FINANCIAL REPORT 2012

Einhell Germany AG

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Einhell Germany AG, Landau a. d. Isar

Consolidated Statement of Financial Position to 31 December 2012

A s s e t s	Notes	31.12.2012	31.12.2011
		€ thousand	€ thousand
Intangible assets	(2.2)	10.450	9.033
Property, plant and equipment	(2.3)	17.961	17.943
Non-current financial assets	(2.4)	362	353
Deferred tax assets	(2.5)	6.481	6.942
Other non-current assets	(2.9)	2.465	2.319
Non-current assets		37.719	36.590
Inventories	(2.6)	125.715	110.449
Trade receivables	(2.7)	66.264	62.180
Other financial assets	(2.8)	2.033	9.872
Other current assets	(2.9)	22.010	12.389
Cash and cash equivalents		5.618	13.709
Current assets		221.640	208.599
Total assets		259.359	245.189

Equity and liabilities	Notes	31.12.2012	31.12.2011
		€ thousand	€ thousand
Subscribed capital	(2.10)	9.662	9.662
Capital reserves		26.677	26.677
Retained earnings		123.241	120.740
Other reserves	(2.11)	-2.320	3.713
Equity of shareholders of Einhell Germany AG		157.260	160.792
Minority interests	(2.12)	3.017	2.390
Equity		160.277	163.182
Provisions for pensions	(2.13)	1.965	1.399
Provisions for other risks	(2.14)	630	476
Non-current financial liabilities	(2.15)	20.584	20.960
Deferred taxes	(2.5)	906	3.339
Other non-current liabilities	(2.17)	1.935	2.200
Non-current liabilities		26.020	28.374
Trade payables		32.613	27.707
Provisions for income taxes		1.439	1.365
Provisions for other risks	(2.14)	7.229	8.218
Current financial liabilities	(2.15)	11.629	996
Other financial liabilities	(2.16)	4.938	1.657
Other liabilitites	(2.17)	15.214	13.690
Current liabilities		73.062	53.633
Total equity and liabilities		259.359	245.189

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of comprehensive income for the period from 1 January to 31 December 2012

	Notes	2012	2011
		€ thousand	€ thousand
Revenues	(3.1)	379.862	365.261
Other operating income	(3.2)	8.176	9.628
Cost of materials	(3.3)	-261.037	-253.552
Personnel expenses	(3.4)	-51.681	-43.119
Depreciation and amortisation costs	(3.5)	-2.707	-2.513
Other operating expenses	(3.6)	-60.502	-53.048
Net finance costs	(3.7)	-1.955	-3.550
Profit before income taxes		10.156	19.107
Income taxes	(3.8)	-4.576	-4.688
Consolidated net profit		5.580	14.419

Minority interest share of consolidated net profit	-196	-123
Share of consolidated net profit of shareholders of Einhell Germany AG	5.776	14.542

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of income and accumulated earn for the period from 1 January to 31 December 2012

	2012	2011
	€ thousand	€ thousand
Profit for the year	5.580	14.419
Unreaslised gains (previous year: losses) from currency translation	474	-507
Unrealised gains from financial assets (available-for-sale)	3	3
Unrealised losses (previous year: gains) from derivative financial instruments	-6.413	6.653
Other income, after taxes	-5.936	6.149
Thereof share of income due to minority interests, after taxes	97	-204
Thereof share of income due to shareholders of Einhell Germany AG, after taxes	-6.033	6.353
Consolidated comprehensive income	-356	20.568
Thereof share of consolidated comprehensive income due to minority interests	-99	-327
Thereof share of consolidated comprehensive income due to shareholders of Einhell Germany AG	-257	20.895

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of changes in equity
for the financial year 2012

				Other reserves					
	Subscribed capital	Capital reserve	Retained earnings	Currency adjustment	Financial assets available for sale	Derivative financial instruments	Equity share of shareholders of Einhell Germany AG	Share of minority interests	Total equity
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
1 January 2011	9.662	26.677	109.092	-1.160	21	-1.501	142.791	2.243	145.034
Consolidated net profit	-	-	14.542	-	-	-	14.542	-123	14.419
Unrealised gains/losses	-	-	-	-303	4	9.504	9.205	-204	9.001
Deferred taxes on unrealised gains/losses	-	-	-	-	-1	-2.851	-2.852	-	-2.852
Total earnings	-	-	14.542	-303	3	6.653	20.895	-327	20.568
Dividends	-	-	-2.894	-	-	-	-2.894	-	-2.894
Other changes	-	-	-	-	-	-	-	474	474
31 December 2011	9.662	26.677	120.740	-1.463	24	5.152	160.792	2.390	163.182
Consolidated net profit	-	-	5.776	-	-	-	5.776	-196	5.580
Unrealised gains/losses	-	-	-	377	4	-8.058	-7.677	97	-7.580
Deferred taxes on unrealised gains/losses	-	-	-	-	-1	1.645	1.644	-	1.644
Total earnings	-	-	5.776	377	3	-6.413	-257	-99	-356
Dividends	-	-	-2.894	-	-	-	-2.894		-2.894
Other changes	-	-	-381	-	-	-	-381	726	345
31 December 2012	9.662	26.677	123.241	-1.086	27	-1.261	157.260	3.017	160.277

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of cash flows for the financial year 2012

	2012	2011
	€ thousand	€ thousand
Net cash from/used in operating activities		
Profit before taxes	10.156	19.107
+ Depreciation of intangible assets and property, plant and equipment	2.707	2.513
- Interest income	-833	-453
+ Interest expenses	1.523	2.179
+/- Other non-cash income and expense	-92	3.171
Operating profit before adjustment of net assets	13.461	26.517
+/- Decrease/increase in trade receivables	-4.063	-856
+/- Decrease/increase in inventories	-13.518	-17.776
+/- Decrease/increase in other assets	-8.239	650
+/- Increase/decrease in non-current liabilities	454	92
+/- Increase/decrease in current liabilities	926	-4.340
+/- Increase/decrease in trade payables	5.048	-1.251
Cash flows from operating activities	-5.931	3.036
- Taxes paid	-5.004	-5.758
+ Interest received	394	351
- Interest paid	-1.311	-1.612
Net cash flows from operating activities	**-11.852**	**-3.983**
Cash flows from investing activities		
- Payments to acquire assets	-4.795	-3.674
+ Proceeds from disposal of assets	782	153
- Payments for acquisition of investments	-855	-554
+/- Increase/decrease in goodwill	813	53
Net cash flows from investing activities	**-4.055**	**-4.022**
Cash flows from financing activities		
+ Proceeds from taking out loans	10.596	10.996
- Payments for repayment of loans	-377	-31.397
+ Proceeds from minority shareholders	408	467
- Dividend payments to shareholders of Einhell Germany AG	-2.894	-2.894
- Dividend payments to minority shareholders	-129	0
- Payment for liabilities for finance leases	-9	-19
Net cash flows from financing activities	**7.595**	**-22.847**
Changes to capital funds due to currency exchange	7	99
Purchased net cash from acquisitions	214	0
Net decrease/increase of cash and cash equivalents	**-8.091**	**-30.753**
Cash and cash equivalents at beginning of period	13.709	44.462
Cash and cash equivalents at end of period	**5.618**	**13.709**

Further information can be found under section 5 in the notes to the consolidated financial statements.

This translated report is prepared for informational purposes only.
Only the original German version of these consolidated financial statements is binding.

Einhell Germany AG, Landau a. d. Isar

Notes to the Consolidated Financial Statements for the Financial Year 2012

1. Principles and methods used in consolidated financial statements

1.1 General information

Einhell Germany AG and its subsidiaries manufacture and sell manually operated, petrol-operated and electronic tools, electrical tool accessories, metal and plastic products for DIY, garden and leisure activities, and air-conditioning and heating products.

Einhell Germany AG is a public limited company (*Aktiengesellschaft*) pursuant to the laws of the Federal Republic of Germany. The company is registered in the Commercial Register of the Local Court (*Amtsgericht*) in Landshut under number HRB 2171; its registered office is at Wiesenweg 22, 94405 Landau an der Isar, Germany.

The consolidated financial statements of Einhell Germany AG and its subsidiaries (the Einhell Group) were drawn up in accordance with section 315a of the Commercial Code (*Handelsgesetzbuch* - HGB) (consolidated financial statements in accordance with international accounting standards). It is also consistent with International Financial Reporting Standards (IFRS) and their interpretations, as published by the International Accounting Standards Board (IASB) and applicable in the European Union.

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

The Board of Directors approved the consolidated financial statements on 25 March 2013 to be passed on to the Supervisory Board.

1.2 Basis of preparation

Standards applied

The accounting and valuation policies used in the consolidated financial statements are in accordance with the IFRSs applicable as of 31 December 2012. The standards applicable for the first time in 2012 had no significant effects on the consolidated financial statements.

Standards and interpretations not applied earlier than mandatory

The IASB has issued the following standards, interpretations and amendments to existing standards, for which the application was not mandatory as of 31 December 2012 and which have not been applied prematurely by the Einhell Group. A premature application of these standards would not have had a significant impact on the consolidated financial statements.

- Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income'; applies to financial years commencing on or after 1 July 2012.
- IAS 19 (rev. 2011) 'Employee Benefits'; applies to financial years commencing on or after 1 January 2013.
- Amendments to IAS 27 'Separate Financial Statements'; applies to financial years commencing on or after 1 January 2013.
- Amendments to IAS 28 'Investments in Associates and Joint Ventures'; applies to financial years commencing on or after 1 January 2013.
- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities'; applies to financial years commencing on or after 1 January 2014.
- Amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities'; applies to financial years commencing on or after 1 January 2013.
- IFRS 10 'Consolidated Financial Statements'; applies to financial years commencing on or after 1 January 2013.
- IFRS 11 'Joint Arrangements'; applies to financial years commencing on or after 1 January 2013.
- IFRS 12 'Disclosure of Interests in Other Entities'; applies to financial years commencing on or after 1 January 2013.
- IFRS 13 'Fair Value Measurement'; applies to financial years commencing on or after 1 January 2013.
- IFRIC 20 'Stripping Costs in the Production Phase of a Surface Mine'; applies to financial years commencing on or after 1 January 2013.

The following standards, interpretations and amendments to existing standards are not applicable within the EU until they have been adopted under the prescribed EU procedures (endorsement process):

- Amendments to IFRS 1 'Government loans for First-time Adopters'; applies to financial years commencing on or after 1 January 2013.
- IFRS 9 'Financial Instruments'; applies to financial years commencing on or after 1 January 2015.
- Improvements to IFRS 2009-2011; applies to financial years commencing on or after 1 January 2013.
- Amendments to IFRS 9 and IFRS 7 'Mandatory Effective Date and Transition Disclosures'; applies to financial years commencing on or after 1 January 2015.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 'Transition Guidance'; applies to financial years commencing on or after 1 January 2014.
- Amendments to IFRS 10, IFRS 12 and IFRS 27 'Investment Entities'; applies to financial years commencing on or after 1 January 2014.

A number of additional improvements to IFRS have not yet been adopted under the EU endorsement procedures.

Presentation

Presentation in the balance sheet differentiates between current and non-current assets and liabilities. Assets and liabilities are classified as current if they are due within one year. Deferred tax assets and liabilities and provisions for pensions are usually recognised as non-current line items.

The consolidated statement of consolidated income is drawn up using the total cost method.

For clarity and comprehensibility of the consolidated financial statements, individual items in the balance sheet and statement of consolidated income are recorded jointly. These line items are listed separately in the Notes to the consolidated financial statements.

1.3 Principles of consolidation

The consolidated financial statements include Einhell Germany AG and its subsidiaries for which Einhell Germany AG fulfils the respective criteria pursuant to IAS 27. These companies are included in the consolidated financial statements from the time when there is a possibility of control being exercised. Subsidiaries are no longer included in the consolidated financial statements, however, when this possibility is no longer applicable.

The financial statements of the subsidiaries included in the consolidation were prepared using standard accounting and valuation policies pursuant to IAS 27. The reporting date for 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. The income tax effects of consolidation transactions are recognised through profit or loss and appropriate deferred taxes are set aside.

1.4 Basis of consolidation

The companies included in the consolidation are Einhell Germany AG and a further 40 (previous year 37) fully consolidated companies.

In the financial year 2012 the Einhell Group repurchased 10% of the local sales company in Denmark from the local Managing Director of Einhell Dänemark and took over 25% of the shares of Einhell France SAS. Its share of Einhell France now amounts to 95%. In 2012 we set up Einhell Rus OOO with Einhell Germany AG holding all of the shares in this company. Also during the past financial year iSC Italia was merged with Einhell Italia. Hans Einhell Ukraine TOV was set up in the Ukraine with Einhell Germany AG holding all of its shares.

Moreover, the kwb tools GmbH was established in the 2012 financial year. Pursuant to a share purchase and transfer agreement dated 2 May 2012, this company acquired all of the shares of kwb tools GmbH & Co. KG, Stuhr, Germany. The withdrawal of the personally liable shareholder kwb tools GmbH & Co. KG means that all the assets of the partnership (*Kommanditgesellschaft* – KG) were transferred at this time to kwb tools GmbH by way of acquisition. Einhell Germany AG directly holds 100% of the shares in kwb tools GmbH and indirectly holds 100% of the shares in KWB-RUS OOO. As part of the acquisition, Einhell took over €6,756 thousand in inventories, €4,890 thousand in receivables and €214 thousand in cash. Einhell also acquired assets amounting to €358 thousand, which are shown as additions in the Statement of Non-current Assets. The acquisition of kwb tools GmbH also involved assuming responsibility for approx. €6.8 million additional liabilities to banks.

kwb tools is an international trading and service provision company based in Stuhr near Bremen and is one of the leading European suppliers of electrical tools accessories and hand tools. The expansion of the product range by the addition of the accessories segment is an important new milestone for Einhell in establishing itself as a top brand. kwb tools GmbH and KWB-RUS OOO generate annual revenues of about €25-30 million. For the rump financial year from May to December 2012 this means an increase in revenues from current operations for Einhell of €18.5 million and a positive result of € 325 thousand. The integration of kwb tools into the Group means that Einhell is able to offer a complete range of accessories via all global distribution companies. This means that the Einhell Group is in a position to generate additional revenue volumes on top of the core Einhell business.

The subsidiaries included in the consolidated financial statements are shown in section 8 of the Notes. The subsidiary iSC GmbH, Landau a. d. Isar, makes partial use of the exemptions under section 264(3) of the German Commercial Code (*HGB*).

1.5 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 as at the reporting date are valued at reporting date at the relevant daily exchange rate. Conversion differences from monetary transactions or the valuation of monetary 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 other comprehensive income and as an adjustment for currency conversion and in the difference (part of other reserves).

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

		Reporting date rate		Average rate	
		31.12.2012	31.12.2011	2012	2011
Brazil	BRL	2.6953	2.4158	2.5097	2.3308
China	CNY	8.2117	8.1485	8.1094	9.0139
Hong Kong	HKD	10.2188	10.0513	9.9726	10.8575
Poland	PLN	4.0929	4.4553	4.1843	4.1226
Switzerland	CHF	1.2072	1.2162	1.2053	1.2349
Turkey	TRY	2.3557	2.4424	2.3145	2.3438
USA	USD	1.3183	1.2938	1.2856	1.3945

1.6 Accounting and valuation policies

Purchased and self-developed intangible assets are capitalised pursuant to IAS 38 if there is an associated future economic benefit from these assets and the costs of the assets may be determined with certainty. The assets are recognised at acquisition or development cost and amortised over their expected useful life. The period of use is usually three to five years.

Development expenses and product processing costs are recognised in the period in which they arise. This does not include **project development costs** that meet the following criteria in full:

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

Capitalisation of costs begins with the initial fulfilment of the above criteria. Costs recognised as expenses in prior reporting periods may not be capitalised retrospectively. Other than development costs, there are no self-developed intangible assets. Capitalised development costs are amortised by the straight-line method over the estimated useful life of the asset, but not normally for more than three years. 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 company acquisitions is the difference between the purchase price and the ratio of fair value to stated equity at the time of the purchase. Goodwill is allocated to cash generating units and tested annually for impairment. When the book value of the assets of a cash-generating unit exceeds the realisable value, impairment is made in accordance with the provisions of IAS 36. The cash generating units are the individual companies.

Property, plant and equipment is normally depreciated at cost on a straight-line basis or by extraordinary depreciation where required. Depreciation is normally made on a straight-line basis in line with the expected useful life. Depreciation is made on the basis of the following ranges of expected useful life:

	Useful life
Buildings	20-30 years
Technical equipment, plant and machinery	3-20 years
Other equipment, fixtures, fittings and equipment	3-10 years

Leasing. All agreements that transfer the right to use a specific asset for a fixed period for payment of a fee are deemed leasing agreements. This also applies to agreements where the transfer of such a right is not expressly stated. An assessment of whether the risks and opportunities of a leased object are transferred to a lessee (for a finance lease) or remain with the lessor (for an operating lease) determines who is allocated the economic ownership of a lease object.

The Einhell Group as lessee uses property, plant and equipment solely on the basis of operating lease agreements. Lease payments under these operating leases are taken into account on a straight-line basis over the term of the lease. For further details about lease obligations, see section 7.1.

Inventories comprise raw materials and supplies, goods and prepayments. Inventories are valued at acquisition cost determined in accordance with the weighted average method. Inventory and sales risks resulting from reduced merchantability are taken into account with impairments. Further impairments are made if the net sale value of inventories falls below the acquisition cost.

Financial assets. Financial assets comprise trade receivables, liabilities to banks, cash in hand, derivative financial assets, and other marketable securities.

Financial assets recognised at fair value through profit or loss. Financial assets recognised at fair value through profit or loss comprise derivatives not recognised as collateral instruments in hedge accounting (financial assets available for sale). Gains or losses from financial assets available for sale are recognised in profit or loss.

Loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, such as trade receivables. After the method is applied for the first time, loans and receivables will be valued at amortised cost using the effective interest method less impairment. Gains and losses will be included in consolidated net income when the credits and receivables are recognised or impaired. Interest effects from the application of the effective interest method are also recognised in profit or loss.

Financial assets available for sale. Financial assets available for sale are non-derivative financial assets available for sale and not allocated to one of the above categories. This category includes shares in a money market fund. At initial recognition, financial assets available for sale are valued at fair value, whereby non-realised profits or losses are recognised in other comprehensive income. Where there are objective indications of a value impairment, or if there are changes to the current value of a loan instrument due to exchange rate fluctuations, they are taken into account in consolidated net income through profit or loss. Upon disposal of financial assets, cumulated gains or losses from the valuation at fair value are recognised through profit or loss in other comprehensive income. Interest received from the sale of financial assets available for sale is usually taken into account through profit or loss as interest income derived from the application of the effective interest method.

Cash and cash equivalents. Cash and cash equivalents includes in particular cash in banks, checks and bank deposits with an original maturity of up to three months. Cash and cash equivalents correspond to the payments in the consolidated cash flow statement.

Impairment of financial assets. At each reporting date, the book values of financial assets that are not recognised in profit or loss at fair value are examined to see if there are objective indications of impairment in value. The amount of the value impairment for loans and receivables is the difference between the book value of the asset and the cash value of expected future cash flow. A value impairment is recognised in profit or loss. If the amount of value impairment falls again during a subsequent reporting period and if this lowering of value can objectively be traced back to a circumstance occurring after the impairment was recognised, the impairment recognised in the earlier period may be reversed in profit or loss. The impairment of loans and receivables are largely made in impairment accounts. The decision whether default risks will be taken into account for an impairment account or via a direct reduction in the receivable depends on how high the probability of the default of the receivable is assessed. If a receivable is assessed as unrecoverable, the corresponding impaired asset value is derecognised.

Deferred tax assets and liabilities are set aside pursuant to IAS 12 for temporary differences between the book values shown in the consolidated financial statements and the tax values of assets and liabilities unless these result from the first-time inclusion of an asset or a liability from a business transaction that is not a business merger and at the time of the business transaction did not affect earnings before or after taxes. This also applies to tax losses carried forward and tax credits if such can be determined with sufficient certainty. Deferred tax assets and liabilities are set aside in the amount of the probable tax burden or relief in future business years. The basis is the tax rate at the time of realisation. Tax consequences of profit distributions are normally not taken into account until the resolution for disbursement of profits is passed. If the realisation of deferred tax assets is uncertain, an appropriate value adjustment is made. Actual taxes and deferred taxes must be directly taken to equity or credited if the tax refers to line items that are credited or charged directly to capital in the same or another reporting period.

The **differences arising from currency conversion** arise out of the conversion of annual financial statements of consolidated companies whose functional currency varies from the reporting currency of the Group. The consolidated companies are economically independent foreign entities. Currency conversion differences from monetary line items that are essentially net investments of the company in an economically independent foreign entity are recognised in the consolidated financial statements as equity until sale of the corresponding net investment. Upon sale of the corresponding assets, the pro rata difference arising from currency conversion is recognised as income or an expense in the same period in which the gain or loss from the disposal of the asset is recognised.

The percentage of equity allocated to **non-controlling interests** (minority shareholders) is recognised under equity in the balance sheet. The allocable consolidated net interest and allocable other income is recognised separately in the income statement or in the overall result. Non-controlling interests include the share of minority shareholders in the current value of identifiable assets and liabilities at the time the affiliated company is acquired. Changes result from capital increases in which minority shareholders participate, distributions and shares of minority shareholders in profits and changes due to exchange rates.

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

A discount factor for interest rates for claimants of 3.22% (previous year 4.45%) was used, along with 2.54% (previous year 4.28%) 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 obligations.

The pension provision shown at reporting date is equivalent to the qualifying present value of pension commitments (defined benefit obligation) offset against the fair value of the plan assets. Pursuant to IAS 19.7, plan assets include assets of long-term funds independent of the reporting company that have been set up to reimburse services by employees. Actuarial gains or losses are realised in the year they occur. The recognised fair value of the defined benefit obligation is not secured by a pension fund, but there are partial reinsurance policies.

Provisions for other risks and contingent liabilities are set aside if there is an obligation to a third party and when the outflow of resources is probable and may be reliably estimated. The amount set aside as a provision is the best possible estimate of the potential liability at reporting date. Provisions with an original term of more than one year are recognised at discounted settlement amount at reporting date. Provisions are checked on a regular basis and amended where there is new information or circumstances have changed.

Provisions for guarantees are set up at the time the products are sold. The valuation of guarantee expenses recognised as a liability is based largely on historical values.

Income from anticipated disposal of assets is not taken into account in setting up the provisions. If there is an expectation that expenses necessary to meet an obligation for which a provision has been set aside will be reimbursed either in part or in full by a third party, the reimbursement will be recognised when it is as good as certain that the company will receive the reimbursement.

Financial liabilities. Financial liabilities include in particular trade payables, derivative financial liabilities and other liabilities.

Financial liabilities valued at amortised cost. After initial recognition, financial liabilities are valued using the effective interest method at amortised cost.

Financial liabilities valued at fair value through profit or loss. Financial liabilities valued at fair value through profit or loss comprise derivatives that are not used as a hedging instrument in hedge accounting (financial instruments held for trading). Gains or losses from financial liabilities held for trading are recognised in profit or loss in the consolidated net profit.

Derivative financial instruments and hedge accounting.

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

Upon initial recognition and at each subsequent reporting date, derivative financial instruments are recognised at fair value. The fair value of listed derivatives corresponds to the positive or negative market value. If there is no market value, they are calculated on the basis of estimated future cash flow such as discounted cash flow models or option pricing models. Derivatives are recognised as assets if their fair value is positive and as a liability if the fair value is negative.

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.

If the provisions of IAS 39 on hedge accounting are met, Einhell AG designates and documents the hedge from this point on either as a fair value hedge or as a cash flow hedge. A fair value hedge secures the fair value of an asset or liability or fixed obligation not included in the balance sheet. A cash flow hedge secures highly probable future payment flows or fluctuating payment inflows or outflows in connection with a hedged asset or liability. Documentation of the hedge accounting includes the aims and strategy of risk management, the type of hedge relationship, the hedged risk, designation of the hedge instrument and the underlying transaction as well as a description of the method of measuring efficacy. Hedge accounting allows effective estimation of risk compensation for changes in the fair value or payment flows in relation to the hedged risk and regularly checks that the hedge remains effective during the whole reporting period for which the hedge is designated.

Current value changes of the derivatives are taken into account in consolidated net income or other income depending on whether the hedge is a fair value hedge or a cash flow hedge. For fair value hedges, the changes in market value of derivative financial instruments and underlying transactions are recognised in equity in the consolidated net profit. The after-tax effective portion of the current value of derivative instruments that are allocated to a cash flow hedge are recognised in other comprehensive income. The reclassification to profit or loss is made at the same time as the underlying hedged item is recognised in profit or loss. The ineffective portions of current value changes are recognised directly in profit or loss.

Revenues. Revenues are realised upon delivery of products and goods or provision of services, when ownership and risk has passed to the customer, the amount of revenue can be reliably determined and it is to be expected that payment should follow. Revenues are shown net of sales deductions such as price discounts and favourable long-term purchase agreements.

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

Income taxes. Current income taxes are calculated on the basis of the relevant national annual results and national tax rates. They also include current taxes for the year and any adjustments for tax payments or credits for other years and interest payments on payment of additional taxes. Changes to deferred tax assets and credits are reflected in the line item income taxes, except for the changes to other comprehensive income.

1.7 Estimates and judgments in accounting

The consolidated financial statements contain a certain amount of estimations, judgments and assumptions. These can affect the amount and proof of carrying amounts of assets and liabilities, statement of contingent receivables and liabilities at reporting date and the stated income and expenses for the reporting period. Important circumstances affected by such estimations, judgments and assumptions are explained below. Actual results may differ from these estimations, judgments and assumptions; any changes may have a significant effect on the consolidated financial statements.

Impairment of cash generating units. Estimates are made as part of impairment tests for non-financial assets in order to determine the realisable amount of a cash-generating unit. The main assumptions are with respect to future cash inflows and outflows for the planning period and for subsequent periods. The estimations refer mainly to future market shares and growth in the respective markets. On the basis of impairment tests carried out during 2012, realisable values significantly exceed net asset values of Group cash generating units.

Impairment of receivables. The Group regularly estimates the default risk of its trade receivables. Many factors are taken into account in this respect, including historical values for actual defaults, the size and composition of individual portfolios, current economic events and conditions, and the scope of current credit insurances. Changes to economic conditions may affect the creditworthiness of customers. If estimates and assessments of these factors change, this affects the amount of impairment and has an effect on consolidated net income.

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

Income taxes. Estimates of future income and the time at which deferred tax assets are to be realised are used as a basis for calculating deferred tax assets. This includes taking into account planned profits from operating activities, effects on the result from the reversal of taxable temporary differences and realisable tax strategies. As future business development is uncertain and tax is partly payable through the Group, the assumptions made in connection with the recognition of deferred tax assets are made with a significant degree of uncertainty. The Einhell Group assesses for impairment of deferred tax assets at each reporting date on the basis of planned taxable income for future reporting years; when the Group believes that the probability is 50% or more that all or part of future tax revenues will not be realised, it carries out an impairment of deferred tax assets.

Claims and risks from legal action. Einhell Germany AG and its subsidiaries face risks from various legal proceedings and claims. In our opinion, potential liabilities that may result from these will not have a sustained effect on the Group's net assets, financial position and profit or loss.

2. Notes to consolidated statement of financial position

2.1 Changes in non-current assets

Changes in non-current assets (not including other non-current assets and deferred tax assets) are shown in the appendix to the notes to the consolidated financial statement

2.2 Intangible assets

thousand €	2012	2011
Acquired intangible assets (excluding goodwill)	1,327	675
Self-developed intangible assets	8	56
Acquired goodwill	9,115	8,302
	10,450	9,033

The acquired intangible assets comprise mainly investments in software and licences.

Self-developed intangible assets mainly comprise expenses arising from the development of new products that are amortised over the expected life cycle of the product. In the financial year 2012, expenses for product development amounted to €5.2 million (previous year: €4.5 million). As in the previous year, none of these costs were capitalised as expenses in 2012. A total of 42 employees (previous year: 38 employees) were employed in this division.

Goodwill is with respect to the following companies:

thousand €	2012	2011
Intratek Mühendislik ve Dis Ticarret A.S., Istanbul/Turkey	3,013	3,013
Einhell-Unicore s.r.o., Karlovy Vary/Czech Republic	2,141	2,141
Einhell Export-Import GmbH, Tillmitsch/Austria	2,123	2,026
Einhell Romania SRL, Bukarest/Romania	1,127	1,122
KWB-RUS OOO, St. Petersburg/Russia	397	0
kwb tools GmbH, Stuhr/Germany	314	0
	9,115	8,302

Goodwill refers to companies by which directly or indirectly it is possible to move into new markets or market segments. Assets and liabilities uncovered from hidden reserves are valued at fair value at the time of acquisition.

The addition to goodwill of Einhell Export-Import GmbH amounting to €97 thousand results from a contingent purchase price payment made from 2012 for the purchase of the remaining 24% of shares in 2009. For the kwb companies the goodwill arose as part of the takeover of the two companies.

Goodwill is subject to an annual impairment test with impairment being recognised if the realisable amount falls below the book value of the companies' goodwill (Cash Generating Units). The realisable amount is derived from future cash flow. Determination of the cash flow is based on economic planning with a planning horizon of five years. We analysed economic developments in the markets relevant for the Einhell Group and took these findings into account. The following evaluation factors were used for all companies:

	2012	2011
	%	%
Growth rate after end of planning period	1.25	1.25
Pre-tax discount rate	8.52	7.93
Basic interest rate	2.25	3.00
Market risk premium	6.75	5.00
Typical tax rate	30.00	30.00

The pre-tax discount rate is determined from figures such as weighted equity costs, loan capital costs after tax, basic interest rate and market risk premium. The basic interest rate was adjusted for the current prevailing interest rate.

Annual impairments tests in the financial year 2012 did not reveal any impairment requirement for goodwill. If there is a significant change in general interest rates, this could have effects on the determination of basic measurement rates.

2.3 Property, plant and equipment

thousand €	2012	2011
Land and buildings in company assets	9,528	10,153
Technical equipment and machinery	3,037	3,397
Other equipment, operating and office equipment	5,220	4,335
Prepayments and assets under construction	176	58
	17,961	17,943

2.4 Financial assets

There is no change to shares in a money market fund to hedge against pensions, holiday and flexible time entitlements that are recognised at fair value. Income from the fund amounts to €4 thousand (previous year: €3 thousand). The expected yield of securities is 1% to 2% per annum.

2.5 Deferred taxes

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

thousand €	Deferred tax claims		Deferred tax liabilities		Net deferred taxes	
	2012	2011	2012	2011	2012	2011
Self-developed intangible assets and tangible fixed assets	265	20	22	96	243	-76
Current assets	1,564	3,065	371	135	1,193	2,930
Other financial investments at present value	1,254	761	497	2,865	757	-2,104
Pension obligations	253	68	-7	0	260	68
Provisions for other risks	602	599	77	238	525	361
Other liabilities	676	517	-54	5	730	512
Tax losses carried forwards	1,867	1,912	0	0	1,867	1,912
	6,481	6,942	906	3,339	5,575	3,603

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

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. This applies in particular to foreign group companies.
- 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.
- capitalisation of deferred taxes from loss carry forwards of subsidiaries.

2.6 Inventories

thousand €	2012	2011
Raw materials and supplies (at acquisition cost)	274	568
Finished goods (at cost less impairment)	124,055	106,597
Prepayments	1,386	3,284
	125,715	110,449

Devaluations totalling €7,718 thousand (previous year: €6,886 thousand) were made. The book value of devalued goods amounts after devaluation to €56,011 thousand (previous year: €36,894 thousand). No goods were assigned by way of collateral at reporting date, as in the previous year.

2.7 Receivables

Trade receivables were shown after allowances for bad debt. In the financial year 2012, impairments amounting to €501 thousand (previous year: €2,118 thousand) were recognised. Furthermore, during this reporting period, cash flow from derecognised receivables and income from the reversal of impairment losses from receivables amounting to €435 thousand (previous year: €207 thousand) were recognised.
The maximum default risk is the book value of the receivables. Of the total receivables, 74% (previous year: 80%) are not yet due at reporting date.

The maturity structure of financial instruments from trade receivables is as follows:

2012 thousand €	Net amount	Value adjustment	Gross amount
Receivables not due or due between 1-120 days	64,621	833	65,454
Receivables due 121-360 days	1,239	1,211	2,450
Receivables due more than 360 days	404	4,320	4,724
	66,264	6,364	72,628

2011 thousand €	Net amount	Value adjustment	Gross amount
Receivables not due or due between 1-120 days	60,621	1,209	61,830
Receivables due 121-360 days	989	1,669	2,658
Receivables due more than 360 days	570	4,739	5,309
	62,180	7,617	69,797

2.8 Other financial assets

thousand €	2012	2011
Derivative financial instruments used in hedge accounting	1,766	9,460
Financial assets valued at fair value through profit or loss	267	412
	2,033	9,872

The derivative financial instruments less deferred taxes are recognised directly in equity.

2.9 Other assets

thousand €	2012	2011
Non-current		
Income tax credits	1,271	1,546
Other	1,194	773
	2,465	2,319

thousand €	2012	2011
Current		
Income tax credits	3,108	910
Other	18,902	11,479
	22,010	12,389

Income tax claims include in particular corporation tax credits pursuant to section 37(5) of the Corporation Tax Act (*KStG*). At reporting date, there were no indications of impairment of other assets that were neither overdue nor already impaired.

2.10 Subscribed capital

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

	Number	€
Ordinary shares		
Ordinary bearer shares		
No-par shares each with a par value of €2.56	2,094,400	5,361,664.00
Preference shares		
Non-voting bearer preference shares		
No-par shares each with a par value of €2.56	1,680,000	4,300,800.00
	3,774,400	9,662,464.00

All shares are fully paid up. For the financial year 2012, Einhell Germany AG is proposing a dividend payment of €2,138,976.00 (previous year: €2,893,856.00). The distribution total equals a dividend payment of €0.60 per preference share (previous year €0.80) and €0.54 per ordinary share (previous year €0.74).

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.

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). A right of subscription is to be granted to shareholders. 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; preference shares 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 (Sections 203(2) and 186(3) sentence 4 of the German Stock Corporation Act (*AktG*)). The authorisation also includes the authority to issue further preference shares which have priority over or are equal with previously issued preference shares without voting rights with regard to distribution of profit or company assets.

2.11 Changes to other reserves

thousand €		2012			2011	
	Before taxes	Taxes	After taxes	Before taxes	Taxes	After taxes
Unrealised gains from currency conversion	377	0	377	-303	0	-303
Unrealised gains/losses from sale of financial assets held for sale	4	-1	3	4	-1	3
Unrealised gains/losses from derivative financial instruments	-8,058	1,645	-6,413	9,504	-2,851	6,653
Other results	-7,677	1,644	-6,033	9,205	-2,852	6,353

2.12 Minority interests

thousand €	2012	2011
Position 1 January	2,390	2,243
Capital contributions	507	474
Disposals	348	0
Dividends	-129	0
Unrealised gains from currency conversion (= share of other results)	97	-204
Share of consolidated net profit	-196	-123
Position 31 December	3,017	2,390

2.13 Pension provisions

Defined benefit obligations (DBO) were as follows in the financial year 2012:

thousand €	2012	2011	2010	2009	2008
Position 1 January	2,049	1,901	1,831	1,547	1,598
Current service expense (Personnel expenses)	30	26	26	20	30
Interest expense (Personnel expenses)	87	87	87	93	83
Actuarial gains and losses (Personnel expenses)	552	124	73	293	-99
Pension payments	-94	-89	-87	-108	-65
Transfer/Settlement	0	0	-29	-14	0
Position 31 December	2,624	2,049	1,901	1,831	1,547

Plan assets were as follows in the financial year 2012:

thousand €	2012	2011	2010	2009	2008
Position 1 January	650	643	640	631	628
Gains / losses	9	7	3	9	3
Position 31 December	659	650	643	640	631

thousand €	2012	2011	2010	2009	2008
Cash value of defined benefit obligations	2,624	2,049	1,901	1,831	1,547
Less fair value of plan assets	-659	-650	-643	-640	-631
Net obligations	1,965	1,399	1,258	1,191	916

Actuarial losses refer mainly to changes in the discount rate. Current service expenses are shown in personnel expenses. The provision for pensions at reporting date is equivalent to the defined benefit obligation offset against the fair value of plan assets. Actuarial assumptions to determine pension obligations are presented in section 1.6 Accounting and valuation policies.

The expected return on plan assets is between 1-2%.

2.14 Provisions for other risks

thousand €	Guarantees	Other	Total
Position 1 January 2012	3,765	4,929	8,694
Utilised	-734	-2,361	-3,095
Release	-302	-2,235	-2,537
Allocations	550	3,816	4,366
Effects of currency translation and other changes	104	327	431
Position 31 December 2012	3,383	4,476	7,859

thousand €	Guarantees	Other	Total
31 December 2012			
Non-current	0	630	630
Current	3,383	3,846	7,229
31 December 2011			
Non-current	0	476	476
Current	3,765	4,453	8,218

2.15 Financial liabilities

thousand €	2012	2011
Non-current		
Loans, secured	22	23
Loans, unsecured	20,562	20,937
	20,584	20,960

thousand €	2012	2011
Current		
Loans and overdrafts, secured	1,784	621
Loans and overdrafts, unsecured	9,845	375
	11,629	996
Thereof current position of non-current loan	377	385
Thereof current loans or overdrafts	11,252	611

Collateral is held in the form of an assignment pledge of other assets as security.

The Einhell Group continued to use non-current loans as a main source of financing in the financial year 2012. The bond that expired in 2009 was at that time replaced by long-term refinancing with bilateral credit agreements until mid-2014. Due to a sound cash position and changes to the interest market during the financial year 2011, a decision was made to repay a part of the non-current loans prematurely and to take out a new loan at even better terms. This means that non-current financing for the amount of €21 million has been guaranteed to mid-2014 at very good terms. The loan agreements define Financial Covenants for which non-compliance means that creditors have the right to demand premature repayment of loans prior to maturity. All covenants were met during the financial year 2012. Changes in interest risks are hedged by means of derivative financial instruments in the form of interest cap and interests swap agreements.

2.16 Other financial liabilities

thousand €	2012	2011
Derivative financial instruments included in hedge accounting	3,997	911
Financial liabilities valued at fair value through profit or loss	941	746
	4,938	1,657

The derivative financial instruments less deferred taxes are shown directly in equity.

2.17 Other liabilities

thousand €	2012	2011
Non-current	1,935	2,200
Current	15,214	13,690
	17,149	15,890

Other liabilities consist mainly of tax liabilities, liabilities for wages and salary payments, including liabilities from employee profit participation and social security payments, and liabilities from current customer bonuses and customer credits.

3. Notes to consolidated statement of comprehensive income

3.1 Revenues

Segments thousand €	2012		2011	
		%		%
Tools	230,787	60.8	220,466	60.4
Garden & Leisure	149,075	39.2	144,795	39.6
	379,862	100.0	365,261	100.0

Regions thousand €	2012		2011	
		%		%
D/A/CH	180,718	47.6	177,167	48.5
Other Europe	148,656	39.1	152,684	41.8
Asia	18,266	4.8	14,607	4.0
South America	19,431	5.1	13,594	3.7
Other countries	12,791	3.4	7,209	2.0
	379,862	100.0	365,261	100.0

3.2 Other operating income

thousand €	2012	2011
Income from release of provisions for guarantees	302	3,671
Commission income	1,254	1,531
Income from costs for inspection of goods to be passed on to suppliers	448	405
Income from the inclusion of released receivables and reversal of impairment of receivables	435	207
Income from the disposal of non-current assets	416	48
Income from release of other provisions	2,235	462
Income from purchase price adjustments	195	0
Other income	2,891	3,304
	8,176	9,628

3.3 Cost of materials

thousand €	2012	2011
Expenses for raw materials, consumables and supplies and purchased goods	260,778	253,167
Expenses for purchased services	259	385
	261,037	253,552

3.4 Personnel costs

thousand €	2012	2011
Wages and salaries	43,253	35,778
Social security contributions	8,313	7,228
Expenses for old-age pensions	115	113
	51,681	43,119

Number of employees (annual average)	2012	2011
D/A/CH	582	424
Other Europe	381	361
South America	263	300
Asia	65	46
Other countries	10	8
	1,301	1,139

3.5 Depreciation and amortisation

thousand €	2012	2011
Amortisation of intangible assets (excluding goodwill)	406	452
Depreciation of tangible fixed assets	2,301	2,061
	2,707	2,513

No extraordinary depreciation and amortisation was necessary in the financial year 2012, as in the previous year.

3.6 Other operating expenses

Other operating expenses include expenses for postage of goods, guarantees and customer services, impairment, advertising and product design. Costs for the TV campaign carried out for the first time in 2012 amount to around €5.0 million. Expenses for the impairment of trade receivables amount to €501 thousand (previous year: €2,118 thousand). Due to the short-term nature of the item trade receivables and the current expectation of payment receipts, the interest effect in calculating impairments is insignificant.

3.7 Net financial income

thousand €	2012	2011
Interest income	833	453
Interest expenses	-1,523	-2,179
Gains/losses from currency conversion	-1,265	-1,824
	-1,955	-3,550
thereof interest income from hedges	0	0
thereof interest expenses from hedges	-273	-279
thereof profits from currency conversion of hedging instruments	266	0
thereof losses from currency conversion of hedging instruments	-713	-746

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.

3.8 Income taxes

thousand €	2012	2011
Actual tax expense	3,361	5,281
Deferred taxes	1,215	-593
	4,576	4,688

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 tax assets on changes to present value of cash flow hedges amounted to €1,254 thousand (previous year: €761 thousand) and deferred tax liabilities amounted to €520 thousand (previous year: €2,760 thousand).

Subsidiaries capitalised deferred taxes from loss carry forwards of €1,867 thousand (previous year: €1,912 thousand). Losses carried forward that are not classified as of value due to lack of expectation of profits or inability to be carried forward are not included in the determination of deferred tax assets. No deferred taxes were set aside in 2012 on losses carried forward of €19,603 thousand.

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:

The following table shows a reconciliation of the tax expense anticipated in a financial year with the actual tax expense. The anticipated tax expense is calculated by multiplying the pre-tax result with the domestic tax rate applicable in the respective financial year of 30.0% (2011: 30.0%).

thousand €	2012	2011
Anticipated tax expense	3,047	5,732
Tax expenses/income from intra-Group income/expenses	263	-293
Other non-deductible expenses for tax purposes	2,863	2,110
Different tax rates from other countries	-1,232	-1,408
Tax free income	-1,669	-1,984
Changes to loss carry forwards	669	136
Other	635	395
Actual tax expense	4,576	4,688

3.9 Earnings per share

Earnings per share pursuant to IAS 33 refers to the ordinary shares of a company. As the ordinary shares of Einhell AG are not publicly traded, the calculation of earnings per share was dispensed with.

4. Segment report

4.1 Segment report by division

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. The main control parameter of the Einhell Group is the result from ordinary business operations. 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.

2012 thousand €	Tools	Garden & Leisure	Total segments	Reconciliation	Einhell Group
Segment revenues	230,787	149,075	379,862	0	379,862
Operating segment revenues (EGT)	3,822	6,334	10,156	0	10,156
Financial result	-1,532	-423	-1,955	0	-1,955
Scheduled depreciation	1,648	1,059	2,707	0	2,707
Non-cash income	-417	-102	-519	0	-519
Non-cash expenses	257	170	427	0	427
Inventories	82,093	43,622	125,715	0	125,715

2011 thousand €	Tools	Garden & Leisure	Total segments	Reconciliation	Einhell Group
Segment revenues	220,466	144,795	365,261	0	365,261
Operating segment revenues (EGT)	10,399	8,708	19,107	0	19,107
Financial result	-2,575	-975	-3,550	0	-3,550
Scheduled depreciation	1,493	1,020	2,513	0	2,513
Non-cash income	-322	-218	-540	0	-540
Non-cash expenses	2,743	968	3,711	0	3,711
Inventories	62,937	47,512	110,449	0	110,449

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

4.2 Segment report by region

The segment report by region was adjusted to correlate with the changed internal reporting. This results in the following regions: Germany, Austria, Switzerland (D/A/CH); other Europe; Asia; South America; and other countries. Figures from the previous year were adjusted.

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

2012 thousand €	D/A/CH	Other Europe	Asia	South America	Other countries	Reconciliation	Einhell Group
External revenues	180,718	148,656	18,266	19,431	12,791	0	379,862
Non-current assets	15,457	14,354	486	638	303	0	31,238

In the D/A/CH region, the revenues of Einhell Germany AG are €126.4 million. The companies in other Europe generating the most revenue are Einhell Turkey with €14.6 million, Einhell Italy with €12.8 million, and Einhell Poland with €8.8 million. Revenues in the South America region are mainly generated by the subsidiaries in Brazil, Argentina and Chile. Revenues of the companies in Hong Kong of €31.9 million comprise most of the Asia revenues.

2011 thousand €	D/A/CH	Other Europe	Asia	South America	Other countries	Reconciliation	Einhell Group
External revenues	177,167	152,684	14,607	13,594	7,209	0	365,261
Non-current assets	14,116	14,193	832	361	146	0	29,648

In the D/A/CH region, the revenues of Einhell Germany AG are €126.9 million. The companies generating most revenues in 2011 in other Europe were Einhell Italy with €15.5 million, Einhell Turkey with €13.1 million, and Einhell Poland with €10.4 million. Revenues in the other countries were mainly generated by the subsidiaries in Australia contributing €6.8 million. Revenues of the companies in Hong Kong of €36.9 million comprise most of the Asia revenues.

In the financial years 2012 and 2011, no single customer generated more than 10% of the Einhell Group's revenues. The ten largest customers generated more than half the Einhell Group revenues.

4.3 Capital management

The finance requirements of the Einhell Group are driven in particular by the level of inventories and the level of trade receivables. The stock turnover of inventories and amount of time before receivables are paid plays a significant role and has a major effect on finance requirements.

The Einhell Group is financed by the subscribed capital of the company, including on the one hand capital made available by shareholders during capital increases and retained profits allocated to provisions or to retained earnings as profit carried forwards. On the other hand, the Einhell Group uses borrowings in the form of non-current loans, current loans and partly by supplier loans. Loans are usually made in euro. Supplier loans are mainly in USD or RMB. Anticipated cash flow due from payment of supplier liabilities are largely hedged by corresponding hedge transactions.

5. Notes to consolidated cash flow statement

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

Current operations

The cash inflow from current operations is derived mainly from a significant increase in inventories and other tax demands.

Investment activities

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

Financing activities

Cash flow from financing activities includes mainly cash inflows and outflows from loans and payment of dividends. The purchase of kwb means that an additional approx. €6.8 million of bank liabilities were assumed.

Changes in cash and cash equivalents

Cash and cash equivalents include cash, cheques and cash in banks at reporting date with an original maturity of less than 90 days. The effects of changes arising from exchange rates are shown separately.

6. Risk report and financial instruments

6.1 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. Current market developments are observed for the purposes of valuation of risks in the Einhell Group. Further information regarding risk management can be found in the Management Report.

6.2 Default risk

Company policy is to minimise default risks both from customers and suppliers by using instruments customary in international practice. These help the company to evaluate default risks of the ordering company for each order based on the relevant economic situation. In particular, security or letters of credit are required with regard to new customers or high-risk 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 risks with regard to suppliers, both buying and project management teams work with the finance department to develop joint security concepts.

The book values of receivables present the maximum default risk. Trade receivables from DIY chains, specialist traders and discounters amount to €66.3 million (previous year: €62.2 million). In the financial year 2012 there were no significant receivables for which new payment targets were agreed.

As the derivatives have been acquired from well-known 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 €5.6 million (previous year €13.7 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.

6.3 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 applies them at present value. The nominal value of existing hedge transactions at reporting date is €60 million (previous year €40 million).

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 €66 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 €316 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 €290 thousand.

6.4 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 about €59 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 2012 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 flow will significantly differ from the contractual cash flow.

thousand €	2013	2014	2015-2017	2018 ff.
Non-current liabilities to banks	593	20,594	194	0
Trade payables	32,613	0	0	0
Other liabilities	20,152	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.

At reporting date there were open foreign exchange contracts for which we anticipate cash inflows of around €331.4 million and cash outflows of around €333.3 million.

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 USD and CNY. In contrast, the sale of Einhell products is mainly made in the relevant national currency. The planned procurement in USD and CNY was hedged, so this contains no risk concentration.

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.

All assets or liabilities of the Einhell Group are based on observed prices or derived and determined therefrom.

Due to current USD/CNY payment terms, USD/CNY accounting exposure for financial instruments results mainly from derivatives. A change of 10% in exchange rates results in pre-tax exchange rate gains/losses of €25.450 thousand or a loss of €-20.075 thousand, which has been shown in equity due to the application of cash flow hedge accounting. The derivative financial instruments are used only to finance the purchase of goods. For derivative financial instruments not shown under hedge accounting, a change of 10% in exchange rates results in exchange rate gains of €552 thousand or a loss of €-166 thousand.

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 derivative financial instruments at reporting date.

Financial instruments with positive market value to cash flow hedge

	Nominal volume		Market value	
thousand €	2012	2011	2012	2011
Currency futures	136,446	221,013	1,736	7,836
Options	7,586	0	30	0
	144,032	221,013	1,766	7,836

Financial instruments with negative market value to cash flow hedge

	Nominal volume		Market value	
thousand €	2012	2011	2012	2011
Currency futures	111,352	5,226	3,005	397
Options	18,763	0	993	0
	130,115	5,226	3,998	397

Designated hedged items are contracted and planned purchases and sales. All cash flows are anticipated in 2013 and are recognised as cost of inventories. Ineffectivity of cash flow hedges is insignificant due to their short-term nature.

6.5 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. Over 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. Options are valued using Black-Scholes models. All other collateral derivatives are valued by discounting of future payment flows. The entry parameters used for these models are the relevant observable market prices at reporting date, such as volatilities and forward rates and interest rates. For current assets values and liabilities, the book value provides a good indication of the fair value.

thousand €		Book value		Fair Value	
Valuation category	Valuation	2012	2011	2012	2011
Assets and liabilities held for trading	Fair Value				
Hedge accounting derivatives					
Other financial assets		1,766	9,460	1,766	9,460
Other financial liabilities		3,998	911	3,998	911
Hedge derivatives without using hedge accounting					
Other financial assets		267	412	267	412
Other financial liabilities		941	746	941	746
Loans and receivables	Amortised costs				
Trade receivables		66,264	62,180	66,264	62,180
Other assets		10,949	5,347	10,949	5,347
Available-for-sale financial instruments	Fair Value				
Financial assets		362	353	362	353
Other financial liabilities	Amortised costs				
Liabilities to banks		32,213	21,956	32,213	21,956
Trade payables		32,613	27,707	32,613	27,707
Cash and cash equivalents	Fair Value	5,618	13,709	5,618	13,709

7. Other notes

7.1 Other financial obligations

Other financial obligations from leasing and rents are composed as follows:

thousand €	Total	Up to 1 year	1 to 5 years	Over 5 years
Rental obligations	2,934	1,250	1,684	0
Leasing contract obligations	1,038	490	548	0
	3,972	1,740	2,232	0

Einhell Germany AG 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. In the financial year 2012, operating lease payments amounted to €586 thousand (previous year: €394 thousand).

7.2 Corporate Governance Code

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

7.3 Related party transactions

On 24 October 2002, Thannhuber AG, Landau a. d. Isar, submitted a notification pursuant to section 21(1) of the Securities Trading Act (*WpHG*) that its share of voting rights in Einhell Germany AG had exceeded the 75% threshold on 13 October 2002. Thannhuber AG is therefore a controlling shareholder of Einhell Germany AG. The following personal connection exist between Thannhuber AG and Einhell Germany AG:

- Josef Thannhuber (Chairman of the Supervisory Board) is a shareholder and Chairman of the Supervisory Board of Thannhuber AG
- Dr Markus Thannhuber (Member of the Board of Directors) is a shareholder of Thannhuber AG.

In the financial year 2012, Josef Thannhuber and Dr Markus Thannhuber received remuneration for their activities as directors of Einhell Germany AG.

We confirm that during the financial year 2012 Einhell Germany AG and its subsidiaries did not carry out any legal transactions with Thannhuber AG and related parties, nor did Thannhuber AG take or fail to take any measures to the detriment of Einhell Germany AG or its subsidiaries.

7.4 Remuneration of the Board of Directors and Supervisory Board

Members of the Board of Directors received fixed salary components and variable components that are performance-dependent. Members of the Board of Directors receive shares in Einhell Germany AG. There are no share options programmes or similar arrangements. In the financial year 2012, total remuneration for the Board of Directors of Einhell Germany AG amounted to €1,747 thousand (previous year: €2,171 thousand). Pension provisions amounting to €399 thousand have also been set aside for this group of persons.

Pension provisions totalling €1,859 thousand (previous year: €1,541 thousand) have been set aside for former members of the Board of Directors. In the financial year 2012, pension payments totalling €104 thousand were paid out to former members of the Board of Directors.

Total remuneration for the Supervisory Board over the past year amounted to €77 thousand (previous year: €89 thousand).

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

7.5 Auditor fees

Auditors' fees of KPMG AG included as an expense in the financial year for the auditing of the consolidated financial statements amount to €110 thousand (previous year: €91 thousand). The fees are due solely for auditing services. No other consultancy fees, tax advisory fees and other services were provided for the Einhell Group.

7.6 Events after reporting date

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

8. Subsidiaries

	Share of capital	Equity 31.12.2012
	%	TEUR
iSC GmbH, Landau a. d. Isar/Germany	100.0	1,184
Hansi Anhai Far East Ltd., Hong Kong/China	100.0	19,017
HAFE Trading Ltd., Hong Kong/China	100.0	2,312
Hans Einhell China (Chongqing) Co. Ltd., Chongqing/China	100.0	1,408
Hansi Anhai Youyang Ltd., Chongqing/China	100.0	4,332
Hans Einhell (China) Trading Co., Ltd., Shanghai/China	100.0	1,127
Einhell Österreich Gesellschaft m.b.H., Vienna/Austria	100.0	1,676
Einhell Portugal – Comércio Int., Lda., Arcozelo/Portugal	100.0	2,718
Einhell Benelux B.V., Breda/The Netherlands	100.0	-111
Einhell Italia s.r.l., Milan/Italy	100.0	4,212
Comercial Einhell S.A., Madrid/Spain	100.0	1,877
Einhell Polska Sp.z o.o., Wroclaw/Poland	90.0	12,925
Einhell Hungaria Kft., Budapest/Hungary	100.0	557
Einhell Schweiz AG, Winterthur/Switzerland	100.0	3,366
Einhell UK Ltd., Birkenhead/United Kingdom	100.0	1,287
Einhell Bulgarien OOD., Varna/Bulgaria	67.0	37
Einhell Export-Import GmbH, Tillmitsch/Austria	100.0	1,421
Einhell Croatia d.o.o., Lepajci/Croatia	100.0	3,978
Einhell BiH d.o.o., Vitez/Bosnia	66.7	2,382
Einhell d.o.o. Beograd, Belgrade/Serbia	100.0	1,157
Einhell Romania SRL, Bucharest/Rumania	100.0	2,718
Einhell-Ukraine TOV, Kiev/Ukraine	100.0	-344
Svenska Einhell AB, Gothenburg/Sweden	100.0	414
Einhell Holding Gesellschaft m.b.H., Vienna, Austria	100.0	165
Einhell-Unicore s.r.o., Karlsbad/Czech Republic	100.0	2,300
Einhell Intratek Mühendislik ve Dis Ticaret A.S., Istanbul/Turkey	85.0	2,454
Anxall Hellas A.E., Athens/Greece	96.0	1,687
Einhell Chile S.A., Santiago/Chile	90.0	1,280
Einhell Danmark ApS, Silkeborg/Denmark	100.0	270
Einhell Middle East Trading FZC, Ras Al-Khaima/ United Arab Emirates	100.0	-387
Einhell Slovakia s.r.o., Pezinok/Slovakia	100.0	-299
Einhell France SAS, Villepinte/France	95.0	425
Einhell Australia PTY. Ltd., Victoria/Australia	90.0	-454
Einhell Brasil Com. Distr. Ltda, Campinas/Brazil	90.0	3,826
Einhell Norway AS, Larvik/Norway	100.0	175
Einhell Argentina S.A., Buenos Aires/Argentina	100.0	2,741
kwb tools GmbH, Stuhr/Germany	100.0	1,349
KWB-RUS OOO, Moscow/Russia	100.0	105
Hans Einhell Ukraine TOV, Kiev/Ukraine	100.0	339
Einhell Rus OOO, Moscow/Russia	100.0	3

9. Executive bodies

9.1 Board of Directors

The Board of Directors of Einhell Germany AG in the financial year 2012 comprised:

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

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

9.2 Supervisory Board

In the financial year 2012, the Supervisory Board of Einhell Germany AG comprised:

• Josef Thannhuber, Landau a. d. Isar, Businessman	Chairman
• Univ.-Prof. Dr.-Ing. Dr.-Ing. E.h. Dieter Spath, Sasbachwalden Head of the Fraunhofer Institute for Industrial Engineering (IAO), Stuttgart	Deputy Chairman
• Maximilian Fritz, Wallersdorf - Haidlfing, Call Centre team leader	Employee representative

Mr. Univ.-Prof. Dr.-Ing. Dr.-Ing. E.h. Dieter Spath is a member of the following Supervisory Boards and Administrative Boards:

- LIEBICH & PARTNER Management- und Personalberatung AG, Baden-Baden,
  Chairman of the Supervisory Board
- Zeppelin GmbH, Garching, Member of the Supervisory Board

Landau a. d. Isar, 25 March 2013

Einhell Germany AG

The Board of Directors

Andreas Kroiss Jan Teichert Dr Markus Thannhuber

Einhell Germany AG, Landau a. d. Isar

Statement of non-current assets in the financial year 2012

	Acquisition and production cost					
	1.1.2012	Additions	Disposals	Re classification	Currency differences	31.12.2012
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
I. Intangible assets						
1. Purchased intangible assets	7.059	1.020	-54	-	8	8.033
2. Self-developed intangible assets	5.032	-	-	-	-	5.032
3. Acquired goodwill	10.408	813	-	-	1	11.222
	22.499	1.833	-54	-	9	24.287
II. Property, plant and equipment						
1. Land, leasehold rights and buildings,	26.953	66	-378	49	133	26.823
2. Technical equipment, plant and machinery	5.150	49	-176	-	-8	5.015
3. Other equipment, fixtures and fittings and equipment	13.914	2.671	-398	-	-123	16.064
4. Prepayments and machinery under construction	58	167	-	-49	-	176
	46.075	2.953	-952	-	2	48.078
III. Financial assets (securities)	357	9	-	-	-	366
	68.931	4.795	-1.006	-	11	72.731

Statement of non-current assets in the financial year 2011

	Acquisition and production cost					
	1.1.2011	Additions	Disposals	Re classification	Currency differences	31.12.2011
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
I. Intangible assets						
1. Purchased intangible assets	6.771	421	-142	-	9	7.059
2. Self-developed intangible assets	5.032	-	-	-	-	5.032
3. Acquired goodwill	10.355	53	-	-	-	10.408
	22.158	474	-142	-	9	22.499
II. Property, plant and equipment						
1. Land, leasehold rights and buildings,	26.706	486	-	-	-239	26.953
2. Technical equipment, plant and machinery	4.409	668	-	-	73	5.150
3. Other equipment, fixtures and fittings and equipment	12.202	2.024	-379	50	17	13.914
4. Prepayments and machinery under construction	94	14	-	-50	-	58
	43.411	3.192	-379	-	-149	46.075
III. Financial assets (securities)	371	8	-22	-	-	357
	65.940	3.674	-543	-	-140	68.931

Cumulated depreciation						Book values	
1.1.2012	Depreciation in financial year	Disposals	Re-classification	Currency differences	31.12.2012	31.12.2012	31.12.2011
€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
6.384	358	-44	-	8	6.706	1.327	675
4.976	48	-	-	-	5.024	8	56
2.106	-	-	-	1	2.107	9.115	8.302
13.466	406	-44	-	9	13.837	10.450	9.033
16.800	483	-1	-	13	17.295	9.528	10.153
1.753	240	-9	-	-6	1.978	3.037	3.397
9.579	1.578	-323	-	10	10.844	5.220	4.335
-	-	-	-	-	-	176	58
28.132	2.301	-333	-	17	30.117	17.961	17.943
4	-		-		4	362	353
41.602	2.707	-377	-	26	43.958	28.773	27.329

Cumulated depreciation						Book values	
1.1.2011	Depreciation in financial year	Disposals	Re-classification	Currency differences	31.12.2011	31.12.2011	31.12.2010
€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
6.186	315	-130	-	13	6.384	675	585
4.839	137	-	-	-	4.976	56	193
2.106	-	-	-	-	2.106	8.302	8.249
13.131	452	-130	-	13	13.466	9.033	9.027
16.209	573	-	-	18	16.800	10.153	10.497
1.437	257	-	-	59	1.753	3.397	2.972
8.539	1.231	-233	-	42	9.579	4.335	3.663
-	-	-	-	-	-	58	94
26.185	2.061	-233	-	119	28.132	17.943	17.226
4	-	-	-	-	4	353	367
39.320	2.513	-363	-	132	41.602	27.329	26.620

Einhell Germany AG, Landau a. d. Isar

Group Management Report for the financial year 2012

1. Business activities, structure, management and goals of the Einhell Group

1.1 General operations and business segments

Einhell Germany AG, with its registered office in Landau an der Isar (Germany), is the parent company of the international Einhell Group.

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

The subsidiaries comprise sales companies mainly in Europe, but also distribution companies in South America and trading companies in Asia. The Asian subsidiaries are also responsible for product development and procurement. As production is carried out in Asia, this is also were quality assurance takes place. Einhell employs around 1,300 employees worldwide. Group revenues amount to around €380 million.

Einhell Germany AG divides its operations into the two business units ‘Tools’ and ‘Garden & Leisure’.

Operational responsibility for each of the business units or segments, respectively, lies with the divisional heads or Managing Directors of the subsidiaries. Allocation of sales responsibilities is constantly revised for this management level and is based on the divisional classification between Tools and Garden & Leisure. In 2012 the Einhell Group began working on the implementation of a Business Unit concept, whereby responsibilities are extended beyond sales to such areas as product management and procurement, based on the divisional classification between Tools and Garden & Leisure. This concept is to be rolled out to the whole Group in 2013.

1.2 Legal structure and management of the Group

Legal structure and changes to Group structure

Einhell Germany AG, Landau/Isar, holds direct and indirect shareholdings in a total of 40 subsidiaries that are all legally independent companies.

It holds one hundred per cent of the shares in subsidiaries with a centralised or special function such as services, product sourcing/product processing, procurement/purchases and quality control/quality assurance. It also usually holds all the shares in the global sales companies.

In all subsidiaries where Einhell Germany AG does not hold all the shares, Einhell Germany AG has a direct or indirect majority shareholding. The minority shareholdings are almost exclusively held by the corresponding Managing Directors of the companies. This is an essential element of the Einhell Group strategy and is intended to promote entrepreneurial co-responsibility by direct investment in the company’s equity capital as well the participation in its success.

With respect to the responsibilities of the Einhell Group companies, all activities that can be centralised are carried out at just one location. By way of example, product preparation, the search for factories, auditing, certification, procurement, service, controlling, financing, IT and other administrative activities are centralised in Group companies in Germany and China. This organisational structure within the Group allows all sales companies to focus on their core functions. Einhell is also in a position to press ahead with international expansion as each sales company has a similar structure and the business model can be efficiently rolled out in new countries. As organic growth offers huge potential, the organisational structure and efficient set up of the business model of the Einhell Group are one of the management's most important responsibilities.

The Group structure changed as follows during the financial year 2012:

In the financial year 2012 we set up kwb tools GmbH. Pursuant to a share purchase and transfer agreement dated 2 May 2012, this company acquired all of the shares in kwb tools GmbH & Co. KG, Stuhr, Germany. The withdrawal of the personally liable shareholder kwb tools GmbH & Co. KG means that all the assets of the partnership (*Kommanditgesellschaft* – KG) were transferred at this time to kwb tools GmbH by way of acquisition. Einhell Germany AG directly holds 100% of the shares in kwb tools GmbH and indirectly holds 100% of the shares in KWB-RUS OOO.

kwb tools is an international trading and service provision company based in Stuhr near Bremen and is one of the leading European suppliers of electrical tools accessories and hand tools. Expanding the product range by adding the accessories segment is an important new milestone for Einhell in establishing itself as a top brand. kwb tools GmbH and KWB-RUS OOO generate annual revenues of ca. €25-30 million. For the proportionate financial year from May to December 2012 this means an increase in revenues from current operations for Einhell of €18.5 million. The integration of kwb tools into the Group means that Einhell is able to offer a complete range of accessories via all global distribution companies. This means that the Einhell Group is in a position to generate additional revenue volumes on top of the core Einhell business.

Einhell Germany AG has also repurchased 10% of the Danish sales company Einhell Denmark back from the local Managing Director. The shareholding in Einhell France SAS was increased from 70% to 95%. In 2012 we set up Einhell Rus OOO, of which Einhell Germany AG holds all of the shares. Moreover, iSC Italia was merged into Einhell Italia in the past financial year. Hans Einhell Ukraine TOV was set up in the Ukraine, and is fully owned by Einhell Germany AG.

Management and control

Responsibility for the business activities of the Einhell Group lies with the Board of Directors. This comprised three members at the time of preparation of the annual financial statements, consolidated financial statements and management report. The Board of Directors manages, organises and monitors strategies and operational business processes for the whole Group. Responsibilities within the Board of Directors are allocated based on the departments the individual member is in charge of. The Chairman of the Board of Directors is responsible for sales, procurement, marketing, product management and corporate strategy. The Chief Financial Officer is responsible for finance and accounting, tax, legal, controlling, investor relations and personnel. The Chief Technical Officer is responsible for technology, product manufacture, quality control, service, IT, production and maintenance.

The Board of Directors manages specialists and managers in the relevant departments and relies upon the corresponding hierarchy of divisional and departmental management at Einhell Germany AG, and on Managing Directors and their specialists and managers in the subsidiaries. The Board of Directors seeks to ensure flat hierarchies and values the opportunity to maintain direct contact with employees and specialist staff in all divisions. Regular meetings of the Board of Directors and of individual departments as well as divisional and cross-departmental meetings where required secure efficient communication and informational flows to all responsible parties.

The Supervisory Board of Einhell Germany AG, comprising three members, monitors and provides advice to the Board of Directors about legal requirements and the provisions of the German Corporate Governance Code.
At regular meetings of the Supervisory Board, the Board of Directors provides information to the Supervisory Board about the Group's current situation, business transactions and corporate strategy.
The Supervisory Board also maintains on-going lines of communication with the Board of Directors outside of meetings and ensures an adequate level of communications and informational flows between the Board of Directors and the Supervisory Board.

Principles of the remuneration system for the Board of Directors
Members of the Board of Directors receive fixed and performance-based variable remuneration with short-term and medium-term components. The performance-based components depend on consolidated net profit, divisional earnings in the previous financial year, growth of Group assets and personal targets.

The evaluation system for variable remuneration components has remained unchanged for several years and ensures transparent and sustainable accounting practices based on the Group’s strategic aims. A pre-defined cap limits the impact of extraordinary one-off effects on the variable remuneration component. Members of the Board of Directors privately hold shares in Einhell Germany AG. There are no share option programmes or similar schemes. Further information about the members of the Board of Directors' remuneration can be found in the Notes to the consolidated financial statements.

Personnel changes to the Board of Directors

There were no personnel changes to the Board of Directors in the financial year 2012. There was no change to division of responsibilities between the members of the Board of Directors.

1.3 Management, aims and strategy of the Einhell Group

Management

Management of the business activities of the Einhell Group is mainly based on the key parameters revenues, gross profit margin and earnings before taxes (EBT). The Einhell Group also monitors the significant growth drivers of working capital, inventories and trade receivables using key parameters.

Inventories are analysed on an on-going basis and audited on the basis of stock turnover and inventory range with regard to possible impairment losses. Moreover, a sanity check is carried out on the order process for new goods involving checking and managing product availability and stock levels.

Trade receivables are constantly monitored on the basis maturity structures and assessed according to standardised evaluation criteria. Receivables are usually limited to the extent of the receivables insurance or subject to management based on internally set limits. Accounts receivable targets are also subject to constant monitoring and are an important management parameter for the Group’s working capital.

Aims

The Einhell Group promotes sustainable profitable growth of revenues and profits. Profitability takes priority over pure growth. The Group substantiated these objectives by stating the targets of a long-term stable pre-tax return averaging at about 4-5% and long-term stable dividend distributions.

Strategy

Strategic aims of the Einhell Group over the next 3-5 years were drawn up by the Board of Directors in conjunction with management. The Board of Directors has summarised these aims in a strategy paper and will oversee and continually monitor the operational implementation of these strategies.

The most important strategic aim is the further internationalisation of the Group. As well as building up existing customer relationships, consistent efforts are to be made to break into new markets. Einhell wants to further develop into a global brand with an extremely attractive product range. The product range can also be expanded to encompass fitting and profit-generating areas, such as the accessories segment with kwb tools. This also includes customer services, which will be expanded into an international service organisation. On the procurement side, the Einhell Group wants to minimise dependence on specific procurement regions and establish a global sourcing model.

Another strategic milestone is the marketing campaign launched in the autumn of 2012, '*EINHELL WELL DONE*'. The advertising campaign was launched in Germany, Austria, Switzerland, the Czech Republic and Poland. Two campaigns are planned for the current year and each of the following years. The spring months focus on garden equipment, and autumn campaigns mainly promote electrical tools. The aim of this advertising campaign is to raise the profile of the Einhell brand and generate an emotional response. It is also designed to generate a long-term improvement in market positioning and increase the market share of core product groups. The company website was re-launched at the start of the advertising campaign. Customers are thus provided with as much information as possible about the products, which is supposed to have a positive effect on purchasing decisions.

1.4 Product processing, procurement and quality management

Product processing

Product processing expenses in the financial year 2012 amounted to €5.2 million (previous year: €4.5 million). This segment has 42 employees (previous year: 38 employees) and is mainly sales-driven and customer-oriented. Therefore, cooperation with other departments, such as quality assurance, is important, as is communication with customers. Customer requirements are taken into account from the outset during the design of new products and versions. The customer is regarded as a partner. This allows the entire Einhell Group to consistently adapt to markets, and meant that Einhell has become one of the fastest reacting companies in the industry. The positive feedback from our customers convinces us to retain this approach.

The ‘Blue’ and ‘Red’ product lines introduced at the end of 2008 are continually updated and have been well received by customers. The new product lines are differentiated by price and design. The “Blue” line designates the medium-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 industry.

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, registered designs and design patents.

Procurement

In the procurement division, commodity prices are an important factor in global trade. There were great variations in commodity prices in 2012. The commodity price index published by the Hamburgisches Weltwirtschaftsinstitut (HWWI) decreased by 0.9% on a US dollar basis from the beginning of the year to the end of 2012; on a euro basis it fell by 2.9%.

An important reason behind the decline in industrial raw material prices is a weak development of the global economy, which had a negative effect on commodity demand. The debt crisis in Europe has left investors worried that fewer raw materials will be required in a declining economy. According to the HWWI, the oil price in 2012 was subject to strong fluctuations. The dispute between Iran and Western countries about the Iranian nuclear programme affected the oil market at the start of 2012. Iranian oil production was reduced, but other oil producers more than compensated for the shortfall. Due to the strong increases in unconventional gas drilling in the USA, the demand for coal fell greatly in 2012. In the final months of 2012, the prices for lead, copper, steel and aluminium rose heavily, driven by the new Chinese infrastructure programmes.

Quality management

Most of the Einhell product range is currently produced in China. Quality standards 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 monitored. As well as strict shipping controls on site, there are also controls with regard to observance of customer-specific quality requirements, inspections of on-going production and optimisation of manufacturer processes.

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

1.5 Personnel and social

The number of employees was increased by 14.2% during the financial year 2012 in comparison with the previous year to an average of 1,301 (previous year: 1,139). Revenue per employee was €292 thousand (previous year €321 thousand). The increase in the number of employees was mainly due to the acquisition of kwb tools. The takeover of kwb tools brought 146 staff into the Einhell Group.

Constant training of our staff provides the basis for successful future trading. The continuing education and training programmes offered in 2012 cover the areas IT and languages. 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 content and structure of internal company training was revised and improved. The arrangement of a dual-system course in conjunction with the Hochschule Baden-Württemberg Stuttgart [where trainees study for a degree at the same time undergoing vocational training] is popular and secures a stream of qualified staff for the company.

The performance and extraordinary commitment of each of its employees allowed the Einhell Group to achieve a good result under difficult economic circumstances. The Board of Directors of Einhell Germany AG would like to express its thanks to all Group employees.

2. Overview of business activities

Business conditions

Global economy

The global economy will again fail to see significant growth in 2013. The World Bank revised its **global** economic forecast for 2013 and now expects global economic growth of 2.4%. In the middle of 2012 the World Bank was still forecasting a strong recovery and growth of 3.0%. The main reason for the subdued growth outlook is the tough economic crisis and only very weak recovery in the industrial nations, which is slowing global development. The World Bank believes that the recovery of the global economy will be delayed and not start until the end of the first quarter 2013.

For emerging nations the World Bank only expects GDP growth of 5.5%. In mid-2012 the World Bank was still expecting these countries to achieve growth of 5.9%.

Although the global economy grew slightly in 2012 and will also see positive figures in 2013, global economic growth will not be sufficiently strong to lower unemployment. In 2012, as a consequence of the weak global economy, there were at least 197 million unemployed people worldwide, which is 4.2 million more than in the previous year. In 2013 a UN study expects more than 202 million unemployed worldwide. Young people will be particularly affected by unemployment.

Germany

On average, the **German** economy continued to grow in 2012. Price-adjusted GDP was 0.7% higher than in the previous year. In the two years previously, growth was much lower as part of the recovery following the financial and economic crisis. The German economy remains quite strong in light of the economic weakness in the euro zone in 2012. However, the pace of growth weakened considerably during the course of the year. The noticeable slowing of the global growth pace has subdued economic growth over the past year. In contrast, growing uncertainty of market participants in reaction to the debt levels of the industrial nations had a massive impact on the willingness of German industry to undertake new investment.

Domestic demand was variable. There was greater domestic consumption – +0.8% for private and +1.0% for state spending – and investment was unable to contribute to an increase in GDP growth for the first time since the financial crisis in 2009.

State spending increased by 3.6% in 2012 in comparison with the previous year. Federal investment also increased by 43.1% or €10.9 billion.

Once again, the most important growth indicator for 2012 was exports. In light of a difficult export situation, exports remained very robust. In 2012 Germany exported 4.1% more goods and services (inflation-adjusted) than in the previous year. At the same time imports increased only by 2.3%. According to the Federal Statistical Office, the balance of exports and imports – the trade balance – contributed 1.1% (previous year 0.6%) to GDP.

For the first time in five years the German Federal Budget was balanced in 2012. Germany therefore met the requirements of the deficit criteria under the EU treaty of Maastricht. However, Germany did not meet the second criteria – the level of national debt. According to the Federal Ministry of Finance, Germany's debt level for 2012 was 81.5% of GDP.

In 2012 the German employment markets saw their best year since 1991. At the end of 2012 the fall in the European economy also began to make itself felt in Germany. According to the Federal Employment Agency (*Bundesagentur für Arbeit* - BfA), the annual average number of registered unemployed was 2.897 million. In December 2.84 million people were registered as unemployed with the BfA; this represents an unemployment rate of 6.7%.
The numbers of employed at 41.6 million reached a new high in 2012 for the sixth year in a row. In 2013 the BfA expects stagnation in the employment markets.

The German consumer price index rose by an average of 2.0% during 2012 in comparison with 2011. According to the Federal Statistical Office, the inflation rate weakened slightly in comparison with 2011 (+2.3%). In 2010 and 2009 annual inflation had remained distinctly under two per cent. The main reason for the clear increase in the 2012 inflation rate was the above average increases in energy prices.

The European Harmonised Index of Consumer Prices (HICP) increased by 2.1% over the previous year. In December 2012 the HICP was 2.0% higher than in December 2011. In comparison to the previous month of November 2012, this represented a significant increase of 0.9%.

After a successful 2011 financial year, the **DIY industry** also had a good start to 2012. In the first two quarters of 2012 revenues at German DIY stores increased. At the end of the third quarter these stores were seeing only minimal growth of 0.4% over the comparable 9-month period in the previous year.
Total revenues for German DIY stores in 2012 amount to €18.6 billion, which represents a slight fall of 0.6% over the previous year. If we look at the individual groups of goods, the garden segment has developed significantly more poorly than in the previous year. However, the electrical segment saw positive growth in 2012, and was able to generate growth of 3.7%.

Europe
Europe's economy continues to falter. The International Monetary Fund (IMF) has issued a negative revision to its economic outlook for the current year. It no longer expects slight growth, but another year of recession. GDP of the member states of the European Union will fall by 0.2% in 2013; previously it was expected that there would be minimal growth of 0.2%. According to IMF calculations, in 2012 economic performance in the euro zone fell by 0.4%.

The sovereign debt crisis and cuts imposed are still continuing to impact the euro zone.
Highly indebted **Greece** has seen the first signs of success in restructuring its budget. According to the finance ministry, in 2012 for the first time in years the country's income exceeded its expenditure, though this did not take into account interest. Greek GDP fell by 6.4% in comparison with 2011.
In the euro crisis country **Spain** the recession has become surprisingly more acute. In the fourth quarter 2012 GDP declined in comparison with the previous quarter by 0.7%. Spanish economic performance suffered the strongest collapse since the beginning of the recession in mid-2011. In the estimation of the Spanish Minister of Economic Affairs, the

recession will last into the first half-year 2013. Spain is not expected to see growth until the third or fourth quarter 2013.

Portugal is also in recession. In 2011 the economy contracted by 1.7%, in 2012 even by 3% and the government also expects 2013 to see a contraction of 1%. Growth is not expected until the end of 2013 or 2014.

Overall in the 27 EU countries unemployment figures increased to more than 26 million due to poor growth in the euro zone. The unemployment rate in the euro zone rose to new record levels. In November, 18.82 million people were without a job in the 17 euro zone countries, which represents a rate of 11.8%. Austria (4.5%), Luxembourg (5.1%) and Germany (5.4%) had the lowest unemployment rates, while Spain (26.6%) and Greece (26.0%) had to deal with high levels of unemployment.

The weak economy in the euro zone slowed down inflation in December 2012. The annual inflation rate was at 2.2% as in the previous month, according to the European Statistical Office Eurostat. This was the lowest rate since December 2010. In December 2011 the inflation rate had still been at 2.7%.

The lowest averages in 2012 were Sweden (0.9%), Greece (1.0%) and Germany (2.1%), whereas the highest was Hungary (5.7%), Estonia (4.2%), Poland and Slovakia (each 3.7%). The annual inflation rate therefore remained close to the target set by the European Central Bank (ECB). It aims for a medium-term rate of around 2%, which was last achieved in November 2010.

Industrial production in the euro zone continues to fall after a poor previous month in November 2012. In month-on-month comparison it fell by 0.3%, as stated by the European Statistical Office Eurostat. By annual comparison industrial production fell by 3.7% in November. The strongest declines were recorded in Italy (-7.6%), Spain (-7.2%) and Ireland (-6.6%).

During the last crisis in 2009, **Poland** was the only economy not to fall into recession. Fundamentally, Poland has a solid base due to its diversified economy and stable banking system. The Polish state depends only very little on foreign lenders. However, one weakness with regard to the country's creditworthiness is fiscal discipline. A large burden on the state budget by payments to the social security and pensions system is the reason for

the poor fiscal performance. The IMF has increased the credit line for Poland by about five billion dollars. This increase improves the ability of the Polish government to take action if the situation in the international financial markets worsens. The grant of the increased credit line is also seen as recognition for Polish financial policies, which focus on budget consolidation in line with IMF requirements.
Economic growth in 2012 was 2.0%. This is a significant fall as against 2011, when there was still growth of 4.3%. Economists expect that in 2013 economic growth will fall into negative territory at the beginning of the year but that the rest of the year will see some economic growth. Growth is due above all to exports. Consumption in private households increased by only 0.5%. Youth unemployment in Poland in 2012 was at an all-time high. At the end of the year, 28.4% of young people under 25 no longer in training in Poland were registered as unemployed.

Due to the marked weakening of the economy in a range of important export markets, the **Austrian** economy will probably see growth in 2012 of 0.4%. Austria is still doing relatively well in European comparison. For 2013 the Austrian National Bank has revised growth figures downwards by 1.2% to 0.5%. Inflation has been rising since the middle of 2012 (2.5%) but will decrease again during the course of the year and next year and settle in the area of the price stability target of the ECB at around 2.0%. The falling economic dynamics are also showing their effects on employment markets. In 2012 due to dynamics at the start of the year there was strong employment growth of 1.1%. In 2013 increases in employment will be much weaker. With an unemployment rate of 4.4% in 2012 Austria had one of the lowest unemployment rates in the EU. In the current year, an unemployment rate of 4.7% is expected.

For a long time the **Swiss** economy was hardly affected by the turbulences in the euro zone. Now the effects are becoming more and more noticeable, also in East Asia which had shown a strong performance for a long time - and is becoming increasingly important for Swiss exports. In the past year economic growth in Switzerland was still positive (+1%). For the current year economic experts forecast a slight GDP growth of 0.9%. UBS expects annual inflation to rise by around 0.2%. In the past year prices still fell by 0.7%. Federal experts expect unemployment to slightly increase in 2013 as it did in 2012.

According to the Organisation for Economic Cooperation and Development (OECD), the prospects for the battered **British** economy remain weak and will not improve in the short term. For 2013 the OECD expects growth of 0.9%, in 2014 the expectation is 1.6%. The OECD stated that the British government should do more to promote growth. According to the OECD, more investment is needed in infrastructure and new priorities should be set for public spending. However, the cuts in government spending are expected to continue. The British economy has been stagnating for years. In the fourth quarter 2012, GDP decreased by 0.3% in comparison with the previous quarter. According to the IMF the public deficit stands at more than 88% of economic performance. The rating agencies are threatening to lower the rating of the United Kingdom from its triple-A rating. Surprisingly, the unemployment numbers fell by a significant amount in December 2012. On the basis of the national definition, they fell by 1.56 million. This is the lowest value since June 2011.

In **Spain** the recession took a sudden turn for the worst. According to the national statistical office, GDP in the fourth quarter contracted by 0.7% as against the previous quarter. That represents the strongest fall in Spanish economic output since the start of the recession in mid-2011. Since then the Spanish economy has contracted for the past six quarters. The main reasons for the weakening economy are government cuts and the continuing high level of unemployment in the country. The unemployment rate increased in the fourth quarter 2012 to 26.02%, which is the highest it has been since recording of figures began.

Despite drastic cuts, Spain’s public debt increased in 2012 by €146 billion. Overall public debt now stands at more than €882 billion. This represents 84% of GDP. The weak economic situation and high unemployment means that tax levels are falling and social security figures are increasing. Even the implementation of drastic austerity measures was not enough to stop the public deficit from growing.

However, the government in Madrid expects that the fourth largest economy in the euro zone will see growth again this year.

The **Turkish** economy grew by around 3.0% in 2012, but increasing inflation has impaired economic growth. The inflation rate increased in January 2013 by 1.65%. The cost of living in January 2013 was 7.31% higher than in the previous year. This means that prices are rising faster than financial analysts and the Central Bank expect.

The Turkish current account deficit increased between 2002 and 2011 from $15.5 billion to $105.9 billion. In the same period Istanbul alone had a current account deficit of $316.5 billion. The main reason behind the current account deficit is the proportional relationship between import and export companies. There are a total of 60,000 import companies and 55,000 export companies. In 2012 goods to a value of $150 billion were exported to foreign markets. One year previously, the figure had been $134 billion.

Due to rising inflation and the increasing deficit in output, the Turkish economy threatens to lose steam in 2013. As the Turkish economy is closely linked to the European economy, its exports will continue to struggle with a continuing fall in demand from Europe.

Asia

Economic growth in **China** has fallen to the lowest level in 13 years. After the weakest increase in output for years, in this year China could see even lower growth. In the past year output increased by only 7.7%. An important state commission expects there to be growth of only 7.5% in 2013. Due to the backlog, growth of at least 7% of GDP is necessary in an emerging nation like China in order to create sufficient jobs and solve development problems. Researchers at the Chinese Academy for Social Sciences warn of risks for the country's economy based on global uncertainties. They also regard it as an urgent necessity for the government to pump money into the markets.

Despite the restrained outlook of the Development and Reform Commission, analysts expect the economy in China to grow more strongly.

The strong increase in the cost of living is an early indicator. Due to much more expensive foodstuffs, inflation rose to 2.5% and reached its highest level for seven months. One reason for the high inflation rate is the hard winter, which has been the coldest in China for 28 years. In total, consumer prices in China rose by 2.6% in 2012.

The fall in demand caused by the debt crisis in Europe and uncertainty in the USA is hitting global export champion China ever harder. The tight monetary policy in the fight against inflation and the control of the overheated Chinese property markets is also impacting on growth.

Performance report

Strategic acquisition boosts Group revenues

Under difficult market conditions the Einhell Group was able to increase its revenues in comparison with the previous year. Consolidated net revenues for the financial year 2012 amounted to €379.9 million as against €365.3 million in the previous year. Revenue growth was strongly affected by the strategic purchase of kwb tools. Since May 2012 kwb tools GmbH and KWB-RUS OOO have contributed sales of €18.5 million to Group revenues. Without the revenues from the acquisition of kwb tools, revenues stand at €361.4 million, which represents a slight decrease of around 1% in comparison with the previous year.

This means that the Einhell Group was close to the forecast target for the financial year 2012, whereby the Board of Directors at the beginning of 2012 expected a constant or slight increase in revenues on the basis of 2011 (€365.3 million). In the first quarter revenue decreased by around 4.3% in comparison with the same quarter in the previous year. In its first quarterly report the Board of Directors made reference to customer and market-related revenue deferrals from March to April and that as of April revenues would be back at the level of the previous year. The second quarter was much stronger with an increase of 9.7% in comparison to the previous year's quarter and cumulative increases as of the second quarter amounted to 2.9%. It should be noted that after May kwb tools was considered in the revenue determination for the Einhell Group.

In the third quarter revenues increased in comparison to the previous year's quarter by 1.5%. The cumulated revenues at the end of September were therefore up around 2.4% over revenues in the third quarter in the previous year.

In the third and fourth quarter general market uncertainty increased. The debt crisis in many states in the European Union led to extreme consumer uncertainty and significant falls in sales. One important customer also suffered massive declines in revenues and earnings leading to significant falls in revenues for the Einhell Group from this customer. The forecast worsened as the year went on. An unexpectedly weak October and November

meant that the earnings targets for the full year could no longer be met. This result was reported in full to the capital markets in current reporting by the Board of Directors.
As part of the reorganisation for the Business Unit concept, the individual sales regions were reorganised. Internal and external reporting is now based on the following regions: Germany, Austria and Switzerland (D/A/CH); other Europe; Asia; South America; and other countries. The figures for the previous year were adjusted accordingly.

The **D/A/CH** region generated revenues in the financial year 2012 of €180.7 million (previous year: €177.2 million). The share of domestic revenues of the **D/A/CH** region amounts to 47.6%.

Revenues in the **other Europe region** decreased year-on-year during the course of the financial year 2012. There was a total revenue decrease of 2.6% from €152.7 million to €148.7 million. The most important sales markets in the financial year 2012 included Poland, Italy and Turkey.

Revenues in **Asia** in the reporting period amounted to €18.3 million (previous year €14.6 million).

Other countries and **South America** generated significant increases in revenues. As against the previous period, revenues increased by €11.4 million to €32.2 million (previous year €20.8 million). Revenues were mainly generated by the new South American subsidiaries and the Australian subsidiary.

Increase in the total output of both segments

The Tools segment achieved revenues in the financial year 2012 of €230.8 million (previous year €220.5 million).
This segment includes strong sales from the product groups compressors and pressure accessories, cordless screwdrivers, drill hammers, wood-processing machines, generators and welding products.

The Garden & Leisure segment generated increased revenues of €149.1 million (previous year €144.8 million) in 2012.

This segment includes strong sales from products from the product groups lawn mowers, heating/cooling products, products for tree and bush care, electric scarifiers, garden pumps, leaf vacuums and water technology products.

3. <u>Earnings</u>

Due to difficult market conditions and significant investment expenses, the Einhell Group was unable to increase year-on-year earnings in the financial year 2012 and generated earnings from ordinary business activities in the financial year 2012 of €10.2 million (previous year: €19.1 million). The pre-tax return amounts to 2.7% (previous year: 5.2%).

These results were due mainly to high levels of investment and expenses for the further development of the Einhell brand. Another reason is the start-up costs in connection with the reorganisation of the complete infrastructure and newly founded subsidiaries. Even established subsidiaries saw significant earnings falls due to the difficult market conditions. There was still a disproportionately high increase in personnel costs, while revenue and gross earnings adjusted for acquisition costs remained largely stable. The increase in personnel costs amounts to €8.6 million or 19.9% to €51.7 million, due to the new employees from kwb tools. As in the previous year the Einhell Group invested strongly in employees to strengthen the quality of products, to set up new distribution channels such as specialist shops, and support structural development within the Einhell Group. It began to implement the Business Unit concept and to prepare the structures for development in future years. It created a completely new structural level in the form of Business Unit Managers und Regional Managers, who act as Business Unit managers for Tools and for Garden&Leisure as regards product management and manufacturing, procurement and development of product lines with an eye to sales in these product groups. The role of the regional manager in particular includes close monitoring and development of newly allocated subsidiaries bundled into groups.

Other operating expenses increased strongly in relation to the previous year. The increase is due to the high level of investment in developing the Einhell brand. As already stated, in the autumn of 2012 we launched the marketing campaign '*EINHELL WELL DONE*'. The expenses for this campaign in the past financial year amounted to around €5.0 million.

The takeover of kwb tools has slightly improved the gross profit margin, whilst personnel costs and other expenses have marginally risen. This is due to the accessories business, which offers greater margins but requires more staff effort.

The financial result improved by €1.6 million to €-2.0 million and was affected by a slight relaxation in global currency fluctuations. In particular, the Turkish Lira, the Hungarian Forint and South American currencies were calmer in 2012. Intensive hedging activity was used to counter currency fluctuations, taking account of costs and risk aspects. The financial result is calculated mainly on the basis of interest earnings of €-0.7 million (previous year €-1.7 million) and on earnings from currency conversion of €-1.3 million (previous year €-1.8 million).

Consolidated net profit after minority shareholdings decreased in the financial year 2012 from €14.5 million to €5.8 million. The return on investment (ROI)[1] at reporting date amounted to 3.9% (previous year: 7.8%).

In the financial year 2012, the EBIT margin amounted to 3.2% (previous year 6.2%).

This performance meant that the Einhell Group did not meet its targets for the financial year 2012. However, it set up important strategic groundwork and invested in the Group's future. The takeover of kwb tools, the Business Unit concept and high investment in building up the brand were important strategic steps for the Einhell Group representing a logical continuation of the Group's success in recent years. The Einhell Group is still very profitable and is in a good position to meet the challenges of global economic developments. With a view to the Group's long-term development, we believe in what Einhell has proven for many years, and continues to demonstrate: that it can generate long-term and sustainably positive earnings and cash flow.

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

4. Assets and financial position

The main items in the statement of financial position for the financial years 2012 and 2011 are as follows:

in € millions	31.12.2012	31.12.2011
Non-current assets	28.8	27.3
Inventories	125.7	110.4
Trade receivables	66.3	62.2
Cash and cash equivalents	5.6	13.7
Equity	160.3	163.2
Liabilities to banks	32.2	22.0

The balance sheet total increased by €14.2 million or 5.8% to €259.4 million.

Investments and non-current assets

Investments in the financial year 2012 amount to €4.8 million, of which €1.8 million is for intangible assets and the remainder of €3.0 million is for property, plant and equipment. Intangible assets comprises mainly additional software and goodwill. Property, plant and equipment comprises mainly investments in technical equipment and machinery, and fixtures and fittings and other equipment.

Depreciation and amortisation in 2012 amounted to €2.7 million and increased as against the previous year by €0.2 million (previous year: €2.5 million).

Current assets

At balance sheet date, inventories had increased from €110.4 million to €125.7 million. Trade receivables increased by €4.1 million to €66.3 million (previous year: €62.2 million). No factoring was carried out in the financial year 2012.

As a result of negative cash flow from the operating business, particularly from the increase in inventories, cash and cash equivalents at reporting date decreased by €8.1 million to €5.6 million. The share in total assets amounts to 2.2% (previous year: 5.6%).

Debt capital taken out by the Einhell Group increased to €93.5 million (previous year: €68.3 million). This results mainly from the release of loans of kwb tools amounting to €6.8 million and a revenue related increase in inventories and receivables.

Financing

The financial requirements of the Einhell Group largely depend on inventory holdings and trade receivables. Inventory turnover and maturity terms of receivables play an important role and have a significant effect on the financial requirements.

The Einhell Group in financed firstly by way of equity capital generated from shareholders at the establishment of the company and in subsequent capital increases, and through generated profits that are invested in reserves or balance sheet totals carried forward. Secondly, the Einhell Group uses debt capital, mainly in the form of non-current loans, medium-term credit lines and supplier credits. Loans are mostly taken out in euro. Supplier loans are mainly in USD or CNY. Expected cash flow from the payment of supplier liabilities is largely hedged.

Due to its very healthy and solid finance structure, whereby the Einhell Group traditionally has an excellent equity ratio that currently stands at 61.8%, the Board of Directors does not anticipate any problems with current business operations, nor does it foresee any financing problems for future business volume during expansion of the company.

Therefore the Board of Directors is maintaining its extremely successful and long-term international expansion strategy.

In the financial year 2012, the Einhell Group was again mainly financed by non-current loans. The bonded loan that expired in 2009 was replaced with bilateral credit agreements that successfully replaced the expired bonded loan until mid-2014. Due to a surplus of cash and changes in the interest markets in the financial year 2011, a decision was made to part of the non-current financing prematurely and to take on a reduced loan amount under better terms. This means that non-current financing of €20.6 million is now secured to mid-2014 on very good terms. The Group does not envisage any difficulties in meeting its repayment obligations under the loan agreements. The Board of Directors will explore the possibilities for refinancing the loan agreements that expire in 2014 and secure suitable refinancing agreements.

On a highly positive note, the Group's financing was secured without having to provide material securities, but just on the basis of a covenant structure. This structure provides the Einhell Group with sufficient leeway for significant expansion of business volume. All covenants were met in the financial year.

The Board of Directors advises that all land and buildings of the Einhell Group are free from third party collateral. There are no assignments of security or similar third party rights. All property agreements for the benefit of third parties, which were valued at zero anyway, were reorganised during the financial year 2010 and removed from the Land Register. All inventories and receivables are also free from charges by third parties.

The summarised cash flow statement shows the development in the financial position in the 2012 financial year:

in € millions	**2012**	**2011**
Cash flow from operating activities	-11.9	-4.0
Cash flow from investment activities	-4.0	-4.0
Cash flow from financing activities	7.6	-22.9
	-8.3	-30.9
Changes from currency conversion	0.0	0.1
Purchased cash from acquisitions	0.2	0.0
Net increase in cash	-8.1	-30.8
Cash and cash equivalents at beginning of period	13.7	44.5
Cash and cash equivalents at end of period	5.6	13.7

The cash flow from financing activities results from taking out loan liabilities and the dividend payment for the financial year 2011.

5. Overall economic situation

In summary and in comparison with other companies in the same industry, the Einhell Group generated a robust result in the financial year 2012 despite difficult market conditions and the expenses for developing the brand and the structure of the Group, though the result was much below the previous year and expectations. Adjusted for acquisitions, revenues remained mainly stable. The increase in other operating expenses, particularly marketing expenses and personnel costs, was due to further expansion and the strategic development of the Group.

Strategy for the coming years was also successfully implemented. In the opinion of the Board of Directors, this made a significant contribution to ensuring the on-going business success of the Group.

6. Events after reporting date

Between the end of the financial year 2012 and the date of preparation of the Management Report, there were no events with any significance for reporting purposes.

7. Responsibility Statement of the Board of Directors

The Responsibility Statement of the Board of Directors pursuant to section 289a of the German Commercial Code (HGB) is available on the website of Einhell Germany AG (www.einhell.com).

Einhell Germany AG applies company management practices to ensure compliance with legal regulations that go beyond statutory requirements. In particular, during this reporting period Einhell Germany AG drew up diverse guidelines and procedural rules that are aimed at all Group employees and seek to avoid risks of breaching laws. For example, compliance with legal requirements preventing insider trading is ensured by publication of insider trading rules governing trading with securities for executive body members and employees who have access to insider information. Company management practices underlying compliance are constantly monitored and amended.

8. Risk report

8.1 Description of the risk management system and significant characteristics of the internal monitoring and risk management system for Group accounting processes Section 315(2) no. 5 of the German Commercial Code (HGB)

Description of risk management process

As a vital component of the internal control systems, the risk management system with respect to Group accounting processes is designed to identify the risk of misstatements in the Group bookkeeping and external reporting and serves in particular 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 company 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 Germany 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.

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. During the current financial year, Einhell Group companies draw up plans for the following financial year. Relevant planning for cost of sales and expenses is drawn up on the basis of differentiated sales revenue planning. These 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 that are also carried out during internal auditing. 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.

Use of IT systems

Accounting transactions are recorded based on individual accounts in the accounting programme Microsoft Business Solutions Navision or in 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 accuracy 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, invoicing 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 recognition of any changes in the economic or legal circumstances of the Einhell Group and the application of new or amended statutory regulations for Group accounting.

The International Financial Reporting Standards (IFRS) provide standardised accounting and valuation 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, they also affect regulations about the statement of financial position, statement of comprehensive income, notes, management report, cash flow statement 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 allows 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 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.

8.2 Description of risks

8.2.1 General economic and industry risks

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

The Einhell Group is subject to global economic risks from its international operations. These can take the form of political and economic risks. Political decisions in the countries in which Einhell operates today can affect the stability and economies of these countries. Also, policies in the countries in which Einhell hopes to expand its operations can affect Einhell's business strategy. This risk extends, for example, to the currency policies of countries or to import and export regulations and their practical application. The same also applies to procurement countries where Einhell sources its products. The Einhell Group seeks to keep abreast of general political risks by way of Group management maintaining close contacts with responsible local managers in order to constantly be kept up to date with current developments. The Einhell Group also pursues a strategy of limiting investment in non-current assets, such as property, in such countries. This gives the Einhell Group maximum flexibility to react to unfavourable developments and to be able to have assets available to take appropriate action in any country at any time.

With respect to industry risks, the Einhell Group is subject to developments in the DIY sector in the corresponding countries. It is also subject to the effects of behaviour and growth of competitors.

Changes in the sector, such as market concentration of customers, may affect Einhell’s business. Einhell seeks to minimise dependence on such factors by expanding its strong international market position. The establishment of a strong product range and customer friendly service allows Einhell to strengthen its position with customers, even during changes in market concentration. Strategy changes by competitors may also affect the Einhell Group. New competitors may be in a position to take over Einhell market shares or existing competitors may affect the Group's market position. Einhell seeks to counter such changes by offering a relatively wide product range extending from Tools to Garden & Leisure to the markets and also to expand strongly at an international level. There is hardly a market competitor that offers such a product range in conjunction with Einhell’s international presence.

8.2.2 Procurement risks

Procurement is a primary process in the Einhell business model and plays an important role in risk management within the Einhell Group. The purpose of procurement is to ensure that products are acquired on time, are of sufficient quality and are reasonably priced.

One important factor is the suppliers. As the Einhell Group maintains long-term relationships with its suppliers, price and sourcing risks are minimised. Suppliers are integrated into the quality control system of the Einhell Group assured by on-going assessments. The Einhell Group is not dependent on individual suppliers. Einhell started to implement a second source strategy several years ago, and this continues to be optimised.

In order to optimise procurement planning, purchase quantities are coordinated with the sales division regularly, reconciled and planned via an internet-based order system.

The risk of currency fluctuation for procurement, such as from changes in commodity prices, is countered where possible on the supply-side and demand-side by means of Einhell concluding timely supply-side transactions to cover demand-side requirements. A corresponding product mix, a wide customer base and a strong procurement structure support this process. This has allowed Einhell to maintain gross profit margins within a stable range for many years.

8.2.3 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 diminish 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.

8.2.4 Strategic and expansion risks

Risks are also associated with implementation of the Einhell Group strategy. This may have the result that resources or elements required for strategy implementation are not available at a particular time or run up against realisation problems. This may be due to personnel or technical reasons.

The establishment and acquisition of subsidiaries also carries fundamental risks. Einhell seeks to counter these risks by undertaking a fundamental definition and investigation of the target country before it begins to identify new sales areas. This includes as estimation of the entire sales environment and market potential. The Group also begins the search for suitable managing directors and specialised staff at an early stage. With respect to infrastructure, Einhell selects a standard approach for each new sales subsidiary utilising internal processes and IT infrastructure. This reduces the risks associated with setting up a new subsidiary.

Risks also result from acquisitions of the Einhell Group. 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; these investigations are carried out by staff from our investment control department, supported by external advisors.

8.2.5 Financial, interest and currency risks

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 the financial year 2012. Both cash reserves and equity provision stood at good levels in the reporting year.

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

Risks from interest rate changes and fluctuations were managed with derivative financial instruments such as non-current interest swaps and interest caps. Risks from currency fluctuations are mainly managed by using classic forward exchange transactions. The risk of currency fluctuations in procurement is covered where possible by hedging transactions in the form of futures and options. Currency hedging is made pursuant to IAS/IFRS regulations regarding hedge accounting for the individual hedge periods.

8.2.6 Liability risk

Liability risks arise for the Einhell Group mainly in connection with product liability. The main procurement market for Einhell products is the People's Republic of China. In order to ensure quality on site, a quality management system has been set up in China, which directly monitors supplier production and implements process controls. Our own quality control officers monitor rules and regulations on an on-going basis. The remaining risk for product liability claims is covered by appropriate insurance. Product liability claims are classified and efficiently processed on the basis of a clear organisations and procedural structure.

This creates clear lines of responsibility and communication that are supported by written documentation of recall plans and checklists. This system also involves external specialist offices and experts.

8.2.7 IT risks

Information and communications systems are the basis for many business processes of the Einhell Group. The subsidiary iSC GmbH operates a centralised service centre that is responsible for the international strategy of the Group. Great importance is attached to the realisation of standardised international IT standards that are designed to ensure the effectiveness, efficiency and continuity of IT processes within a framework of corporate and statutory requirements.

A fixed part of these standards is the implementation of suitable measures within the area of physical security, use of high-performance and reliable hardware components, operation of carefully selected infrastructure and business applications, and provision of high-quality services and processes for the operation and further development of the entire information and communications structure.

The organisation of IT processes is designed around an ITIL process framework. Required specialist know how, such as in the area of local compliance requirements, is provided by qualified service partners, for whom the scope and extent of performance is contractually defined and who work closely with the IT organisation. Applications are operated in line with their criticality for business operations in highly dependable system environments and are subject to adequate business continuity mechanisms. IT-based precautions that are regularly checked and updated, in conjunction with the use of qualified staff and corresponding roles and legal concepts, ensure the most effective possible protection for confidential data.

The Einhell Group's IT strategy is closely linked to the business strategy and is subject to regular controls and adjustments to take account of the business environment.

8.2.8 Legal risks

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

Einhell tries to minimise such risks by having its own legal department in Germany and by constantly checking and monitoring legal circumstances in China. Our own staff carries out coordination and checks, but we seek advice from external specialists from the relevant jurisdiction or legal system on a case by case basis.

In summary, we are of the opinion that there are no risks that endanger the continuation of the company as a going concern.

9. Forecast

9.1 Global economic development

During the course of 2012 there was a clear slowdown in the **global economy**, but the speed of growth is very different in the individual regions of the world. The global economy should grow in 2013. The IMF predicts growth of 3.5% for 2013 and 4.1% for 2014.

Most growth momentum will come from the emerging markets. In recent years growth rates in China have been over 10%. Recently growth has not been as strong as expected, which will trigger expansive economic policies. The People’s Republic of China should expect to have a growth in GDP of between 8% and 9% in this year and next year.

Brazil and Russia will also see some economic recovery, in part due to higher earnings from commodity exports.

In the USA growth will remain slow during 2013. Demand will be held back by a consolidation in public and private budgets. For several years US budgets have suffered declining prices in the real estate markets, but real estate prices have been rising again in recent months. The previous falls have not yet been balanced out. Therefore US budgets will continue to consolidate and consumer growth will remain shaky. Overall this year should see growth under 2% in the USA. In the medium term, investment will also have a positive effect in the USA. The possibilities offered by exploiting non-conventional oil and gas reserves to produce cheap energy reserves are improving competitiveness in the USA. If interest rates remain at their current low level, next year may see considerable rises in investments.

The greatest risks for the global economy are currently emanating from the euro zone. There are indications at the moment that the recession can be beaten in the coming year, but the euro zone will still not be in a position to offer positive economic growth. It is still unclear if the currency union will be able to survive. Dissolution would have grave consequences for the financial system. Therefore bailout systems and the European Central Bank (EBC) must intervene and provide support. Consolidation measures and continuing uncertainty mean that the euro zone can only pull out of recession slowly. Unemployment will remain high, and therefore it is questionable if social developments will allow for continuation of the spending cuts.

9.2 Developments in Europe

The economy of the **euro zone** fell more strongly in the fourth quarter 2012 than previously thought. As the Eurostat Statistical Office reported, the GDP of the 17 countries contracted by 0.6%. Economists speak of the strongest collapse since the financial crisis, particularly as the recession has grown stronger in Southern Europe. The economies of the countries in Southern Europe have continued to contract. France's output fell by 0.3% in the fourth quarter. The economies of Spain and Italy are also doing badly.

The economy in Italy fell by 0.9% in the fourth quarter and in Spain the recession deepened by 0.7%. Cyprus slid deeper into recession. The strongest quarterly fall was in Portugal with 1.8%. Unemployment there increased at the end of the year to 16.9%, in Spain it is around 26%. In debt-mired Greece, GDP fell by 6% below the level of last year.

The economy of the euro zone states is improving more slowly than expected, according to the IMF. In 2013 GDP in the euro zone will probably fall by 0.2%. The recession is likely to continue through 2013. The IMF does not expect there to be any improvement in euro zone output until 2014. According to IMF estimates France can expect a slight increase in output. In contrast, the IMF says Italy will have another slight fall in GDP in 2013 of 1.0%; in Spain the fall will be 1.5%.

In Europe, the average rate of inflation since the introduction of the euro has been 2.0% and thus at a moderate level. The ECB has reached its price stability targets, and even now there is little upward pressure on inflation. Experience shows that consumer prices tend to correlate strongly with economic output and are currently a long way from overheating.

The economic experts consulted regularly by the ECB have lowered their inflation forecasts for 2013 to 1.8%. The outlook for 2014 was also lowered by 0.1% to 1.8%.

Strong growth impulses are not expected in the euro zone in 2013. The most important stability factor is the clear support for the euro of the core countries Germany and France. The governments of the highly indebted euro countries must continue with their savings and restructuring programmes and cannot falter, e.g. after the elections in Italy. The first signs of success of measures introduced are already evident – current account deficits and budget deficits are narrowing.

Due to the close networking of states in the currency union, many experts consider that Eastern Europe is in particular danger. The recession in Western Europe puts a severe damper on the development of these young economies.

9.3 Developments in Germany

The **German** economy contracted by 0.6% at the end of 2012. Experts had expected a slight fall but they already think that the trend has been reversed. In each of the first three quarters 2012 the German economy grew, but the growth reduced from quarter to quarter. After 0.5% GDP growth fell to 0.3% in the second quarter and to 0.2% in the third quarter. However, for the full year there was an increase in output of 0.7%. The most important growth motor was exports, as in previous years. According to the forecast of the IMF, in the coming year Germany can expect economic growth of 0.6%, and 1.4% in 2014.

The German economy is well supported by private consumption. According to forecasts private consumption in 2013 will increase by 0.5%. Due to the good position of the economy, the president of the employers' federation expects to see rising salaries in the coming year. As inflation will probably remain at 2012 levels (2.0%), consumers will have more real money to spend.

German exporters will again increase exports of industrial products in the current year; they expect an increase of around 4% for 2012. Exports should grow by 3% in the current year according to an export report by the Federation of German Industry (BDI). This means that German industry will hold its share of world markets. The industry report shows that growth will be in countries outside the EU. Exports to non-EU countries increased by 11% in 2012. Exports to EU countries saw little change.

Despite poor growth experts think employment markets will remain stable. It is expected that there will be no noticeable fall in unemployment, nor will there be a turn for the worse.
German economic growth continues to depend on its European partner countries returning to see stability and growth.

9.4 Expected growth in the markets relevant to the Einhell Group

The forecasts regarding growth in 2013 are still subject to great uncertainty. This is founded in that development on global markets is in many ways extremely fragile and difficult to predict with regard to both economic changes and political developments. Political turbulence in particular leads to the most negative impulses for the global economy. Also due to the fast pace of today's information technology, the time it takes for external shocks to register has become much shorter.
The forecasts of the internationally operating Einhell group are also marked by this uncertainty.
Based on a stable economic market situation for the financial year 2013, the Einhell Group expects to achieve revenues of around €400-420 million. The company kwb tools acquired during this financial year will contribute around €30 million. As regards pre-tax results, the Einhell Group expects a pre-tax return of around 3-4%. This would indicate a clear improvement in profit. But it also requires international economic markets to remain stable and for us to be able to implement scheduled measures to increase revenues and improve cost structures in almost all subsidiaries for the intended effects to be generated.

For the **Tools business** the Einhell Group plans total revenues of around €270-285 million including kwb tools. Regionally, the Einhell Group plans the Tools segment to generate revenues in the D/A/CH region of around €130-135 million, revenues in other European countries of around €90-95 million, revenues in South America of around €30 million, revenues in Asia of around €10 million, and in other countries of around €10-15 million.
These planned revenues are based on the assumption of a stable economic situation in the relevant markets and should be regarded with a safety margin discount of €5-10 million due to uncertainty in world markets. In particular, the tense economic situation of individual customers highlights the need for a security margin, as there is no guarantee that

customers with stressed economic situations will buy the goods of the Tools segment in the intended volumes.
The company kwb tools acquired during the financial year, as a supplier of electrical tool accessories is allocated to Tools and is only included in the annual figures on a pro rata basis since May 2012.

For the **Garden business** the Einhell Group plans total revenues of around €140-155 million. Regionally, the Einhell Group plans the Garden segment to generate revenues in the D/A/CH region of around €85-90 million, revenues in other European countries of around €40-45 million, revenues in South America of around €5-8 million, revenues in Asia of around €5-8 million, and in other countries of around €5 million. These planned revenues are based on the assumption of a stable economic situation in the relevant markets and should be regarded with a safety margin discount of €5-10 million due to uncertainty in world markets. In particular, the tense economic situation of individual customers highlights the need for a security margin, as there is no guarantee that customers with stressed economic situations will buy the goods of the Garden segment in the intended volumes.

9.5 Aims and opportunities of the Einhell Group

The aims of the Einhell Group for the next three to five years have been defined in a strategy paper. The core issue is international expansion and the development of the Einhell brand with all associated measures. Einhell sees opportunities for the future in implementing this clearly defined strategy. The implementation of the strategy requires consistent approaches as well as investment in required resources.

The employees are in the front line of implementing our goals. Einhell will expand its pool of specially qualified staff over the next few years and invest in staff development. This is the only way to ensure that we can seize opportunities for further international expansion and exploit them in an efficient and profitable manner.
The implementation of the strategy is already underway and is being consistently applied in all divisions, which has led to increased expenses within the Group.

Entry into the South American market has already taken place. This strategically important region, a growth driver for the future, will also be expanded in coming years. In previous years sales companies have already been established in Chile and Brazil, and we have now expanded into Argentina. The Argentinian subsidiary began operations in 2012 and is growing as planned. Longer term, in Central and South America, we also hope to move into Peru, Columbia and Mexico. In other regions the Einhell Group is looking at expanding operations in Australia and opening up in Russia. Einhell is seeking to ensure the successful implementation of this expansion strategy by concentrating on building up staff in these markets.

In light of the Einhell Group's international footprint, a global service centre needs to be established to take care of worldwide customer services. Realisation of this concept gives Einhell a prime opportunity to set itself further apart from its competition. Therefore, we are seeking to establish an international service system with our own Group employees within a suitable IT environment. Einhell also seeks to increase effectiveness and efficiency in its international logistics and the increasing internationalisation of marketing.
For the Einhell Group this appears to be a good opportunity to expand the sales of the accessory range of kwb tools to the international subsidiaries. This presents an ideal expansion of the existing range of products and generates high turnover by fully utilising the Group's international distribution network. The takeover of the new company gives Einhell a comprehensive accessory product range of the highest quality for all power tools and makes kwb an attractive partner for DIY stores and specialist retailers. This will bring Einhell towards its goal of becoming a top-class brand and also provide excellent support for its internationalisation strategy. The global distribution system allows each individual country company to offer our customers appropriate and high-quality complementary products from our product portfolio. Also available is the global sales structure of kwb tools that already has direct market access to the relevant areas. Investment in the expansion of this structure is therefore not required.

9.6 Summary on expected developments

Outlook for the financial years 2013 and 2014

For the internationally oriented Einhell Group the financial year 2013 shows an uneven economic situation in the markets in which it operates.

Some markets remain relatively stable, such as the German market. Other markets, such as Southern Europe, have fallen apart due to the debt crisis in their countries. Eastern Europe is still suffering difficult economic conditions associated with a marked weakness in domestic consumption.

The markets in South America and Australia can be characterised as growing. Here the Einhell Group has begun strategic positioning in recent years with new subsidiaries and has already generated remarkable revenue growth that has in part been able to balance out weaker revenues in other countries. The Einhell Group has seen earning power fall in Europe, whilst revenues in South America and Australia are not yet generating profits as these are new subsidiaries that still have start-up costs to write off. This situation will continue in 2013.

Therefore the Einhell Group expects to see moderate revenue growth from the traditional Einhell businesses and, taking into account the revenues from kwb tools, will see an increase in revenues to around €400-420 million.

With respect to earnings power, the Einhell group expects that the pre-tax return will be in the region of 3-4%. This would be above the level of the previous year, but still below the levels of earlier years, when it was around 5-6%.

The share of Red articles should continue to increase in 2013, in order to stabilise gross profit margins as much as possible or, at best, to increase them. On the costs side, the Einhell Group will continue to invest in the expansion of the Einhell brand. On the other hand, the Group also wants to cut costs, mainly by consolidating parts of some subsidiaries.

Storage locations for subsidiaries that no longer reach a critical sales volume in their countries due to the economic crisis are to be merged. Further mergers will also take place in administrative areas. The resulting effects may not be felt until the following year.

In the financial year 2013 international expansion is to continue. However, the only new subsidiary planned is in Columbia. In that country, in addition to supplying a key customer we already supply in other South American countries, we hope to set up our own distribution structure and profit from the positive economic situation and improved investment conditions in Colombia.

In 2013 the Einhell Group will continue to follow the strategy of looking at target countries in order to identify potential partners that can be integrated into the group as a subsidiary at a later stage.

The persistent realisation of these steps is supposed to continue in 2014. The Einhell Group wants to raise its revenues. A revenue volume of around €450 million should be realisable if Einhell succeeds in joining attractive new markets with the support of partner companies and in strengthening its market position in existing markets. If the measures to stabilise or increase gross profit margins and cut costs are successful, it should be possible for the Einhell Group to again achieve pre-tax returns of around 5%.

9.7 Forward-looking statements, assumptions, uncertainties and assessment methods

The management report and Group management report for Einhell Germany AG and the Einhell Group contain forward-looking statements and assumptions. These always bear an element of uncertainty and are based on estimates and assumptions made in order to draw up corporate planning. The Einhell Group hereby advises that the forward-looking assumptions and estimates may turn out to be incorrect.

Einhell exercises great care with respect to assumptions when making forecasts that are subject to uncertainty. However, the risk from incorrect estimations cannot be excluded.

Einhell proceeds as follows in order to control planning and forecast uncertainties during planning of budgetary figures. Einhell plans revenues first. These plans are drawn up for each Group company at business unit level (Tools and Garden & Leisure), and also in detail by product group. Revenues are also budgeted at customer group level and checked against article groups for plausibility. In the same way gross profit margins for each Group company are forecast at business unit level, article group level and customer group level. Detailed costs are derived from revenue plans on the basis of type of cost and cost centre or reporting entity. Costs are checked for plausibility on the basis of the prior-year figures and checked for adequacy on the basis of relation to net revenues. Specific assumptions are made with respect to changes in costs, such as increases in salaries or freight costs. General uncertainties related to market developments, price trends for important commodities or the development of other important cost categories are estimated and budgeted according to the principles of commercial prudence.

Landau a. d. Isar, 25 March 2013

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