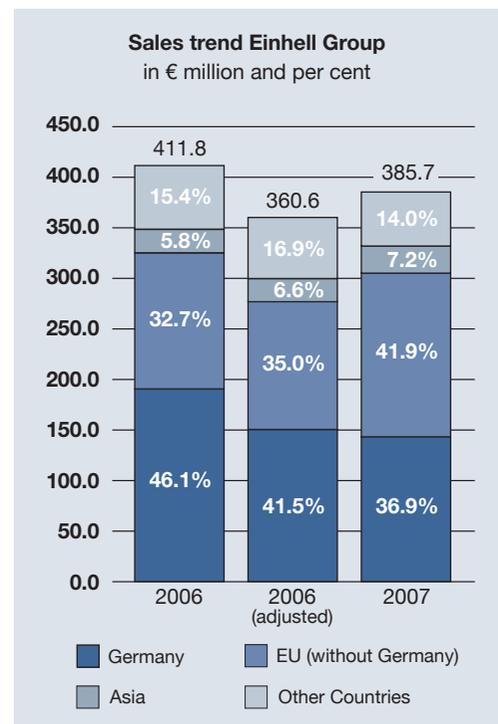
In 2007, **Global Economy** had been in a lasting sound condition when the financial market crisis originating from the US real estate market began in July. Overall, the dynamic diminished most notably in the USA and Japan, whereas the gross domestic product in the Euro zone and in the emerging markets of Southeast Asia increased substantially. The European Central Bank and the Bank of Japan cushioned the weakening of the capital market due to non-payment of US mortgage loans by the postponement of the interest rate rise for the time being. The Federal Reserve Bank even reduced its prime rate for September and October. One of the consequences of these events were losses on the stock market. The whole situation eased off however by Autumn 2007. The oil price peaked in the course of 2007 and so as well deflated the global economy. The growth rate of the worldwide production amounted to 3.7% in the year 2007.

The gross domestic product of the **European Union** increased by 2.9% in the year 2007, while the Euro zone listed an increase of 2.6%. This increase has been spurred by growth rates of more than 3.0% in Finland, Greece, Ireland, Austria, and Spain. France, Italy, and Portugal on the other hand display lower expansion rates. The economic growth has been sustained by the rise in private consumption in the second half of the year and by the high gross fixed capital formation. On the labour market the increase in employment continued. The consumer prices in the Euro zone rose by a moderate 2.1%. Yet in the other member states of the EU inflationary pressure developed due to rising commodity prices and a

shortage on the labour markets. With 7.3%, the unemployment rate in the Euro zone reached the lowest level since the introduction of the Euro. The Euro passed the mark of EUR/USD 1.4 and thus in 2007 reached its highest level since its introduction.

The **German National Economy** continued to be in good order in 2007. The growth of the gross domestic product declined indeed by 0.3% points to 2.6%, nevertheless, the negative expectations resulting from the value-added tax increase have been revised. This positive development is based not only on the cyclic recovery, but also on the requisite adjustment to the mounting competitive pressure on the global goods and financial markets, po-

litical reforms, collective labour agreements with flexible wage settlements, streamlining of organisational structures, and adjustments in corporation's balance sheets. The positive trend on the labour market provided for an increase of the number of gainfully employed persons by 1.7%. This includes a rise in employment subject to social insurance contribution by 2.2%. In November 2007, the consumer price index passed the 3 percent mark for the first time since 1994. Yet, in consequence of the rise in prices and the restrictive financial policy, private consumption declined in spite of dropping unemployment figures by 0.1%.



The start into the gardening year 2007 proved to be gratifying for the **German DIY market**. The early onset of warm weather led to a noticeable growth in sales, the most successful month being April with a turnover of almost Euro 2 billion. This positive trend was subdued already in May, traditionally the most important month for the gardening market. In July and August, the turnover even declined by up to 7.0% compared to the same months in the previous year. This decline is attributed to the customers' buying ahead already in spring. Furthermore, the entire retail trade was experiencing other influencing factors during the first half of the year 2007: the value-added tax increase combined with rising prices for food, fuel, and energy. Those factors led the customers to assume an observant attitude.

Since the mid 1990s, a concentration took place in the DIY market. In the long term, an estimated maximum of seven DIY groups will presumably exist in Germany. Even in 2007 the tendency appeared, as shown in several examples like the acquisition of the Max Bahr DIY superstores by Praktiker in February 2007. The merger of Globus and hela ProfiZentren has also been authorized by the Federal Cartel Office in December.

The growth of the **Chinese** gross domestic product is increasing steadily for several years now. It peaked with 11.6% in the year 2007. This result has been obtained in spite of interest rate rises, credit restrictions, and a branche-specific, restrictive licensing policy for investments. Driving forces for this growth are the unexpected increase in fixed asset investments in the heavy industry and the strong domestic demand. In the first half of 2007, the retail sector has shown the highest growth since 1997. The share of private consumption in the gross domestic product amounts to over 40%. Despite of numerous measures to reduce exports (e.g. abatement of VAT-refunding), these show an increase by 25.1%. The imports on the other hand increa-

sed only by 20,3% and consequently the monetary reserves continued to rise. To contain inflation is an important objective for 2008, as it reached 4.5% in 2007 - with a peak of 6.5% in October.

The economic growth in **Poland** has stabilized on a high level in 2007. This means a growth of the gross domestic product by approximately 6.6%, which is based on the consumption and investments. In the medium-term, this growth will slow down though, because the domestic demand is higher than the current production capacities. The Polish National Bank has reacted to the inflation peril with a raise of the interest rates, and so the inflation rate levels itself off in an annual average of 2.5%. In the industry as well as in the building sector the companies complain about labour shortages and strong wage pressure. At times, the average wages rose by double-digit numbers. The unemployment figures declined to under 10.0%. Up to the parliamentary elections in October 2007, the urgently necessary reforms of the basic economic conditions failed to appear. What the new government - it is considered to be liberal concerning the economy - will be able to achieve, remains to be seen.

The **Italian** economy did not develop as positively as anticipated in 2007. An actual growth of the gross domestic product by approximately 1.7% could be achieved. Reasons for that are the financial crisis, the high rate of the Euro as opposed to the US-dollar, and the cyclical slowdown of the Global Economy. The foreign trade contributes to this roughly a quarter. The aggregate debt remains with almost 104% of the gross domestic product the highest in the whole Euro zone. Since the foundation of the Democratic Party (PD) by Autumn 2007, radical cuts of government aids for companies, an abatement of tax rates, and new possibilities for depreciation for investments in research and development are expected.

The **Austrian** gross domestic product achieved an increase by 3.3% in the year 2007. Due to rising food and oil prices an increase of the inflation rate by approximately 2.1% ensued, whereat even in Austria the mark of 3.0% has been passed in November. The unemployment figures are declining since 2005 and amount to 6.3% according to national definition. Moreover, these figures profit from the employment of new full-time jobholders. In spite of this development, the private consumption appeared to be muted at a rate of 1.6%. Additionally intensified by high spendable household incomes the savings ratio increases since 2002. For the year 2008, a moderate rise of the gross domestic product of about 2.4% has been predicted. Furthermore, a rising inflation rate is expected, causing a decline in private consumption.

The economic growth in **Romania** slowed down in 2007 to a rate of 5.8%. A crucial damper was the lasting drought and the resulting decline of the agricultural production, which had negative effects on the domestic economy as well as on the export performance. On the other hand, the building industry, which reported a record year and the services sector acted furthering. Due to the rising prices of food the inflation rate amounted to 4.3%. This fact, but also the fast rising wages and salaries and the huge current account deficit cast some doubt on the ability of the government to conduct necessary reforms. The market receptiveness for goods and services on the other hand is beneficial to foreign investors. This became apparent in the private consumption, which amounted to 11.0% in 2007. Accordingly, imports increase with 26.0% twice as fast as the exports.

The gross domestic product of **Spain** increased in the year 2007 by roughly 3.8%. The forecasts for 2008 exceed those of the Euro zone and level themselves off at about 3.0%. Accordingly, there exist numerous business opportunities and many German companies

expand their involvement in Spain. The state also makes efforts to improve the competitive capacity and quality of the location. The main support of the economic situation is the domestic demand. The growing population leads to lasting positive impulses, in spite of increasing interest rates on credits and just moderate rises in the real income. Thus the import rate with 6.8% was higher than the export rate by 1.5%. The inflation rate developed positively at the beginning of 2007. Yet in the second half of the year a rise in prices occurred, which was due mainly to food, education, and the hotel and catering industry. Therefore, the inflation rate for 2007 amounts to approximately 2.9%. The number of employed persons increased, so the unemployment rate could be reduced to 8.1%. In the first quarter of 2008 many decision makers are expected to adopt a wait-and-see attitude, as the new parliament will be elected in March.

## ORGANISATION OF THE EINHELL GROUP

The parent company of the internationally positioned Einhell Group is the Hans Einhell AG based in Landau a. d. Isar/Germany. Its affiliates consist mainly of distribution companies located in Europe and trading companies in Asia. The Asian affiliates are in charge of procurement from several bigger or smaller production companies. Since the production takes place in Asia, the quality management has also been moved there. Thus, quality defects may be addressed and remedied promptly on location.

### Structural Changes of the Group

The structure of the group changed in 2007 due to the purchase and foundation of several affiliates. Since the organic growth holds great potential, the organisation of the Einhell Group constitutes an important task for the persons responsible. Particularly within the scope of the continual expansion, business units and lines of communication have to be

re-evaluated constantly. During the integration of new affiliates great importance is attached to connecting the affiliate with our business software systems to ensure a smooth flow of information.

Since January 2007 the company Einhell-Unicore s.r.o. belongs to the Group. The company was formed in 1993 and sells its brand „Primex“ since 1998 not only to retailers, but also to DIY superstores and wholesalers in the Czech Republic and Slovakia. Additionally, the distribution is conducted via an online store of its own. Since January, the 30 employees distribute Einhell products via these established routes as well.

On June 13, 85% of the stock corporation Intratek Mühendislik ve Dis Ticaret A.S. (Intratek engineering and foreign trade company) have been purchased by the Einhell Group. This corporation was formed in 1989 and began with selling as well as importing various products, ranging from air-conditioners and heating appliances to DIY products. Additionally,

they began in 1997 to establish their private brand „DBK“. By means of the integration into the Einhell Group, it is the objective of Intratek to become over the course of three years one of the leading companies in the Turkish market for electrical equipment, gardening, and hand tools.

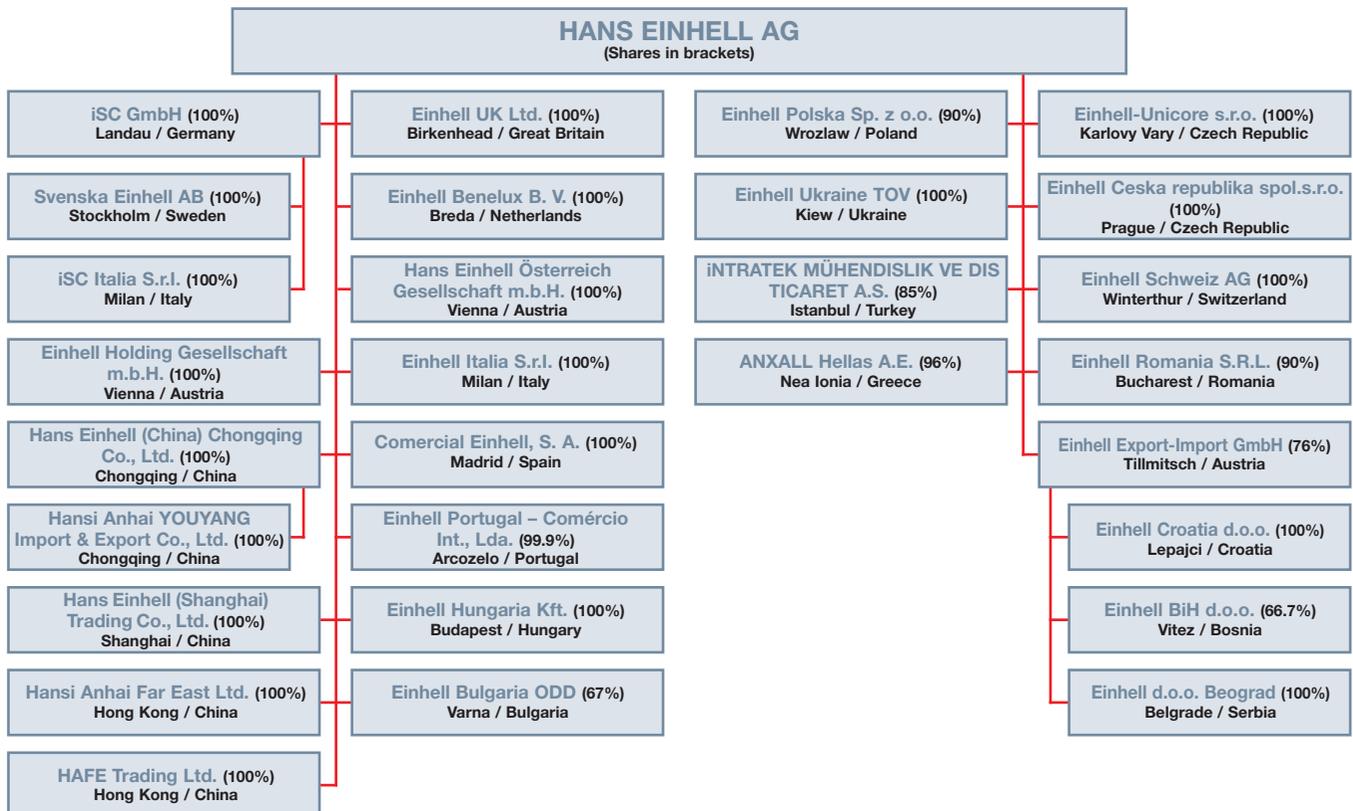
Additionally, a new affiliate has been established in Greece in December 2007. The ANXALL Hellas A.E. has taken up its operational business in January 2008.

100% of the shares of the Hansi Anhai Youyang Import & Export Co., Ltd., Chongqing/China have been taken over in 2007.

**New Management Division**

In the business year 2007 an important new management division has been assigned to Dr. Markus Thannhuber. He applies himself as new managing director particularly to the technology division. Dr. Markus Thannhuber majored in physics at the TU München and has been working at several scientific insti-

**Organization Chart of the Einhell Group**



tutes. In 2001 he took over the management of the iSC GmbH in Landau a.d. Isar. Since January 1, 2007 he is a management board member of the Hans Einhell AG.

## PERFORMANCE REPORT

### Increase of the Revenue in the Einhell Group

The Einhell Group has developed positively in the year 2007, despite of turbulences in the Global Economy. The presentation of the data of the profit and loss statement for 2007 is made in combination with the actual figures from 2006 and, for a better comparability, in combination with the figures adjusted for the weka-products. The sale of the weka Holzbau GmbH has been effected in 2006 due to strategic reasons, because the Einhell Group wants to focus further on its core competencies.

The revenue adjusted for weka-products in the year 2006 of € 360.6 million (actual revenue € 411.8 million) could be increased by 7.0% to € 385.7 million for 2007. The ultimate ambition of the Einhell Group, the profitability-oriented revenue increase, is obtained via several subordinate objectives. For instance, in the business year 2007 the Einhell brand remained continually true to its slogan „Quality Brand for the Price-Conscious“. Quality improvement has been an important concern of the Einhell Group in the year 2007 as well, since it is a valuable measure to attain a stronger customer loyalty and to attract new customers. Customers of the Einhell Group are C+C markets, hyper- and supermarkets, specialist retailers, and first of all DIY-markets. These customers are a crucial factor in many divisions of the Einhell Group, ranging from the product development to the after sales customer service of the iSC GmbH, Landau a.d. Isar. In the course of internationalization, the international Service Center will step-by-step expand to other locations, in order to be able to provide better service to its customers locally.

In its domestic market **Germany**, the Hans Einhell AG is subject to enormous market pressure. Due to this intensity of competition, the domestic sales declined from € 189.9 million (€ 149.6 million adjusted) to € 142.3 million. This corresponds to an adjusted decline of 4.9%. Accordingly, the share of the domestic sales amounts to 36.9% (previous year: 41.5% adjusted).

The listed sales growth originates in foreign markets. In the **European Union** the Group was able to increase its revenue from € 134.7 million (€ 126.2 million adjusted) to € 161.6 million. This was possible in spite of the high and intensive competition in the Western European Countries. A good deal of this growth is due primarily to the Eastern European affiliates, particularly Poland and Romania. It should be noted here that Bulgaria and Romania only belong to the European Union since January 1, 2007.

The revenue of the affiliates in **Asia** increased from € 23.7 million to € 27.6 million.

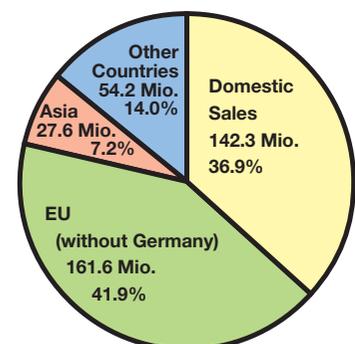
in € million	2006	2006 (adjusted)	2007	Alteration
Domestic sales	189.9	149.6	142.3	-4.9%
EU (without Germany)	134.7	126.2	161.6	28.1%
Asia	23.7	23.7	27.6	16.5%
Other countries	63.5	61.1	54.2	-11.3%
<b>Total Sales</b>	<b>411.8</b>	<b>360.6</b>	<b>385.7</b>	<b>7.0%</b>

In **Third Countries** a further decline has to be denoted. The revenue from 2006 of € 61.1 million adjusted (actual € 63.5 million) declined by 11.3%. It amounted to € 54.2 million in 2007. It should also be noted here that Romania and Bulgaria belong to the European Union since January 1, 2007. For that reason, the revenue of these countries amounting to € 17.2 million was reported in the EU in 2007, whereas they were still counted among the Third Countries in 2006. The top-ranking Third Countries in terms of revenue are Switzerland, Croatia, and Ukraine.

The share of revenue generated abroad continues to increase and already constituted 63.1% in 2007 (previous year: 58.5% adjusted).

### Sales trend according to regions

### Sales structure according to regions in EUR



**Increase of the Total Output of Both Segments**

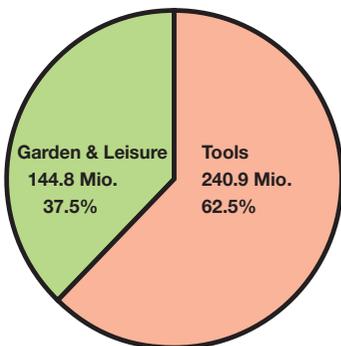
The segment „Tools“ and the segment „Garden and Leisure“ were both able to increase their revenue with core products again in the business year 2007.

**Sales trend according to divisions**

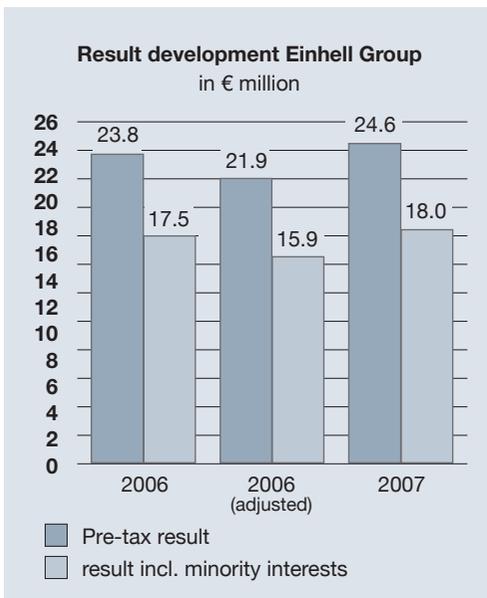
in € million	2006	2006 (adjusted)	2007	Alteration
Tools	228.1	228.1	240.9	5.6%
Garden & Leisure	183.7	132.5	144.8	9.3%
<b>Total Sales</b>	<b>411.8</b>	<b>360.6</b>	<b>385.7</b>	<b>7.0%</b>

Since no weka-products have to be attributed to the segment „Tools“, no adjustment will be necessary. Insofar, a sales growth of 5.6% could be obtained. This represents an increase from € 228.1 million in 2006 to € 240.9 million in 2007. The top-selling products in the „Tools“ segment were compressors, electric drills, and cordless screwdrivers.

**Sales structure according to divisions in EUR**



In the „Garden and Leisure“ segment the revenue declined from € 183.7 million in the business year 2006 to € 144.8 million. Yet after adjustment for the weka-products, which are solely attributed to this segment, an increase in revenue of 9.3% ensues (last year's adjusted revenue € 132.5 million). Significant influence on this increase had the top-selling products: pumps, lawn trimmers, and lawn mowers.



**Result development**

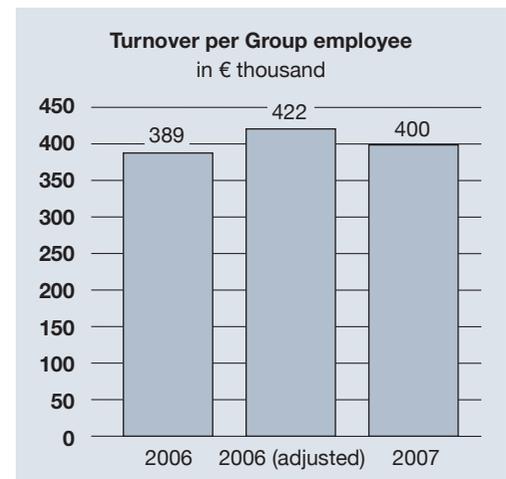
In the business year 2007, the Einhell Group attained a profit from ordinary operations in the amount of € 24.6 million (previous year: € 23.8 million, € 21.9 million adjusted). Thus, the group performance increases compared to the business year 2006 unadjusted for weka-products by 3.4% and adjusted by

12.3%. Resulting from this is a raised return before taxes of 6.4% (previous year: 5.8%, 6.1% adjusted).

The annual net profit of the group after minority interests increased with unadjusted data from the business year 2006 by 2.5% to € 16.7 million, as well as adjusted by 12.8%. In the previous year this value was € 16.3 million (€ 14.8 million adjusted). The ROI<sup>1)</sup> amounts to 10.6% on effective date (previous year: 11.9%). The financial result amounted to € -2.2 million (previous year: € -2.7 million; € -2.5 million adjusted). This result is calculated basically from the net interest income in the amount of € -2.6 million (previous year: € -2.7 million; € -2.5 million adjusted) and from the results from the currency conversion in the amount of € 0.4 million (previous year: € 0 million).

**Human Resources**

In spite of the sale of the weka Holzbau GmbH the number of employees could be nearly maintained. Adjusted for the number of weka-employees, the overall number of employees even increased significantly due to the expansion of the group by 12.9% to average 964 (previous year: 1059; 854 adju-

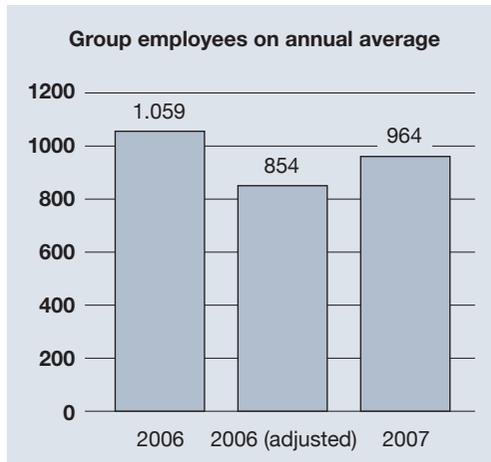


sted). Accordingly, the revenue per employee amounted to € 400 thousand (previous year: € 389 thousand).

The overall fluctuation among the employees of the Einhell Group is very low, so that many

<sup>1)</sup> ROI (Return on investment) = Profit on ordinary activities/ total capital\*100

anniversaries of longtime employees could be celebrated again in 2007. To be able to achieve this pleasant data, the Hans Einhell AG has been working intensively on a human resources development concept at the beginning of the year 2007. It has been adopted by the management board and has been implemented step by step. The completion of the implementation still continues



in the year 2008. One of the constituents of this campaign is the training of qualified new employees. It is due to be constantly improved, accordingly the new apprentices of the Hans Einhell AG started in September 2007 with an introduction week. They received information about the company, its products, customers, and IT systems. Additionally, in September 2008 an apprenticeship program in various training areas will be offered for grammar school graduates at a university of cooperative education. The opportunity to become thoroughly acquainted with the company's various departments by means of a trainee-program has also been expanded. To ensure future recruitment options, another component of the concept is the internal identification of talents. This component is already put into effect in the parent company. The intensive identification and advancement of high potentials is going to be expanded to the affiliates in the next step.

Due to the achievements and the extraordinary efforts of each individual employee

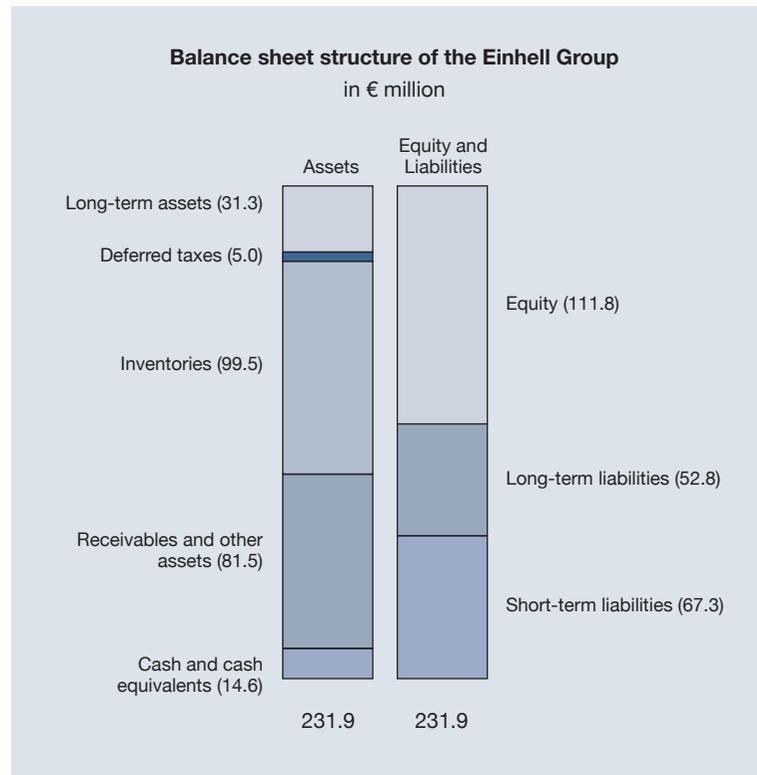
of the Einhell Group the outstanding results of the business year 2007 have been accomplished. The management board of the Hans Einhell AG thanks all employees for this achievement!

## EARNINGS

In the business year 2007 the Einhell Group has been able to stabilize its profitability. Crucial to this development were particularly the strategic steps of focussing on core competencies, the further expansion, and the constant improvement of the quality management.

The earnings before interest and taxes (EBIT) increased from € 26.6 million (€ 24.3 million adjusted) to € 26.8 million. This corresponds to an adjusted growth of 10.3% in the business year 2007. The quota of the cost of sales and expenses changed only insignificantly.

With this development of profits the Einhell Group was able to achieve its ambitious objectives for the business year 2007.



## NET ASSETS

The essential items of the balance for the business years 2006 and 2007 are as follows:

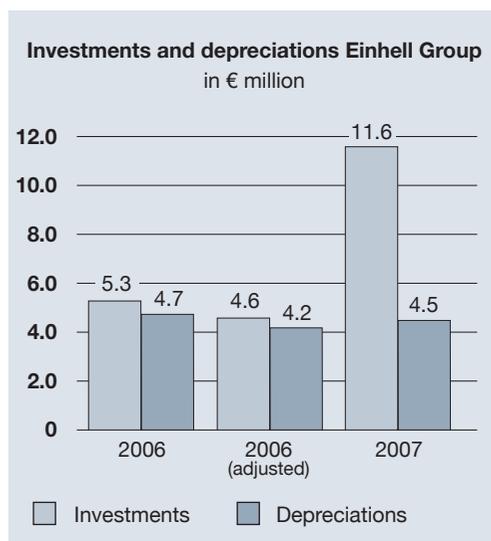
in € million	2006	2007
Non-current Assets	21.1	28.4
Inventories	75.8	99.5
Trade receivable	53.2	67.6
Cash and cash equivalents	26.3	14.6
Equity	98.8	111.8
Liabilities to banks	46.8	47.8

It should be noted concerning the figures for the business year 2006 that from effective date the company weka Holzbau GmbH, Neubrandenburg, does not belong to the Einhell Group any longer. Consequently, the balance sheet data already shows the conclusively consolidated figures.

The profit of the consolidated accounts has been announced corresponding to the net profit of the Hans Einhell AG.

### Investments

The investments amounted to € 11.6 million in the business year 2007. Of this amount, € 7.4 million are intangible assets, the remaining € 4.2 million are property, plant and equipment. The intangible assets contain among other things the goodwill of the Czech affiliate bought on January 1, 2007, the goodwill of the share (85%) in the company Intratek, as



well as activated product development costs. The property, plant and equipment comprise mainly investments in buildings, fixtures and fittings, as well as prepayments on assets.

The depreciations amounted to € 4.5 million in 2007 and consequently declined compared to the previous year by € 0.2 million (increased by € 0.3 million adjusted).

The cashflow from investing activity declined from € -1.5 million to € -11.0 million. This is largely owing to the fact that higher investments in assets and shares were made compared to the previous year. Furthermore, the proceeds of the sale of the weka Holzbau GmbH, Neubrandenburg, had been included in the cash inflow from investment activity in the previous year.

### Current Assets

On effective date the inventories increased from € 75.8 million to € 99.5 million. The increase is due to the growth in sales. The trade receivables increased by € 14.4 million to € 67.6 million. No factoring has been conducted in the business year 2007.

## FINANCIAL POSITION

### Financing

The projected growth of the Einhell Group requires a sound financial structure. The group is able to produce this strong net equity base, consequently the foundations for the projected sales growth and potential additional purchases of shares are at hand.

The Einhell Group has been financed dominantly by long-term loans again in the business year 2007. Beside the classic long-term bank loans this includes the bonded loan issued in the business year 2004. The most important liquidity, balancing, and P&L key figures have been maintained or even improved in 2007. The financing of the group is handled by the parent company. In order to minimize currency exchange risks, it was effected mainly in Euro. The Einhell Group does not expect any

difficulties meeting its repayment obligations according to the loan agreements.

The cashflow from financing activities amounted to € -2.0 million (previous year: € -3.2 million). Particularly relevant were the increase of the repayment obligations and the dividend payment.

On December 31, 2007, the balance sheet total amounted to € 231.9 million (previous year: € 200.6 million). The equity ratio added up to 48.2% (previous year: 49.3%) on effective date.

### Procurement

Due to the procurement of Einhell's products being effected via production sites in China, the focus was once more on the development of the Chinese Renminbi in the business year 2007. Since the easing of the bond with the US-dollar in July 2005 it has gained against the US-dollar by approx. 9%. Caused by the strong Euro, Europeans may as yet import on good terms, on the whole though, Chinese goods will become more expensive on the global market. As the procurement of the Einhell Group is effected in US-dollar, all of these developments will be monitored and continued to be taken into consideration in planning the procurement promptly und flexibly.

Another crucial factor are the commodity prices on the overall global market. The growing demand of the previous years originating from the Chinese market results in a shortage of raw materials and consequently in rising prices. These affect various metals, crude oil, and consequently synthetic materials. The necessary rise in product prices afflict the entire global market and thus will concern every company dependent on raw materials.

A large part of Einhell's product range is currently produced in China. The quality requirements demanded by the Einhell Group from the Chinese suppliers are determined by the customers' wishes. The quality assurance and quality management are improved

constantly. Since high priority is given to the quality inspection before the shipping from China, this domain is constantly under surveillance. Currently, 58 employees are engaged in this area. Aside from the tight shipping inspections on location, monitoring of the compliance with customer-specific quality requirements, inspections of production in progress, and improvement of procedures on the manufacturer's side are also effected.

The quality of the suppliers is improved constantly. Dependency on individual suppliers is avoided by an adequate number of suppliers and a broad distribution of orders.

## RESEARCH AND DEVELOPMENT

The expenses for research and development increased in the business year 2007 from € 2.5 million to € 3.2 million. The research and development division is based predominantly in the parent company. In this division, 34 staff members are employed. These employees attach importance not only to collaboration with other divisions, like the quality management for example, but also to the communication with customers. In this manner, customer needs are included from the start in the development of new products or product versions. The customer is regarded as partner. This ensures a consistent adjustment to the market for the entire Einhell Group. This is also the way it became one of the fastest acting companies in the industry. The positive experiences with our customers encourage us to maintain this course.

The business objective of differentiation from competitive products played a special role in the business year 2007. The examination of the product colors and the closely linked divisions brand portfolio and package design in the third quarter of 2006 has initiated two new product lines. They shall gradually replace the existing lines and consequently bring about a coordinated appearance of the Einhell

brand on the market. This decision has been necessary, because the present Einhell products show a diffusely differentiated portfolio to the end customer. The two new product lines will differ in prices and design. The line „Blue“ shall designate the low price segment and the line „Red“ the upper price segment. Here, too, the prices will remain below those of the current reference market makers, but the products will distinguish themselves decidedly by means of design, exclusiveness, and customer service. Along with the desired effects on the side of the customer this introduction will increase the efficiency of logistics and distribution. The market introduction of both lines will be made step by step, starting early in 2008.

The Einhell Group possesses a portfolio of various German and European patents, utility models, registered designs, and brands. The company strategy considers it an essential task to extend the number of patent applications notably.

#### **Main Features of the Company's Compensation System**

The members of the management board especially receive compensation bound to the business success of short-term as well as long-term nature. The members of the management board hold shares of the Hans Einhell AG. Share option plans or comparable arrangements do not exist. For further details we would like to refer to the particulars in the IFRS-explanatory notes to the consolidated financial statement.

## **EVENTS AFTER BALANCE SHEET DATE**

From the end of the business year 2007 until the compilation of the management report no events relevant for reporting have occurred.

## **DEPENDENCY REPORT**

The majority of shares in Hans Einhell AG are held by the Thannhuber AG, Landau a. d. Isar.

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

## **RISK REPORT**

### **Internal Control System**

The companies of the Einhell Group plan the following business year ahead in the current business year. Based on a differentiated sales planning a corresponding planning of the cost of sales and expenses will be made. These target figures are consolidated for the Group into one projected profit and loss statement.

The actual figures are edited monthly by the individual companies. Subsequently, a complete profit and loss statement is generated, in which the target and actual figures are contrasted and may be analysed accordingly. The development of the orders on hand, margins, etc. are presented monthly as well.

This comparison is discussed with the members of the management board as well as with the persons in charge of the individual companies and divisions. By means of analysing the target and actual figures, suitable measures for the regulation will be developed and implemented.

### **The Risk Management System**

In a company, the seizing of opportunities means taking risks. To be able to take these risks calculatedly, a risk management system is required. Essential part of such a system is information. In order to make this information available to the administrative management and the persons in charge of corporate management in summarized and compacted form, the Einhell Group has established an IT-based risk management information system in the fourth quarter of 2007. The system is to facilitate the collection of data among the affiliates, to minimize the effort for the risk manager at Hans Einhell AG, and to make

information available to the management in a timely manner.

The process of risk management is divided into two steps in the Einhell Group. In the first step, the decentral recording of risks with the affiliates and divisions of the AG is effected by the persons responsible for risks appointed by the management board. Their task is to identify and evaluate risks. Most important to the Einhell Group is the identification, because unidentified risks prevent further planning. The evaluation of the existing risks is effected by means of the calculation of the product of the occurrence probability and the maximum amount of damage. It is the net risk that will be evaluated, the risk that remains after taking various measures. The second step comprises the consolidation, analysis, and management of the risks by the risk manager and the administrative management. Several methods are at the disposal of the company to manage the risks. Risk avoidance means that the risks and accordingly the associated opportunities will not be taken. Another management option minimizes the risk by organizational measures among other things and is consequently called risk reduction. Yet another method is the risk transfer by insurances, contracts with suppliers, etc. The remaining risks are deliberately borne by the Einhell Group.

The risks will be presented by the risk management software arranged according to the integration into the company hierarchy. In this way, it is possible to represent the risks of each individual affiliate and those of the parent company as well as the accumulated risks. Additionally, a company specific structuring into the risk-relevant divisions is made: Procurement, development, financing, IT, human resources, product management, distribution, and commercial law. The risks are monitored regularly and reported quarterly. In addition, a discussion of the most important risks takes place at the board meeting.

### Procurement Risks

Procurement is a primary process in the business model of the trade and accordingly constitutes an important part in the risk management of the Einhell Group. The objective of the procurement is to purchase products in due time with appropriate quality at a fair price. A crucial factor in this are the suppliers. Since the Einhell Group already maintains long standing relations with its suppliers, price and procurement risks can be minimized. By means of constant inspections, the suppliers are included into the quality assurance system of the Einhell Group. A dependency of the Einhell Group on individual suppliers does not exist. To optimize the procurement planning, the purchase quantities are arranged with the distribution on a bi-weekly basis. The risk of currency fluctuations during procurement is handled, if possible, by hedging activities in the form of futures and options dealing. Currency hedging is made according to the IAS/IFRS directions for hedge accounting for the individual hedge periods.

### Sales Market Risks

The Einhell Group considers loss of receivables and the sales volume to hold the main risks at the sales market. The Einhell Group counters the credit risk by effecting Euler-Hermes credit insurance. The risk of a decline of the sales volume is minimized by innovative products, which meet the customers' demands in design, functionality, and price-performance ratio. By means of market analysis, the inconsistent brand profile has been identified. This risk will be countered by the step by step introduction of two clearly defined product lines. In this way, the Einhell Group manages to increase its sales volume and to gain additional market shares even in economically difficult times.

### Financial Risks

The continuous growth rate of the Einhell Group certainly involves risks in connec-

tion with financing. In order to cope with the financial risks, the Einhell Group relies on both long-term and short-term financial strategies. The domain of long-term financing consists of long-term bank loans and the bonded loan issued in 2004. In the short-term domain, the Einhell Group has at its disposal mainly classical credit lines, which have been used only partly in the business year 2007. Both the endowment with liquid funds and with equity capital has been excellent in the reporting year. Risks in connection with changes and fluctuations of interest rates are managed by the application of derivative financial instruments like long-term interest rate swap and interest cap agreements.

#### **Risks of Expansion**

Risks result as well from acquisitions of the Einhell Group. These risks are sought to be reduced by the fact that the acquisition candidates are mostly long standing partners of the Einhell Group. By that means, the integration of the new affiliates into the structure and strategies of the Group is achieved right from the start. In addition to that, due diligence reviews are effected in the companies due to acquisition, which are conducted by internal employees of the subsidiary controlling, supported by external consultants.

#### **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. To assure the quality on location, a quality assurance system has been established in China, which directly monitors the supplier's production and issues corresponding product briefing. The remaining risk concerning claims from product liability has been covered economically reasonable with appropriate insurances. As in the previous year, no cases of product liability worth mentioning have occurred in the reporting year.

## **DECLARATION CONCERNING CORPORATE GOVERNANCE**

The Corporate Governance Code designed by a German governmental commission shall contribute to making the legally effective regulations concerning corporate governance and controlling in Germany transparent for national and international investors. By the voluntary issue of a corporate governance declaration, the Hans Einhell AG has committed to assure a responsible management and control of the group, concentrating on sustainable value added. By means of this declaration, the Hans Einhell AG creates transparency about the legal and company specific general conditions and advances the trust of its national and international investors, its business associates and employees, as well as of the general public.

In this sense, the principles of the Einhell Group govern the relations to its shareholders and the social and political environment of the company, the efficient co-operation between board of directors and supervisory board, as well as the transparency and accounting requirements.

The Hans Einhell AG regularly reviews its Corporate Governance Declaration regarding new experiences and legal requirements, as well as advanced national and international standards and adjusts it if necessary.

The declaration may be consulted on the website of the Hans Einhell AG ([www.einhell.com](http://www.einhell.com)).

## **FORECAST**

#### **Global Economic Development**

For the global economic condition of 2008 a minor decline of the growth rates has been predicted. With an increase of the gross domestic product calculated at market exchange rates of 3.3% though, one cannot speak of a worldwide setback in economic activity. In this

respect the Asian countries, especially China play their part as motor of the economic activity. The developing and newly industrialized countries contribute with 48% nearly half of the gross domestic product. Another positive influence on the development are the lowered prime rates, caused by the financial market crisis. They allow for the provision of additional liquidity. Yet, a negative influence for the development of global economy is the still important status of the United States. With a declining potential growth again in 2008, negative effects on the foreign economic situation ensue, because the exports to the USA will decline. The global monetary value will remain stable in 2008, in spite of a rise in energy prices. It is projected for the oil price to stabilize around a value of 80 US-dollar per barrel in 2008.

The forecast for the growth of the gross domestic product of the European Union amounts to 2.3%. In the Euro zone the growth forecast turns out only insignificantly lower. This is attributed to the encumbering factor foreign trade, caused by the strong Euro. Motor of the growth are nevertheless the revival of the private consumption, the decline of unemployment, and increasing nominal incomes. With 2.1%, the inflation rate will also remain nearly unchanged compared to the year 2007. These positive expectations are based on a high level of the indicator of consumer confidence. In the Middle and Eastern European member states of the European Union a monetary streamlining is likely in the year 2008. Reasons for this are the high capacity utilization and the low unemployment rates. The growth rates of the gross domestic product are estimated to be 5.2% and are thus nearly one percentage point lower than the figures of the previous year. The economic slowdown in the United Kingdom and the Scandinavian member states will turn out comparatively low.

The Federal Republic of Germany will also have to face a limited economic growth. This

is due to the dependency on the development of the sales markets, as the exports are of major significance for the German economy. The growth of the gross domestic product will decline accordingly by about seven basis points to 1.9%. The contribution of the foreign trade will decline in 2008 to 0.2%. The growth will largely be supported by the private consumption, because it will not be dampened any longer by measures of the fiscal policy as in 2007 and the gross wages and salaries will also rise. In the customer domain gainful employment is an important factor and in this respect positive signs continue to be perceived. Thus the unemployment rate shall decline to 8.3%. The public budgets will also profit from this. The budgets will be able to present a small surplus predominantly due to income tax and social security increments. The forward volume caused by the lowering of the corporate tax in the year 2008 amounts to approximately € 4 billion and thus these investments are missing in the first quarter of 2008. The effect of the declining investment market caused by rising costs of capital in the course of the business tax reform will not occur to a great extent until 2009, with the introduction of the withholding tax on dividends and capital gains. The inflation rate will amount to an annual average of 2.0%, consequently the currency stability will not be endangered.

In 2008, customers will recover from the negative consequences of the value-added tax increase. The consequent increase of private consumption has positive effects on the retail industry. The DIY-market will also profit from these effects. The DIY-market sector presumes growth potential particularly in the categories energy conservation, safety, and refurbishment. The specific addressing of individual target groups is also very important to the retail industry.

#### **Objectives of the Einhell Group for 2008**

Among the objectives for the business year 2007 were the differentiation from compe-

titive products, the improvement of quality and customer service, and the further organic growth. The achievement of all those objectives brought about a further sales growth. To ensure a long standing existence of the Einhell Group, ambitious business objectives have to be achieved in the following years. The Einhell Group has set itself three main objectives for 2008.

For 2008, the management board and the executive staff have set themselves the paramount business objective to **improve the quality** in order to enhance customer satisfaction. Therefore, in the quality assurance division high investments into the sectors personnel, development of new systems, and optimization of established systems shall be made. Another objective is to significantly reduce the failure rates compared to the years 2006 and 2007.

Yet another objective is the **formation of new affiliates**. The focus is on foreign companies here. These already contributed a large part to the sales growth in the previous year. Especially Eastern Europe offers potential in this respect. Already in 2007 new companies have been bought in the Czech Republic and Turkey. Moreover, the newly founded affiliates in Greece and Chile shall be built up. Further foundations and acquisitions of affiliates are intended in 2008.

The **improvement of service** is the third main objective. The iSC GmbH is developing for this purpose an international service-concept. It will be introduced in some affiliates already in 2008 by means of the establishment of the necessary infrastructure.

The management board assumes that the segments „Tools“ and „Garden & Leisure“ will develop positively in the following years. Particularly due to the development of the new product lines, Einhell products address the customer consistently. For the business year 2008 a revenue of between € 400 million and

€ 420 million is targeted. In the business year 2009 the management board intends to increase the revenue with a constant rate of return, like it did in the past.

Strategically, the Einhell Group will increasingly sharpen its profile as manufacturer of power and gardening tools over the next years. Irreversibly connected with this strategy is the objective to concentrate on core products and core target groups as well as to be listed with every international DIY-market chain as the highest-performing supplier in the following years. In addition, the step by step introduction of the product lines „Blue“ and „Red“ shall improve the brand presence and recognition value. Over the next years, the Einhell Group shall become the most innovative and the fastest supplier of the industry regarding gardening and power tools.

#### **Proposal on the Allocation of the Unappropriated Profits**

The management board and the board of directors of the Hans Einhell AG propose to the general meeting on June 20, 2008 to effect a distribution of € 3,271,296.00 from the balance sheet profit of the Hans Einhell AG according to the German Commercial Code (HGB) in the amount of € 10,302,855.12. This corresponds to a dividend of € 0.90 per preference share and € 0.84 per ordinary share. The remaining amount of € 7,031,559.12 shall be carried forward.

Landau a. d. Isar, 25. März 2008

The Board of Directors

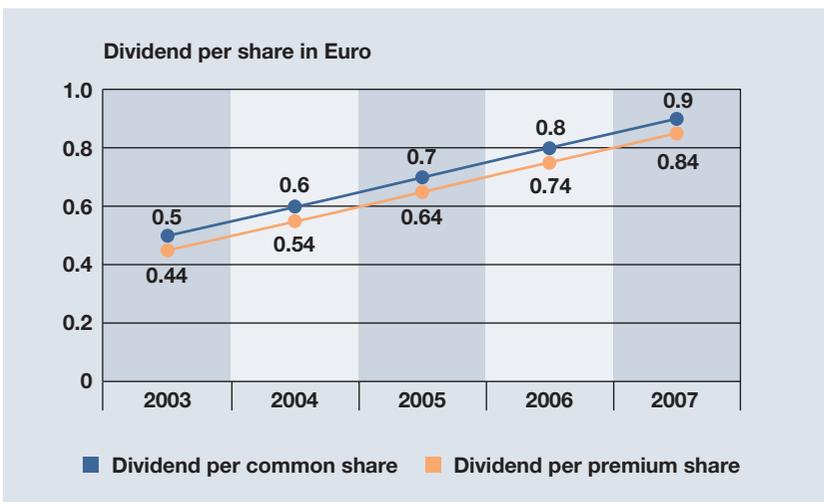
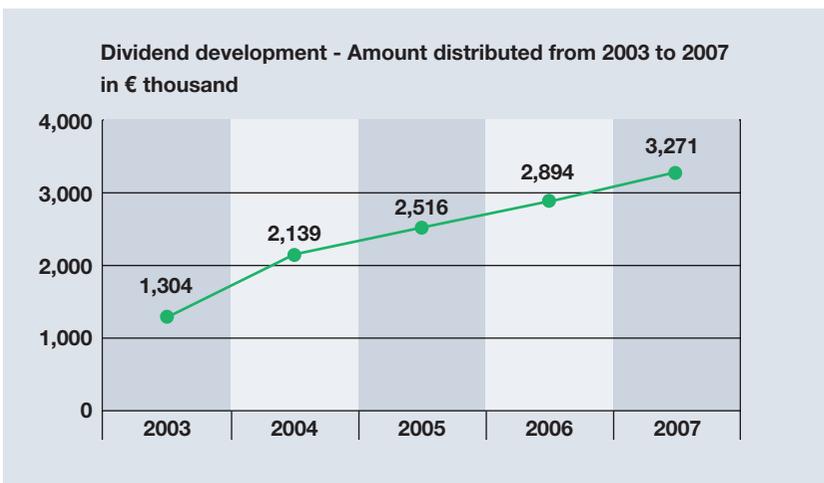
Andreas Kroiss

Jan Teichert

Dr. Markus Thannhuber

York Boeder

# THE EINHELL-SHARE



## CONSOLIDATED BALANCE SHEET TO 31 DECEMBER 2007

ASSETS	Notes	31.12.2007 €	31.12.2006 €
NON-CURRENT ASSETS	(2.1)		
Intangible Assets			
Franchises, development costs, trademarks, patents and licences and similar rights and values and licences and similar rights and values	(2.2)	3,050,054.76	3,380,355.33
Goodwill	(2.3)	7,548,412.47	2,216,093.42
Prepayments on intangible assets		43,901.43	0.00
		<u>10,642,368.66</u>	<u>5,596,448.75</u>
Property, plant and equipment			
Land, leasehold rights and buildings, including buildings on non-owned land		12,982,803.86	11,065,157.36
Technical equipment, plant and machinery		354,489.37	481,274.20
Other equipment, fixtures and fittings and equipment		3,416,558.80	2,921,453.73
Prepayments and plant and machinery under construction		5,351.71	66,088.66
		<u>16,759,203.74</u>	<u>14,533,973.95</u>
Non-current financial assets			
Security investments		976,223.95	955,006.15
		<u>976,223.95</u>	<u>955,006.15</u>
Other non-current assets	(2.6)	2,953,468.12	4,475,426.81
		<u>2,953,468.12</u>	<u>4,475,426.81</u>
DEFERRED TAX ASSETS	(2.4)	4,960,829.91	3,704,346.35
		<u>36,292,094.38</u>	<u>29,265,202.01</u>
CURRENT ASSETS			
Inventories	(2.5)		
Raw materials and supplies		465,310.64	1,293,705.29
Work in progress		219,069.27	290,038.19
Finished goods		98,139,818.62	74,212,652.70
Prepayments		678,585.71	0.00
		<u>99,502,784.24</u>	<u>75,796,396.18</u>
Receivables and other current assets	(2.6)		
Trade receivables		67,591,973.08	53,186,424.91
Other current assets		13,943,696.26	16,036,844.32
		<u>81,535,669.34</u>	<u>69,223,269.23</u>
Cash and bank balances and cheques	(2.7)	14,591,975.40	26,325,040.86
		<u>195,630,428.98</u>	<u>171,344,706.27</u>
		<u>231,922,523.36</u>	<u>200,609,908.28</u>

LIABILITIES	Notes	31.12.2007 €	31.12.2006 €
<b>EQUITY</b>			
Subscribed capital	(2.8)	9,662,464.00	9,662,464.00
Capital reserves	(2.10)	26,676,696.37	26,676,696.37
Retained earnings			
Legal reserve	(2.10)	54,708.23	54,708.23
Other earnings reserve		60,576,308.72	52,062,375.50
Minority interest	(2.11)	4,609,787.66	2,904,054.88
Other cumulated equity	(2.12)	-1,825,890.08	-880,474.29
Adjustment charges for foreign currency exchange		-2,806,257.12	-1,255,062.75
Consolidated net income		14,853,637.66	9,569,360.51
		<u>111,801,455.44</u>	<u>98,794,122.45</u>
<b>NON-CURRENT LIABILITIES</b>			
Non-current liabilities to banks	(2.13)	15,437,500.00	16,047,218.95
Bonded loans	(2.13)	30,000,000.00	30,000,000.00
Pension obligations	(2.14)	1,598,044.00	1,730,424.00
Other provisions	(2.15)	524,874.27	311,237.65
Non-current liabilities	(2.17)	3,257,905.85	245,001.00
Deferred taxes	(2.4)	1,960,542.77	2,127,495.25
		<u>52,778,866.89</u>	<u>50,461,376.85</u>
<b>CURRENT LIABILITIES</b>			
Provisions for taxes		1,486,367.09	2,408,047.69
Other provisions	(2.15)	17,860,396.83	17,594,533.04
Current liabilities to banks	(2.16)	2,397,432.36	770,684.22
Trade payables	(2.17)	32,147,717.36	20,439,617.48
Other liabilities	(2.17)	13,450,287.39	10,141,526.55
		<u>67,342,201.03</u>	<u>51,354,408.98</u>
		<u>231,922,523.36</u>	<u>200,609,908.28</u>

## CONSOLIDATED INCOME STATEMENT

### FOR THE PERIOD FROM 1 JANUARY TO 31 DEZEMBER 2007

	Notes	01.01. - 31.12.2007 €	01.01. - 31.12.2006 <sup>1)</sup> €
Revenues	(3.1)	385,716,396.54	411,760,429.63
Decrease (previous year: increase) in finished goods and work in progress		-70,968.92	404,290.71
Own work capitalised		0.00	33,629.75
Other operating income	(3.2)	7,074,983.25	5,453,262.47
Cost of materials			
a) Cost of raw materials and supplies		-278,356,772.99	-293,572,489.47
b) Cost of purchased services		-599,589.27	-246,322.26
Personnel expenses	(3.3)		
a) Wages and salaries		-27,983,120.15	-30,812,035.80
b) Social security, pensions and other benefit costs		-4,874,425.74	-5,796,150.19
Depreciations and amortisation costs and other write-offs on intangible assets, plant and equipment	(2.1)	-4,532,102.73	-4,736,438.40
Other operating expenses	(3.4)	-49,618,776.91	-55,923,056.38
Net finance costs	(3.5)	-2,173,790.80	-2,732,011.90
<b>Profit from operations</b>		<b><u>24,581,832.28</u></b>	<b><u>23,833,108.16</u></b>
Income taxes	(3.6)	-6,627,243.84	-6,338,131.08
<b>Consolidated net income</b>		<b><u>17,954,588.44</u></b>	<b><u>17,494,977.08</u></b>
<b>Share of other shareholders in consolidated net income</b>		<b><u>-1,262,522.07</u></b>	<b><u>-1,230,475.75</u></b>
<b>Consolidated net income less share of other shareholders</b>		<b><u>16,692,066.37</u></b>	<b><u>16,264,501.33</u></b>
<b>Retained earnings carried forwards</b>		<b>6,675,504.51</b>	<b>25,021,234.68</b>
<b>Transfer to other retained earnings</b>		<b><u>-8,513,933.22</u></b>	<b><u>-31,716,375.50</u></b>
<b>Consolidated net profit</b>		<b><u>14,853,637.66</u></b>	<b><u>9,569,360.51</u></b>

<sup>1)</sup> the income statement 2006 includes pro rata figures from the company deconsolidated on 29 December 2006: weka Holzbau GmbH, Neubrandenburg.

## CONSOLIDATED CASH FLOW STATEMENT

### FOR THE PERIOD FROM 1 JANUARY TO 31 DEZEMBER 2007

	01.01. - 31.12.2007 € thousand	01.01. - 31.12.2006 € thousand
<b>Net cash from / used in operating activities</b>		
Profit before taxes	24,582	23,833
+ Depreciation of intangible assets and property, plant and equipment	4,532	4,736
- Interest income	-747	-603
+ Interest expenses	3,380	3,316
+/- Other non-cash income and expense	250	408
<b>Operating profit before changes of net working capital</b>	<b>31,997</b>	<b>31,690</b>
+/- Decrease/increase in trade receivables	-11,786	-9,265
+/- Decrease/increase in inventories	-20,476	15,415
+/- Decrease/increase in other assets	1,611	-4,651
+/- Increase/decrease in non-current liabilities	-523	-1,020
+/- Increase/decrease in current liabilities	793	-5,354
+/- Increase/decrease in trade payables	10,321	-8,738
<b>Cash flows from operating activities</b>	<b>11,937</b>	<b>18,077</b>
- Taxes paid	-8,613	-9,279
+ Interest received	514	441
- Interest paid	-3,383	-2,654
<b>Net cash flows from operating activities</b>	<b>455</b>	<b>6,585</b>
<b>Cash flows from investing activities</b>		
- Payments to acquire assets	-11,625	-5,326
+ Proceeds from disposal of assets	110	213
- Payments for acquisition of equity investments	-4,806	-353
+ Increase in goodwill	5,332	941
+ Proceeds from sale of consolidated companies	0	10,588
- Decrease from changes to consolidation group of companies	0	-7,548
<b>Net cash flows from investing activities</b>	<b>-10,989</b>	<b>-1,485</b>
<b>Cash flows from financing activities</b>		
+/- Increase/decrease in loan obligations	1,017	-544
- Payments to shareholders including minority shareholders	-2,894	-2,516
- Payment for liabilities for finance leases	-88	-96
<b>Net cash flows from financing activities</b>	<b>-1,965</b>	<b>-3,156</b>
Changes to capital funds due to currency exchange	-144	-74
Net cash acquired from acquisitions	910	0
<b>Net decrease/increase of cash and cash equivalents</b>	<b>-11,733</b>	<b>1,870</b>
Cash and cash equivalents at beginning of period	26,325	24,455
<b>Cash and cash equivalents at end of period</b>	<b>14,592</b>	<b>26,325</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### FOR THE PERIOD FROM 1 JANUARY TO 31 DEZEMBER 2007

€ thousand	Sub-scribed capital	Capital reserve	Legal reserve	Other reserves	Minority interests	Other cumulated equity	Currency adjustment	Consolidated net profit	Total equity
01.01.2006	9,662	26,677	55	20,346	3,080	1,215	165	27,538	88,738
Hedge accounting						-2,110			-2,110
Currency adjustments							-1,421		-1,421
Available-for-sale securities						15			15
Dividend payment								-2,516	-2,516
Transfer to retained earnings				31,717				-31,717	0
Minority share					-176				-176
Net profit								16,264	16,264
31.12.2006	9,662	26,677	55	52,063	2,904	-880	-1,256	9,569	98,794
Hedge accounting						-965			-965
Currency adjustments							-1,551		-1,551
Available-for-sale securities						19			19
Dividend payment								-2,894	-2,894
Transfer to retained earnings				8,513				-8,513	0
Minority share					1,706				1,706
Net profit								16,692	16,692
<b>31.12.2007</b>	<b>9,662</b>	<b>26,677</b>	<b>55</b>	<b>60,576</b>	<b>4,610</b>	<b>-1,826</b>	<b>-2,807</b>	<b>14,854</b>	<b>111,801</b>





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