Einhell Germany AG

Financial Report 2009

Einhell Germany AG, Landau a. d. Isar

Consolidated Statement of Financial Position to 31 December 2009

A s s e t s

	Note	31.12.2009 €	€	31.12.2008 €	€
A. Non-current assets	(2.1)				
I. Intangible assets					
1. Franchises, development costs, trademarks, patents, and licences and similar rights and values	(2.2)	1,745,165.54		2,810,090.92	
2. Goodwill	(2.3)	7,478,179.16		7,832,988.05	
3. Prepayments on intangible assets		7,446.36	9,230,791.06	27,174.25	10,670,253.22
II. Property, plant and equipment					
1. Land, leasehold rights and buildings, including buildings on non-owned land		10,754,154.13		11,455,561.88	
2. Technical equipment, plant and machinery		3,171,099.99		523,549.54	
3. Other equipment, fixtures and fittings and equipment		2,605,097.43		3,189,919.50	
4. Prepayments and plant and machinery under construction		37,286.48	16,567,638.03	15,161.47	15,184,192.39
III. Non-current financial assets					
Security investments			991,930.69		984,085.46
IV. Other non-current assets	(2.6)		3,395,977.87		2,733,343.29
V. Deferred tax assets	(2.4)		4,007,576.83		5,236,475.62
			34,193,914.48		34,808,349.98
B. Current assets					
I. Inventories	(2.5)				
1. Raw materials and supplies		923,617.30		1,134,282.02	
2. Finished goods		71,216,095.95		111,418,009.04	
3. Prepayments		2,428,598.74	74,568,311.99	791,058.93	113,343,349.99
II. Receivables and other current assets	(2.6)				
1. Trade receivables		48,159,666.38		61,351,694.16	
2. Other current assets		11,938,866.10	60,098,532.48	16,010,766.25	77,362,460.41
III. Cash and cash equivalents	(2.7)		57,598,457.69		19,971,096.88
			192,265,302.16		210,676,907.28
			226,459,216.64		245,485,257.26

Equity and liabilities

	Note	31.12.2009 €	€	31.12.2008 €	€
A. Equity					
I. Subscribed capital	(2.8)		9,662,464.00		9,662,464.00
II. Capital reserves	(2.10)		26,676,696.37		26,676,696.37
III. Retained earnings					
1. Legal reserve	(2.10)	54,708.23		54,708.23	
2. Other earnings reserve		84,177,294.44	84,232,002.67	72,158,650.38	72,213,358.61
IV. Other cumulated equity	(2.11)		-64,011.46		530,495.08
V. Adjustment charges for foreign currency exchange			-4,653,653.80		-4,482,088.39
VI. Consolidated net income of shareholders of Einhell Germany AG			10,843,339.43		14,157,620.06
Equity share of shareholders of Einhell Germany AG			126,696,837.21		118,758,545.73
VII. Minority interests	(2.12)		2,958,359.37		4,983,828.70
			129,655,196.58		123,742,374.43
B. Non-current liabilities					
1. Non-current financial liabilities	(2.13)		41,733,486.66		15,067,922.91
2. Pension obligations	(2.14)		1,831,131.00		1,546,928.00
3. Other provisions	(2.15)		535,543.42		574,477.73
4. Non-current liabilities	(2.17)		2,075,436.45		3,002,915.20
5. Deferred taxes	(2.4)		634,456.33		2,271,593.58
			46,810,053.86		22,463,837.42
C. Current liabilities					
1. Provisions for taxes			968,611.11		3,273,441.77
2. Other provisions	(2.15)		9,052,816.24		13,365,591.97
3. Current financial liabilities	(2.16)		420,230.39		31,203,709.37
4. Trade payables			27,530,714.55		35,546,820.92
5. Other liabilities	(2.17)		12,021,593.91		15,889,481.38
			49,993,966.20		99,279,045.41
			226,459,216.64		245,485,257.26

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of comprehensive income for the period from 1 January to 31 December 2009

	Note	2009		2008	
		€	€	€	€
1. Revenues	(3.1)		315,692,779.09		358,506,070.84
2. Decrease in finished goods and work in progress			0.00		-219,069.27
3. Other operating income	(3.2)		10,361,086.25		9,508,639.19
4. Cost of materials					
a) Cost of raw materials and supplies		-225,148,576.65		-248,580,957.77	
b) Cost of purchased services		-498,885.75	-225,647,462.40	-453,633.11	-249,034,590.88
5. Personnel expenses	(3.3)				
a) Wages and salaries		-27,912,340.60		-30,314,923.28	
b) Social security, pensions and other benefit costs		-6,060,963.03	-33,973,303.63	-5,750,206.00	-36,065,129.28
6. Depreciation and amortisation costs and other write-offs on intangible assets, plant and equipment	(2.1)		-3,424,875.48		-3,612,215.95
7. Other operating expenses	(3.4)		-45,006,342.99		-54,752,313.93
8. Net finance costs	(3.5)		-3,841,509.48		-5,931,011.21
9. Profit from operations			14,160,371.36		18,400,379.51
10. Income taxes	(3.6)		-3,300,836.37		-3,443,781.26
11. Consolidated net profit			10,859,534.99		14,956,598.25

Allocation of consolidated net profit		
Share of shareholders of Einhell Germany AG	10,843,339.43	14,157,620.06
Minority interest share	16,195.56	798,978.19
	10,859,534.99	14,956,598.25

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of income and accumulated earn for the period from 1 January to 31 December 2009

	2009	2008
	€ thousand	€ thousand
Profit for the year	10,859	14,956
Gains/losses from Hedge Accounting	-851	3,360
Currency exchange differences		
(changes to unrealised gains/losses)	-172	-2,004
Gains from sale of securities (available-for-sale)	3	5
	-1,020	1,361
Tax items to be directly offset against equity	254	-1,009
Income and expenses recognised directly in equity (after tax)	-766	352
Consolidated comprehensive income	10,093	15,308
Share of minority shareholders	15	470
Share of shareholders of Einhell Germany AG	10,078	14,838
Consolidated comprehensive income	10,093	15,308

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of changes in equity for the financial year 2009

	Share of shareholders of Einhell Germany AG								Minority interest			Consolidated equity
	Subscribed capital	Capital reserve	Legal reserve	Other reserves	Other cumulated equity	Currency adjustment	Consolidated net profit	Total	Share of capital and reserves	Consolidated net profit	Total	
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	thousand	€ thousand	€ thousand	€ thousand	€ thousand
Position on 1 January 2008	9,662	26,677	55	58,738	-1,826	-2,807	16,692	107,191	3,347	1,263	4,610	111,801
Profit/loss carried forwards				16,692			-16,692	0	1,263	-1,263	0	0
Hedge Accounting					2,352			2,352			0	2,352
Currency adjustments						-1,675		-1,675	-329		-329	-2,004
Available-for-sale securities					4			4			0	4
Dividend payment				-3,271				-3,271	-320		-320	-3,591
Other changes									224		224	224
Net profit							14,157	14,157		799	799	14,956
Position on 31 December 2008	9,662	26,677	55	72,159	530	-4,482	14,157	118,758	4,185	799	4,984	123,742
Profit/loss carried forwards				14,157			-14,157	0	799	-799	0	0
Hedge Accounting					-596			-596			0	-596
Currency adjustments						-171		-171	-1		-1	-172
Available-for-sale securities					2			2			0	2
Dividend payment				-2,139				-2,139	-200		-200	-2,339
Other changes								0	-1,841		-1,841	-1,841
Net profit							10,843	10,843		16	16	10,859
Position on 31 December 2009	9,662	26,677	55	84,177	-64	-4,653	10,843	126,697	2,942	16	2,958	129,655

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of cash flows for the financial year 2009

		2009	2008
		€ thousand	€ thousand
Net cash from/used in operating activities			
Profit before taxes		14,160	18,400
+	Depreciation of intangible assets and property, plant and equipment	3,425	3,612
-	Interest income	-501	-870
+	Interest expenses	2,539	3,459
+/-	Other non-cash income and expense	489	3,205
Operating profit before adjustment of net assets		20,112	27,806
+/-	Decrease/increase in trade receivables	13,305	4,656
+/-	Decrease/increase in inventories	38,773	-15,639
+/-	Decrease/increase in other assets	2,824	167
+/-	Decrease/increase in non-current liabilities	-682	-257
+/-	Decrease/increase in current liabilities	-5,460	1,702
+/-	Increase/decrease in trade payables	-7,731	1,340
Cash flows from operating activities		61,141	19,775
-	Taxes paid	-7,880	-3,147
+	Interest received	322	625
-	Interest paid	-2,472	-3,346
Net cash flows from operating activities		**51,111**	**13,907**
Cash flows from investing activities			
-	Payments to acquire assets	-4,585	-3,258
+	Proceeds from disposal of assets	142	163
-	Payments for acquisition of investments	-2,980	-1,129
+	Increase in goodwill	445	285
Net cash flows from investing activities		**-6,978**	**-3,939**
Cash flows from financing activities			
+	Proceeds from taking out loans	40,000	1,100
-	Payments for repayment of loans	-44,119	-2,663
+	Proceeds from minority shareholders	132	254
-	Payments to shareholders including minority shareholders	-2,339	-3,591
-	Payment for liabilities for finance leases	-47	-56
Für Finanzierungstätigkeit eingesetzte Nettozahlungsmittel		**-6,373**	**-4,956**
Changes to capital funds due to currency exchange		-133	367
Net decrease/increase of cash and cash equivalents		**37,627**	**5,379**
Cash and cash equivalents at beginning of period		19,971	14,592
Cash and cash equivalents at end of period		**57,598**	**19,971**

Further information can be found under section 6 in the notes to the consolidated financial statements.

IFRS - Notes to the Consolidated Financial Statements

of

Einhell Germany AG, Landau/Isar

for the financial year 2009

TABLE OF CONTENTS

1. Principles and methods used in consolidated financial statements

1.1 General information

Hans Einhell AG, Landau/Isar, was formed on 18 November 1986 and pursuant to a resolution of the Annual General Meeting of 20 June 2008 changed its name as of 25 June 2008 to Einhell Germany AG. The Einhell Group (hereinafter the "Group") manufactures and sells manually-operated, petrol-operated and electronic tools, metal and plastic products for DIY, garden and leisure activities, and air-conditioning and heating products.

The address of the parent company is:

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

The Board of Directors of Einhell Germany AG approved the consolidated financial statements on 18 March 2010 for consideration by the Supervisory Board. The Supervisory Board is responsible for examining the consolidated financial statements and to declare whether it approves the consolidated financial statements.
The consolidated financial statements and the Group management report of Einhell Germany AG for the financial year 2009 will be published in the electronic German Federal Gazette (*Bundesanzeiger*). The consolidated financial statements 2009 were prepared in euro (€), and some items are rounded to thousands of euro (€ thousand).

1.2 Basis of preparation

The consolidated financial statements of Einhell Germany AG were prepared in accordance with the regulations of the International Accounting Standards Board (IASB), London, pursuant to Regulation Number 1606/2002 of the European Parliament and the Council regarding the amendment of International Reporting Standards in the European Union. The interpretations of the International Financial Reporting Interpretations Committee (IFRIC) were also used. In preparing the consolidated financial statements, all International Financial Reporting Standards (IFRS) and interpretations effective and applicable as of 31 December 2009 were applied.
In order to achieve homogeneity with consolidated financial statements prepared in accordance with the German Commercial Code (HGB), all further information and notes required by § 315a HGB in excess of the IASB requirements are also included.

The following standards, interpretations and amendments to existing standards issued by the IASB and adopted by the European Union (EU) are applicable for the first time for financial years commencing on or after 1 January 2009:

- IFRS 7 "Improving Disclosures about Financial Instruments" The amendments affect disclosures about determination of fair value and liquidity risk.
- IFRS 8 "Operating Segments". The "management approach" is to be used for reporting of economic development of segments.
- IAS 1 "Presentation of Financial Statements: A Revised Presentation". The principal amendments comprise the presentation of changes in company equity for non-owners, the requirement to present an opening balance for the earliest comparable period (3rd balance or statement of financial position), presentation of the effect of income tax on individual components of other comprehensive income, presentation of changes due to reclassification of the relevant items of other comprehensive income and income statement by the statement of financial position and statement of comprehensive income.

The IASB has published the following standards, interpretations and amendments to existing standards whose application was not mandatory as of 31 December 2009 and which were therefore not applied prematurely by the Einhell Group. Application would have no significant effect on the consolidated financial statements.

- IFRS 3 “Business Combinations”; applies to financial years commencing on or after 1 July 2009.
- IAS 27 “Consolidated and Separate Financial Statements”; applies to financial years commencing on or after 1 July 2009.
- IAS 32 “Financial Instruments: Classification of Rights Issues”;
- IAS 39 “Financial Instruments: Recognition and Measurements: Eligible Hedged Items”; applies to financial years commencing on or after 1 July 2009.
- IFRIC 12 “Service Concession Arrangements”; applies to financial years commencing on or after 29 March 2009.
- IFRIC 15 “Agreements for the Construction of Real Estate”; applies to financial years commencing on or after 1 January 2010.
- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”; applies to financial years commencing on or after 30 June 2009.
- IFRIC 17 “Distributions of Non-Cash Assets to Owners”; applies to financial years commencing on or after 1 July 2009.
- IFRIC 18 “Transfers of Assets from Customers”; applies to all transactions taking place after 1 July 2009.

The IASB has issued the following standards, interpretations and amendments to existing standards that are not applicable within the EU until they have been adopted under the prescribed EU procedures.

- IFRS 1 “Additional Exemptions for First-time Adopters”
- IFRS 2 “Share-based Payment: Group Cash-settled Share-based Payment Transactions”
- IFRS 9 “Financial Instruments”
- IAS 24 “Related Party Disclosures”
- IFRIC 14 “Prepayments of a Minimum Funding Requirements”
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”

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

1.3 Basis of consolidation

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

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

Companies that were acquired or sold during the course of the financial year are included in the consolidated financial statements from the time of their acquisition until the date on which they are sold.
Effective 1 January 2009, we acquired the remaining stake (24.0%) in Einhell Export-Import GmbH. This company is now a fully owned Group company.

In the financial year 2009, we established another company in South America with the foundation of Einhell Brasil Com. Distr. Ltda, registered in Campinas. Einhell Germany AG holds a 90% stake in this company.

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

1.4 Principles of consolidation

The financial statements of the subsidiaries included in the consolidation were prepared using uniform accounting and valuation policies pursuant to IAS 27. The reporting date for all consolidated companies is 31 December; this is also the reporting date of the parent company.
Capital consolidation is made by the purchase method by offsetting investment book values with the pro rata newly valued equity of the subsidiary at the time of acquisition (IFRS 3). Remaining excess of cost of acquisition over net assets acquired is recognised as goodwill.
Intra-Group revenues, expenses and income, all receivables and liabilities and inter-company profits or losses held in inventory assets are eliminated.

1.5 Accounting and valuation policies

Currency conversion

The foreign investments within the consolidation group are financially, economically and organisationally autonomous and are therefore regarded as economically independent, foreign entities. Their reporting currency is their relevant local currency.
In the individual financial statements of the companies in the Einhell Group, all foreign currency transactions are converted from the local currency into the reporting currency at the rate of exchange applicable at the time of the transaction. Monetary foreign currency holdings existing at reporting date are valued at reporting date at the relevant daily exchange rate. Conversion differences from monetary transactions or the valuation of monetary items of a company which vary from the exchange rates during the period in which they were originally valued, or in previous transactions, are recognised in the period in which they arose.
Financial statements of foreign subsidiaries are converted at the exchange rates applicable at the end of the year for the statement of financial position, and at average rates of exchange during the reporting year for the statement of comprehensive income. All resulting conversion differences are recognised in equity as an adjustment for currency conversion.

Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are recognised at acquisition or production cost less cumulated deprecation and amortisation. Intangible assets are recognised when it is likely that a future benefit will be derived from the asset and the acquisition or production cost of the asset can be reliably determined.
Amounts paid for patents, trademarks and licences are capitalised and subsequently amortised by the straight-line method over their estimated useful life. Cost for new software are recognised and treated as intangible assets, so long as these costs are not an integral part of the relevant hardware.

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

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

Capitalisation of costs begins with the initial fulfilment of the above criteria. Costs recognised as expenses in the prior reporting period may not be capitalised retrospectively. Other than development costs, there are no self-produced intangible assets.
Capitalised development costs are amortised by the straight-line method over the estimated useful life of the asset, but not normally for more than three years. The realisable amount of development costs is estimated if there are indications of impairment of the asset or indications that previous impairment losses no longer exist.

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

Pursuant to IFRS 3, goodwill is not amortised but examined annually, or if circumstances arise that indicate impairment, and subject to an impairment test pursuant to IAS 36. The goodwill is allocated to a cash generating unit (CGU) for the purposes of this impairment test. The cash generating units are the same as the individual companies.

Impairment is recognised if the book value of the cash generating unit to which the goodwill is allocated exceeds the realisable value. The realisable value is the higher of the two values from fair value less disposal costs and utility. As the fair value cannot be determined, the utility is used as the basis for calculation. The utility of the cash generating unit is then determined as follows:

Future cash flows (before interest and taxes) of cash generating units are determined for planning for the next five financial years. Planning is based on past empirical figures and best possible estimations of management about future development. In order to check for impairment, management estimates cash flows beyond the planning period in which no growth for following years is estimated. The utility of the underlying cash generating unit is calculated on the basis of the discounted cash flow process. Cash flows are discounted at 4.5%.

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

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

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

Estimated useful lives and depreciation and amortisation methods for a depreciable intangible asset and property, plant and equipment must be checked periodically to see if the depreciation and amortisation periods and methods are in line with expected economic use of the asset for property, plant and equipment.
Property, plant and equipment that is no longer used is shown as the lower of book value or the estimated net realisable value less disposal costs.

Financial assets

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

Deferred taxes

The amount of income tax levied depends on the amount of profits and takes deferred taxes into account, which are determined in accordance with the asset and liability method. Determination of deferred taxes is made pursuant to IAS 12: temporary differences between the book values shown in the consolidated financial statements and the tax values of assets and liabilities are shown as future probable tax savings and charges.
Measurement of deferred tax assets and liabilities is made on the basis of tax rates for the period in which the temporary differences will probably be reversed. The expected tax rate is determined on the basis of tax rates applicable or mainly applicable at reporting date for this period. Deferred tax assets and liabilities are not discounted and are shown separately in the statement of financial position.

Actual taxes and deferred taxes are charged or credited directly in equity if the tax refers to items which are charged or credited directly in equity in the same or another period. No deferred tax liabilities may be set aside for undistributed profits from foreign investments that are to remain invested in this company for an indeterminate time.
A deferred tax liability is recognised for all temporary differences with the exception of temporary differences for goodwill, for which tax depreciation is not deductible.

Inventories

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

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

Receivables and other assets

Receivables and other assets are recognised at the time of provision of the underlying consideration and valued at amortised cost after consideration of any impairment losses.
Receivables are examined regularly for indications of impairment. Such indications may, for example, be defaulted payments or economic difficulties of the debtor. Where such indications are present, an impairment loss is recognised, if the book value is higher than the realisable amount of the asset. This is determined on the basis of anticipated future cash flows.
Where the grounds for impairment no longer apply, a reversal of impairment is recognised. General credit risk is covered by valuation allowances on receivables based on statistical empirical values. An increase in value (or reduction of an impairment) of an asset is only recognised so long as it does not exceed the book value, which would have resulted (taking depreciation effects into account) if no impairment had been made in previous years.
Receivables against external third parties are mainly recognised in the local currency of the individual companies and thus cannot result in any significant currency differences.

Cash and cash equivalents

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

Adjustment for currency conversion

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

Minority interests

Equity attributable to minority shareholders is shown in the statement of financial position within equity. The attributable portion of the annual earnings is shown separately in the statement of comprehensive income.
The minority interest includes shares of minority shareholders in the present value of identifiable assets and liabilities at the time of purchase of an affiliated company. Changes result from capital increases in which the minority shareholders participate, distributions and shares of the minority shareholders in earnings and currency changes.

Provisions

A provision is made if the company has a current (legal or constructive) obligation on the basis of a past event and it likely that the fulfilment of the obligation will result in an outflow of resources of economic value and if the amount of the obligation can be determined with certainty. Provisions are reviewed at each reporting date and adjusted to best current estimate. Where the present value of money is relevant, the provision amount shall be the current value of the expense necessary to meet the obligation.
As is clear from the definition, there is uncertainty about whether a provision will be needed and this is covered by necessary estimates. Provisions are based on statistical evaluation and years of experience about the probability of the likelihood of the underlying event causing a cash outflow and the amount of that outflow.
Income from the anticipated disposal of assets is not taken into account when setting aside provisions. When some or all of the economic benefit required to settle an obligation is expected to be recovered from a third-party, the reimbursement shall not be recognised until it is certain that the company will receive the reimbursement.

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

The provisions shown in the consolidated financial statements for pension commitments concern defined benefit plans for pensions, invalidity and surviving dependents. Pension commitments are determined in consideration of anticipated future increases in premiums and pensions in line with IAS 19 and the international norm of projected unit credit method. A discount factor for interest rates for claimants of 5.34% (previous year 6.21%) was used, along with 4.73% (previous year 6.21%) for pensioners. As in the previous year, the rate of pension progression for commitments with adjustment guarantee was 3.00% and 2.00% for commitments without adjustment guarantee. No rate of compensation increase was available for non-salary based commitments.
The pension provision shown at reporting date is equivalent to the qualifying present value of pension commitments (defined benefit obligation). Actuarial gains or losses are realised in the year they are incurred. The statement of financial position obligation of the defined benefit obligation is not secured by a pension fund but there is partial pension plan reinsurance.

Liabilities

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

Realisation of revenues and revenue recognition

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

Interest is included pro rata taking into account the effective interest rate of the asset. Licence income is included in the relevant period in accordance with the requirements of the underlying contract.

Derivative financial instruments

In the Einhell Group, derivative financial instruments are used only for hedging transactions as part of risk management. They hedge against risks from fluctuations in cash flows, and are allocated to the risk associated with a specific asset or liability or with the risk of a prior transaction.
All derivative financial instruments are recognised at fair value in accordance with the regulations under IAS 39. The fair value of currency futures is determined on the basis of the exchange rates applicable on the currency futures market at reporting date. For interest swaps, it is determined as the present value of estimated future cash flows. The fair value of options is calculated on the basis of option pricing models. For all the above instruments, the Group fair values are confirmed by financial institutions that have provided the Group with the relevant contracts.
Financial instruments are utilised on the day the transaction is concluded, and derecognition is undertaken upon realisation.
The positive market value of derivatives is recognised under other assets. A negative market value of derivatives is recognised under other liabilities. Any change in market value of derivatives recognised as an income or expense is shown under net financial income; derivatives taken directly to equity are recognised under other cumulated equity.

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

Leasing

Finance leases

A lease is classified as a finance lease when most risks and opportunities associated with ownership of an asset are transferred to the lessee. The classification of a lease depends on the economic content of the contract, not from a particular formal contract format.
The Einhell Group is a lessee and classifies finance leases in its statement of financial position from the start of the leasing arrangement equally as an asset and liability, at the present value of the leasing object at the start of the lease arrangement or at the present value of minimum leasing payments, whichever amount is lower. In calculating the present value of minimum leasing payments, the underlying interest rate of the leasing arrangement serves as discount factor insofar as it can be reliably determined. If this is not the case, the lessee's incremental borrowing rate of interest is used. Initial direct costs are shown as part of asset value. Leasing instalments are divided between finance costs and repayment of principal. Finance costs are divided throughout the period of the lease so that a constant rate of interest on the remaining principal is possible across all periods.
A finance lease creates a write-down expense and a financing expense for the recognised asset in each period. Principles governing write-downs for leased assets are the same as the methods used for similar depreciable assets owned by the company.
Finance leases are used mainly for fixtures and fittings and office equipment.
The relevant non-current assets are as follows (in € thousand):

Residual value 31.12.2009	Annual write-downs to 31.12.2009	future lease payments			thereof interest		
		within 1 year	between 1 and 5 years	after 5 years	within 1 year	between 1 and 5 years	after 5 years
83	38	46	33	0	3	2	0

Operating leases

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

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

	future leasing payments		
	within 1 year	between 1 and 5 years	after 5 years
Operating leases	306	322	2
Finance leases	46	33	0
Total leasing fees	352	355	2

Segment reporting

The segmentation of the Group into two segments mirrors the presentation of company divisions and internal control and reporting within the Group. The two segments are Tools and Garden & Leisure.
Financial information concerning the business segments and geographical segments is contained in notes 4 and 5.

Contingent liabilities and contingent assets

Contingent liabilities are not shown on the statement of financial position. As part of normal business operations, it is possible that the Einhell group will be involved in litigation.
As of 31 December 2009, the company's management and its legal advisors were not aware of any claims against the company that could have a significant impact on the company, its net assets, financial position and earnings.

Events after reporting date

Significant events after reporting date that could have an impact on the position of the Group at reporting date are taken into account in the financial statements up to 18 March 2010. Insignificant events after reporting date are – where appropriate – included in the notes.

2. Notes to consolidated statement of financial position

2.1 Changes in non-current assets

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

2.2 Capitalised development costs

Capitalised development costs consist mainly of expenses of the company for the development of new products. New product developments fulfil the criteria for recognition as intangible assets. Capitalised development costs are amortised over the expected life cycle of the product. In the financial year 2009, expenses for research and development amounted to €3.6 million (previous year: €4 million). Of these expenses, €0.3 million (previous year: €0.7 million) were capitalised as expenses in 2009. A total of 34 employees (previous year: 37 employees) were employed in this division

Development costs are as follows (in € thousand):

Cost				Cumulated depreciation				Book value	
Gross value 1.1.2009	Additions 2009	Disposals 2009	Gross value 31.12.2009	Gross value 1.1.2009	Additions 2009	Disposals 2009	Gross value 31.12.2009	Net value 31.12.2009	Net value 31.12.2008
4,748	284	0	5,032	3,059	1,002	0	4,061	971	1,689

2.3 Goodwill

Goodwill as of 31 December 2009 amounted to €7,478 thousand (previous year: €7,833 thousand). Additions of €404 thousand refer to Einhell Export-Import GmbH and €41 thousand for Einhell Romania S.R.L. Disposals refers to €800 thousand for Intratek.

Additions to goodwill for Einhell Export-Import GmbH refer to payment of the variable part of the purchase price for the financial year 2008. Recognised costs refer to the share of the variable purchase price that exceeded expectations due to above-average earnings performance in the previous year. The remaining 24% stake was also taken over. The amount of investment was not changed over the past financial year. The amount by which the purchase price exceeded the equity share was capitalised.

Additions to goodwill for Einhell Romania SRL refer to the purchase in the financial year 2005 of 70% of the shares in Einhell Romania. The agreed purchase price consisted of a fixed portion due immediately and a variable portion in the following years. The goodwill recognised in 2005 was based on the total purchase price, based on available planning. The purchase price instalment due in the financial year 2009 exceeded the planning, which is why an extra €41 thousand of goodwill is also recognised in the financial year 2009.

The reduction in goodwill results from the reduction of probable purchase price liabilities for Intratek Mühendislik ve Dis Ticarret A.S. Due to current business development of the Turkish company, both goodwill and the relevant liability were reduced by €800 thousand.

2.4 Deferred taxes

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

In € thousand	Deferred tax claims		Deferred tax liabilities		Net deferred taxes	
	2009	2008	2009	2008	2009	2008
Non-current assets	17	91	416	661	-399	-570
Current assets	3,120	3,387	243	701	2,877	2,686
Other financial investments at present value	-3	156	-24	736	21	-580
Pension obligations	8	9	-48	32	56	-23
Provisions	623	939	104	-51	519	990
Other liabilities	243	591	-56	193	299	398
Tax losses carried forwards	0	63	0	0	0	63
Total	**4,008**	**5,236**	**635**	**2,272**	**3,373**	**2,964**

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

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

2.5 Inventories

	2009 € thousand	2008 € thousand
Raw materials and supplies (at acquisition cost)	924	1,134
Finished goods (at cost less impairment)	71,216	111,418
Prepayments	2,428	791
Total	**74,568**	**113,343**

Devaluations amounting to €5,642 thousand (previous year: €7,039 thousand) were made. The book value of devalued goods amounts after devaluation to €24,112 thousand (previous year: €41,508 thousand). No goods were assigned by way of collateral at reporting date, as in the previous year.

2.6 Receivables and other assets

Trade receivables were shown after allowances for bad debt.

In the financial year 2009, impairments amounting to €1,552 thousand (previous year: €5,010 thousand) were recognised. Furthermore, during this reporting period cash flows from derecognised receivables and income from the reversal of impairment losses from receivables amounting to €2,131 thousand (previous year: €31 thousand) were recognised. The maximum default risk is the book value of the receivables. 77% (previous year: 81%) of total receivables are not yet due.

The maturity structure of financial instruments from trade receivables:

	Book value (in € thousand)	Not due	0-90 days	91-180 days	> 181 days
31.12.2009	48,160	36,957	6,857	2,030	2,316
31.12.2008	61,352	49,899	10,412	790	251

Other assets are shown at nominal value less specific allowances for bad debt. Other current assets include income tax receivables of €2,224 thousand (previous year: €655 thousand), and other non-current assets include income tax receivables of €1,098 thousand (previous year: €1,231 thousand).

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

Due to the short-term nature of the receivables, the interest effects of written-off receivables are insignificant.

2.7 Cash and cash equivalents

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

2.8 Subscribed capital

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

	€
Ordinary shares 2,094,400 ordinary bearer shares No-par shares each with a par value of €2.56	5,361,664
Preference shares 1,680,000 bearer preference shares No-par shares each with a par value of €2.56	4,300,800
Total share capital	**9,662,464**

All payments for shares have been made in full. For the financial year 2009, Einhell Germany AG is proposing a dividend payment of €2,138,976.00 (previous year: €2,138,976.00).

A minimum dividend of €0.15 per share must be paid to holders of the preference shares and this has preference over payment of a dividend to ordinary shareholders. The dividend per preference share is €0.06 higher than the dividend per ordinary share. If the net retained profit is not sufficient over one or more financial years to pay a dividend of €0.15 per preference share, the amount will be made up without interest from the net retained profit of following financial years after payment of the minimum dividend for the preference shares for that financial year and before distribution of a dividend for ordinary shares. No distributions of minimum dividends are outstanding. The preference shares do not carry any voting rights. With regard to the remaining assets of the company, all shares are of equal rank.
The ordinary shares hold voting rights in the Annual General Meeting.

2.9 Authorised capital

Authorised capital I

The Board of Directors is authorised until 18 June 2014 to raise the capital of the company with the approval of the Supervisory Board by issuing new ordinary bearer shares and/or bearer preference shares without voting rights for cash in one or more tranches up to an amount of €3,864,985.60 (authorised capital I). A right of subscription is to be granted to shareholders. However, the Board of Directors is authorised with the approval of the Supervisory Board to exclude fractional amounts from the shareholders' rights of subscription, and where ordinary and preference share are being issued at the same time, to exclude shareholders of one class of share from subscribing to shares of the other class, so long as the subscription ratio for both classes of issue is determined. The authorisation also includes the authority to issue further preference shares which have priority over or are equal with previously issued preference shares without voting rights with regard to distribution of profit or company assets.

Authorised capital II

The Board of Directors is authorised until 18 June 2014 to raise the capital of the company with the approval of the Supervisory Board by issuing new ordinary bearer shares and/or bearer preference shares without voting rights for cash in one or more tranches up to an amount of €966,246.40 (authorised capital II). The Board of Directors is authorised with the approval of the Supervisory Board to exclude fractional amounts from the shareholders' rights of subscription and where ordinary and preference share are being issued at the same time to exclude shareholders of one class of share from subscribing to shares of the other class, so long as the subscription ratio for both classes of issue is determined. The Board of Directors may also exclude all subscription rights in order to issue new bearer preference shares without voting rights for an issue amount which is not substantially below the stock market price (§ 203, paragraph 3, § 186 paragraph 3 sentence 4 of the German Stock Corporation Act (*AktG*)). The authorisation also includes the authority to issue further preference shares which have priority over or are equal with previously issued preference shares without voting rights with regard to distribution of profit or company assets.

2.10 Capital reserve and legal reserve

The capital reserve is unchanged as against the previous year at €26,676,696.37. As last year, the legal reserve amounts to €54,708.23 and together with the capital reserve this fulfils the requirements of 10% of share capital pursuant to § 150 paragraph 2 of the German Stock Corporation Act (*AktG*).

2.11 Other cumulated equity

Other cumulated equity includes the market values of derivative financial instruments in the amount of €-112 thousand (previous year €484 thousand) and available-for-sale securities of €48 thousand (previous year €46 thousand), each after consideration of deferred taxes.
As part of the application of cash flow hedge accounting for derivative financial instruments, €963 thousand (previous year €340 thousand) was taken from equity and recognised in the initial valuation of costs of inventories. Due to the application of cash flow hedge accounting, the change in equity taken directly to equity was €-73 thousand (previous year €3,156 thousand).

2.12 Minority interests

Shares of minority shareholders are as follows:

	2009 € thousand	**2008 € thousand**
Position 1 January	**4,984**	**4,610**
Capital contributions/additions	204	0
Payments	-200	-320
Currency adjustments	-1	-329
Additions/disposals	-2,045	224
Net profit/loss	16	799
Position 31 December	**2,958**	**4,984**

2.13 Non-current financial liabilities

The following secured non-current loans exist as of 31 December 2009:

	2009 € thousand	**2008 € thousand**
Secured	46	13,033
Unsecured	41,687	2,035
Total	**41,733**	**15,068**

In 2009, loans secured by charges were repaid in the amount of €2,063 thousand. For this loan, there was an existing approval from the banks for retrospective waiver of security. Loans carry charges over other assets in the amount of € 46 thousand (previous year: € 10 thousand). The securities are held in respect of current and non-current loans resulting from leasing obligations.

Non-current financial liabilities include non-current loans for over €40 million with contractual maturity of 5 years. These non-current loans are split between six banks and replaced the promissory note that expired in July 2009. The loan agreements set out financial covenants which, if not met, permit the creditors to demand premature repayment of the loans before maturity. All covenants were met in the financial year 2009.

Securing interest rate risks is made with derivative financial instruments in the form of interest cap agreements.

2.14 Pension commitments

See point 1.5 (provisions) for actuarial assumptions made in the course of expert reports.
Changes to commitments to employees are as follows:

Year	**2009 € thousand**	**2008 € thousand**
Qualifying present value of pension commitments at start of year	**1,547**	**1,598**
Current service expense	20	30
Interest expense	93	83
Actuarial gains and losses	293	-99
Pension payments	-108	-65
Transfer/Settlement	-14	0
Qualifying present value of pension commitments at end of year	**1,831**	**1,547**

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

2.15 Provisions

	Position on 1.1.2009 € thousand	**Utilised € thousand**	**Allocations € thousand**	**Release €thousand**	**Currency differences € thousand**	**Position on 31.12.2009 € thousand**
Guarantees	9,030	2,856	859	1,471	-96	5,466
Other provisions	4,910	2,594	2,606	771	-29	4,122
Total	**13,940**	**5,450**	**3,465**	**2,242**	**-125**	**9,588**

The provisions of €9,588 thousand include non-current provisions of €536 thousand (previous year €574 thousand).

2.16 Current financial liabilities

	Notes	**2009 € thousand**	**2008 € thousand**
Secured		45	380
Unsecured		375	30,824
Total		**420**	**31,204**
thereof current part due of non-current loan	2.13	414	375
thereof current part due of loan or overdraft		6	30,829

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

2.17 Other liabilities

Other liabilities of €14,097 thousand (previous year: €18,892 thousand) consist mainly of tax liabilities, liabilities for wages and salary payments, including liabilities from employee profit participation, and liabilities from current customer bonuses and customer credits.

3. Notes to consolidated statement of comprehensive income

3.1 Revenues

Revenues are classified as follows:

	2009		2008	
	€ thousand	%	€ thousand	%
By segment				
Garden & Leisure	130.171	41	147.820	41
Tools	185.522	59	210.686	59
	315.693	100	358.506	100
By region				
Germany	122.494	39	125.423	35
European Union	132.174	42	150.792	42
Asia	21.381	7	22.505	6
Other	39.644	12	59.786	17
	315.693	100	358.506	100

3.2 Other operating income

This refers principally to income from costs for inspection of goods to be passed on to suppliers (€345 thousand; previous year: €497 thousand), income from the inclusion of released receivables and reversal of impairment of receivables (€2,131 thousand, previous year: €31 thousand), income from the disposal of non-current assets (€87 thousand, previous year: €113 thousand) and income from provisions (€1,297 thousand, previous year €1,641 thousand). Otherwise, there was no significant income from other periods.

3.3 Personnel expenses and average number of employees

Personnel expenses	**2009 € thousand**	**2008 € thousand**
Wages and salaries	27,912	30,315
Diverse social security payments and pension expenses	6,061	5,750
Total	**33,973**	**36,065**

Average number of employees	**2009**	**2008**
Germany	321	342
Other countries	678	710
Total	**999**	**1,052**

Pension expenses in the financial year 2009 amounted to €137 thousand (previous year: €92 thousand).

3.4 Other operating expenses

Other operating expenses include expenses for postage of goods, guarantees and customer services, impairment, advertising and product design. Expenses for the impairment of trade receivables amount to €1,552 thousand (previous year: €5,010 thousand).

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

3.5 Net financial income

	2009 € thousand	2008 € thousand
Interest income	501	870
thereof from hedges	*0*	*0*
Interest expense	-2,539	-3,459
thereof from hedges	*-273*	*-77*
Gain/loss from currency conversion	-1,804	-3,342
thereof from hedges	*-188*	*23*
Impairment of financial assets	0	0
Net financial income	**-3,842**	**-5,931**

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

3.6 Income taxes

	2009 € thousand	2008 € thousand
Actual tax expense	3,612	3,408
Deferred taxes	-311	36
Total	**3,301**	**3,444**

As a precautionary measure, losses carried forwards that are expected to be recoverable in future were not recognised. In valuing a recognised asset for future tax relief, the probability of recovery of anticipated tax amounts is taken into account.

Deferred taxes for hedge accounting and available-for-sale securities were only recognised directly in equity.

Deferred taxes on changes to present value of cash flow hedges amounting to €98 thousand (previous year: €431 thousand) are recognised directly in equity.

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

	2009 € thousand	2008 € thousand
Earnings before tax	14,160	18,400
Tax rate	30 %	30 %
Forecast tax expense/income	-4,248	-5,520
Tax expense/income from intra-Group income/expenses	-5	-18
Impairment of goodwill	0	0
Other non-deductible expenses for tax purposes	-2,033	-1,464
Difference tax rates	1,920	2,318
Tax free earnings	1,065	1,240
Tax burden	**-3,301**	**-3,444**

3.7 Earnings per share

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

4. Segment reporting

Identification of reportable operative segments pursuant to IFRS 8 is based on the concept of the “management approach”. Segmentation in the Einhell Group into the segments Garden & Leisure and Tools is based on the Group’s internal management structure and accounting.
Business operations of the Einhell Group are divided between the segments Tools and Garden & Leisure. The Tools segment comprises hand held electric tools, stationary tools and accessories. The Garden & Leisure segment includes the areas garden and water technology, machinery and greenhouses and air-conditioning and heating technology.
Segment information is determined on the basis of the accounting and valuation principles used in the consolidated financial statements.
Intra-segment transactions are usually carried out on an arms-length basis.

In 2009 **in € thousand**	**Tools**	**Garden & Leisure**	**Total segments**	**Reconciliation**	**Group**
Segment revenues	185,522	130,171	315,693	0	315,693
Operating segment revenues (EGT)	**8,640**	**5,520**	**14,160**	**0**	**14,160**
Financial result	-2,259	-1,583	-3,842	0	-3,842

In 2008 **in € thousand**	**Tools**	**Garden & Leisure**	**Total segments**	**Reconciliation**	**Group**
Segment revenues	210,686	147,820	358,506	0	358,506
Operating segment revenues (EGT)	**12,059**	**6,341**	**18,400**	**0**	**18,400**
Financial result	-3,487	-2,444	-5,931	0	-5,931

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

5. Segment reporting by region

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

2009 In € thousand	Germany	EU	Other Countries	Asia/ Pacific	Reconciliation	Group
External revenues	122,494	132,174	39,644	21,381	0	315,693

The EU companies with the strongest revenues are Einhell Austria (€21,524 thousand), Einhell Poland (€18,947 thousand), and Einhell Italy (€13,941 thousand). Other countries with particularly strong revenues were the companies in Turkey (€7,511 thousand) and Switzerland (€10,540 thousand). Revenues of the Hong Kong companies (€37,879 thousand) were mainly generated in the Asia region.

2008 In € thousand	Germany	EU	Other Countries	Asia/ Pacific	Reconciliation	Group
External revenues	125,423	150,792	59,786	22,505	0	358,506

The EU companies with the strongest revenues are Einhell Poland (€40,133 thousand), Einhell Austria (€17,640 thousand), and Einhell Italy (€17,957 thousand). Other countries with particularly strong revenues were the companies in Turkey (€10,153 thousand) and Switzerland (€9,128 thousand). Revenues of the Hong Kong companies (€44,437 thousand) were mainly generated in the Asia region.

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

During the financial years 2008 and 2009, no customer generated revenues of more than 10% of the revenues of the Einhell Group.

6. Notes to consolidated statement of cash flows

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

Current operations

The cash inflow from current operations is derived mainly from operating profit, reduction of receivables and a significant reduction in inventories.

Investment activity

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

The increase in goodwill of €445 thousand results from the investments in Einhell Export-Import GmbH and Einhell Romania SRL.

Financing activity

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

Changes in cash and cash equivalents

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

7. Risk report and financial instruments

Financial risk management

The Group operates internationally and is thus subject to market risks from changes in interest rates and currency exchange rates.
The Group uses derivative financial instruments to manage these risks. The guidelines used for risk management are implemented with the authority of the Board of Directors by a central treasury department working closely with Group companies.
Further information regarding risk management can be found in the Management Report.

Default risk

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

The book values of receivables present the maximum default risk.

Trade receivables from DIY chains, specialist traders and discounters amount to €48.2 million (previous year: €61.4 million). In the financial year 2009 there were no significant receivables for which new payment targets were agreed. The share of receivables due for more than 60 days and not impaired amounts to 0.41% (previous year: 2.65%).

As the derivatives have been acquired from renowned financial institutions, the Group expects that the maximum default risk will be covered by the positive market value of the derivatives.
At reporting date, cash in banks amounted to €57.6 million (previous year €20.0 million). The cash was held in first-rate, well-known banks.

Price and supply risks in supply markets are countered by the Einhell Group by long-term supply relationships, which are constantly subjected to quality management.

Interest rate risks

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

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

The Group uses all interest caps and swaps either as an economic cash flow hedge or as economic present value hedge and uses them at present value. The nominal value of existing hedge transactions at reporting date is €40,000 thousand (previous year €31,500 thousand).

The Group is subject to an accounting cash flow risk from fluctuating interest rates. A change in market interest rates of 1% would have an effect on interest at reporting date of €154 thousand.

The Group is subject to accounting risk from the fair value valuation of derivatives. An increase in market interest rates of 1% would result in a positive effect on the statement of comprehensive income at reporting date of €754 thousand. A reduction in market interest rates of 1% would result in a negative effect on the statement of comprehensive income at reporting date of €580 thousand.

Liquidity risk

The liquidity risk is the possibility that a company will no longer be in a position to meet its financial obligations (such as repayment of financial liabilities or payment for orders). The Einhell Group limits this risk by using effective management of net working capital and cash and traditional credit lines from well-known banks. At reporting date, the Group’s operations had unsecured current credit lines amounting to ca. €57 million. The Group also keeps a close eye on opportunities available in the financial markets in order to secure flexibility of the Group’s finances and to limit unfavourable refinancing risks.

The following table shows all contractual payments as of 31 December 2009 for amortisation, repayments and interest for financial liabilities in the statement of financial position including derivative financial instruments with a negative market value. Derivative financial instruments are shown at market value. It is not anticipated that actual cash flows will significantly differ from the contractual cash flows.

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

	2009	2010	2011	2012-2014	2015 and later
Non-current liabilities to banks	45,088	1,835	1,804	45,245	189
Trade payables	27,531	0	0	0	0
Other liabilities	12,022	0	0	0	0

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

Foreign currency risk

Due to the international aspect of its normal business operations, the Einhell Group is subject to currency risks. To manage and minimise these risks, the Einhell Group uses derivative financial instruments with a maturity of up to one year. The foreign currency risk management system of the Einhell Group has been successfully operated for several years. Fluctuations in exchange rates can lead to undesirable and unpredictable earnings and cash flow volatility. This affects each company in the Einhell Group that trades with international partners in a currency that is not the functional currency (the relevant national currency). Within the Group, this applies in particular to procurement made regularly in US dollars. In contrast, the sale of Einhell products is mainly made in the relevant national currency.

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

Due to current US dollar payment terms, US dollar accounting exposure for financial instruments results mainly from derivatives. A change of 10% in exchange rates results in exchange rate gains of €7,365 thousand or a loss of €6,499 thousand, which has been shown in equity due to the application of cash flow hedge accounting. The derivatives are used only to finance the purchase of goods.

The nominal volume of derivative financial instruments is equivalent to the total of gross purchase and sale amounts between the parties and is therefore not a reliable indicator for Group risk from the use of derivative financial instruments. Risks and opportunities are expressed through market value, which is equivalent to the cash value of the derivatives at reporting date.
Deferred taxes based on these financial instruments amounted in the financial year 2009 to €98 thousand (previous year: €431 thousand)

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

	Nominal volume		Market value	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Currency futures	28,934	45,259	796	1,899
Options	0	10,732	0	818
Total	28,934	55,991	796	2,717

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

	Nominal volume		Market value	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Currency futures	46,723	72,179	1,007	1,875
Options	0	5,366	0	16
Total	46,723	77,545	1,007	1,891

Designated hedged items are contracted and planned purchases and sales. All cash flows are anticipated in 2010 and are recognised as cost of inventories. Ineffectivity of cash flow hedges is insignificant due to their short-term nature.

Market value and book values of financial instruments

Pursuant to IAS 39, financial instruments are allocated to different valuation categories depending on whether they are recorded as assets or liabilities. The allocation to a particular valuation category affects whether the financial instrument is recognised at cost or fair value. The following table shows the book value and fair value for individual categories and valuation classification in the statement of financial position. Up to 90% of non-current loans are subject to variable rates of interest and therefore the fair value is set at the book value. Other fair values are provided by banks or determined on the basis of recognised valuation models. For current assets values and liabilities, the book value provides a good indication of the fair value.

		Book value		Fair Value	
Valuation category	**Valuation**	**31.12.2009**	**31.12.2008**	**31.12.2009**	**31.12.2008**
Assets and liabilities held for trading*	Fair value				
- Hedge accounting derivates					
Other assets		117	1,956	117	1,956
Other liabilities		328	1,122	328	1,122
- Hedge derivatives without application of hedge accounting					
Other assets		843	32	843	32
Other liabilities		188	8	188	8
Loans and receivables	Amortised costs				
- Trade receivables		48,160	61,352	48,160	61,352
- Other assets		7,149	9,045	7,149	9,045
Available-for-sale financial instruments	Fair value				
- Investment securities*		992	984	992	984

* The fair values are level 2 fair values pursuant to IFRS 7. There are no other levels or reclassifications between levels.

Valuation category	Valuation	Book value 31.12.2009	Book value 31.12.2008	Fair Value 31.12.2009	Fair Value 31.12.2008
Other financial liabilities	Amortised costs				
- Liabilities to banks		41,733	15,068	41,733	15,068
- Trade payables		27,531	35,547	27,531	35,547
Cash and cash equivalents	Fair Value	57,598	19,971	57,598	19,971

8. Other obligations

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

	€ thousand
2010	1,856
2011 to 2014	2,643
2015 and later	116
Total	**4,615**

The company and its subsidiaries have entered into various operating lease agreements for company cars, office equipment and other facilities and equipment. The terms for leased objects range from two to five years. Leasing agreements are not normally cancellable.
Other guarantees, open letters of credit for purchased goods at suppliers and possible obligations arising from bills of exchange amounted at reporting date to €4,577 thousand (previous year: €3,439 thousand). Other possible liabilities amounted to €18 thousand (previous year: €547 thousand).

Money market funds recognised as assets amounted to €640 thousand (previous year: €631 thousand), which were used to secure various pension commitments.

9. Corporate Governance Code

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

10. Related party transactions

Remuneration paid to members of the Board of Directors

Members of the Board of Directors receive fixed and variable performance-based salary components. Members of the Board of Directors receive shares in Einhell Germany AG. There are no share option programmes or similar arrangements. For the financial year 2009, total salaries of members of the Board of Directors of Einhell Germany AG amounted to €1,916 thousand (previous year: €2,200 thousand). Pension provisions amounting to €179 thousand were also recognised for this group.

Pension provisions amounting to €1,287 thousand (previous year: €1,282 thousand) have been made for former members of the Board of Directors. In this financial year, €97 thousand was paid out in pension commitments to former members of the Board of Directors.

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

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

11. Dependency report

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

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

12. Auditors’ fees

Auditors’ fees of KPMG AG included as an expense in the financial year for the auditing of the consolidated financial statements amount to €161 thousand (previous year: € 161 thousand) and are due solely to KMPG companies in the KMPG LLP Group. The fees are due solely for auditing services. No other consultancy fees, tax advisory fees and other services were provided for the Einhell Group.

13. Events after reporting date

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

14. List of subsidiaries

	investment direct %	indirect %	IFRS equity as at 31.12.2009 € thousand
iSC GmbH, Landau a.d. Isar	100.0		1,396
Hansi Anhai Far East Ltd., Hong Kong, China	100.0		15,376
HAFE Trading Ltd., Hong Kong, China	100.0		1,867
Hans Einhell China (Chongqing) Co. Ltd., Chongqing, China	100.0		5,915
Hansi Anhai Youyang Ltd., Chongqing, China		100.0	2,189
Hans Einhell (China) Trading Co., Ltd., Shanghai, China	100.0		716
Einhell Österreich Gesellschaft m.b.H., Vienna, Austria	100.0		5,979
Einhell Portugal – Comércio Int., Lda., Arcozelo, Portugal	100.0		4,077
Einhell Benelux B.V., Breda, Netherlands	100.0		1,103
Einhell Italia s.r.l., Milan, Italy	100.0		3,637
iSC Italia S.r.l., Milan, Italy		100.0	44
Comercial Einhell S.A., Madrid, Spain	100.0		1,537
Einhell Polska Sp.z o.o., Wrozlaw, Poland	90.0		15,152
Einhell Hungaria Kft., Budapest, Hungary	100.0		793
Einhell Schweiz AG, Winterthur, Switzerland	100.0		1,092
Einhell UK Ltd., Birkenhead, United Kingdom	100.0		693
Einhell Bulgarien ODD., Varna, Bulgaria	67.0		458
Einhell Export-Import GmbH, Tillmitsch, Austria	100.0		775
Einhell Croatia d.o.o., Lepajci, Croatia		100.0	5,131
Einhell BiH d.o.o., Vitez, Bosnia		66.7	2,183
Einhell d.o.o. Beograd, Belgrade, Serbia		100.0	682
Einhell Romania SRL, Bucharest, Rumania	90.0		2,630
Einhell-Ukraine TOV, Kiev, Ukraine	100.0		36
Svenska Einhell AB, Gothenburg, Sweden	100.0		-174
Einhell Holding Gesellschaft m.b.H., Vienna, Austria	100.0		718
Einhell-Unicore s.r.o., Karlsbad, Czech Republic	100.0		1,921
Intratek Mühendislik ve Dis Ticarret A.S., Istanbul, Turkey	85.0		2,066
Anxall Hellas A.E., Athens, Greece	96.0		635
Einhell Chile S.A., Santiago, Chile	90.0		139
Einhell Scandinavia Aps, Arhus, Denmark	100.0		92
Einhell Middle East Trading FZC, Ras Al-Khaima, United Arab E mirates	80.0		61
Einhell Slovakia s.r.o., Pezinok, Slovakia	100.0		-212
Einhell France SAS, Villepinte, France	70.0		-320
Einhell Australia PTY. Ltd., Victoria, Australia	100.0		55
Einhell Brasil Com. Distr. Ltda, Campinas, Brazil	90.0		366

15. Company bodies

The Board of Directors of Einhell Germany AG in the financial year 2009 comprised:

• Andreas Kroiss, Linz/Austria (Chairman)	Purchasing, marketing and sales Product management and corporate strategy
• Jan Teichert, Metten	Finance and accounting, legal, controlling, investor relations and personnel
• Dr. Markus Thannhuber, Landau a. d. Isar	Technology and development, quality assurance, service and IT
• York Boeder, Landau a. d. Isar	International sales

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

The Supervisory Board of Einhell Germany AG comprises:

• Josef Thannhuber, Landau a. d. Isar Businessman	Chairman
• Professor Dr Dieter Spath, Sasbachwalden Head of the Fraunhofer Institute for Industrial Engineering (IAO), Stuttgart	Deputy Chairman
• Heribert Lukas, Wallersdorf - Haidlfing Works Council; to 31 May 2009	Employee representative
• Maximilian Fritz, Wallersdorf - Haidlfing Call Centre team leader; since 1 June 2009	Employee representative

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

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

Landau a. d. Isar, 18 March 2010

Einhell Germany AG
The Board of Directors

Andreas Kroiss	Jan Teichert	Dr. Markus Thannhuber	York Boeder

Einhell Germany AG, Landau a. d. Isar

Statement of non-current assets in the financial year 2009

		Acquisition and production cost					
		1.1.2009	Additions	Disposals	Reclassification	Currency differences	31.12.2009
		€	€	€	€	€	€
I.	**Intangible assets**						
	1. Franchises, development costs, trademarks patents and licences and similar rights and values and licences and similar rights and values	11,315,553.83	449,791.37	-257,777.48	-9,727.26	-3,898.50	11,493,941.96
	2. Goodwill	9,931,275.16	445,191.11	-800,000.00	8,180.67	0.00	9,584,646.94
	3. Prepayments	34,122.01	7,000.00	-30,833.88	0.00	8,226.30	18,514.43
		21,280,951.00	901,982.48	-1,088,611.36	-1,546.59	4,327.80	21,097,103.33
II.	**Property, plant and equipment**						
	1. Land, leasehold rights and buildings, including buildings on non-owned land	26,181,961.56	135,785.58	-114,708.49	53,487.79	-111,985.71	26,144,540.73
	2. Technical equipment, plant and machinery	2,450,534.74	2,841,534.42	-1,005,239.46	0.00	-12,894.80	4,273,934.90
	3. Other equipment, fixtures and fittings and equipment	10,924,553.72	671,209.24	-1,232,561.76	-51,941.20	-61,126.16	10,250,133.84
	4. Prepayments and machinery under construction	15,161.47	26,930.23	-4,533.30	0.00	-271.92	37,286.48
		39,572,211.49	3,675,459.47	-2,357,043.01	1,546.59	-186,278.59	40,705,895.95
III.	**Financial assets**						
	Securities	987,930.49	7,845.23	0.00	0.00	0.00	995,775.72
		61,841,092.98	4,585,287.18	-3,445,654.37	0.00	-181,950.79	62,798,775.00

Statement of non-current assets in the financial year 2008

		Acquisition and production cost					
		1.1.2008	Additions	Disposals	Reclassification	Currency differences	31.12.2008
		€	€	€	€	€	€
I.	**Intangible assets**						
	1. Franchises, development costs, trademarks patents and licences and similar rights and values and licences and similar rights and values	10,096,967.49	1,252,357.90	-41,352.45	0.00	7,580.89	11,315,553.83
	2. Goodwill	9,646,699.58	284,575.58	0.00	0.00	0.00	9,931,275.16
	3. Prepayments	43,901.43	81,907.35	-91,682.28	0.00	-4.49	34,122.01
		19,787,568.50	1,618,840.83	-133,034.73	0.00	7,576.40	21,280,951.00
II.	**Property, plant and equipment**						
	1. Land, leasehold rights and buildings, including buildings on non-owned land	26,788,162.64	140,021.01	-128,492.01	0.00	-617,730.08	26,181,961.56
	2. Technical equipment, plant and machinery	2,207,672.97	301,992.68	-121,303.69	0.00	62,172.78	2,450,534.74
	3. Other equipment, fixtures and fittings and equipment	10,521,572.19	1,179,195.83	-738,859.33	0.00	-37,354.97	10,924,553.72
	4. Prepayments and machinery under construction	5,351.71	10,356.25	0.00	0.00	-546.49	15,161.47
		39,522,759.51	1,631,565.77	-988,655.03	0.00	-593,458.76	39,572,211.49
III.	**Financial assets**						
	Securities	980,068.98	7,861.51	0.00	0.00	0.00	987,930.49
		60,290,396.99	3,258,268.11	-1,121,689.76	0.00	-585,882.36	61,841,092.98

Cumulated depreciation						Book value	
1.1.2009	Depreciation in financial year	Disposals	Reclassification	Currency differences	31.12.2009	31.12.2009	31.12.2008
€	€	€	€	€	€	€	€
8,505,462.91	1,444,964.72	-185,635.45	-8,180.16	-7,835.60	9,748,776.42	1,745,165.54	2,810,090.92
2,098,287.11	0.51	0.00	8,180.16	0.00	2,106,467.78	7,478,179.16	7,832,988.05
6,947.76	417.22	0.00	0.00	3,703.09	11,068.07	7,446.36	27,174.25
10,610,697.78	1,445,382.45	-185,635.45	0.00	-4,132.51	11,866,312.27	9,230,791.06	10,670,253.22
14,726,399.68	754,729.11	-86,768.96	4,514.33	-8,487.56	15,390,386.60	10,754,154.13	11,455,561.88
1,926,985.20	182,833.33	-997,741.84	0.00	-9,241.78	1,102,834.91	3,171,099.99	523,549.54
7,734,634.22	1,041,930.59	-1,108,969.47	-4,514.33	-18,044.60	7,645,036.41	2,605,097.43	3,189,919.50
0.00	0.00	0.00	0.00	0.00	0.00	37,286.48	15,161.47
24,388,019.10	1,979,493.03	-2,193,480.27	0.00	-35,773.94	24,138,257.92	16,567,638.03	15,184,192.39
3,845.03	0.00	0.00	0.00	0.00	3,845.03	991,930.69	984,085.46
35,002,561.91	3,424,875.48	-2,379,115.72	0.00	-39,906.45	36,008,415.22	26,790,359.78	26,838,531.07

Cumulated depreciation						Book value	
1.1.2008	Depreciation in financial year	Disposals	Reclassification	Currency differences	31.12.2008	31.12.2008	31.12.2007
€	€	€	€	€	€	€	€
7,046,912.73	1,489,446.70	-41,349.72	-127.36	10,580.56	8,505,462.91	2,810,090.92	3,050,054.76
2,098,287.11	0.00	0.00	0.00	0.00	2,098,287.11	7,832,988.05	7,548,412.47
0.00	8,041.34	0.00	0.00	-1,093.58	6,947.76	27,174.25	43,901.43
9,145,199.84	1,497,488.04	-41,349.72	-127.36	9,486.98	10,610,697.78	10,670,253.22	10,642,368.66
13,805,358.78	922,381.66	-1,645.70	0.00	304.94	14,726,399.68	11,455,561.88	12,982,803.86
1,853,183.60	130,849.41	-91,924.02	0.00	34,876.21	1,926,985.20	523,549.54	354,489.37
7,105,013.39	1,061,496.84	-397,777.61	127.36	-34,225.76	7,734,634.22	3,189,919.50	3,416,558.80
0.00	0.00	0.00	0.00	0.00	0.00	15,161.47	5,351.71
22,763,555.77	2,114,727.91	-491,347.33	127.36	955.39	24,388,019.10	15,184,192.39	16,759,203.74
3,845.03	0.00	0.00	0.00	0.00	3,845.03	984,085.46	976,223.95
31,912,600.64	3,612,215.95	-532,697.05	0.00	10,442.37	35,002,561.91	26,838,531.07	28,377,796.35

Einhell Germany AG, Landau a. d. Isar

Group Management Report for the financial year 2009

Business conditions

After it most severe collapse in post-war history, **global economy** is enjoying a slight recovery. The deep recession was caused primarily by a particularly abrupt slump in global trade at the beginning of 2009, the effects of which virtually no country was able to escape. After worldwide insecurity about economic outlook eased during the course of the year, industrial production and global trade began to recover some positive growth. However, the stabilisation is mainly due to the generous monetary policies of central banks and the strong expansion of governmental demand in the form of economic recovery programmes. The hefty fall in commodity prices also had a positive impact on economies. The relative robustness of emerging market economies also had a stabilising effect on global trade. Whilst real economies were severely affected across the world, Asian economies profiled themselves in particular with only temporary slowing of their economies. These positive influences were not able to prevent a fall in global year-on-year economic performance in 2009 of 1.1%.

In 2009, the **German** economy contracted for the first time in six years. The fall in gross domestic product (GDP) by -5.0% was the strongest fall in post-war history. After massive losses in the winter half-year 2008/2009, there was a slight stabilisation of the German economy at a new lower level.

Globally weak demand resulted in a historically unique fall in exports and capital spending in Germany at the beginning of 2009. Price-adjusted exports fell in 2009 for the first time since 1993. Exports suffered a double-digit collapse at -14.7%. The German government sought to support demand and stabilise expectations by introducing extensive measures to support the economy.
In 2009, the economy was heavily dependent on private consumption and increased state expenditure. Private consumption increased by 0.4% year-on-year, due principally to the *Abwrackprämie* (the German government scrappage scheme for older vehicles). Government expenditure in 2009 increased by 2.7%. This increased the national deficit to €77.2 billion and represents 3.2% of GDP. This meant that for the first time since 2005, Germany was not able to meet the limits required by the European stability pact, which permits maximum new indebtedness of 3% of GDP.

Despite the deepest recession since the foundation of the Federal Republic of Germany, the German employment market has proven itself to be robust. The effects were marked, but were relatively light given the strong collapse in production. Companies initially sought to use up balances on working time accounts, reduced collective bargaining working hours and made use of the possibility of short-time working. The average number of unemployed persons in 2009 was 3.43 million. The unemployment rate, based on the full civilian labour force, averaged 8.2% in 2009. This represents an increase of 0.4 percentage points over the previous year.

A very moderate rise in consumer prices characterised price development in Germany in 2009. The consumer price index rose by an average of just 0.4% in comparison with the previous year. The lowest annual rate of price increases since Germany was reunified is based mainly on a marked reduction in energy prices, and also on a fall in food prices. Measured by the index of the Hamburg Institute of International Economics (HWWI Index) on a euro-basis, commodity prices were on average 29.5% below the record levels of 2008. On a US dollar basis, levels saw a reduction of 33.6%.

The start of spring business in the German **DIY market** again suffered under the adverse weather in 2009. It remained unseasonably cold in many regions of Germany until well into March. In January and February, there were significant falls in turnover so that revenues in building and DIY markets fell across the board in the first quarter 2009 by 4.8% in comparison with the previous year. In total, building market turnover in the first half year was about 1.5% - 2% lower than in the previous year. The German Federal Association of DIY, Building and Garden Centres (*Bundesverband Deutscher Heimwerker-, Bau- und Gartenfachmärkte*) anticipates a year-on-year increase in revenues for the full year 2009 of about 0.5% - 1%. The Building Centre industry is confident about 2010, and expects that revenues will stabilise at least at the 2009 level. Although private consumption is no longer a stabilisation factor for German economic performance, expenditure for house and garden design is unlikely to fall.

After a strong fall at the start of 2009, **Europe**'s economy stabilised around the middle of the year. Above all, the ending of substantial reduction in inventories in the first half year and government economic support programmes in many countries made space for a recovery of the economic situation. Although there was an improvement in the economy in the third quarter in particular, the full year 2009 saw a reduction in GDP of 3.9%. Central and Eastern European countries in particular saw significant falls in industrial production and exports. This is due mainly to reduced demand from other countries in the euro zone. Countries that had accumulated large current account deficits in previous years fell into deep recession under the worsened refinancing conditions.

The effects of the financial crisis on the employment market were felt in almost every country in 2009. The increase in the number of unemployed was particularly strong in countries that had experienced a property boom in recent years, such as Spain and Ireland. The unemployment rate in these countries was far in excess of the average unemployment rate in the euro zone (9.5%).

The European Central Bank (ECB) reduced base rates within a period of seven months from 4.25% to 1%. In order to counter insecurity in the financial markets and ensure sufficient liquidity, the ECB also eased credit conditions. After hefty fluctuations in the currency markets in 2008, the real effective exchange rate, as a measure of the competitiveness of the euro zone, is approximately at the level of the previous year.

The group of 16 **European finance ministers** expressed their concern about the economic situation in the monetary union. The economic imbalances were of concern not only in highly indebted countries such as Greece, but also in Spain and Portugal. These countries are suffering from problems with prices and production costs in international competition. Yet Belgium, France, Italy and Slovakia are also showing structural weaknesses in the export sector. Only four states are in a relatively sound competitive position: Germany, Luxembourg, the Netherlands and Austria. However, even these states need to take action. Above all, there must be an improvement in the quality of public finances, reform in employment markets and strengthening of domestic demand.

The euro is suffering the worst crisis since its introduction. The price of hedging default of government bonds for individual euro zone countries such as Greece and Portugal has recently been more expensive than for Eastern European countries such as Poland. Therefore, investors have been placing more trust in Polish investors to repay loan interest and capital repayments on time. This mistrust in individual countries has caused a strong fall in the common European currency.

Poland is the only country in Europe that was able to resist the global recession. In 2009, strong domestic demand in Poland saw the economy increase by 1.7%. With exports at only 40% of GDP, in comparison with other countries the Polish economy is only slightly affected by global weakness of demand. The economy was also supported by devaluation of the zloty. Speculators had bid strongly against the Polish currency since the financial crisis. The Central Bank in Warsaw did not react, and in the meantime rates fell by 27%, until the International Monetary Fund agreed to support Poland's currency reserves with billions. The Polish government is optimistic about prospects in 2010 and expects economic growth of 3%.

After a hefty collapse at the beginning of the year, total **Austrian** economic performance in 2009 fell by 3.6%. The massive slump in export demand and tighter financial conditions were responsible for a massive fall in capital spending. A large number of small and medium-sized companies were particularly affected by reduced demand and deteriorating finance conditions as a consequence of the financial and economic crisis. The Austrian credit system continued to fulfil its function as liquidity provider during the crisis in the financial markets. Extended state guarantees for corporate financing and the banking package also provided necessary support. The tax reform that became effective in 2009 and low level of price increases encouraged private consumption. Along with Germany, Austria is one of the EU countries with the lowest increase in unemployment levels during the crisis. The economic and employment packages played a large part in securing employment levels.

The International Monetary Fund (IMF) and EU Commission supported **Rumania** during the economic crisis with a loan package of around €20 billion. The share provided by the IMF amounted to €12.95 billion, of which Rumania has received €6.6 billion to date. The EU Commission promised €5 billion, of which it has paid out €1.5 billion. Provision of the loans was linked to strict conditions concerning a return to a balanced budget within the medium term. As there was a delay in passing the Rumanian budget for 2010, payment of the second instalment was delayed. However, payment of further instalments is to continue. In 2009, Rumania recorded a public deficit of 7.3% and envisages a deficit of 5.9% for 2010. The inflation rate in 2009 was 4.74%. This did not meet the target agreed with the IMF of 3.5%. A growth of GDP of 0.6% - 2% is expected in 2010, fed by exports and industry.

The **British** economy was hit hard and fast by the global economic and financial crisis. The relative importance of the financial sector with 7% of GDP meant that the global financial turbulence had massive implications and effects on the British economy. The economic performance of the British economy collapsed in 2009 by 4.8%. This is the largest fall since records began in 1949. Of the seven largest industrial nations (G7), the United Kingdom suffered the longest under the global recession. According to the national statistical office, the economy grew by only by 0.1% in the last quarter of 2009 as against the previous quarter. The strong emphasis of the British economy on service industries is increasingly dependent on domestic demand, whilst export-oriented countries such as Germany were able to profit from the recovery of world trade. No significant impact may be expected from private consumption, as there is increasing insecurity derived from unemployment fears. The British government is turning to high levels of increased public deficit to stimulate the British economy. A deficit of 12% of economic performance is planned for 2010. In light of the weak recovery of the economy, the base rate of the Bank of England remains at a record low of 0.5%. In 2010, experts expect British economic performance to increase by about 1%.

The **Spanish** economy has been drawn into the economic crisis. Before the financial crisis, Spain had a flourishing economy and a profitable real estate sector that came to an abrupt end with the subprime crisis. Real estate prices have collapsed and industrial production has also seen significant falls. Spain has also suffered significant impact on its competitiveness. As Spain cannot compensate this with a devaluation of its currency, it must increase productivity and lower wages in order to improve its competitiveness. After 1.2 million jobs were lost in the previous year, the unemployment rate in 2009 was over 20%. Estimates by the EU Commission put the Spanish public deficit at 11.2% of GDP. The Spanish government is planning spending cuts of €50 billion by 2013 in order to massively reduce the public deficit and once again meet the criteria of the stability pact at some time in the future. Prospects for the future are still cautious, and the IMF anticipates a further contraction of the economy in 2010 by 0.6% of GDP.

As the world's largest economy, **China** survived the crisis year 2009 better than any other country. The Chinese National Bureau of Statistics of China even announced double-digit growth for the final quarter of the year. Across the whole year, the economy grew by a total of 8.7%, exceeding even the official 8% target of the Chinese government.

In order to largely escape the effects of the financial crisis, the Chinese government made extended provision of liquidity. As well as drastically extending bank loans by $1.4 trillion, the volume of money exploded GDP by about one third. After the massive availability of loans, there are increasing signs of threatened inflation. Prices of petrol and foodstuffs rose sharply in the final months of 2009. The consumer price index increase at 1.9% in December 2009 had increased by 0.6% over the previous month. In order to counter a possible overheating of the Chinese economy, the Chinese government increased interest rates for Chinese State bonds and the interest rate for the minimum reserve, which determines the mandatory financial deposits that banks have to make to the Chinese central bank. The central bank also limited loan volume for 2010 to the equivalent of €800 billion. In contrast to western industrial countries, which were sometimes faced with a dearth of credit during the crisis, the Chinese government forced their banks to make loans. In 2009, following political instructions, the banks massively increased their lending by the equivalent of about €1 trillion.

There are also signs with extreme property bubbles that the Chinese real estate market is overheating. Real estate sales in 2009 in China increased by 75.5%. Speculators have pushed up prices so high that some places saw price increases of almost 20%.

<u>Organisation of the Einhell Group</u>

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

Changes to Group structure

The Group structure was changed with effect from 1 January 2009 with the takeover of all shares in Einhell Export-Import GmbH. This company is now a fully owned Group subsidiary.

The financial year 2009 saw the foundation of another company in South America with the establishment of Einhell Brasil Com. Distr. Ltda with its registered office in Campinas. Einhell Germany AG holds a 90% stake in this company.

As organic growth presents significant growth potential, the structure of the Group is an important function of management. Company segments and information paths must be continually reassessed as part of the ongoing expansion of the Group. Integration of new companies must attach great importance to integration in corporate software systems in order to ensure flawless information flows.

Performance report

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

The Einhell Group was unable to escape the effects of the turbulence in the global economy in 2009. Group revenues for the financial year 2009 amounted to €315.7 million, as against €358.5 million in the previous year.

The main priority of the Einhell Group, the profitable orientation of the company, is achieved through various secondary goals. These allowed the Einhell brand to stay true to its motto "brand quality for the price conscious" in the financial year 2009. Another focus of the Einhell Group in 2009 was the improvement of quality, as this generates stronger customer loyalty and the securing of new customers. Einhell Group customers are cash and carry stores, hypermarkets and discount stores, specialist stores and, above all, DIY stores. These customers play a decisive factor in many segments of the Einhell Group, from product development through to the after-sales customer service of iSC GmbH.

The domestic market in **Germany** was unable to quite match revenues of the previous year in 2009. Revenues in the reporting period decreased from €125.4 million to €122.5 million. The share of domestic revenues amounts to 39%.

Revenues in the **European Union** remained below the levels of 2008 during the course of the financial year 2009. There was a total reduction of 12.3% of €150.8 million to €132.2 million. The most important sales markets in the financial year 2009 were Austria, Poland and Italy.

Revenues in **Asia** in the reporting period amounted to €21.4 million (previous year €22.5 million).

Other countries generated revenues of €39.6 million (previous year €59.8 million). The strongest countries for sales are Turkey and Switzerland.

The share of Group revenue generated in other countries amounted to 61.0% in the financial year 2009.

Increase in the total output of both segments

The Tools segment achieved revenues in the financial year 2009 of €185.5 million (previous year €210.7 million). The fall in sales in this segment is due mainly to a decline in sales in Eastern Europe where the Tools division continues to represent a large proportion of sales. This segment includes products from the product groups compressors, cordless screwdrivers, impact drills, wet-dry vacuum cleaners, fixed circular saws, wood splitters, and mitre box saws.

The Garden & Leisure segment generated revenues of €130.2 million (previous year €147.8 million) in 2009. This segment includes products from the product groups lawn mowers, petrol trimmers, electric scarifiers, electric silent shredders, electric strimmers, chain saws, and petrol scythes.

Human resources

The number of employees was reduced by 5% during 2009 in comparison with the previous year to an average of 999 (previous year: 1,052). Revenue per employee was €316 thousand (previous year €341 thousand).

Constant training of our staff provides the basis for successful future trading. The continuing education and training programmes offered in 2010 cover the areas of work processes, IT, languages and management. Increased efficiency of work processes and building on skills and knowledge of our employees gives us a firm foundation for long-term success of the company.

The performance and extraordinary commitment of each of its employees allowed the Einhell Group to achieve a remarkable result in the financial year 2009 despite a difficult economic environment. The Board of Directors of Einhell Germany AG would like to express its thanks to all Group employees.

Earnings

Despite the general economic crisis, the Einhell Group was able to maintain a high level of earnings to the end of the year in the financial year 2009. Crucial to this development were the strategic steps introduced in the past to focus on core competencies, active product management and a continual improvement of quality management.

In the financial year 2009, the Einhell Group generated profit from operations of €14.2 million (previous year: €18.4 million). The pre-tax yield fell from 5.1% to 4.5%.

The consolidated net profit after minority shareholdings was reduced in the financial year 2009 from €14.2 million to €10.8 million. The ROI[1] at reporting date amounted to 6.25% (previous year: 7.5%). The financial result amounted to €-3.8 million (previous year: €-5.9 million). This results mainly from interest earnings in the amount of €-2.0 million (previous year: €-2.6 million) and from earnings from currency conversion of €-1.8 million (previous year: €-3.3 million).

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

In the financial year 2009, we attained an EBIT yield in relation to revenues of 5.7% (previous year 6.8%). This fall in earnings was mainly due to the increase in cost of materials and also to the consistent reduction of inventories by clearance.

These earnings meant that the Einhell Group did not fully meet its ambitious targets for the financial year 2009. However, in light of the economic conditions, earnings were still very stable. The Einhell Group was again able to prove its profitability under the most difficult of economic circumstances.

Assets

Main items in the statement of financial position for the financial years 2008 and 2009 are as follows:

In € millions	**2008**	**2009**
Non-current assets	26.8	26.8
Inventories	113.3	74.6
Trade receivables	61.4	48.2
Cash and cash equivalents	20.0	57.6
Equity	123.7	129.7
Liabilities to banks	46.3	42.2

Investments

Investments in the financial year 2009 amount to €4.6 million, of which €0.9 million is for intangible assets and the remainder of €3.7 million for property, plant and equipment. Intangible assets include capitalised product development costs. Property, plant and equipment comprises mainly investments in technical equipment and machinery, and fixtures and fittings and other equipment.

Depreciation and amortisation in 2009 amounted to €3.4 million and was reduced as against the previous year by €0.2 million (previous year: €3.6 million).

Current assets

At balance sheet date, inventories had decreased from €113.3 million to €74.6 million. The decrease was mainly due to clearance sales, adjustments to economic circumstances and intensive storage management. Trade receivables were reduced by €13.2 million to €48.2 million (previous year: €61.4 million). No factoring was carried out in the financial year 2009.

As a result of a significant increase in cash flow from operating business, particularly from the reduction in inventories and receivables, cash and cash equivalents at reporting date increased by €37.6 million to €57.6 million. Its share in total assets increased from 8.1% in the previous year to 25.4%.

Financial position

Financing

Due to the healthy and solid financing structure of the Einhell Group with a traditional sound equity ratio that is currently at 57.3%, the Board of Directors does not anticipate any problems with current business operations, nor does it foresee any financing problems if business volume begins to pick up again. Therefore the Board is maintaining its extremely successful and long-term international expansion strategy.

In the financial year 2009, the Einhell Group was again mainly financed by the bonded loan and non-current loans. Non-current refinancing with bilateral credit agreements successfully replaced the expired bonded loan. We succeeded in securing favourable terms for non-current financing for €40 million for the next five years. The Group does not envisage any difficulties in meeting its repayment obligations under the loan agreements. We are pleased that we were able to enter into the loan agreement without having to provide any security. Due to its solid financial structure, the Group has been able to achieve an equity ratio of 57.3%. This places the Group in a strong position in these continuing difficult market conditions. Net indebtedness was eradicated. The Group has a net cash position at reporting date and foresees no problems in financing its future business transactions.

The positive developments in the financial position in the financial year 2009 are clear from the summarised statement of cash flows:

in € millions	**2009**	**2008**
Cash flows from operating activities	51.1	13.9
Cash flows from investment activities	-7.0	-3.9
Cash flows from financing activities	-6.4	-5.0
	37.7	5.0
Changes from currency conversion	-0.1	0.4
Net increase in cash	37.6	5.4
Cash and cash equivalents at beginning of period	20.0	14.6
Cash and cash equivalents at end of period	57.6	20.0

The cash flow from financing activities results from the repayment of loans and the dividend payment for the financial year 2008.

Procurement

Commodity prices are an important factor in global trade. After commodity prices collapsed as a result of the deepest worldwide recession since the 1930s, global commodity prices have seen a significant recovery since the beginning of 2009. Prices increased by more than 40% from April to October, due to limited production of some commodities and also to a rise in demand from China. Oil prices in particular saw a significant increase. From a low point one year ago, the commodity index in euro has risen by 43%, and the US dollar basis has risen by 57%. On the basis of the HWWI Index, commodity prices have fallen as against the record levels of the previous year by 29.5% on the euro basis, and by 33.6% on the US dollar basis.

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

Supplier quality is also optimised on an ongoing basis. Dependency on individual suppliers is avoided by having an adequate number of suppliers and a broad distribution of orders. In order to generate additional flexibility for procurement, the Einhell Group has also had a presence in Vietnam since 2008.

Product research and development

During the financial year 2009, costs for product research and development amounted to €3.6 million (previous year: €4.0 million). This division has 34 employees (previous year: 37 employees). The division is mainly sales and customer oriented. Cooperation with other divisions, such as quality management, is therefore important, as well as communication with customers. Customer requirements are integrated from the beginning during the development of new products and versions. The customer is regarded as a partner. This allows for consistent market adjustment across the whole Einhell Group and this has made the Group one of the fastest reacting companies in its field. The positive feedback from our customers has convinced us to continue with this approach.

The “Blue” and “Red” product lines introduced at the end of 2008 have been well received by customers. The new product lines are differentiated by price and design. The “Blue” line designates the lower priced product line and the “Red” line designates the higher price segment. Prices remain below those of the current market leader but the products are distinguished by design, exclusivity and customer service. As well as generating desired effects with the customers, through the introduction of these lines we were also able to increase logistical and distribution efficiency. This allows Einhell to offer a full up-to-date range of attractive and modern products, which is rare for a company in this branch.

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

Main features of the company’s compensation system

Members of the Board of Directors receive fixed and performance-based variable remuneration with short and medium-term components. The performance-based components depend on consolidated net profit, earnings of the various divisions from the previous financial year, growth of Group assets and personal targets. Members of the Board of Directors hold shares in the Einhell Group. There are no share option programmes or similar arrangements. For further details of remuneration of the Board of Directors, see the notes in the notes to the consolidated financial statements.

The German Appropriateness of Management Board Compensation Act (VorstAG) is applied at the Einhell Group. The important aims of the new law are already mostly being applied by the Group with the formulation of previous remuneration structures, and the new law requires only slight amendments to bring remuneration disclosure requirements in line with the new law. Potential special effects (previously included in the remuneration structure) will be taken into account after the introduction of a cap, and the possibility of offsetting earnings if there is a significant deterioration in the position of the company will be documented.

The Supervisory Board and the Board of Directors of the Einhell Group have dedicated a great deal of time to the issue of remuneration. Remuneration components have been examined to see if they are reasonable in conjunction with the responsibilities and performance of the relevant member of the Board of Directors and the position of the company. Calculations also took into consideration the previous performance of the relevant members of the Board of Directors, based on the Group's key figures for the areas for which that member of the Board bears responsibility.

Remuneration also takes into account sustainable company development. The variable remuneration elements are linked to profits from ordinary operations and based only on actual targets achieved. Effects and risks from a financial year have a direct effect on actual figures for the following years. The valuation systems on which the actual figures are based have remained basically unchanged for many years and thus provide for comparable, transparent and sustainable accounting practices. The variable remuneration components are also in line with strategic multi-year targets. The strategic targets are outlined for 3-5 years in a Board of Directors strategy paper and are monitored continually by the Supervisory Board.

Events after reporting date

Between the end of the financial year 2009 and the date of preparation of the Management Report, there were no events with any significance for reporting purposes.

Dependency report

Thannhuber AG holds the majority of shares in Einhell Germany AG. We confirm that during the reporting period Einhell Germany AG did not undertake any legal transactions with Thannhuber AG or any transactions in the interest of or at the direction of Thannhuber AG, nor did it take or fail to take any measures that would have been to the detriment of Einhell Germany AG.

Significant aspects of internal control and risk management systems with respect to Group accounting processes as per § 315 (2) No. 5 of the German Commercial Code (HGB)

Definitions and elements of internal control and risk management systems

The internal control systems of the Einhell Group include all principles, processes and measures to ensure the effectiveness, economy and validity of its accounting and ensure compliance with applicable legal regulations.

The internal control systems comprise internal control and monitoring systems.

Domestic controlling, investment controlling, finance, Group accounting and legal departments comprise the internal control system of the Einhell Group. Einhell Group companies draw up plans for the following financial year during the current financial year. Relevant planning for cost of sales and expenses is drawn up on the basis of differentiated sales revenue planning. This target figures are used to draw up a projected statement of comprehensive income for the Group.

Actual figures from financial accounting of the individual companies are drawn up on a monthly basis. This results in a complete statement of comprehensive income in which projected and actual figures are compared and available for analysis. Changes in orders, and margins are also reported on a monthly basis. The members of the Board of Directors and the managers of the individual companies and divisions discuss this comparison. Analysis of the forecast and actual figures allows for the development and implementation of suitable control measures.

The internal monitoring system comprises both integrated and independent process measures. As well as automated IT process controls, manual process controls also form an important part of integrated process measures. The Supervisory Board, Group auditors and other audit bodies, such as the tax auditors, are involved in independent procedural auditing checks on the control processes of the Einhell Group. In particular, the audit of the consolidated financial statements by the Group auditors forms a significant part of independent procedural auditing checks with respect to Group accounting procedures.

Risk management system

As an integral part of internal control systems, the risk management system is designed to uncover risks of misstatements in Group accounting and external reporting and serves to identify possible risks at an early stage. Seizing opportunities in companies is associated with taking risks. A risk management system is required in order to be able to take a calculated risk. The introduction of an IT-based risk management information system seeks to allow company and corporate management to gather all information required for management of the Group in a summarised, compact and timely format. It is designed to simplify data collection in the individual companies and minimise the expenses of risk management in the Group.

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

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

Use of IT systems

Recording of accounting transactions is made in the individual accounts in the accounting programme Microsoft Business Solutions Navision or local accounting systems. When drawing up the consolidated financial statements of Einhell Germany AG, the financial statements of the individual subsidiaries are supplemented by further information in standard reporting packages which are recorded centrally at Einhell Germany AG in the consolidation system CONSIS. Group auditors regularly check the interfaces between the reporting system and the consolidation system and any reconciliation. The consolidation system CONSIS generates and documents all consolidation transactions required for preparation of the consolidated financial statements, such as capital consolidation, asset and liability consolidation, or income and expense elimination.

Specific Group accounting risks

Specific Group accounting risks may arise from the conclusion of unusual or complex transactions. Transactions that are not normally carried out in the course of business also present a latent risk. The discretionary scope given to staff for the application and valuation of assets and liabilities can also lead to other Group accounting related risks.

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

The internal control measures aimed at regularity and reliability of Group accounting ensure that transactions fully comply in a timely manner with statutory requirements and the stipulations of the company’s articles of association. They also ensure that inventories are carried out in a proper manner, and that assets and liabilities are properly allocated, valued and recognised in the consolidated financial statements. The rules also ensure that the accounting documentation provides reliable and transparent information.

For example, the control activities to ensure regularity and reliability of Group accounting comprise analysis of circumstances and developments on the basis of specific key figure analysis. The separation of administration, implementation and authorisation functions and their perception by different persons reduces the likelihood of wilful contravention. They also still ensure that changes to the IT systems used for the underlying bookkeeping in Group companies are subject to full and timely logging of bookkeeping transactions. The internal control system also secures capture of any changes in the economic or legal circumstances of the Einhell Group and the application of new or amended statutory regulations for Group accounting.

The International Financial Reporting Standards (IFRS) accounting standards provide uniform accounting and valuation policies for the companies from Germany and other countries that are included in the Einhell consolidated financial statements. As well as general accounting principles and methods, these also affect regulations about the statement of financial position, statement of comprehensive income, notes, management report, statement of cash flows and segment reporting as applicable in the EU.

The Einhell accounting policies also govern concrete formal requirements regarding the consolidated financial statements. As well as determining the companies included in the consolidation, there are detailed rules about the elements of reporting packages to be prepared by Group companies. The formal requirements also cover the mandatory application of standardised and complete form sets. The Einhell accounting principles still contain concrete rules about presentation and handling of Group accounting transactions and any resulting reconciliations.

At Group level, specific control activities to ensure regularity and reliability of Group accounting comprise the analysis and correction (where necessary) of the individual financial statements prepared by Group companies. Central implementation of impairment tests for the cash generating units identified by the Group allows for the application of uniform and standardised valuation criteria. The preparation and aggregation of further data for the preparation of external information in the notes and management report, including significant events after reporting date, is also carried out at Group level.

Note on limitations

The internal control and risk management system made possible by the organisational, control and monitoring structures established by the Einhell Group allow for a full compilation, preparation and appraisal of the company's situation and an accurate representation in Group accounting.

However, it is not possible to totally exclude personal discretionary decisions, defective controls, criminal acts or other circumstances may not be excluded and these may result in a restrict effectiveness and reliability of the internal control and risk management system. Therefore, the group-wide application of these systems cannot with absolute security guarantee the correct, complete and timely representation of circumstances in Group accounting.

Risk report

Procurement risks

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

Sales market risks

The Einhell Group sees sales market risks in loss of receivables and sales volume. Where possible, the Einhell Group uses Euler-Hermes credit insurance to counter credit risk. Innovative products that meet customer requirements in terms of design, functionality and value for money lessen the risk of a reduction in sales volume. This risk is being countered with the incremental introduction of two clearly defined product lines. In this way, the Einhell Group manages to gain additional market share even in difficult economic periods.

Financial risk

The continuing growth of the Einhell Group is also bound up with financing risks. The Einhell Group uses both non-current and current financial strategies in order to cope with financial risk. In the financing domain, there are non-current loans with banks with bilateral agreements. The Einhell Group also has classic lines of credit that were only partially utilised in 2009. Both endowment with liquid funds and equity was sound in this reporting year. Risks from interest rate changes and fluctuations were managed with derivative financial instruments such as non-current interest swaps and interest caps. Despite challenging financial circumstances, the Board of Directors was able to secure favourable refinancing of the bonded loan, which matured in 2009.

Expansion risks

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

Liability risk

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

In summary, in our estimation there are no risks that could jeopardise the continuing viability of the company.

Forecast

Global economic development

In the opinion of the International Monetary Fund (IMF), the **global economy** is stabilising more quickly than anticipated. The IMF has significantly increased its growth forecast and anticipates growth of 3.9% in 2010. The forecast for 2011 anticipates global economic growth of 4.2%.

However, recovery is patchy and some areas of the world are making more significant progress than others. In the opinion of the IMF, whilst industrial countries are recovering only slowly at 2.1% and remain dependent on government economic recovery programmes, emerging market and development countries are forecast growth of 6%, with China as the greater growth driver at 10%. Whilst in the past the emerging market countries have suffered particularly hard during crises, the situation is now different. Firstly, the banking sector in these countries is not as important as in the UK or the USA. Secondly, the export ratios of these countries have changed. Whilst emerging market countries mostly lived from the export of their cheap products, there is now a rise in domestic demand for those goods.

The effects of economic conditions had little effect on unemployment in 2009, but large-scale lay-offs are almost unavoidable in 2010. With the continuing under capacity of production, companies cannot absorb the costs of short-time working over a longer period of time. There is unlikely to be any inflation pressure from the crude oil market in 2010. Unexpectedly high output and overcapacity on the supply side have encountered energy savings on the demand side.

The greatest risk to the global economy lies with the decisions about when and where economic stimulus programmes are to be stopped and how high public deficits can be allowed to increase.

Experts from the European Central Bank (ECB) and the International Monetary Fund (IMF) predict **euro zone** growth of 1% in 2010 and 1.6% for 2011. Even if rising commodity prices are inflationary, they are outweighed by other dampening factors such as the considerable under capacity of the economy and weak wage growth. Prices will increase by about 1.2% in 2010. The ECB sees no need to change its interest policies, which are based on an inflation target of rate of price increases of just under 2%. The first increase in base rates from the current record low of 1% is expected in autumn 2010.
Public finances have suffered greatly under the financial crisis. Public deficits are estimated at 7.5% for 2010. This collapse demonstrates the unusually strong fall in public revenues as a result of the economic collapse.

Even if EU employment markets have proven to be more robust than originally anticipated, a fall in employment rates is expected over the coming year. In the opinion of ECB analysts, the unemployment rate will be 10.6% in 2010.

The IMF is forecasting growth of 1.5% for **Germany** in 2010, which is much stronger than for most of the euro zone. In the opinion of the Deutsches Institut für Wirtschaftsforschung (German Institute for Economic Research DIW), Germany should not expect to recover its former economic position until the end of 2011. This means more than three years of zero-growth. After a massive collapse in exports in 2009, the German Federal government anticipates an increase by 5.1% in 2010. Rising imports and a significant increase in capital spending are also forecast. In the opinion of the German Federal government, private consumption will fall by 0.5% in 2010 after a 0.4% increase in the previous year. The German Council of Economic Experts (Wirtschaftsweisen) anticipate a significant increase in the public deficit next year to 5.1%. In the medium term, it also expects a debt ratio of more than 80%. This means that it will be unable to meet the criteria of the European stability pact with a maximum debt ratio of 60%. In the opinion of the Institut für Wirtschaftsforschung Halle (Halle Institute for Economic Research - IWH), Germany will not be in a position to meet the European deficit criteria again until 2014.

Expectations of German companies are more positive than one year ago. The export-dependent German economy could profit more strongly than other countries from a growing international economy. The revitalisation of exports is one significant reason for the optimism of German companies. The business climate indicator of the Ifo Institute for Economic Research in Munich climbed in 2010 to a surprising 95.8 points. Yet, despite improved business prospects, experts anticipate a rise in unemployment in most business sectors. Unemployment in Germany will probably rise to 9.4%. The Ifo Institute for Economic Research in Munich stated that the recovery is not yet self-sustaining and is being supported by the billions being pumped into the global economy by economic support programmes. The weakened financial and residential real estate markets, rising public deficits and increasing unemployment could threaten the German economy.

Aims and opportunities of the Einhell Group

Due to the poor global economic situation in 2009, the Einhell Group sought to concentrate on security and the optimal application of its financial means. Optimisation of the inventory and cost reductions were just some of the means used to attain this policy.

The Einhell Group is already making strategic preparations for the growth drivers for future years. We already have a distribution company in Chile, which is operating well. We are also currently working on a move into the Brazilian market. Both countries have been identified as having a strong, expanding middle class, which is continually increasing its spending power.
Einhell is also working towards building up business in other South American countries. In five years time, South America will probably be Einhell's growth driver and the Einhell Group is already taking steps to position itself in this very interesting market and will use its products to participate in the growth potential of these countries. The Einhell Group expects stable growth in the Tools and Garden & Leisure segments in future years. Taking risks and opportunities in these challenging global economic conditions into account, the Group management is sticking to its international expansion strategy. It is investigating markets such as Australia, India and South Africa.

In order to provide our worldwide customers with a compelling combination of products and service, Einhell is preparing to develop and set up a global service organisation.

In order to optimise its international outlook, the Einhell Group has also sought to implement effectiveness and efficiency in its international logistics and increasingly internationalised marketing.

In order to reduce the risk of dependence on any one procurement region, the Group plans to continue to develop Vietnam as a supply base. Einhell is also considering incorporating other supply regions into its planning.

Strategically, the Einhell Group will continue in coming years to build on its position as a producer of electrical tools and garden machinery. Its goal remains to continue to specialise on core goods and core target markets and to be counted in the future as a powerful supplier for all international DIY chains. Also, the introduction of the “Blue” and “Red” product lines should improve market presence and recognition. In the next few years, the Einhell Group should become one of the most innovative and fast-growing suppliers of garden equipment and electrical tools in its field.

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

Outlook for the financial year 2010

In light of global economic circumstances, the outlook for revenues and income is difficult to estimate. Lower levels of consumer spending, due to rising unemployment, may result in falling revenues. Alternatively, more work is carried out in house and garden during difficult economic periods and this could help increase private consumer spending in this area. However, it is unclear which will prevail. With its good quality products at reasonable prices, Einhell considers itself to be well placed to be the competitor that is best able to use the second effect to its advantage.

Due to the continuing insecurity, future movement of commodity prices and the stability of the Chinese Renminbi are difficult to predict. Above all, a weak euro, caused mainly by the massive public deficits in some euro zone countries, may result in increased purchase prices. Substantial increases in freight costs have also impacted on the Einhell Group.

Next year, Einhell expects to be able to achieve revenues and profits comparable to 2009. The medium term forecast for the Einhell Group is also favourable. We expect stable business growth and improved profitability in the financial year 2011.

Landau a. d. Isar, 18 March 2010

Einhell Germany AG
The Board of Directors

Andreas Kroiss	Jan Teichert
Dr. Markus Thannhuber	York Boeder

Einhell Germany AG, Landau a. d. Isar

Consolidated Financial Statements to 31 December 2009
And Group Management Report

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and opportunities associated with the expected development of the Group.

Landau a. d. Isar, 18 March 2010

Einhell Germany AG

Board of Directors

....	....
Andreas Kroiss	Jan Teichert
....	....
Dr. Markus Thannhuber	York Boeder

1 Auditor’s Certificate

“Auditor’s Certificate

We have audited the consolidated financial statements prepared by Einhell Germany AG, Landau a. d. Isar, - consisting of the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of income and accumulated earn, the consolidated statement of changes in equity, and consolidated statement of cash flows and notes – and the group management report for the financial year from 1 January to 31 December 2009. The company’s legal representatives are responsible for the preparation and fair presentation of the consolidated financial statements and the group management report in accordance with International Financial Reporting Standards (IFRS), as applicable in the EU, and also the German commercial regulations pursuant to § 315 a paragraph 1 of the German Commercial Code (HGB). Our responsibility is to express an opinion on the consolidated financial statements and group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code (HGB) and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Germany (IDW). These require the audit to be planned and carried out in such a way that we obtain reasonable assurance that inaccuracies and breaches that have a significant effect on the presentation of the net assets, financial position, and results of operations determined by the consolidated financial statements under adherence to the applicable generally accepted German standards for the audit of financial statements and by the consolidated management report have been recognised.

In determining the audit procedure, we take account of information about business activities and the economic and legal circumstances of the company and expectations of potential errors are considered. Our audit also assesses the effectiveness of accounting-based internal control systems and supporting documentation relevant to the presentation of the consolidated financial statements and the group management report, predominantly on the basis of random sampling. The audit includes an evaluation of the annual financial statements of the companies included in the consolidation, the determination of companies included in the consolidation, the accounting and consolidation principles applied, the significant estimates made by management, and an appraisal of the overall presentation of the consolidated financial statements and the group management report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit raised no objections.

In our opinion, the findings from the audit show that the consolidated financial statements are prepared in accordance with IFRS, as applicable in the EU, and the

German commercial regulations pursuant to Section 315 a(1) of the German Commercial Code (HGB), and they give a fair view of the company's net assets, financial position, and results of operations. The group management report is consistent with the consolidated financial statements, gives an accurate picture of the state of the company in general and correctly presents the risks and opportunities of future development."

Munich, 18 March 2010

KPMG AG
Wirtschaftsprüfungsgesellschaft

Huber	Heipertz
Auditor	Auditor